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# **DEVELOPING A MICRO-*TAKĀFUL* FRAMEWORK IN BRUNEI DARUSSALAM**

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

**DEVELOPING A MICRO-*TAKĀFUL* FRAMEWORK IN BRUNEI  
DARUSSALAM**

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Thesis submitted in fulfilment  
of the requirements for the degree of  
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**Faculty of Business and Management Sciences  
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Brunei Darussalam**

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**SUPERVISION**

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## ABSTRACT

### DEVELOPING A MICRO-*TAKĀFUL* FRAMEWORK IN BRUNEI DARUSSALAM

Micro-*Takāful* is the provision of insurance services to the low-income people. It is of supreme importance for protecting poor lives against accidents, threats and other types of risks. Like any kind of insurance, Micro-*Takāful* can cover different risks to family/life, health, property/fire among others. This research aims at developing a Micro-*Takāful* framework in Brunei Darussalam by exploring six main areas of a Micro-*Takāful* scheme: (i) Micro-*Takāful* products; (ii) Micro-*Takāful* providers; (iii) Micro-*Takāful* funds mobilization; (iv) Micro-*Takāful* contracts; (v) *Sharī'ah* compliance mechanisms; and (vi) role of the Government and *Takāful* operators. In order to explore and explain the topic effectively, a mixed-method approach was adopted. As part of the quantitative research strategy, (1) a survey questionnaire was used with the low-income households. On the other hand, (2) in-depth interviews were conducted with *Takāful* operators, Government officers and *Sharī'ah* scholars. The findings in this study interestingly reveal that there is a potential for a Micro-*Takāful* scheme in Brunei Darussalam. The overall research findings reveal that low-income households are willing to buy insurance products and pay for them, the products can be provided by *Takāful* operators, MFIs and NGOs, *zakāt* can be the main sources of funds, *Tabarru'* can be the best contracts for the scheme, *Sharī'ah* compliance mechanisms for IFIs can be implemented on Micro-*Takāful* scheme, and finally, the Government is ready to support the scheme. Based on the revealed findings the study finally offers and formulates some recommendations to make a Micro-*Takāful* scheme successful when introduced in Brunei Darussalam.



## ABSTRAK

### **MEMBANGUNKAN RANGKA KERJA MIKRO-TAKAFUL DI NEGARA BRUNEI DARUSSALAM**

Micro-Takaful adalah penyediaan perkhidmatan insurans kepada golongan yang berpendapatan rendah. Ianya sangat penting untuk melindungi kehidupan daripada kemalangan, ancaman dan lain-lain jenis risiko. Seperti jenis insurans yang lain, Micro-Takaful juga boleh melindungi risiko yang berbeza-beza sama ada untuk keluarga/kehidupan, kesihatan, kehilangan harta, kebakaran dan sebagainya. Kajian ini bertujuan untuk membangunkan satu rangka kerja Mikro-Takaful di Negara Brunei Darussalam dengan meneroka enam bidang utama skim Mikro-Takaful: (i) produk Micro-takaful (ii) pembekal Mikro-Takaful (iii) mobilisasi dana Mikro-Takaful; (iv) Kontrak Mikro-Takaful (v) mekanisme pematuhan Syariah dan (vi) peranan Kerajaan dan Pengendali Takaful. Untuk meneroka dan menerangkan topik dengan lebih berkesan, pendekatan kaedah gabungan (mixed-method) telah diguna pakai. Sebagai sebahagian daripada strategi penyelidikan kuantitatif, (1) soal kaji selidik telah digunakan dengan menumpukan kepada golongan yang berpendapatan rendah. Dan dalam pada masa yang sama, (2) temubual secara mendalam telah dijalankan dengan pengendali takaful, pegawai-pegawai Kerajaan dan ulama Syariah. Hasil kajian mendedahkan bahawa terdapat potensi bagi skim Mikro-Takaful di Negara Brunei Darussalam. Hasil kajian secara keseluruhan menunjukkan bahawa golongan berpendapatan rendah bersedia membeli produk insurans dan membayar bagi produk insurans tersebut, produk ini boleh disediakan oleh pengendali takaful, MFI dan NGO, zakat boleh menjadi sumber utama dana, Tabarru' boleh menjadi kontrak terbaik bagi skim ini, mekanisme pematuhan Syariah bagi IFI boleh dilaksanakan di skim Mikro-Takaful, dan akhirnya, Kerajaan telah bersedia untuk menyokong skim Mikro-Takaful tersebut. Berdasarkan pendedahan hasil kajian, hasil kajian ini akhirnya menawarkan dan merumuskan beberapa cadangan untuk membuat satu skim Mikro-Takaful yang berjaya apabila diperkenalkan di Brunei Darussalam.

## ملخص البحث

### إيجاد مشروع التأمين التكافلي للفئات ذوي الدخل القليل في بروناي دار السلام

التكافل المصغّر هو تقديم خدمات التأمين لذوي الدخل القليل. فإنه من الأهمية العليا لحماية حياة الفقراء ضد الحوادث والتهديدات وغيرها من أنواع الأخطار. كما أنه يمكن به تغطية الأخطار المختلفة للعائلة أو الحياة، والصحة، والممتلكات أو الحريق وغيرها. يهدف هذا البحث إلى إيجاد مشروع التكافل المصغّر في بروناي دار السلام من خلال استكشاف ستة مجالات رئيسية من مخطط التكافل المصغّر: (أ) منتجات التكافل المصغّر، (ب) مقدمي التكافل المصغّر، (ج) مصدر أموال التكافل المصغّر، (د) عقود التكافل المصغّر، (هـ) آليات التوافق مع الشريعة، (و) ودور الحكومة وشركات التكافل. من أجل استكشاف الموضوع وشرحه بشكل فعّال، يتبع هذا البحث منهج مختلط الأساليب، باعتباره جزءًا من استراتيجية المنهج التحليل، (١) تمّ استخدام الاستبانات مع الأسر ذات الدخل القليل. ومن ناحية أخرى، (٢) أجريت مقابلات معمّقة مع شركات التكافل، وموظفي الحكومة، وعلماء الشريعة. وقد توصلت نتائج الدراسة إلى الكشف مثير الاهتمام أن هناك إمكانية إيجاد مشروع التكافل المصغّر في بروناي دار السلام. كما أن النتائج الشاملة للبحث تكشف أن الأسر ذات الدخل القليل على استعداد لشراء خدمات التأمين، ودفع ثمنها، ويمكن توفير هذه المنتجات من قبل شركات التكافل، ومؤسسات التمويل المصغّر، والمنظمات غير الحكومية، ويمكن أن تكون الزكاة هي المصدر الرئيسية لأموال التكافل المصغّر، كما يمكن أن يكون عقد التبرع أفضل عقود للتكافل المصغّر، وآليات التوافق مع الشريعة للمؤسسات المالية الدولية يمكن تنفيذها على نظام التكافل المصغّر، وأخيرًا، فإن الحكومة على استعداد لدعم هذا المشروع. استنادًا إلى نتائج هذا البحث، تقدم الدراسة بعض التوصيات والاقتراحات لجعل نظام التكافل المصغّر ناجحًا عندما يُقدّم في بروناي دار السلام.

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## TRANSLITERATION

Name of the Letters	Form	Transcription
Aliff	ا	a
Bā	ب	b
Tā	ت	t
Thā	ث	th
Jīm	ج	j
Hā'	ح	Ḥ/ḥ
Khā'	خ	kh
Dāl	د	d
Dhāl	ذ	dh
Rā'	ر	r
Zay	ز	z
Sīn	س	s
Shīn	ش	sh
Sād	ص	Ṣ/ṣ
Dād	ض	Ḍ/ḍ
Tā'	ط	Ṭ/ṭ
Zā'	ظ	Ẓ/ẓ
Ayn	ع	‘
Ghayn	غ	gh
Fā	ف	f
Qāf	ق	q
Kāf	ك	k
Lām	ل	l
Mīm	م	m
Nūn	ن	n
Hā	هـ/ه	h
Wāw	و	w
Yā	ي	y
Hamzah	ء	`



## ABBREVIATION

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AGM	Annual General Meeting
AHC	Association of the Handicapped Children
AIA	American Insurance Association
AIG	American International Group
AMBD	Autoriti Monetari Brunei Darussalam
ATK	Asuransi <i>Takāful</i> Keluarga
BDNAB	Brunei Darussalam National Association for the Blind
BIBD	Bank Islam Brunei Darussalam
BOD	Board of Directors
DCD	Department of Community Development
DFID	Department for International Development
GCE	General Certificate of Education
GLICO	Gemini Life Insurance Company
GTZ	German Development Cooperation
IFIs	Islamic Financial Institutions
ILO	International Labor Organization
KB	Kalyan-Bima-Two payments deposit pension scheme
MDGs	Millennium Development Goals
MFI	Microfinance Institutions
MSAP	Monthly Small-Savings Assurance Plan
MTB	Mayban <i>Takāful</i> Berhad
MUIB	Majlis Ugama Islam Brunei
NGOs	Non-Governmental Organizations
OKP	Persatuan Orang Kurang Pendengaran
PA	Participant's Account
PAPDA	Paraplegic and Physically Disabled Association
PIDPS	Prime Islami Deposit Pension Scheme
PILIL	Prime Islami Life Insurance Ltd.
PSA	Participant's Special Account
SIDA	Swedish International Development Cooperation Agency
SMARTER	Society for the Management of Autism Related issues – in Training, Education and Resources
SMEs	Small Micro-Enterprises
SNB	Samajik Nirapatya Bima
SOBD	Special Olympics Brunei Darussalam
SPSS	Statistical Package for the Social Sciences
SSB	<i>Shari'ah</i> Supervisory Board
TAIB	Tabung Amanah Islam Brunei
TTT	<i>Takāful</i> Trinidad and Tobago
UAE	United Arab Emirates

# CHAPTER I: INTRODUCTION

## 1.0 Introduction

This chapter provides an introduction to and overview of the thesis. The first section explains the research background, which emphasizes the importance of insurance as the main instruments against risks. The sections that follow state the research problem that encouraged doing this research. More importantly the research questions section focuses on the issues that are the main pillars for developing a *Micro-Takāful* model. This is followed by the objectives of the study that answer the research questions, and an explanation of the significance of the study. In order to draw the boundary of the study, the scope of the study was also stated. Finally, the chapter concludes by providing a brief description of all chapters in the thesis.

## 1.1 An overview of the research background

In recent years, *Micro-Takāful*<sup>1</sup> has received considerable attention in Islamic insurance sector, as an important tool of economic growth of a country. It has been identified as effective risk management mechanism in dealing with insurable risk for low income household and micro entrepreneurs when unforeseen incidents befall them. It is due to fact that it can cover numerous perils, including illnesses, accidental injuries, and death and property loss – as long as the product is affordable and accessible for low-income households.<sup>2</sup> This, however, has increased interest in the subject from a wide range of stakeholders such as insurance professionals, distribution channels, policymakers and supervisors, technical assistance and service providers, donors, community organizations and academics to possibly provide sustainable insurance solutions to huge numbers of low-income households who are still inadequately protected.

Apart from using *Micro-Takāful* as risk mitigation technique, it is also recognized as an innovative approach in alleviating poverty. Without protection against losses and natural

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<sup>1</sup> The scheme meant to serve the low-income households at affordable cost.

<sup>2</sup> Churchill, C. (2011). *Going downmarket: African insurers and the low-income market*. International Labour Organization. p.2.

perils, many individuals – especially the poor will fall back into poverty. Unnecessary increase in their expenses or unexpected loss of income can be a great disaster to the family's economy. It is only through schemes like *Micro-Takāful* that the poor people are being compensated for their losses instead of exhausting their limited wealth to cover the risk. By paying a little premium and getting a small sum insured, they are ensured of some protection and peace of mind.<sup>3</sup>

There are a number of factors to consider when introducing a *Micro-Takāful* scheme. One among them is to know the low income households insurance products preferences. Understanding differences in the needs and preferences of the low income households is a key not only to take up of insurance, but also to use and appreciation of the policy as well as satisfaction with the insurance. Brown<sup>4</sup> argues that verifying affordability can be complex, as people will often say that they cannot afford the full cost of insurance plan when it is described to them in general, but are willing to pay when they are presented with a product that meets their needs and demonstrates clear value to them. According to Churchill<sup>5</sup> people may declare that they would purchase the insurance, however, they are not really keen to buy it. Nevertheless, Loster and Reinhard<sup>6</sup> argued that people on low incomes are perfectly willing to pay for a good product if the insurance product can satisfy three conditions: (1) ability to pay the premium, (2) willing to purchase insurance cover and (3) conclude a contract of insurance. They further stressed that the poor may only afford small premium installments and may not necessarily make a regular contribution.

For most efficient provision of *Micro-Takāful* products, establishment of the most effective delivery channels for different risk categories is needed.<sup>7</sup> Further knowledge is

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<sup>3</sup> Maznita Mokhtar, Ruslinda Sulaiman & Azman Ismail. (2012). *Towards Developing A Sustainable Microtakaful Program In Malaysia*. p.2.

<sup>4</sup> Brown, W. (2001) *Micro-insurance-the risks, perils and opportunities*. Small Enterprise Development, Volume 12. pp.11-24(14).

<sup>5</sup> Churchill, C. (2002). *Trying to understand the demand for Microinsurance*. Journal of International Development. Volume 14. pp.381–387.

<sup>6</sup> Loster, T. and Reinhard, D. (2010) *Micro-insurance and Climate Change*, in Morelli E., Onnis G.A., Ammann W.J., Sutter C. (Eds.) (2010), *Micro-insurance - an Innovative Tool for Risk and Disaster Management*. Global Risk Forum GRF Davos, Switzerland. pp.39-42.

<sup>7</sup> McCord, M.J. (2008). *Visions of the future of Microinsurance, and thoughts on getting there*, *Microinsurance note no. 9*. United States Agency for International Development. pp.5-10.

also required regarding effective marketing and selling, and underlying incentive contracts of agents. Like in conventional insurance, Micro-*Takāful* is delivered with the help of agents and financial institutions. Three major suppliers can be identified though: firstly, cooperatives, secondly non-governmental organizations (NGOs) or government-subsidized programs, and thirdly Islamic financial institutions (IFIs).<sup>8</sup> Shabir Patel<sup>9</sup> suggests that *Takāful* can provide the safety net for communities to achieve sustainable development of their standard of living, providing a basis for families to look to the future with a sense of security and optimism. According to Marie Lemaire<sup>10</sup> *Takāful* Pakistan has already taken certain initiatives in this regard. Anja Erlbeck *et al.*<sup>11</sup> in their study recommend that an international insurance corporation can also offer Micro-*Takāful* that complies with sociocultural Islamic principles. They also assured it is possible for international companies to enter the promising Micro-*Takāful* insurance market. Study of Dercon *et al.*<sup>12</sup> further suggest that to keep distribution cost low, Microinsurance as well as Micro-*Takāful* is usually distributed by partner organizations which already have an established relationship with potential customers like microcredit institutions. According to Akhtar, W.<sup>13</sup> Micro-*Takāful* schemes should be introduced by *Takāful* operators to low income people especially of remote areas of the country who have no direct access to *Takāful*. He also recommends that these schemes could be arranged with the cooperation of microfinance institutions, SMEs, or other development institutions that provide financing to low income groups.

With regard to the financial capacity, poor households generally faced difficulty in generating regular and substantial income and are extremely vulnerable to economic, political and physical downturns Brown and McCord<sup>14</sup>. Matul<sup>15</sup> found that a quarter of

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<sup>8</sup> Dercon, Stefan; Kirchberger, Martina; Gunning, Jan Willem; Platteau, Jean Philippe, (2008). *Microinsurance*. Paper No.1: ILO. pp.4-7.

<sup>9</sup> Patel, Shabir. (2010). *Takaful and Poverty Alleviation*. ICMIF. p.17.

<sup>10</sup> Marie Lemaire, (n.d). *Social Security And Microinsurance In Pakistan*. ILO/STEP.

<sup>11</sup> Anja Erlbeck *et al.* (2011). *Microtakaful: Field Study Evidence and Conceptual Issues*. p.2.

<sup>12</sup> Dercon, S., Bold, T., and Calvo, C. (2004). *Insurance for the Poor?* (University of Oxford QEH Working Paper No. 125), in Anja Erlbeck *et al.* (2011). *Microtakaful: Field Study Evidence and Conceptual Issues*. *Op cit.* p.7.

<sup>13</sup> Akhtar, W. (2009). *Potential of Takaful in Pakistan: Operational and Transformational Paradigm*. p.259.

<sup>14</sup> Brown, W. and McCord, M.J. (2000). *Virtual Conference on Micro-insurance*. USAID Microenterprise Best Practices (MBP) Project, Development Alternatives /USAID.

households in Georgia do not have any permanent source of income and nearly half of rural households lived on self-subsistence agriculture. Therefore they do not have the means to contribute to any form of micro insurance scheme. In addition, the contributions made by the policyholders might be insufficient for any compensation arose. Hence other financial resources for the scheme have to be identified. Noor Ashikin *et al.*<sup>16</sup> recommend that intervention and support from government is vital in providing the financial capacity for the poor to have the needed protection that principally cover death, medical and savings benefits. They further suggest that government of Malaysia should enforce a policy in providing aid to the poor via Micro-*Takāful* by providing subsidy and *zakāt* forming part of their monthly contribution. Study of Anja Erlbeck *et al.*<sup>17</sup> reveals that some insurers in Indonesia finance their Micro-*Takāful* activities by means of the *zakāt* fund.

For effectively provision of Micro-*Takāful* products, contracts and *Sharī'ah* compliant mechanisms for Micro-*Takāful* scheme have to be identified. The purpose behind the Micro-*Takāful* contract is to achieve the welfare of all members who are in need of help. And instead of treating Micro-*Takāful* a buying or selling contract, an appropriate contract between the policyholders and insurer has to be designed. Maznita Mokhtar *et al.*<sup>18</sup> suggest that *Tabarru'* is an appropriate contract for the scheme. Siti Khadijah, A. *et al.*<sup>19</sup> reveal that *Wakālah* contract is widely used in a Micro-*Takāful* scheme. According to Anja Erlbeck *et al.*<sup>20</sup> *Wakālah bil Ujrah* is a *Sharī'ah* compliant contract and most acceptable for the scheme.

On the other hand, *Sharī'ah* compliant mechanisms are also important pillar in a Micro-*Takāful* scheme. It determines the compliance of any particular Islamic business or

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<sup>15</sup> Matul, M. (2005) *Demand for Micro-insurance in Georgia. Quantitative Study Results*. Microfinance Centre for Central and Eastern Europe and the New Independent State. Available at [http://www.mfc.org.pl/sites/mfc.org.pl/files/Demand\\_for\\_Micro-insurance\\_in\\_Georgia.pdf](http://www.mfc.org.pl/sites/mfc.org.pl/files/Demand_for_Micro-insurance_in_Georgia.pdf).

