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THE GLOBAL UNIVERSITY OF ISLAMIC FINANCE

Social Takaful

Prof. Dr Aishath Muneeza
Associate Dean, Student & Internationalization
INCEIF University

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1.0 What is social takaful?

- Social takaful, rooted in the Islamic principle of mutual assistance, extends financial protection to economically disadvantaged individuals through collaborative community-driven initiatives.
- Unlike traditional takaful schemes, social takaful specifically targets marginalized populations who may lack access to conventional insurance.
- Key features include micro-takaful, which offers affordable contribution options tailored to low-income groups, and third-party contributions, where external entities cover beneficiaries' contributions.
- Initiatives like the mySalam scheme in Malaysia and "Takaful and Karama" program in Egypt exemplify successful implementations of social takaful, providing critical financial aid to vulnerable individuals.
- Social takaful embodies the principles of inclusivity and solidarity within Islamic finance, aiming to uplift marginalized communities and promote social well-being.

2.0 Differences between Social Takaful and Micro Takaful

Target Audience:

- Social Takaful: Targets financially excluded or marginalized individuals who may lack access to conventional insurance due to economic constraints.
- Micro Takaful: Specifically designed for low-income populations, offering affordable contribution options tailored to their financial capabilities.

Scope of Coverage:

- Social Takaful: Focuses on providing essential financial protection to vulnerable individuals or communities, often covering a wide range of risks such as critical illnesses, disability, or death.
- Micro Takaful: Typically provides coverage for basic risks relevant to the target demographic, such as health-related expenses, funeral costs, or small-scale property damage.

Funding Mechanism:

- Social Takaful: Often involves third-party contributions from external entities such as governments or corporations to cover the contributions of beneficiaries who cannot afford to participate directly.
- Micro Takaful: Relies on affordable contribution amounts from participants within the target population, with premiums adjusted to suit their income levels.

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Implementation Scale:

- Social Takaful: Operates on a larger scale, aiming to address societal issues and promote financial inclusion at the national or community level.
- Micro Takaful: Typically implemented on a smaller scale, focusing on specific communities or segments of the population within a region or locality.

Objectives:

- Social Takaful: Primarily focused on promoting social welfare, reducing inequality, and fostering community resilience by extending financial protection to the economically vulnerable.
- Micro Takaful: Aims to provide affordable insurance solutions to low-income individuals, empowering them to mitigate risks and improve their financial security within their means.

3.0 Differences between Sadaqah, Zakat, Waqf, Microfinance, Social Sukuk and Social Takaful

Concept	Description
Sadaqah	Voluntary charity based on compassion and generosity, given without any specific guidelines or obligations.
Zakat	Obligatory charity representing a specific percentage of a Muslim's wealth, given to designated categories of recipients in Islamic law.
Waqf	Charitable endowment where an asset is dedicated to support specific causes in perpetuity.
Microfinance	Financial services provided to financially excluded individuals or entrepreneurs to support small-scale businesses and improve financial well-being.
Social Sukuk	Islamic bonds that fund projects with a social impact, allowing investors to contribute to socially beneficial initiatives.
Social Takaful	Islamic cooperative insurance concept aimed at providing financial protection to the economically vulnerable or marginalized individuals, promoting financial inclusion and community solidarity.

4.0 Case Studies

- **mySalam (Malaysia)**

- mySalam is a national health protection scheme in Malaysia initiated by the government.
- It offers essential takaful protection to financially vulnerable citizens.
- The aim is to provide comprehensive coverage and financial support during critical health situations.
- The scheme targets 6.8 million eligible individuals, including recipients of the Bantuan Sara Hidup (BSH) program.
- Eligible individuals include those aged between 18 and 65, their spouses, single individuals aged 40-65 earning less than RM24,000 per annum, and disabled persons (OKU) aged 18-65 with the same income threshold.

- **Takaful and Karama (Egypt)**

- Egypt's Takaful and Karama program is a vital part of the Strengthening Social Safety Net project.
- Since its launch in 2015, the program has enrolled 3.1 million households, benefiting 11.1 million individuals.
- Remarkably, 75 percent of beneficiaries are women, reflecting a focus on women's empowerment.
- The program operates across all 27 governorates of Egypt, targeting the most vulnerable groups.
- It offers both conditional (Takaful) and unconditional (Karama) cash transfers to alleviate poverty.
- Conditional transfers aim to break the poverty cycle and promote human capital development.
- In response to COVID-19, the program expanded to include more beneficiaries.
- The Forsa program complements Takaful by promoting productive inclusion through asset transfers and skill development.

