

**TAKAFUL INDUSTRY: A MALAYSIAN EXPERIENCE**



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## TAKAFUL INDUSTRY: A MALAYSIAN EXPERIENCE

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### Abstract

Insurance has become a necessity for all individuals and businesses. Islam supports the concept of insurance, provided it does not contradict the tenets of *Shari'ah*. The *Al-Qur'an* has invoked Muslims to prepare for any misfortune. Islamic insurance or Takaful is based on mutual assistance, sharing of risk and cooperation among participants. This research focuses on Takaful operators in Malaysia, looking specifically at their business models and modus operandi. The research also looks into the Takaful operators' financial performance and growth over the last three years, i.e. from year 2007 to 2009. The findings of the study shows that the industry is still a green field or new growth area that requires widespread public awareness and education. The study also found regulations and standards in practice to ensure the growth of the Takaful industry are at par with world economics principles and perhaps can be built up as a mechanism to protect public interest and welfare in accordance to the *Shari'ah*.

**Key words:** *Takaful, Shari'ah, mudharabah, wakalah*

## CHAPTER 1: INTRODUCTION

### 1.1 PREAMBLE

The need for a scheme of insurance that is in line with Islamic tenets was officially affirmed when the Fatwa Committee of the National Council for Islamic Religious Affairs Malaysia declared on 15 June 1972 that the western concept of insurance as practiced in Malaysia, is by *Shari'ah*, prohibited (*haram*), as it contains elements that raised doubts (*gharar*), usury and gambling.. This inspired our interest to examine the progress and the implication of the Takaful industry since its introduction in 1984 in Malaysian. This study looks at Takaful companies operating in Malaysia dealing with both general and family Takaful businesses. The low awareness of Takaful among the Malaysians has prompted Bank Negara Malaysia (the Central Bank of Malaysia) as the regulator, to educate and promote the importance of Takaful. Hence, this research examines the Takaful model, and the progress and development of Takaful operators and its acceptance by consumers particularly in Malaysia. Data from 2007 to 2009 involving major Takaful operators and Bank Negara Malaysia (BNM) were studied to find evidence on the development and growth of the Takaful industry.

### 1.2 PROBLEM STATEMENT

A poll conducted by TV3, a private broadcasting company in Malaysia in August 2004, indicated that 80% of Malaysians are still unaware of the importance of subscribing to an insurance policy. This poll triggers our interest to examine the Takaful modules or schemes offered to the public, the growth in Takaful Industry since its inception to present day and the impact of Takaful on the insurance industry.. We believe despite the negative indication by the poll, Takaful is experiencing growth. This is shown by the emergence of new entrants and the introduction of new Takaful operators in Malaysia over the last 3 years. The study will address the following issues:

- a) Module offered by the Takaful operators
- b) Performance of Takaful operators
- c) Impact of the Takaful in the insurance industry