<sup>16</sup> Noor Ashikin and Zuriah. (2012). *Financial Protection for the Poor in Malaysia: Role of Zakah and Micro-takaful*. *JKAU: Islamic Econ.*, Vol. 25 No. 1. p.119.

<sup>17</sup> Anja Erlbeck *et al.* (2011). *Microtakaful: Field Study Evidence and Conceptual Issues*. *Op. cit.* p.17.

<sup>18</sup> Maznita Mokhtar, Ruslinda Sulaiman & Azman Ismail. (2012). *Towards Developing A Sustainable Microtakaful Program In Malaysia*. *Op cit.* p.25.

<sup>19</sup> Siti Khadijah, A. *et al.* (2013). *Sustainability of Islamic Micro Finance Institutions*. *Universal Journal of Accounting and Finance* 1(2). pp.75-76.

<sup>20</sup> Anja Erlbeck *et al.* (2011). *Microtakaful: Field Study Evidence and Conceptual Issues*. *Op. cit.* p.16.

financial institution. In this regard, best mechanisms have to be identified and applied on the scheme. Akhtar, W.<sup>21</sup> suggests an establishment of a central *Sharī'ah* board, developing a *Sharī'ah* compliant corporate governance framework and adherence to AAOIFI guidelines. According to Hassan, Zulkifli<sup>22</sup> those *Sharī'ah* board members should meet the qualifications for appointment. Maznita Mokhtar *et al.* recommend that the number of the *Sharī'ah* board members should be three.<sup>23</sup>

However, most of these academic studies focus on the operational significance of insurance for low-income households. Several empirical studies that investigate the effect of the insurance sector as a provider of risk transfer on economic growth, insurance providers, sources of Micro-*Takāful* funds, role of government, and donors on the scheme found positive. An aspect of particular importance to this study is to identify gaps and solutions to provide a promising risk management tool.

Micro-*Takāful* is recognized as an important tool in supporting sustainable poverty alleviation in the poor and poorer areas of the world.<sup>24</sup> In addition to that, the number of different Micro-*Takāful* schemes has increased significantly around the world, as well as the number of stakeholders involved in the sector. The first Micro-*Takāful* scheme was established in 1997 in Lebanon. By January 2010, Micro-*Takāful* providers exist in Lebanon, Indonesia, Malaysia, Bangladesh, Kuwait, Sudan, UAE, Sri Lanka, Bahrain and Pakistan.<sup>25</sup> Various approaches are being tested in the search for an easily scalable, highly affordable, yet financially sustainable Micro-*Takāful* approaches.<sup>26</sup>

In view of the impressive growth and increasing potential to promote economic development, Micro-*Takāful* is still considered new in the field of Islamic finance. It was indicated that this new trend is still lacking of enough empirical research in Micro-

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<sup>21</sup> Akhtar, W. (2009). *Potential of Takāful in Pakistan: Operational and Transformational Paradigm*. *Op. cit.* pp.256-258.

<sup>22</sup> Hasan, Z. (2011) *Sharī'ah Governance In Islamic Financial Institutions In Malaysia, GCC countries and the UK*, Durham theses. p.326.

<sup>23</sup> Maznita Mokhtar, *et al.* (2012). *Towards Developing A Sustainable Microtakaful Program In Malaysia*. *Op. cit.* p.25.

<sup>24</sup> Lemaire, M. (2009). *Social Security and Microinsurance in Pakistan*, ILO/STEP. *Op. cit.*

<sup>25</sup> Mohieldin, M. *et al.* (2011). *The Role of Islamic Finance in Enhancing Financial Inclusion in OIC Countries*. Policy Research Working Paper 5920.

<sup>26</sup> Ralf R. and Johannes B. (2012). *Insurance for the poor? First thoughts about Microinsurance business ethics*. New Delhi: India. p.2.

*Takāful*, more so when it meant about its designing/developing and offering in the market.<sup>27</sup> Therefore, further research in this area is necessary and very much recommended.

However, despite its growing importance in the world, we are not aware of any study examining operation of Micro-*Takāful* scheme in Brunei Darussalam. Indeed, Micro-*Takāful* scheme is aimed at a broad range of clients including individuals, households and whole communities in both rural and urban areas. In order to achieve this goal a *Sharī'ah* compliant Micro-*Takāful* framework that contain all these vital pillars (low-income products preferences, insurance providers, sources of Micro-*Takāful* funds, contracts, and role of government and *Takāful* operators on the scheme) has to be designed and introduced. In this regard, the study aims to suggest a *Sharī'ah* compliant operational model/framework of Micro-*Takāful* for the low-income group with the insurance products they prefer and what support will be initiated by the government, donors and the *Takāful* operators. However, this study intends to extend the literature review on Micro-*Takāful*.

## **1.2 The Research Problem**

All over the world, the low-income households are more vulnerable to numerous risks and economic shocks<sup>28</sup> than the middle and higher-income groups due to their inferior housing and living conditions, their lower income and education levels and suffer from the ongoing uncertainty about whether and when a loss might occur.<sup>29</sup> These risks occur frequently and create financial pressures that aggravate the ever-present stress of meeting regular needs such as food, rent, school fees, etc. Although poor households often have informal coping strategies to manage risks such as borrowing, saving, selling productive and non-productive assets and informal group-based risk sharing systems, generally the effectiveness of these strategies is limited. So the poor have to patch together support from a variety of sources. And before the households have a chance to fully recover from one crisis, they are struck by another.

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<sup>27</sup> Siti Khadijah, A. *et al.* (2013). *Sustainability of Islamic Micro Finance Institutions*. *Op. cit.* p.76.

<sup>28</sup> Including illness, accidental death of breadwinner or disability, loss of property due to theft or fire, agricultural losses, and disasters of both the natural and manmade varieties.

<sup>29</sup> Churchill, C. (2006). *Protecting the Poor: A Microinsurance Compendium*. Vol. I. (ILO). Munich. Germany. p.12.

In Brunei Darussalam, there are more than 4500 families fall in the category of the poor and needy.<sup>30</sup> Most of these families are residing in remote and rural areas of the villages in Tutong District and Ulu Belait which are some of the hardest hit when it comes to securing basic amenities such as food, accessible roads and education. In addition, a lot of their houses are very old and in serious disrepair so they need a lot of repair and renovation. Although there are families in need even in urban areas, but those in remote areas are most in need to find solutions for their problems.<sup>31</sup> The need for risk management strategies arose out of the concerns about the low income households, especially those in rural areas, have been desperate for new alternatives, strategies and/or more accessible social and financial programs. Unfortunately, there is limited presence of risk management strategies in Brunei Darussalam.

There are a number of social protection schemes in Brunei Darussalam offered by His Majesty's Government through the ministries and institutions concern. These schemes including free health service and *Zakāt* are based on specified rules, often underpinned by law, and provide benefits when a member of the household experiences a sudden shock due to a specific risk that is predefined by law. Although, the state is still the major provider of free health services through public health centers, but those poor people in remote areas are not benefiting due to lack of extension of public health centers to the remote areas. Moreover, this free health service is provided to the local people while the foreign and permanent residents are exempted. On the other hand, *Zakāt* is collected and meant to benefit the identified categories. Nevertheless, this scheme is managed haphazardly where some are benefited while others are not.<sup>32</sup>

Despite the large support given by His Majesty's Government on the matters, problems still persist. Death of a family member or long-illness due to road accident or other causes and loss of property due to theft, fire or flood are common shocks affecting the low-income people in Brunei Darussalam. People drive vehicles at a high speed resulting in

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<sup>30</sup> Ministry of Culture, Youth & Sports Report. (2013). *Study on Poverty in Brunei Darussalam*. Data provided by the ministry during the interview, one page.

<sup>31</sup> Brunei Times, <http://www.bt.com.bn/news-national/2012/08/06/poor-families-remote-areas-need-basic-amenities>. Accessed on Monday, August 6, 2012.

<sup>32</sup> Rose binti Abdullah. (2010). *Zakat Management in Brunei Darussalam: A Case Study*. Seventh International Conference – The Tawhidi Epistemology: Zakat and Waqf Economy, Bangi. p.392.



road accidents. Moreover, Brunei is a country of heavy rain through the year. And in many occasions, rain has caused floods that affected many properties in rural areas. Although there is an emergency aid offered by the Government and public to the affected individuals, but the aid usually covers the basic needs such food, clothes, building materials, etc. while the affected poor people will still need other resources to start new life from the scratch, and mostly they don't succeed, hence this informal mechanism for mitigating and coping with risks become ineffective.

Furthermore, *Takāful* industry in Brunei Darussalam has been blessed with tremendous growth and strong performance. *Takāful* companies' share in total gross premium has increased at 31.1%, 39.0%, and 41.9% in 2008, 2009, and 2010, respectively. These increases were indicative of the public's awareness and interests toward *Takāful* products based on the profit-sharing approach that is not offered by conventional companies.<sup>33</sup> But the main focus of this industry is on the middle and high-income people. As more products are designed to cater the needs of the middle and high income individual. Few efforts have been made on the low income households. With tremendous growth and strong performance of *Takāful* companies in Brunei Darussalam can extend their service to the low income households in urban and rural areas. Low cost and affordable Micro-*Takāful* products can be designed to cater the need of the poor people in the country. This will join other hands to secure and uplift the life standard of the poor people, and to achieve the government goal of eliminating poverty in His Majesty's Government to zero level.<sup>34</sup>

In view of these facts, this study attempt to investigate the potential Micro-*Takāful* scheme in order to suggest a framework for entrenching Micro-*Takāful* as a tool for socio-economic empowerment and risk management for low income households in Negara Brunei Darussalam. With Micro-*Takāful* scheme however, the urban and rural poor households can mitigate those risks that would otherwise cause them to slide back into the poverty they seek to escape. It is expected that the empirical findings of such an extensive

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<sup>33</sup> Bashir, M.S. & Nor Hafiizah, M. (2011). *Consumer Perceptions of Islamic Insurance Companies in Brunei Darussalam*. Int. J. Emerg. Sci., 1(3). pp. 286-287.

<sup>34</sup> *Brunei Darussalam Millennium Development Goals and Beyond*. (2010). Department of Economic Planning and Development Prime Minister's Office. p.19.

study on this subject will be able to identify issues, gaps and problems, and at the same time propose policy recommendations pertinent to *Micro-Takāful* scheme for further development of the industry.

### **1.3 The Research Questions**

The following questions are proposed to guide the collection, analysis and interpretation of data in line with the research aims and objectives. It is expected that the research will, in the end, provide answers to these questions to ensure the research is designed accordingly. Following the research problem, this research seeks answers to the following questions:

- 1) What are the *Micro-Takāful* products that can be offered and which appropriate provider (institution) that will provide these products in Brunei Darussalam?
- 2) What are the instruments used for mobilization of *Micro-Takāful* funds?
- 3) What are the types of contracts and mechanisms of *Sharī'ah* compliant used in *Micro-Takāful* scheme?
- 4) What role can the Government of Brunei Darussalam and the *Takāful* operators play to support the *Micro-Takāful* scheme?

### **1.4 The Research Objectives**

The main objective of this master research is to study and develop an operational *Micro-Takāful* framework as a tool for socio-economic empowerment and risk management for low income households in Brunei Darussalam.

The specific objectives of this study are:

1. To investigate the *Micro-Takāful* products that can be offered and appropriate provider (institution) that will provide these products in Brunei Darussalam;
2. To find out the instruments used for mobilization of *Micro-Takāful* funds;
3. To find out the types of contracts and mechanisms of *Sharī'ah* compliant used in *Micro-Takāful* arrangements;
4. To examine role that the Government of Brunei Darussalam and the *Takāful* operators

can play to support the *Micro-Takāful* scheme.

### **1.5 The Significance of the Study**

This research will be greatly beneficial to the following:

1. The *Micro-Takāful* model will enable *Takāful* operators to adopt and implement the model within their companies in order to come up with decent and comprehensive *Micro-Takāful* products.
2. The proposed framework will be used by planners for future reference when reviewing the existing policy on Insurance.
3. The research will yield information that may act as literature review for the future academicians who may write further research papers on related topics.
4. Finally the research will generate information that will contribute towards achieving some of the key pillars in the Vision 2035 and Millennium Development Goals (MDGs) of eradication of extreme poverty.<sup>35</sup>

### **1.6 The Scope of the Study**

The focus of this study is on suggesting an operational *Micro-Takāful* model that can be applied in Brunei Darussalam. This will include:

- a. Investigation of the *Micro-Takāful* products that are suitable to the Bruneian market and an appropriate provider (institution) that will provide *Micro-Takāful* products;
- b. The instruments used for mobilization of *Micro-Takāful* funds;
- c. Types of contracts and the mechanism of *Sharī'ah* compliant used for *Micro-Takāful* scheme;
- d. To find out the possibility of the Government of Brunei Darussalam to support and *Takāful* operators to support and apply this model;

### **1.7 The Overview of the Thesis Structure**

The thesis has five chapters. Chapter one is for introduction. Chapter two covers literature review and previous study related to this study. Chapter three explains the research design

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<sup>35</sup> *Brunei Darussalam Millennium Development Goals and Beyond* (2010). *Op. cit.* p.19

and methodology used. Chapter four presents and discusses the findings. Finally, chapter five covers conclusion and recommendation. The overview of the chapters is described below.

Chapter 1 provides an introduction to and overview of the thesis. The first section explains the research background, which emphasizes the importance of insurance as the main instruments against risks. The sections that follow state the research problem that encouraged doing this research. More importantly the research questions section focuses on the issues that are the main pillars for developing a *Micro-Takāful* model. This is followed by the objectives of the study that answer the research questions, and an explanation of the significance of the study. In order to draw the boundary of the study, the scope of the study was also stated. Finally, the chapter concludes by providing a brief description of all chapters in the thesis.

Chapter 2 discusses the literature related to *Micro-Takāful* and Microinsurance and starts with risks and vulnerabilities, definition and limitations of Microinsurance as well as reasons for refusal of Conventional Insurance. Various conceptual and theoretical frameworks of *Micro-Takāful* scheme are presented. It furthermore explains benefits of *Micro-Takāful* and challenges for providing *Micro-Takāful*. An overview of selected *Micro-Takāful* schemes in Asia is also discussed. Finally, this chapter explains the previous researches related to this thesis.

Chapter 3 explains the research design that guides each stage of the study. It provided an overview of Brunei Darussalam, the rationale behind the choice of research design, the methodology and method for this thesis are clarified. The interview, transcription and data coding processes used are described. The questionnaire: structure, language and survey process, data analysis methods are also described. This chapter concludes with a presentation of importance of ethical conduct, and how this was employed throughout the study.

Chapter 4 presents and discusses the research findings. Eight main topics have emerged from the research field and these are explained; they encompass the approaches to rate of response and low income households' bio data. In terms of approaches to general

findings, *Micro-Takāful* products, fund mobilization and *Micro-Takāful* Provider are described. In addition, types of *Micro-Takāful* contracts and *Sharī'ah* compliance mechanisms are also explained. Finally, the chapter highlights the role played by the Government and *Takāful* operators on *Micro-Takāful* scheme.

Chapter 5 provides the conclusions and recommendations of the study. Next, directions for further study on *Micro-Takāful* Scheme within the Brunei Darussalam context are also presented to conclude the thesis.

## **1.8 Conclusion**

This chapter has introduced and presented the rationale for the research. It provided an introduction to and overview of the thesis, research problem, research questions, research objectives, significance of the study, scope of the study and an overview of the thesis structure. The next chapter explores the literature in relation to the Microinsurance and *Micro-Takāful*.

## **CHAPTER II: LITERATURE REVIEW**

### **2.0 Introduction**

This chapter discusses the literature related to Microinsurance and *Micro-Takāful* and starts with risks and vulnerabilities, definition and limitations of Microinsurance as well as reasons for refusal of Conventional Insurance. It also presents various conceptual and theoretical frameworks of *Micro-Takāful* concerning *Micro-Takāful* product, funds mobilization, insurance providers, business contracts and *Sharī'ah* compliance mechanism. Furthermore, it explains the sources of *Micro-Takāful* scheme, benefits of *Micro-Takāful* as well as challenges for providing *Micro-Takāful*. In addition, it discusses an overview of selected *Micro-Takāful* schemes in Asia. Finally, this chapter explains the previous researches related to this thesis.

### **2.1 Microinsurance: Insurance for the Low-income People**

Every human being is exposed to risks such as the death, work disability and dismissal of a main provider, illness, old age, business failure, drought, inflation, deforestation, war and so on. Without support, many households fall into poverty when these risks occur, because risks lead to a sudden decline in income and or rise in spending, thus destroying a household's capacity to meet its most basic needs. This section however, provides basic understanding of Microinsurance related issues. The section covers risks and vulnerabilities, Microinsurance profile, its limitations as well as reasons for the refusal of conventional insurance.

#### **2.1.1 Risks and Vulnerabilities**

Low income people live in risky environments, vulnerable to numerous risks, including illness, accidental death and disability, loss of property due to theft or fire, agricultural losses, and disasters of both the natural and manmade varieties.<sup>36</sup>

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<sup>36</sup> Churchill, C. (2006). *What is insurance for the poor?* In Churchill, C. (2006). *Protecting the poor: A Microinsurance compendium*. Vol. I. ILO, Geneva. p.12.

The poor prove to be more vulnerable to many of these risks than the rest of the population. They do not dispose of enough material or social resources to cope with the hazardous event when it occurs. Being already in an unstable position for which they have to struggle every day, the impact of hazard would be really catastrophic for their livelihoods because it destroys every resource they managed to build up, including hope. Further resources, when available, are extremely valuable for their survival and escape from poverty, thus makes the risk still higher.<sup>37</sup>

Recognizing all these aspects, this section explores the risks faced by the poor and coping strategies to these risks, and characteristics of insurable risk in the two sub-sections that follow. The aim of these subsections is to build up a basic understanding of risks and risk-management strategies applied by low-income people so as to enable the study suggest alternative solution for these risks.

#### **2.1.1.1 Risks and Risk-Coping Strategies**

The term ‘Risk’, as defined in the Oxford English Dictionary, is a possibility of harm or damage against which something is insured.<sup>38</sup> Risk in insurance system arises when there is a possibility of more than one outcome and the ultimate outcome is unknown.<sup>39</sup> For instance, loss of a property due to fire or theft may require other resources to rebuild it.