5.0 Issues & Challenges

Constraints in Current Takaful Products for the Aging Population in the Malaysian Market

Constraint	Explanation
Age-related exclusions	Many takaful products impose age-related exclusions, preventing individuals aged 65 and above from accessing coverage.
Perlindungan Tenang Voucher Program	This program assists eligible BPR recipients but may subject them to age limits, excluding elderly individuals.
Takaful myPA Care	This takaful certificate has strict age limitations, excluding individuals under 16 and over 65 years, leaving a gap in coverage.
Takaful myHealth Protector	Individuals above 70 years are ineligible for this takaful coverage.
Takaful myHealth Plus	Only renewal is allowed for individuals aged 61 to 70 years, without guaranteed renewal contributions.
Takaful Smart Plus	This plan is limited to individuals between 18 to 65 years old, excluding both younger and older age groups.
PEKA Skim Perubatan Madani	While beneficial, this government initiative has limited medical services and doesn't cover all senior citizens.

These constraints collectively create a significant gap in takaful coverage for Malaysia's elderly population, particularly those aged beyond 70.

5.1 Potential Challenges in Connecting the Concept of Waqf with Takaful in Malaysia

Challenge	Explanation	Solution
Regulatory Framework	Existing regulations may not adequately accommodate the unique features of a takaful product linked with Waqf.	Collaborate with regulatory authorities, legal experts, and Shariah scholars to adapt and clarify regulations.
Role of State Religious Councils (SRCs)	Obtaining approval and cooperation from SRCs for the establishment and management of the waqf fund embedded within the takaful product is essential. The role of SRCs in waqf management adds complexity.	Establish clear guidelines and formal agreements to define roles and responsibilities of all parties, engage in dialogue with SRCs.
Governance and Accountability	Effective mechanisms for oversight, reporting, and audit of the waqf fund are essential to ensure funds are utilized transparently and in line with intended purposes.	Design a robust governance structure with independent oversight, reporting, and audit mechanisms.

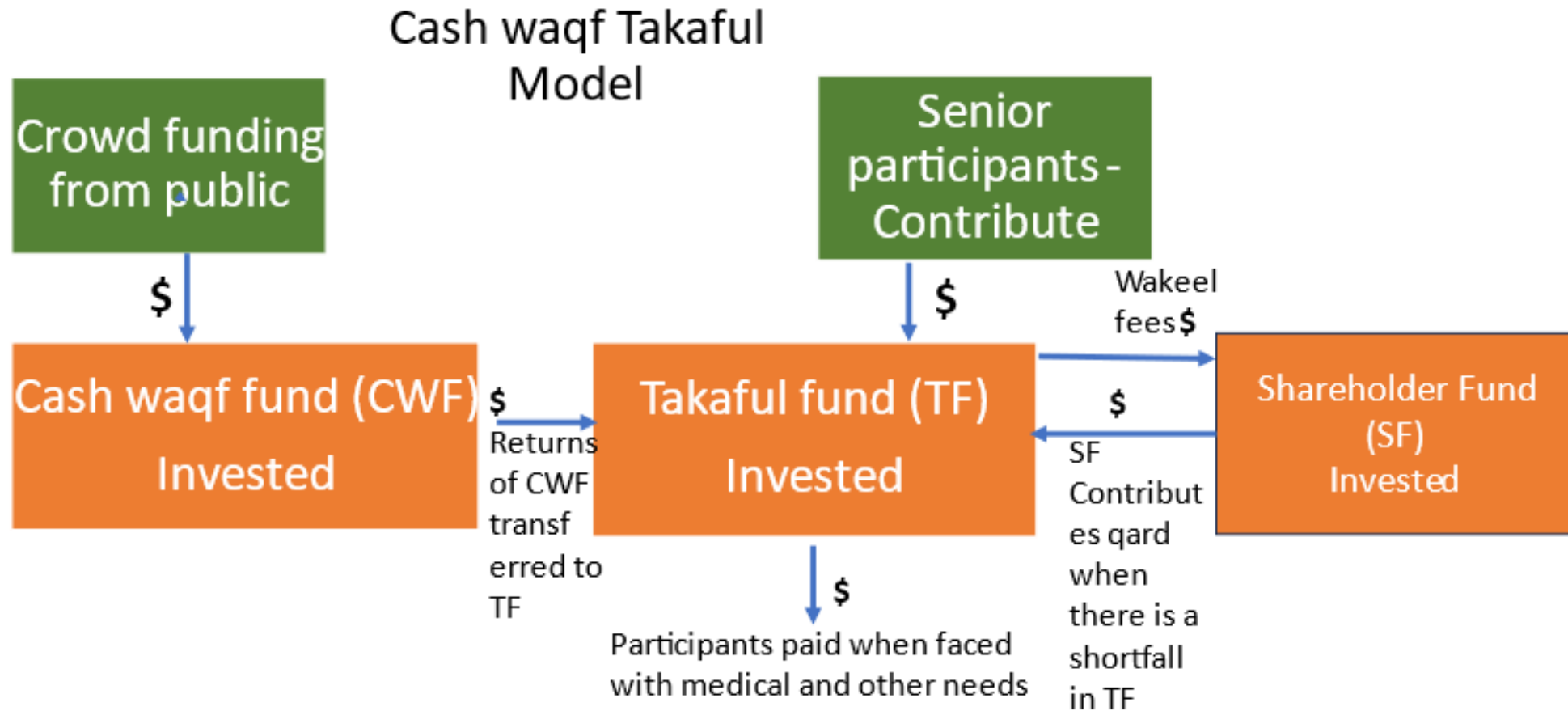
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Challenge	Explanation	Solution
Participant Education and Awareness	The concept of waqf may not be widely understood among potential participants, requiring educational efforts to inform them about the purpose and mechanics of the takaful product linked with Waqf.	Develop comprehensive educational materials, conduct outreach initiatives, collaborate with religious institutions.
Risk Management and Sustainability	Striking the right balance between risk exposure in the takaful product and the charitable objectives of the waqf fund requires careful consideration. Ensuring the sustainability of the waqf fund during high claims periods is essential.	Implement prudent risk management practices, diversify risks, develop a sustainable investment strategy.
Profit Distribution and Utilization	Determining how profits generated by the waqf fund will be distributed and utilized for charitable purposes is a critical consideration.	Establish clear guidelines and criteria for profit distribution, ensure transparent reporting on profit utilization.