In the insurance operation system, there are at least two broad categories of the risks encountered by poor households, as can be seen in figure 2.1: (1) those related to persons such as, death, health problems, other life cycle events (i.e. marriage, birth, education costs etc.) and (2) those related to property such as, eviction, disasters (i.e. floods, droughts, earthquakes, fire, volcano etc.), theft and so on. Moreover, among the poor differences exist in vulnerability to hazard, depending on the environment. For instance, slum dwellers are generally more vulnerable to fire or theft than rural people. In rural

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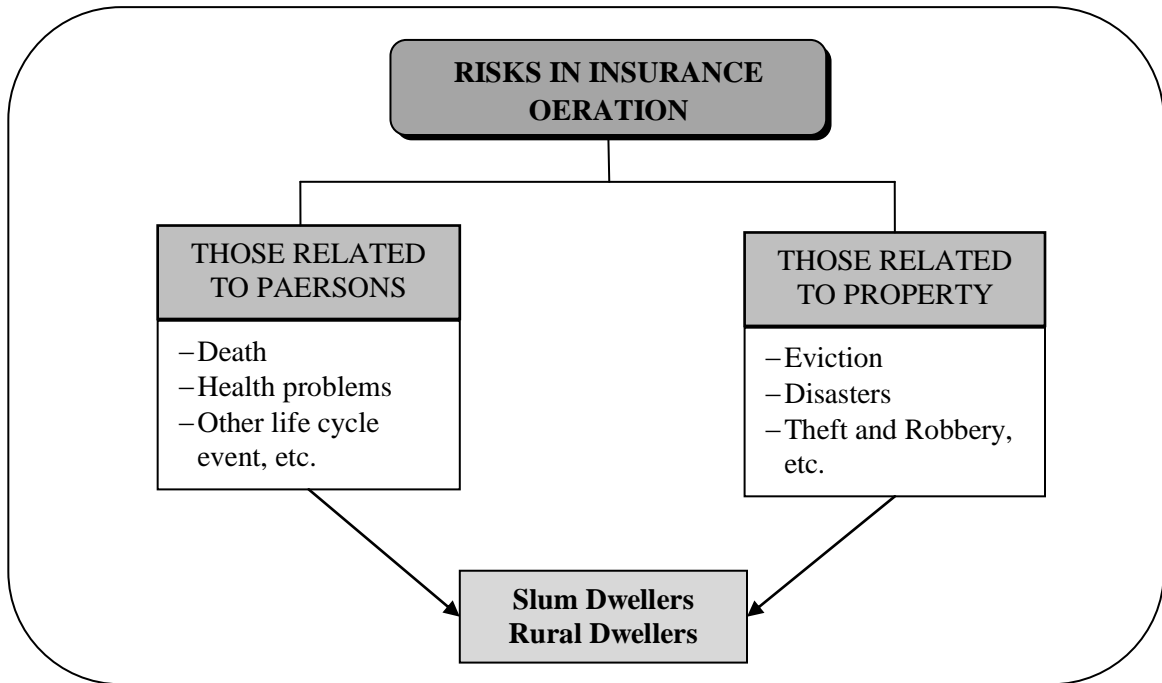
<sup>37</sup> Davignon, G. (2004). *The Microinsurance Promise*. Solvay Business School. p.44.

<sup>38</sup> <http://www.oxforddictionaries.com/definition/english/risk?q=Risk> accessed 20 April 2013.

<sup>39</sup> Khan & Ahmed. (2001). *Risk Management: An Analysis of Issues in Islamic Financial Industry*. IRTI, IDB. p.26.

region, people are more vulnerable to climate changes, seasonality, droughts, or transportation of sick family members.<sup>40</sup>

**Figure 2.1:**  
Risks in Insurance Operation



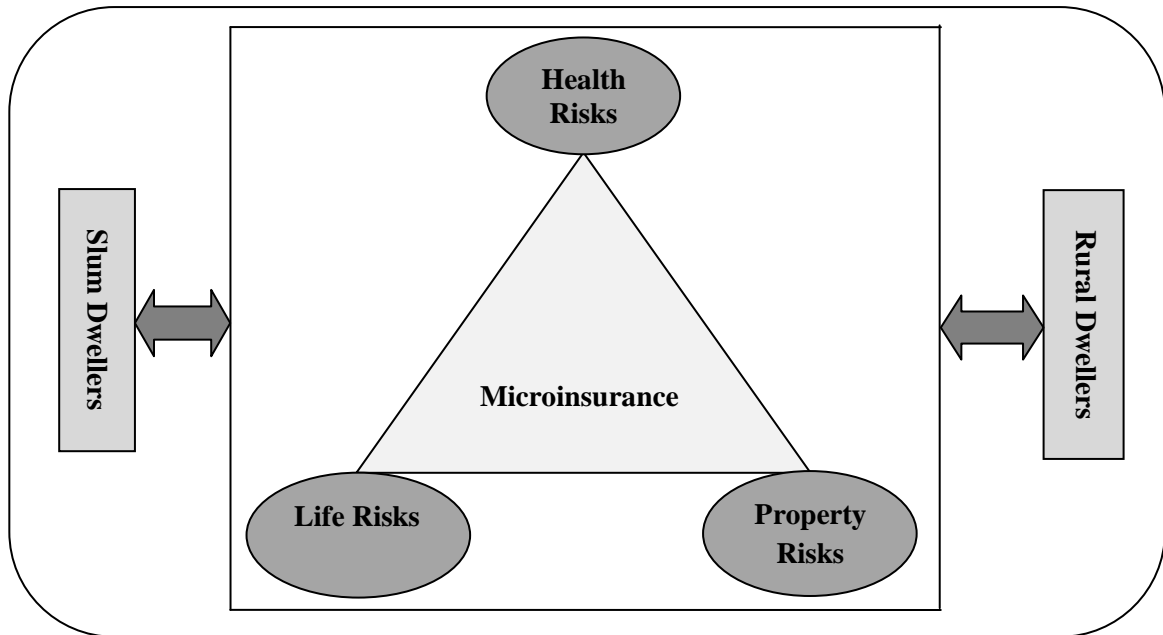
Source: *Designed by the Researcher.*

However, the treatment of these risks should be arranged under a causal and interactive system because the causes and impacts of one type of risk cannot be isolated from the other types of risks. All risks have necessary correlations and influence each other (see figure 2.2 below). For example, a risk affected to a property has an impact on persons' health and vice versa. Likewise, agricultural risk is related to property but has an impact on persons. As such, micro insurance scheme providers are advised to design products that can meet the objectives of the low-income people to provide peace of mind and protect against losses.

<sup>40</sup> Davignon, G. (2004). *The Microinsurance Promise. Op. cit.* p.44.



**Figure 2.2:**  
Interactive Relationship among Risks



Source: *Designed by the Researcher.*

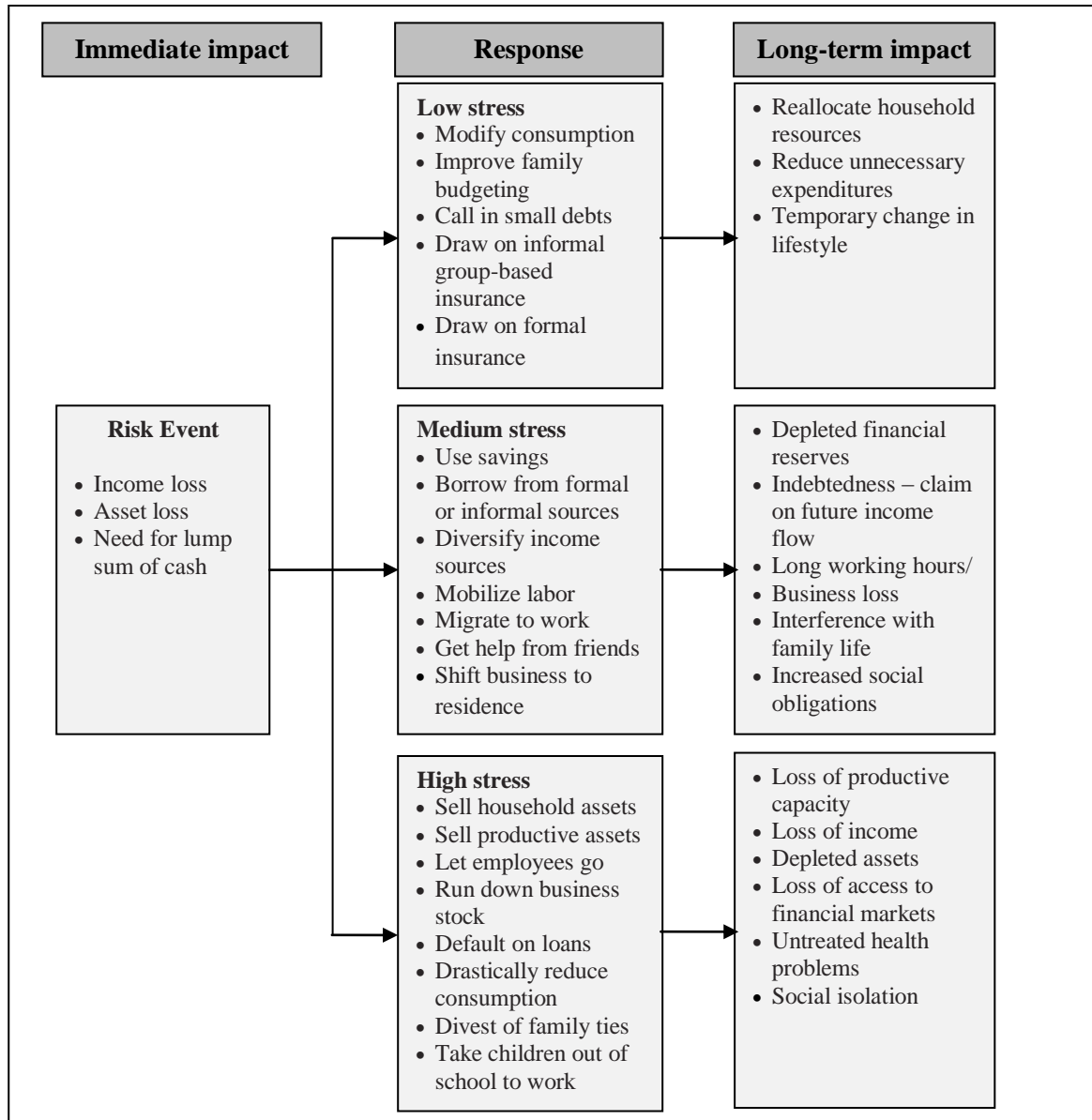
Managing these risks among the poor people, however, is more challenging in their lives. There are two factors affecting the household's capacity to manage risk: (1) the resource endowment of the household and (2) the range of coping mechanisms it can access.<sup>41</sup> These two factors make the poor people more difficult to respond to such shocks because they have fewer resources not only to meet the immediate costs of the shock, but also the secondary expenses incurred in getting back on their feet. Once their reserves are depleted, low-income households are forced into increasingly reactive modes of behavior.<sup>42</sup> They respond to each crisis with increasingly stressful coping mechanisms (see figure 2.3 below).

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<sup>41</sup> Cohen and Sebstad. (2003). *Reducing Vulnerability: The Demand for Microinsurance*. MicroSave-Africa – Promoting high-quality financial services for poor people. p.2.

<sup>42</sup> *Ibid.* p.3.

**Figure 2.3:**  
Reaction of low-income households on a risk event



Source: *Adapted and modified from Cohen and Sebstad (2003).*

As illustrated in figure 2.3, the low-income people have developed informal insurance mechanisms to provide protection against risks. Once a shock occurs, they either respond to low stress, medium stress or high stress. Nevertheless, many of these mechanisms represent simply deferments of expenses, with costs increasing at each level. Some are expenses that will never be incurred at a later date (longer term impact). In contrast, the

use of savings or the drawing of insurance in response to shocks represent *ex ante*-strategies that pay off *ex post*.

In this context, alternatives have to be implemented to these outcomes, to avoid further impoverishment and reduce the existing poverty. It is essential that the purpose of new risk management mechanisms is not the replacing of informal mechanisms. This would lead to disappearance of self-constructed and participatory mechanisms essential to maintain the livelihood of the poor at a worthy social and financial level. Moreover, it would enhance dependency of the poor households to the new mechanisms and thus enhance their vulnerability. Their survival would be entirely dependent on the existence of a formal institution since the informal mechanisms disappeared. A new risk would appear, whereas the aim is to reduce the vulnerability of the poor. Instead, the new formal mechanism, which answers to a real need of covariant risk management, must encourage independency.<sup>43</sup>

Consequently, insurance has been recognized as the most appropriate means for protection against highly unpredictable events, whilst informal mechanisms can still be used to encourage togetherness and participations among the low-income households. But before offering insurance against any risk, it is more advisable to understand its characteristics. This will assist an insurance provider to achieve the goals effectively.

#### **2.1.1.2 Characteristics of Insurable Risk**

In insurance mechanism, there are two narrow categories of risks namely, (i) non-insurable risks and (ii) insurable risks.<sup>44</sup> The former are the risks occur as a result of conditions of economic downturn and instability which may not lend themselves to Microinsurance; rather they define the context for the other risks and deepen their negative impact. For instance, growing unemployment among many salaried workers reduces their demand for goods and services provided by informal sector businesses. The latter, on the other hand, are the risks occur as a result of natural disasters or manmade significantly affect the lives of households in both urban and rural areas that can be

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<sup>43</sup> Davignon, G. (2004). *The Microinsurance Promise. Op. cit.* pp.54-55.

<sup>44</sup> *Ibid.* pp.13-14.

insured and compensated. These types of risks include floods, drought, fire, theft, etc. Insurance providers always focus on the insurable risks.

However, for an insurance operator to act effectively on the insurable risks, the risk should have the following characteristics:<sup>45 46</sup>

- i. The risk covered should be tangible i.e. must result in a financial loss for the individual.
- ii. It has to occur unpredictably.
- iii. There should be a low probability that a risk will occur to most of the members in the risk pool within the period, otherwise the cost of the insurance will be very high.
- iv. The chance of it happening to one person should not be affected by the fact that it has happened to another person.
- v. The risk should not be under the direct control of the insured person; otherwise he or she would be able to manipulate it so as to get the benefit.
- vi. It should be easy to determine whether the insured event has occurred or not.
- vii. The premium must be affordable for the insured and sufficient to cover the losses transferred to the insurer.

Therefore, it is strongly recommended that any insurance provider, specifically those institutions provide insurance services to the low-income households, needs to observe and identify these characteristics carefully to make sure that the services offered are more sustainable and viable.

In the following sections, the researcher will give a profile of Microinsurance and investigate how it complements the inefficiencies of other services and whether it really carries the promised benefits for clients (low-income households).

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<sup>45</sup> Davignon, G. (2004). *The Microinsurance Promise. Op. cit.* pp.57-58.

<sup>46</sup> Roth, J & McCord, M. (2008). *Agricultural Microinsurance Global Practices and Prospects.* The MicroInsurance Centre, LLC. p.8

### 2.1.2 Profile of Microinsurance

In the previous section, the study has shown the limitations of the informal risk management tools that should lead to new risk management tools. Microinsurance has been recognized as the new opportunity that is proposed to reduce the impact of covariant risk on the low-income households.<sup>47 48 49</sup>

Microinsurance is defined as a system to protect poor people against specific shocks (such as fire, accident, ill health etc.) using risk pooling in return for regular affordable premium payments proportionate to the likelihood and cost of the risk involved.<sup>50</sup> This definition has two main components: (1) insurance and (2) a specified target group.<sup>51</sup>

Firstly, insurance mechanism: is the provision of financial protection against unexpected losses by pooling the resources of the many to compensate for the losses of the few. In this context, insurance replaces the uncertain prospect of large losses with the certainty of making small, regular, affordable premium payments. Secondly, the poor: Microinsurance targets the poor people that may not typically be covered by other insurance and/or social security schemes.

In practice, protection is accomplished through a pooling mechanism: each person who is vulnerable to the risk pays a small amount of money (the premium) into the pool, which is then used to compensate those who suffer a loss.<sup>52</sup> For instance, a group of 1 000 farmers may get together and put aside \$12 per month for insurance to cover the death of their animals up to a value of \$1 000 per animal. Each month the pooled premiums come to \$12 000; which is used to pay claims. Without the pooling mechanism provided by

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<sup>47</sup> Davignon, G. (2004). *The Microinsurance Promise*. *Op. cit.* p.61.

<sup>48</sup> Brown, W. and Churchill, C. (1999). *Micro-Insurance: Providing Insurance to Low-Income Households Part 1-a primer on insurance principles and products*. Microenterprise Best Practices Project, Development Alternatives Inc. Bethesda, MD. At <http://www.mip.org/pubs/mbp-def.htm> accessed 22 April 2013.

<sup>49</sup> Brown, W. and Churchill, C. (2000). *Insurance Provision in Low Income Communities Part II: Initial Lessons from Micro-Insurance Experiments for the Poor*. Microenterprise Best Practices Project, Development Alternatives Inc. Bethesda, MD. At <http://www.mip.org/pubs/mbp-def.htm> accessed 22 April 2013.

<sup>50</sup> Roth, J & McCord, M. (2008). *Agricultural Microinsurance*. *Op. cit.* p.12.

<sup>51</sup> Ralf, R. & Johannes, B. (2011). *Insurance for the poor? First thoughts about Microinsurance business ethics*. *Op. cit.* p.3.

<sup>52</sup> Roth, J & McCord, M. (2008). *Agricultural Microinsurance*. *Op. cit.* p.7.

insurance, it is very hard for a low income farmer to find the \$1 000 he would need to replace the lost animal.

As illustrated above, this risk-pooling mechanism makes it possible for the benefit amount to be much greater than an individual's premium payments. Thus, insurance offers certainty by replacing the potential hazard of large losses with the payment of small, regular premiums.

Like any insurance, Microinsurance can cover all kinds of risk, like death of family members, costs of ill-health, loss or damage of property, agricultural risks and so on.<sup>53</sup> The risk insured under a Microinsurance policy is managed based on insurance principles and funded by premiums. The Microinsurance activity itself should therefore fall within the purview of the relevant domestic insurance regulator/supervisor or any other competent body under the national laws of any jurisdiction.<sup>54</sup>

Furthermore, Microinsurance is provided by micro insurers, although they assume many different forms. Microinsurance risk carriers include small community-based schemes, mutuals, cooperatives, or joint stock companies. They may be for-profit or not-for-profit. Not all micro insurers are regulated by the insurance law. Depending on the legal set-up of a particular jurisdiction, some fall under other laws and authorities such as the cooperatives or health providers, others may be unregulated.<sup>55</sup>

In consequence, many literature reviewed related to Microinsurance have shown that Microinsurance is an alternative tool to replace informal mechanisms in securing low-income people against unexpected shocks.<sup>56</sup> Its benefits are summarized below:

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<sup>53</sup> Ralf, R. and Johannes, B. (2011). *Insurance for the poor? Op. cit.* p.3.

<sup>54</sup> IAIS (2007). *Issues in regulation and supervision of Microinsurance.* p.10.

<sup>55</sup> See: Ralf, R. and Johannes, B. (2011). *Insurance for the poor? Op. cit.* p.11.

<sup>56</sup> World Bank (2000). *World Bank Development Report 2000.* World Bank publications, Devaux, P. (2000). *Credit and Investment in rural areas of LDCs: The Complimentary Role of Insurance.* *Microfinance Newsletter* Issue No.7 pp.9–10 and Matin, I., Hulme, D. and Rutherford, S. (1999). *Financial Services for the poor and the poorest: A state of the art report.* In Patel, S. (2003). *Insurance and Poverty Alleviation.* ICMIF. pp.13-14.

- i. Microinsurance programs can increase Human Development Index (HDI) by providing creditors with greater security and incentive to lend to micro-enterprises.
- ii. For the individual, reducing risk through insurance enables credit and savings to be used more productively on income-generating opportunities.
- iii. Insurance enables the policyholder to save a portion of his/her income, without the need to use it on medication, fire, theft and death; it can instead be invested in a child's education.
- iv. Health insurance enables access to better medical services and a better quality and longer life.
- v. Access to adequate insurance protection can assist the poor to achieve sustainable growth and provide them with the capability to attain a better standard of living.
- vi. It can mitigate the impact of personal and national calamities on the build-up of assets, providing escape from the viscous circle of poverty that engulfs each new generation.
- vii. Insurance can also protect those that have risen above the poverty level against unforeseen events that may cause them to fall into poverty again.
- viii. Insurance provides security where none is available from the state; it facilitates self-sufficiency and empowers people to build for their own future.

Despite the realization that Microinsurance has the potential to offer improved risk management to the poor, there are, however, some limitations to the potential of Microinsurance schemes to contribute to the extension of social protection:

Firstly, many households lack the opportunity to join a Microinsurance scheme because no such scheme operates in their vicinity<sup>57</sup> and the formal sectors lack interest to serve the poor due to low collateral, higher transaction costs, interest rate restrictions, corruption, uncertain profitability, high risks, lack of pro-poor values and inability to serve the specific needs of the poor.<sup>58</sup> However, today Microinsurance schemes cover only a

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<sup>57</sup> Loewe and Deblon. (2009). *The potential of Microinsurance for social protection*, in Churchill, C. and Matul, M. (2012). *Protecting the Poor. A Microinsurance Compendium*. Vol.2. ILO. p.50.

<sup>58</sup> Matin, I. *et al.* (1999). *Financial Services for the poor and the poorest: A state of the art report* in Patel, S. (2002). *Op. cit.* p.15

limited portion of the population in their respective countries.<sup>59</sup> Indeed, many experts believe that Microinsurance will never reach a majority of the population, even under the most optimistic of assumptions.<sup>60</sup>

Secondly, many Microinsurance schemes have poor viability and sustainability. These two factors are linked to the developing countries with poor management skills and information systems. Insurance organizations have not reached a suitable level of maturity in developing countries due to inadequate financial resources, unqualified staffs, and insufficient knowledge and information.<sup>61</sup> Inability to assess the performance of the provider, who lacks the expertise to efficiently run and manage an insurance business, means that the possibility and opportunity for negligence or unscrupulous behavior is quite high, thus, no confidence in the quality and soundness of financial institutions.<sup>62</sup>

Finally, Microinsurance schemes have a poor images amongst the poor, insurance officers are seen as quick to sell and slow to pay, claims processes are hindered by bureaucracy, and policy limitations and exclusions are unclear due to complex policy wordings. Clarifying insurance policies is an additional costs and burden on the provider, especially as the policyholder may not be able to read let alone understand the terms and conditions. Consequently, the poor lack interest in insurance leading to high drop-out rates particular from clients that have not made a claim.<sup>63</sup>

These limitations, however, reveal that there are many gaps that need to be addressed as this study moves towards suggesting appropriate a risk management tool to fill these gaps. Therefore, it would be of the highest interest to find a solution to provide a risk management tool that will overcome these limitations. This will likely require the efforts of insurance commissions, insurance companies and other external forces.

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<sup>59</sup> Loewe and Deblon (2009). *Op. cit.* in Churchill, C. and Matul, M. (2012). *Protecting the Poor. A Microinsurance Compendium*. Vol.2. ILO. p.50.

<sup>60</sup> Roth, McCord, M.J.; Liber, D. (2007). *The landscape of microinsurance in the world's 100 poorest countries* (Microinsurance Centre), in Churchill, C. and Matul, M. (2012). *Protecting the Poor. A Microinsurance Compendium*. V.2. ILO. p.50.

<sup>61</sup> Matin, I. et al (1999). *Financial Services for the poor and the poorest: A state of the art report* in Patel, S. (2002). *Op cit.* p.17.

<sup>62</sup> World Bank. (2000). *World Bank Development Report 2000*. World Bank publications in Patel, S. (2002). *Op. cit.* p.17.

<sup>63</sup> Brown & Churchill, C. (2000). *Insurance Provision in Low Income Communities Part II: Initial Lessons from Micro-Insurance Experiments for the Poor*. *Op. cit.* in Patel. (2002). p.18.



The interest of this research now moves to the reasons why the poor Muslim communities could not simply be satisfied with formal mechanisms or buy conventional insurances.

### 2.1.3 Exploitive Tools of Conventional Microinsurance

Poor Muslim communities have seen that conventional insurance is not alternative risk management tool to mitigate their risks. Generally, the position taken by scholars on insurance is that the present day insurance does not; in its present form conform to the rules and requirements of *Shari'ah* due to the presence of the following three elements:

**I *Al-Gharar*:** *Gharar* is Arabic term which means risk, uncertainty and hazard.<sup>64</sup> Under insurance contract, uncertainty exists due to uncertainty whether the payment will be accepted as promised, the amount to be paid is not known and the time it will occur is not known.<sup>65</sup> *Gharar* is prohibited in Islam due to its two illegal aspects, first is uncertainty and second is deceit which leads to injustice, fraud and exploitation of other party by taking unfair advantage of ignorance of other party.<sup>66</sup> The Qur'an and *Sunnah* warn against possibility of fraud and deceit. They state:

﴿وَيْلٌ لِّلْمُطَفِّفِينَ ﴿١﴾ الَّذِينَ إِذَا أَكَالُوا عَلَى النَّاسِ يَسْتَوْفُونَ ﴿٢﴾ وَإِذَا كَالُوهُمْ أَوْ وَزَنُوهُمْ يُخْسِرُونَ ﴿٣﴾﴾

*“Woe to those who deal in fraud, who when they take their measure from others take it fully, and when they measure or weigh for them give less than what is due.”*<sup>67</sup>

*The Prophet (SAW) passed by a man who was selling grain. He asked him “How are you selling it?” The man then informed him. The Prophet (SAW) then put his hand in the heap of grain and found it was wet inside. Then he said, “He who deceives other people is not one of us.”*<sup>68</sup>

It is therefore, clear that a business transaction in which either of the parties has an intention to fraud or deceive is forbidden by the Qur'an and *Sunnah*.

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<sup>64</sup> Obaidullah, M. (2005a). *Islamic financial services*. Islamic Economic Research Centre, King Abdul Aziz University, Jeddah, Saudi Arabia. pp.29-32

<sup>65</sup> Patel, S. (2004). *Takaful and Poverty Alleviation*. ICMIF. p.5.

<sup>66</sup> Obaidullah, M. (2005a). *Islamic financial services*. *Op. cit.* p.29.

<sup>67</sup> Al-Qur'an, 83:1-3. (All Qur'anic translations in this research are based on: Yūsuf 'Alī, Abdallāh. (n.d.). *The Glorious Kur'an Translation and Commentary*. Beirut: Dar al-Fikr).

<sup>68</sup> Obaidullah, M. (2005a). *Islamic financial services*. *Op. cit.* p.32.

**II Al-Maisir:** *Maisir* or *Qimar* (gambling) to some extent is related to *gharar* in which outcome of a transaction is not exactly known. The insured pays a small amount of premium in the hope that in case of loss or damage, he will obtain full benefit much higher than the premium paid. In case no loss or injury occurs to the insured, his premium is forfeited.<sup>69</sup>

In insurance, there is the element of gambling which arises as a consequence of the presence of uncertainty in three ways. (i) The participant contributes a small amount of premium in hope to gain a large sum. (ii) The participant loses the money paid for the premium when the insured event does not occur. (iii) The company will be in deficit if claims are higher than contributions.<sup>70</sup> Qur'an has warned against all such transactions which involves gambling and called it a Devil's job and great sin.

﴿يَأْتِيهَا الَّذِينَ ءَامَنُوا إِنَّمَا الْحَقُّرُ وَالْمَيْسِرُ وَالْأَنْصَابُ وَالْأَزْلَمُ رِجْسٌ مِّنْ عَمَلِ الشَّيْطَانِ فَاجْتَنِبُوهُ لَعَلَّكُمْ تُفْلِحُونَ ﴿٩٠﴾ إِنَّمَا يُرِيدُ الشَّيْطَانُ أَنْ يُوقِعَ بَيْنَكُمُ الْعَدَاوَةَ وَالْبَغْضَاءَ فِي الْخَبْرِ وَالْمَيْسِرِ وَيَصُدَّكُمْ عَنْ ذِكْرِ اللَّهِ وَعَنِ الصَّلَاةِ فَهَلْ أَنْتُمْ مُنْتَهُونَ ﴿٩١﴾﴾

*“Ye who believe! Intoxicants and gambling, sacrificing to stones and divination by arrows, are an abomination, - of Satan's handiwork: eschew such (abomination), that ye may prosper. Satan's plan is (but) to excite enmity and hatred between you, with intoxicants and gambling, and hinder you from the remembrance of Allah, and from prayer: will ye not then abstain?”<sup>71</sup>*

From the above, it is clear that the Qur'an prohibits contracting under conditions of uncertainty and gambling (*qimar*).

**III Al-Ribā:** *Al-Ribā* (*interests*) is an Arabic word, derived from the verb *rabā* that literally means 'to grow' or 'expand' or 'increase' or 'inflate' or 'excess'.<sup>72</sup> Technically, some Muslim scholars attempt to define *ribā* which seems to be closer to the sense implied in the verses of the Qur'an and Hadiths related to it. They define *ribā* as an increase or excess which, in an exchange or sale of a commodity, accrues to the owner

<sup>69</sup> Obaidullah, M. (2005a). *Islamic financial services. Op. cit.* p.34.

<sup>70</sup> Burhonov, J. (2006). *Islamic Banking Operations of Commercial Banks under Islamic Banking Scheme (IBS) Of Malaysia: The Performance Analysis.* p.23.

<sup>71</sup> Al-Quran, 5:90-91.

<sup>72</sup> Al-Raghib Al-Isfahani, Al-Husain, *Al-Mufradat Fi Gharab Al-Qur'an*, Cairo, 1961. pp.186-187.

(lender) without giving in return any equivalent counter-value or recompense to the other party.<sup>73</sup> In conventional insurance contract, usually funds are invested in interest based avenues where return is fixed and guaranteed no matter how much profit investor reaps from the investment.<sup>74</sup> All kinds of *ribā* are prohibited in Islam as mentioned in the following verses of the Holy Qur'an: [*al-Baqarah*: 2:275-281, *al-Imran*: 3:130, *al-Rum*: 39). *Ribā* is severely condemned and prohibited in the strongest possible terms in the following verses:

﴿يَأَيُّهَا الَّذِينَ ءَامَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنْتُمْ مُؤْمِنِينَ ﴿٢٧٨﴾ فَإِن لَّمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِّنَ اللَّهِ وَرَسُولِهِ ۗ وَإِن تُبْتُمْ فَلَكُمْ رُءُوسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ ﴿٢٧٩﴾﴾

“O’ ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye are indeed believers. If ye do it not, Take notice of war from Allah and His Messenger. But if ye turn back, ye shall have your capital sums: Deal not unjustly, and ye shall not be dealt with unjustly.”<sup>75</sup>

These verses clearly indicate that any insurance contract wherein the policyholder expects to obtain a fix amount of profit that is greater than what he has contributed is considered as *ribā*. A Muslim should, therefore, abstain from involving oneself in such transactions as such business has no increase with Allah.<sup>76</sup>

The special characteristic of Islamic Insurance is the needs to comply with *Sharī’ah* values and principles. All Islamic Insurance operators should avoid any involvement with all kinds of *Sharī’ah* prohibitions to stay away from investing in any unlawful activities, and to observe the principles of Islamic morality or the Islamic ethical code. In this respect, introducing *Micro-Takāful* scheme is a necessity to the low-income Muslims community as alternative to conventional insurance not only to mitigate their risks and alleviate their poverty but also to create a sense of cooperation and mutuality among the participants, gaining rewards and blessings from Allah (SWT).

<sup>73</sup> Kabir Khan, M. (n.d). *Riba and Islamic Banking*. Journal of Islamic Economics, Banking and Finance. p.2.

<sup>74</sup> Obaidullah, M. (2005a). *Islamic financial services*. Op. cit. p.24.

<sup>75</sup> Al-Qur’an, 2:278-279.

<sup>76</sup> Akhtar, W. (2009). *Potential of Takāful in Pakistan: Operational and Transformational Paradigm*. Op. cit. p.148.

## **2.2 Micro-Takāful: A Sharī'ah Compliant Alternative to Conventional Insurance**

Muslims around the world are commonly faced with low-income levels, lack access to social security systems, healthcare, education, sanitation and employment opportunities. These are due to the following main factors:<sup>77</sup> (i) There is growing inequality in Islamic countries even in the rich Arab nations, due to increasing populations and a wave of cheap immigrant labor. (ii) Conventional insurance companies do operate in Islamic countries these are limited to commercial needs and to the elite sector of the population. (iii) Conventional insurance contains elements contradictory to Islamic principles, namely uncertainty, gambling and interest. It is therefore important that some risk protection mechanism is available to lower the vulnerability of the Muslim population.

Recognizing all these factors, this section explores conceptual definition of Micro-Takāful, its emergence from historical perspective and highlights the differences between Microinsurance and Micro-Takāful. Furthermore, it provides theoretical framework, challenges for providing Micro-Takāful, and finally, provides an overview of selected Micro-Takāful Schemes in Asia.

### **2.2.1 Definition of Micro-Takāful**

Micro-Takāful is defined as “a mechanism to provide *Sharī'ah*-based protection to the blue collared, under-privileged individuals at an affordable cost.”<sup>78</sup> It is also defined as a mechanism to provide *Sharī'ah*-based protection for the low income groups and under-privileged individuals at an affordable cost.<sup>79</sup> To understand further, these definitions can be divided into three essential components:

- (i) *Sharī'ah* based scheme: This refers to the scheme which is a *Sharī'ah* compliant. Indeed, this is the main different between Islamic insurance and conventional insurance.

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<sup>77</sup> Patel, S. (2003). *Insurance and Poverty Alleviation*. ICMIF. *Op. cit.* pp.35-36.

<sup>78</sup> Khan, J. A. (2006). *Microtakaful-the way forward*. p.3 (slide).

<sup>79</sup> Haryadi, A. (2006). *Developing Microtakaful in Indonesia*. Paper presented at the International Convention on Takaful and Re-takaful, Kuala Lumpur. p.10.

- (ii) The main target of the scheme is poor people: This indicates that the aims and objectives of Micro-*Takāful* schemes to provide efficient scheme to serve the low-income people, especially the Muslim communities.
- (iii) The Micro-*Takāful* scheme is affordable: This means that the products and services offered are kept at affordable cost. As such, Micro-*Takāful* scheme need to be marketed to consumers differently than normal insurance products and need to be affordable to those living at or beneath the poverty line.

Conceptually, the fundamental underlying the *Takāful* concept is quite similar to the cooperative and mutual insurance with the principle of Islamic law. It is also being suggested that all *Takāful* products can be delivered to the poor with some modifications on the collecting basis and low premium contributions.<sup>80</sup> The key difference between *Takāful* and Micro-*Takāful* is that *Takāful* deals with manageable risks for those who can afford them, while Micro-*Takāful* targets the type of risks that are excluded on normal yardsticks. The main differences between *Takāful* and Micro-*Takāful* are illustrated in the following Table 2.1 below.

**Table 2.1:** Differences between *Takāful* and Micro-*Takāful*

	<i>Takāful</i>	Micro- <i>Takāful</i>
<b>Can it cover high risks?</b>	Normally excluded	Yes
<b>Is it an extension of social insurance?</b>	No	Yes
<b>What about pre-existing conditions?</b>	Excluded	Difficult to exclude
<b>Customer segmentation</b>	Formal economy, mostly employed or self-employed	Informal economy, outside the social insurance coverage
<b>Affordability considerations</b>	Upper to middle income classes	Bottom of the income and social pyramid. Need subsidies from government, donor agencies, zakāt funds
<b>Underwriting considerations</b>	Easier to mitigate adverse selection and exposure to fraud	Risk from adverse selection and fraud needs to be mitigated through linkage with economic benefits of microcredit, microfinance or schemes for community and affinity groups
<b>Distribution</b>	Agency, brokers, commercial banks, direct, electronic	Microfinance institution, rural banks, mosques; no brokers

Source: Adapted from Bhatti, A. (2010:61).

<sup>80</sup> Haryad, A. (2007). *Reaching out to the Poor with Microtakaful*. Op. cit. p.62.

The basic fundamental underlying the Islamic Microinsurance is a social scheme based on the principles of brotherhood, solidarity and mutual assistance. It provides mutual financial aids and assistance to those who are members of the Micro-*Takāful* scheme and voluntarily agree to contribute a certain amount of money for that purpose. It is a mutual agreement among the participants of the scheme. Such a mutual cooperation between both parties is certainly in line with the Qur'an and *Sunnah* doctrine of mutual cooperation as Allah (SWT) and His Messenger (SAW) commanded to the effect:

﴿وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَىٰ وَلَا تَعَاوَنُوا عَلَى الْإِثْمِ وَالْعُدْوَانِ﴾

*“Help you one another in Al-Birr and At-Taqwa (virtue, righteousness and piety); but do not help one another in sin and transgression.”*<sup>81</sup> The Holy Prophet (SAW) advised Muslims community to come forward in relieving one’s hardship. The Prophet (SAW) has put it clear in the following Hadith narrated by Abu Hurairah (RA) from Holy Prophet (SAW) saying that: *“Whosoever removes a worldly hardship from a believer Allah (SWT) will remove from him one of the hardships of the hereafter. Whosoever alleviates the needy person, Allah (SWT) will alleviate from him in this world and the next....”*<sup>82</sup>

In this context, the fundamental philosophy of Islamic Insurance is the same as that of the cooperative, with added restrictions on investments and more flexibility on capital formation.<sup>83</sup>

### **2.2.2 Emergence of Micro-*Takāful* from Historical Perspective**

The concept of Islamic Insurance is originated from the system of *al-‘aqilah* practiced among the ancient Arab tribes before the period of the Holy Prophet Muhammad (SAW) and had since been gradually developed until the beginning of the 21<sup>st</sup> century.<sup>84</sup> The central idea of the doctrine of *‘aqilah* was that everybody among the Arab tribes was bound to pay a fixed amount of money to a fund that was used to pay to the heirs of the

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<sup>81</sup> Al-Qur’an, 5:2.

<sup>82</sup> *Sahih Muslim*, Hadith No.7028. Beirut: *Dārul-Jail and Dār al-Awfāq al-Jadid*. (n.d.).

<sup>83</sup> Patel, S. (2004). *Takaful and Poverty Alleviation*. *Op. cit.* p.8.