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Challenge	Explanation	Solution
Product Design and Pricing	Integrating the takaful product seamlessly with the waqf fund while ensuring competitive pricing and attractive features is a complex task.	Collaborate with product design experts and actuaries to create an affordable product with charitable contributions.
Distribution Channels	Identifying effective distribution channels is crucial to ensure the takaful product linked with Waqf reaches a wide and diverse audience.	Explore collaborations with financial institutions, agents, and digital platforms, tailor distribution strategies.
Ethical Considerations	Ensuring that the takaful product linked with Waqf aligns with moral values and has a positive societal impact is essential for building trust.	Emphasize ethical dimensions in marketing and communication, engage with religious scholars and ethical advisors.

5.2 Proposed Cash Waqf Takaful Model for Ageing Population in Malaysia



5.2.1 Part 1: Establishment of a Shareholder fund

Component	Description	Advantages	Illustration
Part 1:	Establishment of a Shareholder Fund	Belongs to Takaful operator (TO). Ensures TO's funds are separated. Fees for the wakeel go to this fund. Invested in Shariah-compliant investments. When there's a shortfall in the takaful fund, the Shareholder fund provides a qard.	The Shareholder fund acts as a financial buffer for the TO and is invested ethically, ensuring financial stability. In cases of takaful fund shortfalls, it steps in to provide a qard.

5.2.2 Part 2: Establishment of Cash Waqf Fund

Component	Description	Advantages	Illustration
Part 2:	Establishment of Cash Waqf Fund	TO initiates a dedicated cash waqf fund, funded by public donations via crowdfunding. The TO acts as the wakeel, investing in Shariah-compliant investments. Returns from investments are directed to the takaful fund.	<p>Public Engagement and Social Solidarity: Encourages widespread public participation and shared responsibility.</p> <p>Sustainable Charity: Balances charitable contributions with returns on investments, ensuring lasting impact.</p> <p>Intergenerational Benefit: Creates a legacy of giving as younger generations witness the impact of their contributions.</p>

5.2.3 Part 3: Establishment of a Takaful Fund

Component	Description	Advantages	Illustration
Part 3:	Establishment of a Takaful Fund	Elderly individuals make periodic contributions to a dedicated takaful fund, supplemented by returns from the cash waqf fund investments. This collective pool of funds is utilized to fulfill insurance claims for participants, demonstrating intergenerational support.	<p>Active Participation and Self-Contribution: Empowers elderly participants to secure their financial future actively.</p> <p>Enhanced Coverage: Combines contributions and cash waqf fund returns for comprehensive coverage.</p> <p>Intergenerational Connection: Establishes a sense of unity as younger generations contribute to the well-being of their elders.</p>

5.2.4 Part 4: Holistic Investment and Provision

Component	Description	Advantages	Illustration
Part 4:	Holistic Investment and Provision	Contributions in the takaful fund are prudently invested by the TO as the wakeel. Profits generated from investments are used to provide comprehensive support to elderly participants, including healthcare, daily needs, and quality of life enhancements. Promotes intergenerational charity by showcasing the enduring impact of contributions.	Profits for Charity: Ensures charitable purposes by directing investment profits towards elderly participants' well-being. Transparent Governance: Establishes oversight and reporting mechanisms for trust. Intergenerational Legacy: Reinforces the value of charity as younger generations witness the sustained benefits of their involvement.

6.0 Conclusion

Ensure products are accessible and affordable.

Establish frameworks to evaluate social outcomes.

Balance social objectives with financial viability.

Promote understanding of takaful benefits.

Develop supportive regulations.

Foster cooperation among stakeholders.

Embrace tech for efficiency and reach.

Encourage innovation in digital takaful.



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