<sup>84</sup> Billah, M. (2003b). *Development & Application of Islamic Insurance (Takaful)*. p.3.

victim as a blood money.<sup>85</sup> The purpose behind was to provide financial protection to the heirs and to mitigate their miseries.<sup>86</sup>

This concept of blood money as practiced by the ancient Arab tribes was applauded by Holy Prophet (SAW).<sup>87</sup> It is evident from the following event when the two women from *Hudhail* clashed and one of them hit the other with a stone which killed her and the baby in the victim's womb. The Prophet (SAW) gave a verdict that the compensation for the foetus to be a male or female slave while the compensation for the killed woman is a blood money (*Diyat*) to be paid by the '*aqilah* (the relatives of the father's side) of the killer.<sup>88</sup> Furthermore, the concept of '*aqilah* was also supported by Caliph Umar (RA). He has ordered that a mutual fund should be established in every district to compensate the heirs of deceased person as well as martyrs. Thus, these practices reflect the elements of insurance practice during the period.<sup>89</sup> This idea was henceforth developed gradually by experts and scholars with some modifications such as guaranteeing security for future risks and investing the money paid for premium to extend the return benefits for both the insurers and the participants.

The gradual growth and development of *Shari'ah*-based insurance practices in the twentieth century in both Muslim and non-Muslim countries are quite satisfactory despite the fact that there are still some areas to be developed in this field in meeting the needs the necessities of the society of today.<sup>90</sup> Table 2.2 below shows an example of Islamic insurance companies operating in the contemporary world that offer Micro-*Takāful* schemes. The years indicated are the years of introduction of Micro-*Takāful* schemes.

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<sup>85</sup> Billah, M. (2003b). *Development & Application of Islamic Insurance (Takaful)*. *Op. cit.* p.3.

<sup>86</sup> Akhtar, W. (2009). *Potential of Takāful in Pakistan*. *Op. cit.* p.5.

<sup>87</sup> Billah, M. (2003b). *Development & Application of Islamic Insurance (Takaful)*. *Op. cit.* p.5-7.

<sup>88</sup> This is well justified in the following Hadith: "Narrated by Abu Hurairah (RA), he said that once two women from Huzail clashed when one of them hit the other with a stone which killed her and the baby in the victim's womb. The heirs of the victim brought an action to the court of the Holy Prophet (peace be upon him) who gave a verdict that the compensation for the foetus to be a male or female slave while the compensation for the killed woman is a blood money (dyat) to be paid by the 'Aqila' (the relatives of the father's side) of the killer." Sahih Al-Bukhari, Hadith No. 6508.

<sup>89</sup> Billah, M. (2003b). *Development & Application of Islamic Insurance (Takaful)*. *Op. cit.* p.5.

<sup>90</sup> *Ibid.* p.5.

**Table 2.2:**  
*Takāful operators that offer Micro-Takāful Schemes*

INSURANCE COMPANY	COUNTRY	YEAR
<i>Takāful Ikhlas Berhad</i>	Malaysia	2007
Shiekan Insurance Co. Ltd.	Sudan	2008
Prime Islami Life Insurance Ltd.	Bangladesh	2008
<i>Amana Takāful</i>	Sri Lanka	2012
<i>Takāful Insurance of Africa</i>	Kenya	2012

Source: *Patel, S. (2012:39).*

In fact, these companies are a few pioneering *Takāful* operators that have entered into the low-income market. Most notable is that these providers are in countries where almost all the population (except Kenya) is Muslim, poverty is rife and the *Takāful* sector is established. While the interest in Micro-*Takāful* is increasing amongst *Takāful* operators, experiences are still few and far between; affordable *Takāful* products with mutual principles at their core could certainly prove to be an important tool to increase access to insurance in many of the world's least developed countries.<sup>91</sup>

### **2.2.3 Characteristics of a Micro-*Takāful* Scheme**

The fundamental philosophy of *Takāful* and/or Micro-*Takāful* is the same as that of the conventional mutual risk mitigation, in which risk sharing is based on the concept of *ta'āwuni* (mutual cooperation). The difference between conventional insurance and Islamic insurance rests in the way the risk is assessed and handled as well as in the ownership of the insurance fund and how it is managed. Further differences are present in the relationship between the insurer (operator) and insured (participant).<sup>92</sup> The major points of differences between conventional insurance and Islamic insurance are summarized in Table 2.3 below.

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<sup>91</sup> Patel, S. (2012). *Microtakaful – Time to make a real difference to people's livelihoods*. ICMIF. p.39.

<sup>92</sup> Anja, E. *et al.* (2011). *Microtakaful: Field study evidence and conceptual issues*. *Op. cit.* p.11.



**Table 2.3:**  
Major Differences between Conventional Insurance and *Takāful*

Basis	Conventional Insurance	<i>Takāful</i>
<b>Motivation</b>	<ul style="list-style-type: none"> <li>• Profit-orientation</li> <li>• Risk sharing</li> </ul>	<ul style="list-style-type: none"> <li>• Mutual protection</li> <li>• Risk sharing</li> </ul>
<b>Function of insurer/ <i>Takāful</i> operator</b>	<ul style="list-style-type: none"> <li>• Provide indemnity</li> </ul>	<ul style="list-style-type: none"> <li>• Management of risks</li> </ul>
<b>Contract law</b>	<ul style="list-style-type: none"> <li>• Secular law; Commercial contract of sale and purchase</li> </ul>	<ul style="list-style-type: none"> <li>• Islamic law; Contract of donation in relationship to members (<i>Tabarru'</i>), commercial contract in relationship to operator (<i>Wakalah, Mudarabah</i>)</li> </ul>
<b>Treatment of funds</b>	<ul style="list-style-type: none"> <li>• No separation of funds</li> <li>• Property of insurer</li> </ul>	<ul style="list-style-type: none"> <li>• Separation of funds</li> <li>• Property of members</li> </ul>
<b>Ownership of profits</b>	<ul style="list-style-type: none"> <li>• Belong to insurer and its shareholders</li> </ul>	<ul style="list-style-type: none"> <li>• Belong to members</li> </ul>
<b>Premium/ Contribution</b>	<ul style="list-style-type: none"> <li>• Payment for risk transfer</li> <li>• Calculation based on: mortality, cost and interest</li> </ul>	<ul style="list-style-type: none"> <li>• Donation to risk pool</li> <li>• Calculation based on: <i>Tabarru'</i>, Mortality and profit sharing</li> </ul>
<b>Right and duties of Insured</b>	<ul style="list-style-type: none"> <li>• Indemnity from insurers' funds</li> </ul>	<ul style="list-style-type: none"> <li>• Indemnity from risk pool (<i>Tabarru'</i>)</li> <li>• Underwriting and investment surplus</li> <li>• Liability for losses</li> </ul>
<b>Liability of insurer/ <i>Takāful</i> operator</b>	<ul style="list-style-type: none"> <li>• Claim settlement from underwriting fund and in case of losses from capital</li> </ul>	<ul style="list-style-type: none"> <li>• Provision of interest free loan (<i>Qardh Hassan</i>) in case of deficit</li> </ul>
<b>Investment mechanisms</b>	<ul style="list-style-type: none"> <li>• Regulatory restrictions</li> </ul>	<ul style="list-style-type: none"> <li>• Regulatory restrictions by <i>Shariah</i>: investments in non-<i>Haram</i> subjects</li> </ul>
<b>Corporate Governance</b>	<ul style="list-style-type: none"> <li>• Board of Directors</li> <li>• Shareholders Assembly</li> </ul>	<ul style="list-style-type: none"> <li>• Board of Directors</li> <li>• Shareholders Assembly</li> <li>• <i>Shariah Supervisory Board</i></li> </ul>
<b>Social Responsibility</b>	<ul style="list-style-type: none"> <li>• Voluntary</li> </ul>	<ul style="list-style-type: none"> <li>• Mandatory by Islamic law in form of <i>zakah</i></li> </ul>

Source: Adapted from Anja Erlbeck (2010:36).

The following are the main distinctive features of Micro-*Takāful* scheme:<sup>93</sup>

- i. **Nature of business:** The prime purpose of an insurance undertaking is to mutually assist those in need by pooling individual risks. Primary business objective is a

<sup>93</sup> Akhtar, W. (2009). *Potential of Takāful in Pakistan: Operational and Transformational Paradigm*. Op. cit. pp.140-144.

demand fulfillment rather than a profit orientation. Any fee charged is for the services rendered and aims at increasing benefits to the participants.

- ii. ***Nature of contact:*** *Micro-Takāful* contact is a risk sharing agreement among members (participants) to pay a fixed amount in a joint fund to help each other in case of loss or risk. *Micro-Takāful* scheme provider merely acts as a manager of funds.
- iii. ***Disclosure and transparency:*** In *Micro-Takāful* contract participants agree to contribute in a joint fund (*Micro-Takāful* fund) and agree to help each other from that fund if a loss occurs to any or all of them. Here, Shareholders provide interest free loan if amount of claim payments exceed the amount of contribution.
- iv. ***Sources of funds:*** *Micro-Takāful* schemes aim at serving the low-income people. The contributions made by the participants for their policies are not sufficient to cover all the losses or damages they have encountered. To make the schemes running more effectively, other sources of funds may be used. However, *Micro-Takāful* schemes can benefit from donations (i.e. from *Zakāh*, *Sadaqah*, Waqf, NGOs and government).
- v. ***Treatment of funds:*** In general *Micro-Takāful* contract, entire contribution received from participants is treated as *Tabarru'* and goes to risk fund account. In family *Micro-Takāful* contract, a portion of contribution is treated as *Tabarru'* that goes to risk fund account whereas remaining major portion is kept in a separate account called participant's account (PA) that belongs to the participant.
- vi. ***Investment of funds:*** In *Micro-Takāful* business, all the funds from risk account and participants' accounts are invested in *Sharī'ah* compliant instruments on the basis of *Mudhārabah* where profit is shared according to agreed ratios.
- vii. ***Payment of Zakāt:*** In case of *Micro-Takāful* business, payment of *Zakāt* is considered an integral part of Islamic financial system. Every Muslim is obliged to share 2.5% of his assets held for one year above a certain threshold (*nisab*) with

the needy. Hence, Islamic insurers have to either contribute to a *Zakāt* fund or distribute their *Zakāt* directly to the needy or can be retained for risks coverage.

- viii. **Sources of Regulations:** Micro-*Takāful* regulations are based on Islamic principles (Qur'an and *Sunnah*) and decisions and *fatāwah* of *Sharī'ah* supervisory board. Regulatory authorities may seek guidance from the experience of conventional insurance and certain regulations might be adopted or modified for Micro-*Takāful* system that are justified and compatible with *Sharī'ah*.

However, these characteristics show how Micro-*Takāful* schemes are more appropriate tools for poor Muslims community to secure a better future for themselves and for subsequent generations.

#### **2.2.4 Importance of Micro-*Takāful* Scheme**

The objectives of the Micro-*Takāful* scheme lie in the very reason for its existence, i.e. is an *ex ante* and *ex post Sharī'ah*-compliant scheme as inspired by its philosophical foundation. Micro-*Takāful* is seen as a tool in achieving greater equality and empowerment of the poor by protecting them against unforeseen losses, giving them the courage to improve their productivity and livelihood through access to education, healthcare, employment, etc. and ensure that the foundation on which poverty alleviation is built is strong enough to keep the individual out of poverty.<sup>94</sup> Below are some significances of Micro-*Takāful* scheme.

- (i) Having a Micro-*Takāful* policy may ensure a development of mutual cooperation and the spirit of brotherhood as well as cultivating solidarity.
- (ii) Micro-*Takāful* with other microfinance products enables the poor to come together to defeat the common foe of poverty and overcome the challenges that continuously try and keep them down.
- (iii) A Family Micro-*Takāful* policy guarantees future material security for the widow and other dependents of the deceased (assured).

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<sup>94</sup> Anja Erlbeck *et al.* (2011). *Microtakaful: Field Study Evidence and Conceptual Issues*. *Op. cit.* p.24.

- (iv) Providing Micro-*Takāful* scheme enables the low-income households to dedicate more time and resources to obtaining these necessary services.

Consequently, the benefits of protection and better financial services to the poor Muslims community will be achieved if flexible, affordable and appropriate products are developed.

### **2.2.5 Micro-*Takāful* Products**

There are different types of Microinsurance products that are available in different parts of the world include credit life, term life, personal accident, property / asset insurance, endowment life, agriculture / livestock insurance, health / critical illness, funeral, unemployment and flood. These products can be modified for Micro-*Takāful* schemes like health *Takāful*, family *Takāful*, property *Takāful* and etc. that are justified and compatible with *Sharī'ah* and delivered to low-income people, while keeping them simple, affordable and accessible. According to Patel, S.<sup>95</sup> there are a number of Micro-*Takāful* products that are offered in different parts of the world include funeral, credit life, family, livestock, health, disability, accident, etc. For better modification and provision of these products, they can be grouped into three main categories: Micro-*Takāful* health, Micro-*Takāful* family and Micro-*Takāful* property. In order to understand the concept of these products, a brief explanation is given below.

#### **2.2.5.1 Health Micro-*Takāful***

Health Micro-*Takāful* (HMT) is a *Sharī'ah*-based scheme where accessibility to essential health services is made available to individuals and families, who are unable to afford formal health insurance schemes, through affordable premiums and low prices for health services.<sup>96</sup> The main objective of this scheme is to offer an opportunity for families to protect their income, earning capacity and expenditure, as well as encouraging use of healthcare services.<sup>97</sup> Though a majority of the poor people can pay for health care

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<sup>95</sup> Patel, S. (2012). *Microtakaful – Time to make a real difference to people's livelihoods*. *Op. cit.* p.39.

<sup>96</sup> Mosleh, U. A., Khairul Islam, Abul Quasem, & Ahmed, N. (2005). *Health Microinsurance: A Comparative Study of Three Examples in Bangladesh*. CGAP Working Group on Microinsurance Good and Bad Practices. Case Study No. 13. p.1.

<sup>97</sup> Virginia, T., Allen & Overy. (2012). *Microinsurance*. Advocates for International Development. p.7.

services, a section of them would still require further assistance like free treatment and medicine.<sup>98</sup> NGOs through partner-agent model are often the only source of health service in rural areas, and the only trusted one for the population they serve.<sup>99</sup>

There are significant studies suggest that clients of this scheme experience better financial protection from health shocks than do non-clients.<sup>100</sup> Despite the positive indicators and potential of this scheme, there are many challenges that limit the growth and impact of the sector. These include, but not limit, (1) the scheme is typically costly and limited, (2) health delivery system constraints, (3) insufficient programme scale, (4) pricing and funding concerns, (5) operating model deficiencies and (6) the lack of an enabling environment.<sup>101</sup> For a viable health insurance scheme, Leatherman *et al.*<sup>102</sup> recommend expansion of participants' benefits to respond to market demand, the use of organizational models and public-private partnerships for delivery and overcoming low capacity to pay and liquidity constraints. However, overcoming these problems not only will serve the participants effectively, also will attract more low-income households to join the scheme.

#### **2.2.5.2 Family Micro-Takāful**

Family Micro-Takāful (FMT) can be defined as a *Sharī'ah*-based scheme generally used for family solidarity in place of conventional life insurance which provides protection, long-term savings and an investment instrument.<sup>103</sup> Its primary goal is to saving over a fixed period of time and contributing a certain amount of money to a Micro-Takāful fund, earning returns on contributions from investment in *Sharī'ah* compliant instruments, and

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<sup>98</sup> Dror, D.M. & Jacquire. (2007). *Micro Health Insurance in India*, *IRDA Journal*, Vol. V, No. 12, pp. 7-12, in Radeva, Irena. (2012). *Balancing Health Microinsurance*. p.7.

<sup>99</sup> Ahmed, M., Syed Khairul Islam, S., Md. Abul Quashem, and Nabil Ahmed. (2005). *Health Microinsurance: A Comparative Study of Three Examples in Bangladesh*. ILO. p.50.

<sup>100</sup> Leatherman, S., Jones, L., Christensen & Holtz, J. (2010). *Innovations and barriers in health Microinsurance*, in C. Churchill. (2006), *Protecting the Poor*. A Microinsurance Compendium I (ILO, Geneva and Munich Re Foundation, Munich). p.113.

<sup>101</sup> *Ibid.* pp.113-121.

<sup>102</sup> *Ibid.* pp.122-127.

<sup>103</sup> Yazid, A. S., Juliana Arifin, Hussein, M.R. & Wan Norhayate Wan Daud. (2012). *Determinants of Family Takaful (Islamic Life Insurance) Demand: A Conceptual Framework for a Malaysian Study*. Published by Canadian Center of Science and Education. pp.117-118.

receiving protection in the event of death to the participant prior to the maturity of the plan.<sup>104</sup>

In practice, family Micro-*Takāful* installment is divided and credited into two separate accounts, namely the participant's account (PA) and the participant's special account (PSA). A substantial proportion of the installments are credited into the PA solely for the purpose of savings and investment. The balance of the installments is credited into the PSA as *Tabarru'* or donation for the Micro-*Takāful* provider to pay the Micro-*Takāful* benefits to the heir (s) of any participant who may die before the maturity of the contract. The amount accumulated in the PA is invested in *Mudhārabah* model of financing and the profits are divided between the Micro-*Takāful* providers and the participants according to the agreed ratio.<sup>105</sup>

However, for family Micro-*Takāful* scheme to work, it is recommended that the insurer needs to (1) determine business and design priorities and stick to them, (2) prioritize distribution, (3) stimulate trust and loyalty, and (4) design for simplicity, focusing on customer understanding.<sup>106</sup>

### **2.2.5.3 Property Micro-*Takāful***

Property Micro-*Takāful* (PMT) can be defined as a *Shari'ah*-based scheme used in event of loss of property, under which the insurer compensates the insured to the tune of sum insured, for compensation on payment of contribution (premium).<sup>107</sup> Its primary goal is to cover losses resulting from fire, theft, drought, flood and so on to property, personal assets, business assets, animals, crops and agricultural equipment. There has been increasing emphasis on protecting assets from natural and man-made disasters, including compulsory schemes by some institutions as these shocks are totally unanticipated and

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<sup>104</sup> Redzuan, H., Rahman, Z. A., & Aidid, S. (2009). *Economic Determinants of Family Takaful Consumption: Evidence from Malaysia*. International Review of Business Research Papers, 5(5), 193-211, in Yazid, A., Juliana, A., Hussein, M. & Wan Norhayate. (2012). *Determinants of Family Takaful (Islamic Life Insurance) Demand: A Conceptual Framework for a Malaysian Study*. Published by Canadian Center of Science and Education. pp.117-118.

<sup>105</sup> Yazid, A., Juliana, A., Hussein, M. & Wan Norhayate. (2012). *Determinants of Family Takaful (Islamic Life Insurance) Demand: A Conceptual Framework for a Malaysian Study*. *Op. cit.* p.118.

<sup>106</sup> Rusconi, R. (n.d). *Savings in Microinsurance: Lessons from India*, in Churchill, C. and Matul, M. (2012). *Protecting the Poor: A Microinsurance Compendium*. V.2. ILO. p.196.

<sup>107</sup> Churchill, C. (2011). *Going downmarket: African Insurers and the low-income market*. *Op. cit.* p.11.

sudden, and are perceived by many people as the most costly shock.<sup>108</sup> However, this product remains unpopular with its target audience largely, due to a lack of awareness of the risks posed, difficulties in pricing such insurance, high operation cost, high incident of fraudulent claims and a cultural unwillingness to spend part of a low income on protecting assets over providing for people.<sup>109</sup>

Despite these significant challenges to achieving viability and scale, some innovations are emerging that enable the obstacles identified to be circumvented. Some recent developments in product design, identification methods, operational processes, institutional models, technology and subsidies may pave the way for the expansion of viable property insurance.<sup>110</sup>

### **2.2.6 Micro-Takāful Providers and Delivery Models**

Micro-Takāful scheme is meant to sell products and provide services cheaply to the target clients. These products are sold through the delivery channel, and it is to the delivery channel that the policyholder goes to conduct his or her insurance business. The delivery channel can be any person or organization that interacts with low-income. Because Micro-Takāful premiums are small, delivery channels tend more often to be institutions rather than individual agents.<sup>111</sup>

There are different forms of delivery models include, Full Service model, Partnership model, Provider model, Community-base model and Social Protection model. It is very important to understand these different models as in Micro-Takāful the distribution process is one of the greatest challenges that insurers face due to bad infrastructure, low density in rural areas thus no economies of scale, and little technology.<sup>112</sup> Indeed, the difficulty in reaching the poor is one of the most important reasons for a low penetration of insurance scheme in rural areas of the villages in Tutong District and Ulu Belait,

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<sup>108</sup> Cohen and Sebstad. (2003). *Reducing Vulnerability: The n for Microinsurance*. Op. cit. p.31.

<sup>109</sup> Richard Leftley, R. and Mapfumo, S. (n.d). *Effective Micro-Insurance Programs to Reduce Vulnerability*. Opportunity International Network. p.21.

<sup>110</sup> Churchill, C. and Matul, M. (2012). *Protecting the Poor*. Op cit. p.265.

<sup>111</sup> Roth, J. & McCord, M. (2008). *Agricultural Microinsurance Global Practices and Prospects*. The MicroInsurance Centre, LLC. pp.16-17.

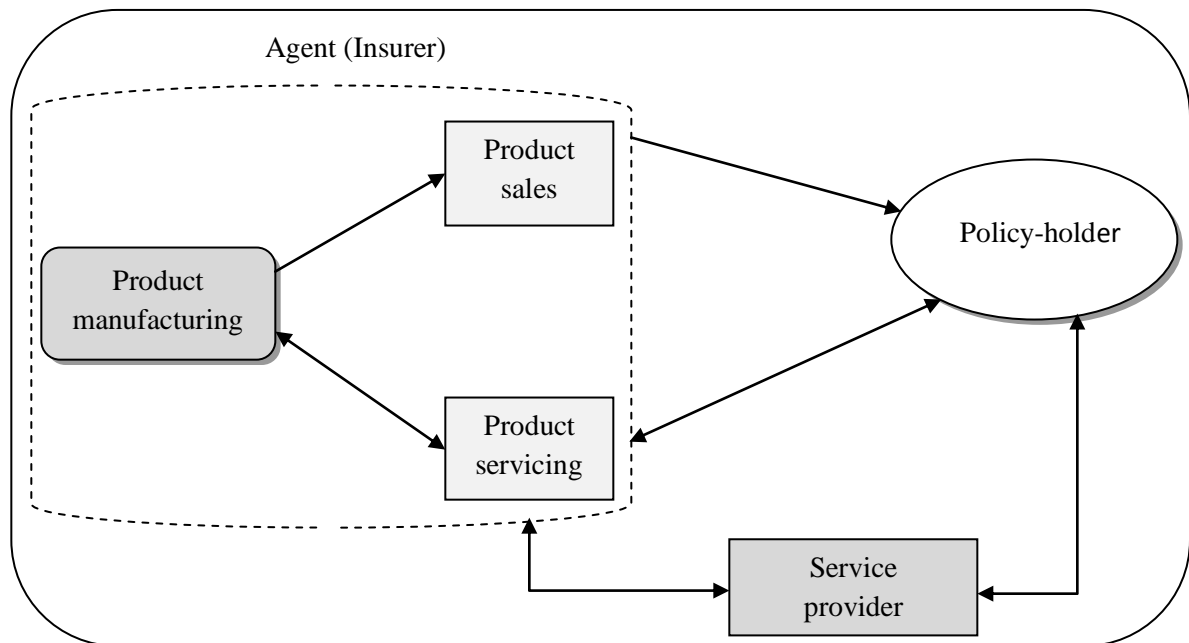
<sup>112</sup> Eline Kim't Hart. (n.d). *Understanding the Gap Between the Supply of and Demand for Cattle Microinsurance at the Base of the Pyramid in Rural India*. p.23.

Brunei Darussalam. In view of its importance of understanding these models, this study provides brief descriptions of these delivery models.

### 2.2.6.1 Full Service Model

This model is also known as Agency Model. In this model the insurance operator undertakes all the tasks - from product design, sales and collecting premiums to reviewing claims, handling payments and even providing reinsurance. The insurance company undertakes all the insurance-related risk and deals directly with the policyholders.<sup>113</sup> The process of this model is simply demonstrated in figure 2.4 below. *Takāful* operators, Commercial insurers and certain MFIs are examples of organizations that use the full service model.<sup>114</sup> This model is practiced by *Takāful T & T*, *Takāful Ikhlas* of Malaysia and *Amana Takāful* of Sri Lanka.<sup>115</sup>

**Figure 2.4:**  
The Full Service Model of insurance delivery



Source: Adapted and modified from Brown and Churchill (2000).

<sup>113</sup> ALL IANZ AG, GTZ and UNDP (2006). *Microinsurance Demand and Market Prospects in India*. p.26.

<sup>114</sup> *Ibid.* p.29.

<sup>115</sup> Akhtar, W. (2009). *Potential of Takāful in Pakistan: Operational and Transformational Paradigm*. *Op. cit.* p.138.



Under this model all Micro-*Takāful* products can be delivered.<sup>116</sup> Nevertheless this model seems to be unsuccessful in reaching lower-income groups in an efficient and effective manner. Traditionally, insurers have not covered low-income households because of the high administrative and transaction costs involved in reaching these customers, particularly those in remote areas, and their lack of familiarity with the demand profile. When attempting to reach these customers they must often deal with issues of adverse selection and moral hazard, as well as a lack of actuarial information for setting premiums. On the other hand, MFIs face additional hurdles to offering micro-insurance products to their clients, including a lack of technical knowledge regarding insurance products, burdensome regulatory requirements and highly concentrated portfolios.<sup>117</sup>

### 2.2.6.2 Partner-Agent Model

Unlike the former model, in this model an insurance company targets the market of the poor and links up with local institutions as agents that have a much better ability to reach the target group. Usually insurance operators collaborate with MFIs or NGOs which have an existing effective interface with the low-income market that can enhance efficiency.<sup>118</sup>

Under this model, partner is ultimately responsible for maintaining reserves, setting the price, paying claims, dealing with external service providers and complying with legal requirements. On the other hand, the agent offers its infrastructure for product servicing such as marketing the product, premium collection, and assists in claims management in exchange for a commission or fee.<sup>119</sup> The figure 2.5 below simply demonstrates this process. Through this model, most of Micro-*Takāful* products can be delivered, except health. This model is practiced by PT Asuransi Takaful Keluarga (ATK) of Indonesia, Shiekan of Sudan Amana *Takāful* of Sri Lanka.<sup>120</sup>

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<sup>116</sup> Churchill, C., Dalal, A. and Ling, J. (2012). *Pathways towards Greater Impact: Better Microinsurance Models, Products and Processes for MIFs*. ILO. p.22.

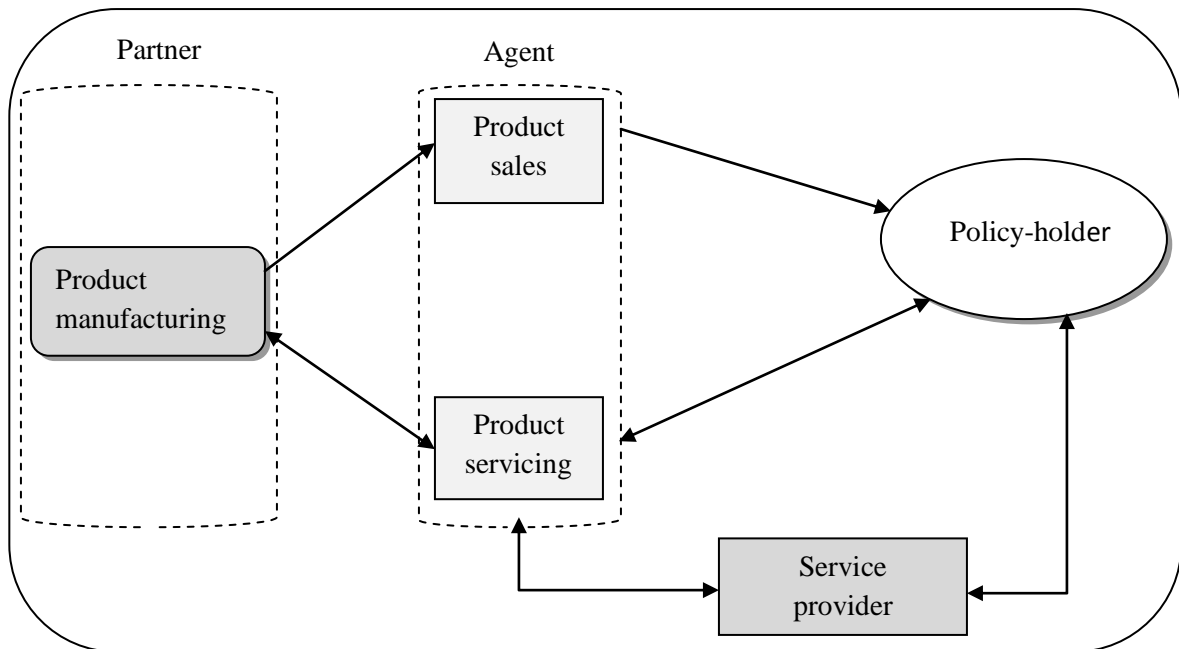
<sup>117</sup> Ziaulhaq Mamun, M. (2007). *Contribution of Micro-Insurance Augmenting the Poverty Alleviation Role of Micro-Finance: A Case Study of Bangladesh*. 11<sup>th</sup> APRIA Conference at National Chengchi University, Taipei, Taiwan. p.13.

<sup>118</sup> Ralf, R. & Brinkmann, J. (2011). *Insurance for the Poor?—First Thoughts about Microinsurance Business Ethics*. New Delhi/Bonn and Oslo, December 2011. p.4.

<sup>119</sup> McCord, M.J. (2006) *The partner-agent model: Challenges and opportunities*, in C. Churchill (ed.), *Protecting the Poor*. A Microinsurance Compendium (ILO, Geneva and Munich Re Foundation, Munich). pp.359-362.

<sup>120</sup> Patel, S. (2012). *Microtakaful – Time to make a real difference to people’s livelihoods*. *Op. cit.* p.39.

**Figure 2.5:**  
The Partner-Agent model of insurance delivery



Source: Adapted and modified from Brown and Churchill (2000).

This model clearly has the potential to be beneficial to all parties and can indeed provide a trio benefits. The partner has access into a new market without taking extensive marketing, distribution and administration costs, while the agent is able to offer insurance without the requirements of knowledge, funds or regulations. The policyholder benefits by increased access to a wider range of products with increased coverage and greater sustainability.<sup>121</sup>

However, in many partnerships there are still issues that need to be addressed to optimize the benefits for all parties, including the limited availability of partners, the reluctance from them to cover more complex risks, difficulties in ensuring rapid payment of claims and negotiating an equal partnership.<sup>122</sup> To overcome these limitations, it is recommended that there should be a strong relationship between the parties, agents must have sufficient knowledge and motivation to actually represent its clients in negotiations with insurers and manage the product development process and makes the products simple in all

<sup>121</sup> McCord, M.J. (2006) *The partner-agent model: Challenges and opportunities*, in C. Churchill (ed.), *Protecting the Poor. Op. cit.* pp.359-362.

<sup>122</sup> Patel, S. (2002). *Insurance and Poverty Alleviation. Op. cit.* p.39.

respects, from the initial entry requirements to a policy with a minimum of exclusions, and a settlement process that makes it easy to submit valid claims.<sup>123</sup>

### **2.2.6.3 Provider Model**

In this model, insurance scheme for low-income is mostly provided by governments. In fact, governments have the potential to provide *Micro-Takāful* to the poor due to great access to large population base, they can adopt regulations and legislation favorable to low-income insurance provision, and have potential for integration with other services provided to low-income communities.<sup>124</sup> Generally, governments run a variety of schemes intended to support household social protection efforts, including assistance, loans, public health care, and commodity subsidies, and in most cases, these schemes are administered by a number of different public institutions.<sup>125</sup> This model is practiced by the government of Jordan, India, Malaysia, Indonesia, and many other countries.<sup>126</sup> This model nevertheless seems to be inefficient in most projections, since the public social protection network is far from comprehensive. This is due to fact that the schemes are susceptible to political manipulation of funds and coverage of packages. Furthermore, there are limited resources to invest social security measures.<sup>127</sup>

### **2.2.6.4 Community-base Model**

Generally, this model is formed at the community level by people who are uninsured and come together for the purpose of pooling their risks.<sup>128</sup> Under this model, policyholders own the insurance company and select a group form among them to manage the scheme. The group is responsible for all insurance related tasks, and may subcontract external service providers to supply specific services. Insurers in a community group-based model are typically mutual insurers, cooperatives, community-based organizations, and credit

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<sup>123</sup> McCord, M. (2006). *The partner-agent model: Challenges and opportunities*, in C. Churchill (ed.), *Protecting the Poor*. *Op. cit.* p.377.

<sup>124</sup> Gilbert, M. *et al.* (2007). *Microinsurance in the Philippines: Policy and Regulatory Issues and Challenges*. Discussion Paper Series NO. 2006-25 (Revised). p.13.

<sup>125</sup> Markus Loewe *et al.* (2001). *Improving the Social Protection of the Urban Poor and Near-Poor in Jordan-The Potential of Micro-Insurance*. p.24.

<sup>126</sup> Patel, S. (2002). *Insurance and Poverty Alleviation*. *Op. cit.* p.39.

<sup>127</sup> Gilbert, M. *et al.* (2007). *Microinsurance in the Philippines*. *Op. cit.* p.14.

<sup>128</sup> Markus Loewe *et al.* (2001). *Improving the Social Protection of the Urban Poor and Near-Poor in Jordan*. p.29.

unions.<sup>129</sup> This participatory model has the advantage of reducing moral hazard problems. Nevertheless, the absence of reinsurance mechanisms and the geographic concentration of risk could potentially lead to the failure of the scheme in the case of catastrophic events or large-scale claims. Finally, a sizeable investment may be required, along with long-term training and technical assistance to establish a sound administrative structure.<sup>130</sup>

#### **2.2.6.5 Social Protection Model**

In this model, insurance schemes for low-income households are mostly provided by non-government organizations (NGOs). Indeed, this model is practiced in many countries in the world.<sup>131</sup> Since NGOs are not primarily driven by profits they are likely to require significant subsidies. This gives them a level of flexibility that allows a greater ability to experiment, for example by providing more complex types of insurance like health insurance. Significantly, NGOs tend to focus entirely on the low-income market to provide affordable and quality health care services to those who would otherwise have to go without.<sup>132</sup> But it can be concluded that the extent of subsidy is likely to be considerable, given that subsidies have been essential to the insurance schemes' continued sources of insurance funds and will most likely continue to be essential in the future. In this regard, the next section will focus on the sources of *Micro-Takāful* Scheme funds.

#### **2.2.7 Funds Mobilization for Micro-Takāful Scheme**

*Micro-Takāful* as a social protection mechanism strives to fill the gap to provide some coverage for the excluded, which would be even more effective if it were supplemented by subsidies to facilitate a redistributive effect. The main objective of *Micro-Takāful* is to serve the people who have limited resources, and in most cases, their contributions are very small and insufficient to serve the low-income people effectively. As such, there should be other sources to support the *Micro-Takāful*.

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<sup>129</sup> Ziaulhaq Mamun, M. (2007). *Contribution of Micro-Insurance Augmenting the Poverty Alleviation Role of Micro-Finance: A Case Study of Bangladesh*. *Op. cit.* p.13.

<sup>130</sup> Cohen and Sebstad. (2003). *Reducing Vulnerability: The n for Microinsurance*. *Op. cit.* p.35.

<sup>131</sup> *Ibid.* p.24.

<sup>132</sup> McCord, M. *et al.* (2007). *The Landscape of Microinsurance in the World's 100 Poorest Countries*. The Microinsurance Center LLC. p.24.

There are a number of sources of fund that are used to support insurance schemes for low-income households including, *Zakāt*, *Sadaqah*, Waqf, government subsidies and donors' subsidies. Below is an elaboration how these sources play a major role to support the schemes.

(i) *Zakāt (Alms Giving)*

*Zakāt* (alms giving) is Arabic term which means purification, growth, blessing and appreciation.<sup>133</sup> *Zakāt* has been defined as giving out a specified percentage on certain properties to certain classes of needy people.<sup>134</sup> In Islam, there are a various kinds of compulsory and non-compulsory levies, and *zakāt* is a compulsory religious duty conferred by Allah (SWT) upon all Muslims whose wealth exceeds the prescribed limit to pay the rate of 2½% of total income or wealth,<sup>135</sup> to eight groups of people who are qualified to receive *zakāt*, as mentioned in the Holy Quran, Surah *At-Tawbah*: 60.<sup>136</sup> The main objective of *zakāt* is that it seeks to eradicate poverty by ensuring that the rich live up to their social responsibility by distributing a portion of their wealth and fortune to the poor and the needy of the society at large.

However, *Zakāt* is the most important element of financial structure in Islamic perspective, and it plays a major in supporting Micro-*Takāful* schemes. Study of Anja Erlbeck *et al.*<sup>137</sup> reveals that some insurers in Indonesia finance their Micro-*Takāful* activities by means of the *zakāt* fund. Noor Ashikin *et al.*<sup>138</sup> recommend to the government of Malaysia to enforce a policy in providing aid to the poor via Micro-*Takāful* by providing subsidy and *zakāt* forming part of their monthly contribution. In Brunei Darussalam, large amount of *zakāt* is collected and disbursed to the *aswnāf*

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<sup>133</sup> <http://www.islam-guide.com/ch3-16.htm>, Accessed on 30 July 2014.

<sup>134</sup> Abdullah, M. & Suhaib, A. (n.d.). *The Impact of Zakat on Social life of Muslim Society*. p.68.

<sup>135</sup> Including zakat of business, *zakāt* of saving, *zakāt* of income, *zakāt* of gold and silver, *zakāt* of cattle (for instance like cow, goat and goat), *zakāt* of fruits and grain, *zakāt* of entrenchment as well as *zakāt* of investment.

<sup>136</sup> Including *al-Fuqara'* (needy/strained), *al-Masakin* (poor/deficient/lacking), *amil* (has right to collect zakat), *mualaf* (convert/reconciled to Islam), *al-Riqab* (slave), *al-Gharimin* (people in debt), *fi-sabilillah* (Allah's cause) and *Ibn as-Sabil* (traveler/wayfarer). See: Abdurrahman A. Dahlan *et al.* (n.d). *Enhancement of Zakat Distribution Management System: Case Study in Malaysia*. Kulliyah of Information and Communication Technology (ICT). IIUM. p.4.

<sup>137</sup> Anja Erlbeck *et al.* (2011). *Microtakaful: Field Study Evidence and Conceptual Issues*. *Op. cit.* p.17.

<sup>138</sup> Noor Ashikin and Zuriah. (2012). *Financial Protection for the Poor in Malaysia: Role of Zakah and Micro-takaful*. *Op. cit.* p.119.

annually. Low-income households receive different forms of capital assistance from MUIB such as monthly and annual assistances and assistance in the form of capital for business.<sup>139</sup> This capital assistance can be further extended to donate for Micro-*Takāful* scheme to insure the excluded poor against negative shocks. The *zakāt* charity, however, is expected to partly fulfill the necessities of life that can be shifted to the more capable community, especially to close relatives and neighbors of the individuals associated.<sup>140</sup>

**(ii) *Sadaqah* (Charity)**

The term *Sadaqah* is a derivative of the root word meaning truthfulness and sincerity because such contributions or payments are symbolizes the strength of the sincerity of a person's belief.<sup>141</sup> Besides the duty of *zakāt*, a Muslim is strongly recommended to extend *sadaqah* (charity) voluntarily to those who need it, as mentioned before. The giving of charity is frequently and emphatically stressed in the Holy Qur'an as noted in the following verses (*Al-Qur'an*, 3:92 and 2:267) and Hadith. The main objective of *sadaqah* is to ease suffering of poor people. One of the greatest responsibilities of life is to ensure that he/she does the right thing with the money he/she earn – giving it away as charity is clearly the greatest continual action one can do with it until he/she enter a grave where that money will be of no avail. Contributing some donations in form of charity to Micro-*Takāful* schemes not only will help to cover some gaps from compensation payments but also will eradicate poverty in the society, improve life standard as well makes the insurance provider active and stable.

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<sup>139</sup> Rose, A. (2010). *Zakat Management in Brunei Darussalam: A case study*. Article presented in Seventh International Conference – The Tawhidi Epistemology: Zakat and Waqf Economy, Bangi 2010. p.388.

<sup>140</sup> Chapra, M. (2000). *The Future of Economics: An Islamic Perspective*. Leicester, UK: The Islamic Foundation in Mohamad. p.4.

<sup>141</sup> Mahmoud Mohieldin *et al.* (2011). *The Role of Islamic Finance in Enhancing Financial Inclusion in Organization of Islamic Cooperation (OIC) Countries*. 8<sup>th</sup> International Conference on Islamic Economics and Finance in Doha, Qatar, held from December 19-21, 2011. p.9.

### **(iii) Waqf (Religious Endowment)**

The word ‘*Waqf*’ is Arabic term which means to hold, confinement or prohibition.<sup>142</sup> Technically, it may be defined as holding a certain asset and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness and/or philanthropy for as long as its principal is preserved either by its own nature or from arrangements and conditions prescribed by the *Waqf* founder.<sup>143</sup> It can be defined as “Mobilization of funds from donors based on perpetuity and investing them in productive assets that provide either usufruct or revenues for future consumption by individuals or groups by taking into account the policy and guideline provided by the donors and receivers”.<sup>144</sup>

However, these two definitions reveal the ultimate goal of *Waqf* is the realization of goals through the property and finance that allocated to legal foundation. In Islamic countries there are many projects that are operated through benefices and assets of the *Waqf* from well-meaning. The results of *Waqf* can be expressed to humanitarian projects, cultural, economic, health, education and training, and much other social welfare. For example *Waqf* of the spring water for public consumption, building houses for deprived, organize the funeral of the dead who were poor, financing the marriage young people in need and so on.<sup>145</sup> These social welfares can effectively be provided through well-defined Micro-*Takāful* scheme. Indeed, Micro-*Takāful* scheme providers can play a vital role in managing the funds and distributing to the benefices.

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<sup>142</sup> Ahmed, H. (2004): *Role of Zakah and Awqaf in Poverty Alleviation*, IRTI, IDB, Jeddah, Saudi Arabia, in Dogarawa, A. (2009). *Poverty Alleviation through Zakah and Waqf Institutions: A Case for the Muslim Ummah in Ghana*. p.7.

<sup>143</sup> Kahf, M. (2003). *The Role of Waqf in improving the Ummah Welfare*. Presented to the International Seminar on ‘*Waqf as a Private Legal Body*’ organized by the Islamic University of North Sumatra, Medan, Indonesia. p.2.

<sup>144</sup> Ahcene Lahsasna (2010). *The role of Cash Waqf in financing Micro and Medium size Enterprises (MMEs)*. Article presented in *Seventh International Conference – The Tawhidi Epistemology: Zakat and Waqf Economy, Bangi 2010*. p.104.

<sup>145</sup> Krafess, J. (2005). The influence of the Muslim religion in humanitarian aid. *International Review of the Red Cross*, 87(858), 327-342, in Habibollah Salarzahi, et al. (2010). *Waqf as a Social Entrepreneurship Model in Islam*. p.183.

**(iv) Government and Donor's Subsidies**

It is no denying the fact that governments and donor agencies can play an important role in supporting the scheme. Government has several roles in providing social protection for those with very low incomes. One of the most important roles is redistribution of subsidies for minimum Micro-*Takāful* packages of social protection for the very poor, the elderly, the chronically ill, and those not able to contribute as a social assistance measure striving towards the availability of equitable access to minimum protection. For instance, the Agricultural Mutual Fund (AMF) of Lebanon provides health insurance coverage for costs not covered by the government social security fund (the government covers 85 per cent of hospital fees). It is provided in the spirit of *Takāful* where protection is provided to the needy sectors of society.<sup>146</sup>

On the other hand, donors play a pivotal role in insurance schemes for low-income people and their presence is increasingly becoming essential for the successful running of projects. In a recent survey conducted by the Microinsurance Center, more than USD 10.2 million has been contributed by donors to over 160 different Microinsurance projects for the period 2003 to 2006. To date, major contributors in this field include International Labor Organization (ILO), the Department for International Development (DFID), the German Development Cooperation (GTZ), American International Group (AIG), the Swedish International Development Cooperation Agency (SIDA), the Ford Foundation, the World Bank, the Bill and Melinda Gates Foundation and Asian Development Bank, among others.<sup>147</sup> Their major role is to support the scheme by providing financial assistance in many countries including, India, Uganda, Indonesia, Philippines, Argentina, Mexico, Morocco, Malawi, Nicaragua, Ukraine, Peru and so on.<sup>148</sup> Nevertheless, there is a need for governments and donor agencies to be educated and engaged, a lot more can be achieved with their financial resources and support the scheme. And more importantly the established *Takāful* operators need to share a burden of the responsibility by providing

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<sup>146</sup> Patel, S. (2004). *Takaful and Poverty Alleviation*. ICMIF. *Op. cit.* p.19.

<sup>147</sup> Roth, Jim, Michael McCord, Dominic Liber. (2007). *The Landscape of Microinsurance in the World's 100 Poorest Countries*. Microinsurance Centre in USAID/CGAP Working Group on Microinsurance. pp.9-10.

<sup>148</sup> Aaban Butt. (2010). Experiences in Micro-Insurance. CARE. pp.60-61.



technical expertise, financial assistance and building partnerships with microfinance providers.<sup>149</sup>

### **2.2.8 Micro-*Takāful* Contracts and *Sharī'ah* Compliance Mechanisms**

For effectively provision of Micro-*Takāful* products, contracts and *Sharī'ah* compliant mechanisms for Micro-*Takāful* scheme have to be identified. The purpose behind the Micro-*Takāful* contract is to achieve the welfare of all members who are in need of help. And instead of treating Micro-*Takāful* a buying or selling contract, an appropriate contract between the policyholders and insurer has to be designed. On the other hand, *Sharī'ah* compliant mechanisms are also important pillar in a Micro-*Takāful* scheme. It determines the compliance of any particular Islamic business or financial institution. In this regard, best mechanisms have to be identified and applied on the scheme. Realizing all these aspects, the following subsections explore the conceptual mechanism of *Takāful* contracts / models practiced by *Takāful* operators across the world and conceptual of *Sharī'ah* compliance mechanisms applied by contemporary *Takāful* operators. The aim of these subsections is to build up a basic understanding of the conceptual mechanism of *Takāful* contracts / models and *Sharī'ah* compliance, and how these conceptual mechanisms can be applied to the Micro-*Takāful* schemes.

#### **2.2.8.1 Micro-*Takāful* Contracts**

*Takāful* contract is a risk sharing agreement among members (participants) to pay a fixed amount in a joint fund to help each other in case of loss or risk. *Takāful* operator merely acts as a manager of fund.<sup>150</sup> Conceptually, the fundamental underlying the Micro-*Takāful* concept is quite similar to the *Takāful* except that the main focus of Micro-*Takāful* is the poor.

In *Takāful* contract participants agree to contribute in a joint fund (*Takāful* fund) and agree to help each other from that fund if a loss occurs to any or all of them. Shareholders provide interest *qardh hasan* if amount of claim payments exceed the amount of

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<sup>149</sup> Patel, S. (2004). *Takaful and Poverty Alleviation. Op. cit.* p.18.

<sup>150</sup> Akhtar, W. (2009). *Potential of Takāful in Pakistan: Operational and Transformational Paradigm. Op. cit.* p.140.

contribution. However, this is the system that is based on Islamic principles of mutual cooperation and brotherhood and compatible with *Sharī'ah* guidelines.<sup>151</sup> Furthermore, for the *Takāful* contract to be considered valid, it is suggested that a *Sharī'ah-based* insurance transaction should contain the following elements:<sup>152</sup>

- (i) The parties to the contract must have legal capacity;
- (ii) The availability of insurable interest, indemnity clause (the insurer is unilaterally bound to compensate the insured for the loss to the agreed-subject matter);
- (iii) The payments of premiums by the insured as a consideration to the contract;
- (iv) The presence of mutual consent by both parties;
- (v) An offer and an acceptance to be expressed in a formal agreement between the insurer and the insured;
- (vi) In which the terms and conditions being put are of course in compliance with the *Sharī'ah* principles;
- (vii) Specification of period for the agreed policies which is to be contained in the agreement.

There are three types of contract involved under *Takāful* operation, including *Tabarru'*, *Mudhārabah* and *Wakālah* contemporary known as *Takāful* business models.<sup>153</sup> These three contracts/models are briefly explained below.

**(i) *Tabarru'* Model of *Takāful***

*Tabarru'* / *Ta'āwuni* is a non-profit model. This model is based on the concept of brotherhood, solidarity and mutual cooperation among participants.<sup>154</sup> However, the concept of *Tabarru'* bears its root from Sudan in 1979 when first *Takāful* Company started its operations in Sudan. After that, insurance companies are bound to follow *Tabarru'* model and adopt *Takāful* business by law.<sup>155</sup> Under this model, each participant is willing to make donation to the *Takāful* fund with sincere intention to extend financial

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<sup>151</sup> Akhtar, W. (2009). *Potential of Takāful in Pakistan*. *Op cit.* p.141.

<sup>152</sup> Zuhail, W. 12<sup>th</sup> ed. (2007). *Al-Fiqh al-Islāmī Wā Adillatūh*. Damascus: Dār al-Fikr. Vol.5. pp. 13-24. In And Billah, M. (n.d.). *Development & Applications of Islamic Insurance (Takaful)*. p.15.

<sup>153</sup> Muhammad Fahmi Idris *et al.* (2010). *History, Progress and Future Challenge of Islamic Insurance (Takaful) in Malaysia*. 2010 Oxford Business & Economics Conference Program. p.8.

<sup>154</sup> Billah, M. (n.d.). *Takaful (Islamic Insurance) Premium: A Suggested Regulatory Framework*. International Journal of Islamic Financial Services Vol. 3. No.1. pp.1-7.

<sup>155</sup> Ubaidullah, M. (2005). *Islamic Financial Services*. Islamic Economics Research Centre. p.128.

assistant to other participants faced with difficulties.<sup>156</sup> *Takāful* operator acts as a trustee on behalf of participants with no intention of making profit. The profit and underwriting surplus are distributed entirely to the participants.<sup>157</sup> In practice, such model can also be seen in operation in social and government-owned enterprises and programs operated on a non-profit basis. The programs utilize a contribution that is 100% *Tabarru'* or donation from participants who willingly give to the less fortunate members of their community.<sup>158</sup>

**(ii) *Mudhārabah* Model of *Takāful***

The term *Mudhārabah* means the contract of profit sharing between the *Takāful* participants and the operator from the profit, if any, of the *Takāful* business.<sup>159</sup> Under this model, the *Takāful* operator seeks no returns from managing the *Takāful* business in line with the spirit of *Takāful*. Rather, it seeks returns from the business of investing the *Takāful* funds under a *Mudhārabah* agreement with the policyholders for managing their funds in agreed ratio.<sup>160</sup> The figure 2.6 below shows a flow chart of *Mudhārabah* model.

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<sup>156</sup> Billah, M. (n.d.). *Takaful (Islamic Insurance) Premium*. *Op. cit.* p.10.

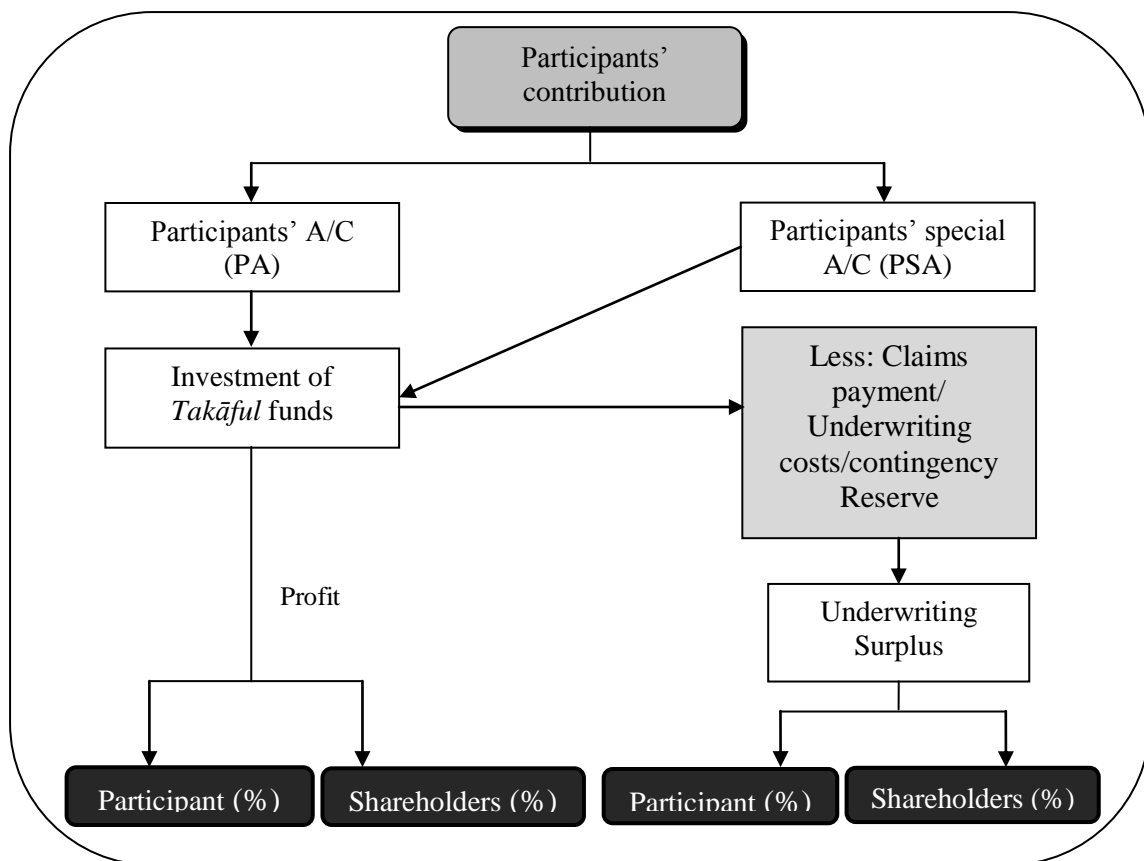
<sup>157</sup> For example, A (first party) lends his money to B (second party) and B manages the fund sincerely with no intention for profit making or benefit. Here A is the participant where B is *Takāful* operator who manages the fund. Akhtar, W. (2009). *Op. cit.* p.56.

<sup>158</sup> Ubaidullah, M. (2005). *Islamic Financial Services*. *Op. cit.* p.128.

<sup>159</sup> Mohd Fadzli Yusof (2011). *Fundamentals of Takaful*. (Kuala Lumpur: IBFIM). pp.29-44. <http://www.islamicbanker.com/takaful-mudarabah-model>.

<sup>160</sup> Ubaidullah, M. (2005). *Islamic Financial Services*. *Op. cit.* p.128.

**Figure 2.6:**  
*Mudhārabah Model of Takāful*



Source: *Adapted and modified from IFSB (2009:28).*

As illustrated in figure 2.6, the policyholders pay premium that is credited to a policyholders' fund, while the shareholders of the *Takāful* operator company contribute to a shareholders' fund which is different from the policyholders' fund. The *Takāful* operator, as *Mudhārib*, invests the policyholders' fund to the *Sharī'ah* compliant instruments. Profits generated from the investment are shared between the policyholder and *Takāful* operator in agreed ratio. Any losses are charged to the policyholders' fund, while operational expenses relating to investment are charged to the shareholders' fund. In managing the operations, general and administrative expenses other than relating to investments are charged to the policyholders' fund. As valid claims are made, *Takāful* benefits are paid to beneficiaries depending upon occurrence of actual losses and damages. In case of surplus, the policyholders will receive full refund and have to make

additional payment of deficit if any.<sup>161</sup> While in the event of such loss, it is incumbent upon the operator to make good the loss by *qardh* or loan by the shareholders.<sup>162</sup>

**(iii) Wakālah Model of Takāful**

*Wakālah* model is a fee driven Islamic contract in which one party (policyholders) provides capital whereas other party (*Takāful* operator) manages the funds.<sup>163</sup> In *Wakālah* contract, *Takāful* operator performs as the *wakīl* or agent of the policyholders and charges a fixed fee (*Wakālah* fee) instead of profit sharing as in *Mudhārabah* contract for providing its managerial services to prudently invest and manage the funds. The *Wakālah* fee should be fair and appropriate and should be determined and approved by *Sharī'ah* Supervisory Board (SSB).<sup>164</sup> The figure 2.7 below shows a flow chart of *Wakālah* model.

As illustrated in figure 2.7, when the policyholders pay premium *Wakālah* fee is deducted from participants' contribution as upfront charge. The remaining amount is distributed in two accounts i.e. Individual saving account and Risk account to cover the loss of affected participants. Individual saving account is each participant's personal account that is used for future savings. Risk account (also known as *Tabarru'*) is used to pay for claims, underwriting costs and other expenses. Amount in both accounts is invested under *Sharī'ah* guidelines and profit obtained from investment is appropriated to both accounts according to their original ratio. Any surplus left from risk account goes to individual saving account.<sup>165</sup>

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<sup>161</sup> Muhammad Fahmi Idris *et al.* (2010). *History, Progress and Future Challenge of Islamic Insurance (Takaful) in Malaysia*. *Op. cit.* pp.10-11.

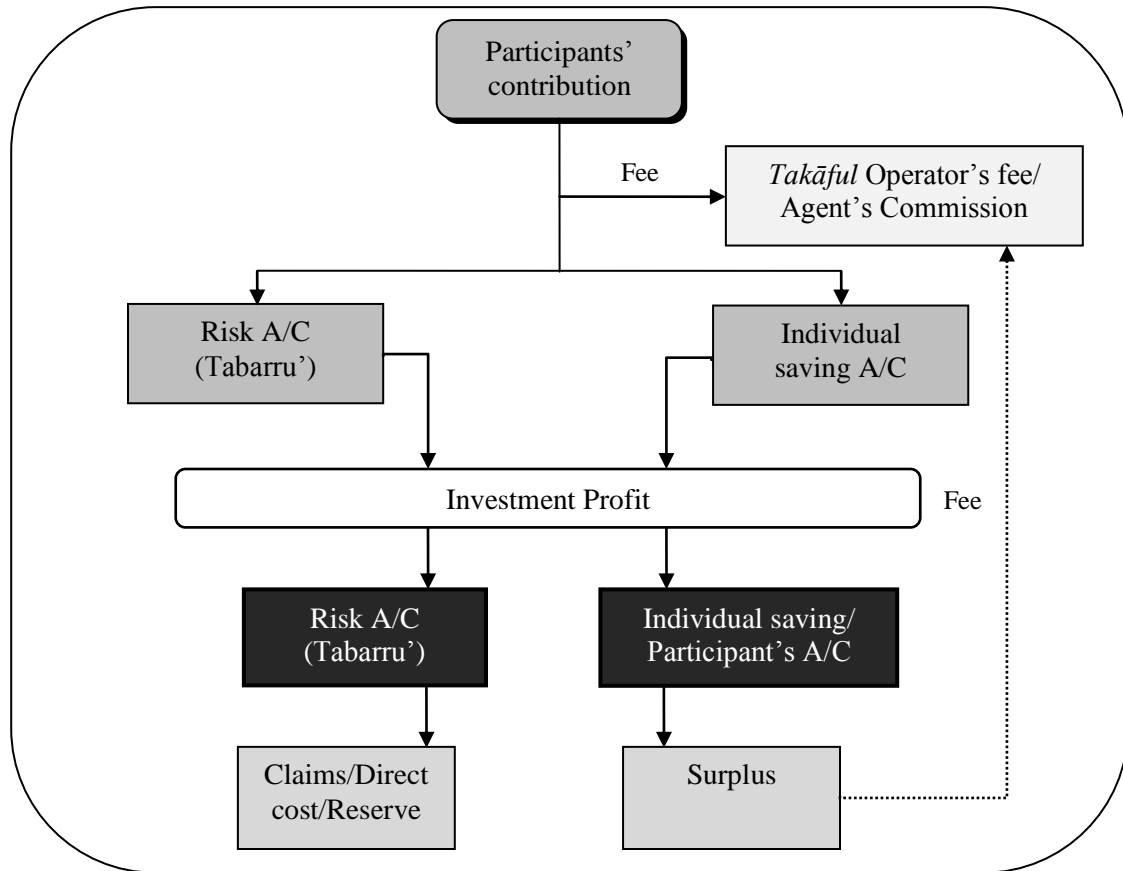
<sup>162</sup> Mohd Fadzli Y. (2011). *Op. cit.* pp.29-44. <http://www.islamicbanker.com/takaful-mudharabah-model>.

<sup>163</sup> Akhtar, W. (2009). *Potential of Takāful in Pakistan: Operational and Transformational Paradigm*. *Op. cit.* p.64.

<sup>164</sup> *Ibid.* p.64.

<sup>165</sup> *Ibid.* p.64.

**Figure 2.7:**  
*Wakālah Model of Takāful*



Source: Adapted and modified from IFSB (2009:29).

### 2.2.8.2 *Sharī'ah* Compliance Mechanisms

*Sharī'ah* compliance means to observe *Sharī'ah* principles in the conduct of business and financial transactions. Comprehensive compliance with Shariah principles is the center of all the business activities of an Islamic financial institution.<sup>166</sup> It brings confidence to the general public and the financial markets on the credibility of Islamic finance operations.

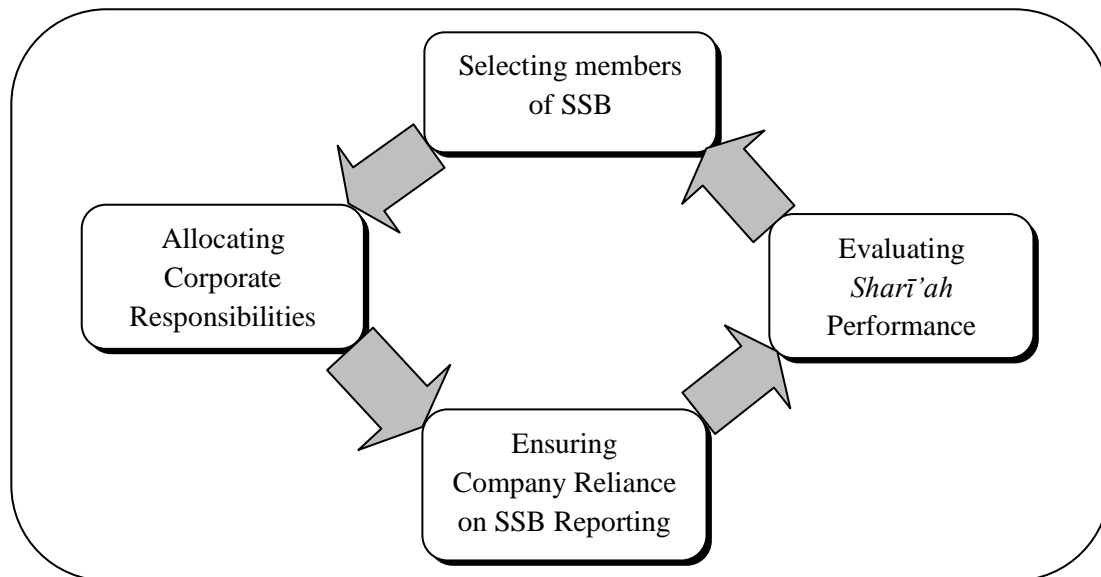
In every IFI, *Sharī'ah* compliance is the utmost crucial requirement and this cannot be imposed upon leaving this freely at the hand of the industry players. This is because conflicts of interest may arise as it will be set up with a business priority in mind. Like other IFIs, Micro-*Takāful* schemes will not fully succeed without good *Sharī'ah*

<sup>166</sup> Akhtar, W. (2009). *Potential of Takāful in Pakistan: Operational and Transformational Paradigm*. Op. cit. p.174.

compliance mechanism. In this regard, the *Sharī'ah* compliance requirements, like other compliance requirements, must be standardized for an effective control mechanism.<sup>167</sup>

The *Sharī'ah* governance framework of the IFSB-10 tends to cover the overall aspects of *Sharī'ah* compliance processes by invoking the very important elements necessary for an effective *Sharī'ah* governance system.<sup>168</sup> Figure 2.8 below demonstrates the process of *Sharī'ah* compliance.

**Figure 2.8:**  
*Sharī'ah* Compliance Mechanism



Source: Adapted and modified from IFSB (2010:8).

As illustrated in figure 2.8, in most prevalent practice of *Sharī'ah* compliance mechanism process<sup>169</sup>, each *Takāful* Company is required to appoint a *Sharī'ah Supervisory Board* (SSB) of not less than three members who are jurists of high caliber in *fiqh al-mu'amalat*

<sup>167</sup> Suapi Shaffaii (2008). *Shariah Governance - The real nexus for comprehensive Islamic financial regulatory and supervisory infrastructure*. <http://islamicfinanceupdates.wordpress.com/infrastructure>.

<sup>168</sup> Hasan, Z. (2011) *Shari'ah Governance in Islamic Financial Institutions in Malaysia, GCC Countries and the UK*, Durham theses. *Op. cit.* p.92.

<sup>169</sup> It is recommended that, *Takāful* operator must ensure that reports issued by SSB have been properly conveyed and are understood by senior managers and employees of the company. Agreements and any new project or venture undertaken by *Takāful* operator should match with documents approved by SSB. Moreover, *Sharī'ah* audit as well as through *Sharī'ah* quality rating (SQR) are necessary to create confidence among participants and related parties that operations of *Takāful* operator are in harmony with *Sharī'ah*.<sup>169</sup> It will be more convenient for *Takāful* operator to undertake such audit with their accounts audit, while SQR Committee assigns a rating to *Takāful* Company based on assessment of its *Sharī'ah* compliance standards. Akhtar, W. (2009). *Potential of Takāful in Pakistan: Operational and Transformational Paradigm*. *Op. cit.* pp.174-175.

(Islamic commercial jurisprudence), and who have knowledge of modern financial dealings and transactions to effectively deal with the complexities of *Takāful* operations. SSBs' key responsibilities are certification of permissible *Takāful* products and instruments through *fatwās* (ex-ante *Sharī'ah* audit), verification of transactions' compliance with issued *fatwās* (ex-post *Sharī'ah* audit), answering queries, setting up accounting policies to assure that the formula used in allocating profit between shareholders and account holders is fair and that all revenues are generated from lawful transactions, the calculation and payment of *Zakāt*, disposal of non-*Sharī'ah* compliant earning, and advice on the distribution of profit and surplus between *Takāful* operator and participants.<sup>170</sup>

### **2.2.9 Role of Governments and *Takāful* Operators in the Micro-*Takāful* Scheme**

Generally, Micro-*Takāful* schemes cannot reach the poor who are unable to contribute premiums. And for those who can contribute but only a marginal amount, the Micro-*Takāful* benefits will be so limited that the products may not be attractive to a large section of the population. Due to these facts, there is a need for Governments and *Takāful* operators to play a significant role in helping to provide the risk management tools needed by very low-income families. The following two subsections briefly explain the role played by governments and *Takāful* operators in helping the poor people against any negative shock. The primary objective of these two subsections is to build up a basic understanding of how governments and *Takāful* operators can support to make the provision of Micro-*Takāful* schemes successful.

#### **2.2.9.1 Role of Governments in the Micro-*Takāful* Scheme**

One of the most powerful pillars of Micro-*Takāful* schemes is government participation. Government can play various roles in creating an environment that encourages equitable access to insurance. Some middle and high income governments equate insurance to social protection and provide it by way of, for example, mandatory and universal health insurance, or a requirement to be affiliated with an old-age pension scheme. It is

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<sup>170</sup> Akhtar, W. (2009). *Potential of Takāful in Pakistan: Operational and Transformational Paradigm*. Op. cit. p.174.



important to note that the enabling environment for *Micro-Takāful* extends beyond providing the above mentioned schemes.<sup>171</sup> Government has several roles in providing Microinsurance schemes for those with very low and middle incomes and makes it successful. These roles can also be applied in *Micro-Takāful* which include, not limit:<sup>172</sup>

- (i) Redistribution of subsidies for minimum *Micro-Takāful* packages of social protection for the very poor, the elderly, the chronically ill, and those not able to contribute as a social assistance measure;
- (ii) Legislation and regulation to be adapted to *Micro-Takāful* schemes and operations in order to enable replication and expansion of *Micro-Takāful*, as well as defining the roles of the actors involved;
- (iii) Building the capacity of *Micro-Takāful* schemes through improved management and monitoring systems;
- (iv) Strengthening the viability and the financial capacity of the schemes, for example through reinsurance or guarantee funds;
- (v) Supporting structures like second-tier associations or networks that provide technical support and training to *Micro-Takāful* schemes;
- (vi) Facilitating the exchange of information between actors to make sure that successful experiences can be replicated with other groups or in different geographic areas;
- (vii) Formulating recommendations on design: benefits package, affiliation, administration, methods of payment to healthcare providers;
- (viii) Establishing structures to produce information (statistics, indicators) that can be used by these schemes to price their products more accurately.

However, through the government's roles mentioned above, *Micro-Takāful* schemes can effectively reach even the very poor households with access to quality risk management strategies. Nonetheless, governments must first understand the overall requirement for

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<sup>171</sup> Churchill, C. (2006). *Protecting the Poor: A Microinsurance Compendium*. ILO. *Op. cit.* p. 109.

<sup>172</sup> McCord, M. (2008). *Visions of the Future of Microinsurance, and Thoughts on Getting There*. Micro-Insurance Centre, LLC, No.9. pp. 26-27.

their intervention and ensure that the actions they take actually facilitate the intended outcomes of these roles.<sup>173</sup>

### **2.2.9.2 Role of *Takāful* Operators in the Micro-*Takāful* Scheme**

Besides governments, *Takāful* operators are another stakeholder of Micro-*Takāful* schemes. Although the development of Micro-*Takāful* is more recent, preliminary evidence suggests that it can be an important factor in enabling people to remain above the poverty line. By providing protection against certain perils, Micro-*Takāful* serves as a natural complement to other financial and social services for the poor. For it to fulfill its potential, it is necessary to introduce products that meet their primary needs, particularly for those who are most vulnerable.<sup>174</sup>

*Takāful* operators have several roles to play in providing the safety net for communities to achieve sustainable development of their standard of living and a basis for families to look to the future with a sense of security and optimism due to the following factors.<sup>175</sup>

- (i) *Takāful* operators have the potential to provide Micro-*Takāful* to the poor.
- (ii) They have built an infrastructure and acquired skills and capabilities that will make it less costly to deliver Micro-*Takāful* products.
- (iii) They have the resources required to quantify and manage insurance risk.
- (iv) Most of them are well-equipped to perform many of the activities required to achieve long-term profitability and client satisfaction in the insurance market.<sup>176</sup>

However, to ensure the success of the Micro-*Takāful* schemes, *Takāful* operators need to share a burden of the responsibility by providing technical expertise, financial assistance and building partnerships with microfinance providers.<sup>177</sup> However, if such elements could be implemented, they would have huge implications for the efficient expansion of the Micro-*Takāful* sector.

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<sup>173</sup> McCord, M. (2008). *Visions of the Future of Microinsurance, and Thoughts on Getting There*. *Op. cit.* p.27.

<sup>174</sup> Churchill, C. *et al.* (2006). *Protecting the poor*. A Microinsurance Compendium. *Op. cit.* p. 585.

<sup>175</sup> Patel, S. (2004). *Takaful and Poverty Alleviation*. *Op. cit.* p.17.

<sup>176</sup> Gilbert Llanto *et al.* (2007). *Microinsurance in the Philippines*. *Op. cit.* p.13.

<sup>177</sup> Patel, S. (2004). *Takaful and Poverty Alleviation*. *Op. cit.* p.18.

### **2.2.10 Challenges for providing Micro-*Takāful* Scheme**

Despite the many benefits associated with providing Micro-*Takāful* to the low-income households, there are a number of specific issues obstructing the spread of Islamic insurance to the Muslim population.<sup>178</sup>

- (i) There is a shortage of adequately trained and qualified insurance personnel in Islamic countries and on the *Takāful* concept.
- (ii) There is a lack of actual knowledge about what these services provide; poor families are uncomfortable with the idea of sharing or pooling resources and relevance of Micro-*Takāful* with the needs of the poor and scepticism on its permissibility (particularly on life insurance).
- (iii) There are no regulatory models in place that governments can use to monitor and encourage Micro-*Takāful* operations.
- (iv) The price of premium charged for Micro-*Takāful* services can often act as a barrier to families with lower incomes, effectively barring them from receiving insurance coverage.
- (v) The normal problems associated with insurance, such as adverse selection, inefficient documentation and claiming mechanism, limited risk and financial management capabilities, lack of resources for re-insurance arrangements, lack of greater level of technical expertise and actuarial support moral hazard and the transactions costs of investigating claims take on greater significance in the Micro-*Takāful* arena which can constrain future growth and endanger solvency.

However, these problems are not without their solutions. The following subsection formulates strategies to solve these problems.

### **2.2.11 Success of Micro-*Takāful* Scheme**

Micro-*Takāful* is a new approach in social protection, and experience with operating schemes is limited. Still, it is possible to say that Micro-*Takāful* schemes can succeed when certain conditions are made.<sup>179</sup> Such conditions include:

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<sup>178</sup> Patel, S. (2004). *Takaful and Poverty Alleviation*. Op. cit. p.11.

- (i) There should be a political and economic stability, investment opportunities, adequate insurance regulation, socio-cultural acceptance of insurance and effective judicial institutions and procedures.
- (ii) Low-income groups must perceive a need for *Micro-Takāful* (i.e. they must be vulnerable to risks, aware of these risks, willing to provide for the future, understand and accept the concept of insurance and be able to pay contributions on a regular basis).
- (iii) *Micro-Takāful* scheme should start out with products that are easy to design and that initially cover non-covariant risks that are characterized by high uncertainty and high potential losses.
- (iv) Governments need to understand and disseminate lessons, assess their impact and invest significant resources to back-up insurance market development with efficient and effective policies to safeguard poor peoples' investments with insurers.
- (v) Supply should be organized along the lines of the 'partner-agent model' or 'full service model'.

## **2.2.12 Overview of selected *Micro-Takāful* Schemes in Asia**

*Micro-Takāful* schemes gained importance as a result of unexpected and catastrophic events that have worsened the already condition of poor. There are a few pioneering *Takāful* operators that have entered into the low-income *Micro-Takāful* market. Most notable are those providers in countries where almost all the population is Muslim, poverty is rife and the *Takāful* sector is already established. This section explains the contemporary *Micro-Takāful* schemes practiced in selected Asian countries. The primary objective of this subsection is to learn operation and success of these schemes.

### **2.2.12.1 Etiqa *Takāful* – Malaysia**

Etiqa Takaful introduced a scheme, in June 2011, to cover Indonesian maids where the employers will need to pay takaful contributions as low as RM70 a year. Maids would be

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<sup>179</sup> Markus Loewe *et al.* (2001). *Improving the Social Protection of the Urban Poor and Near-Poor in Jordan-The Potential of Micro-Insurance*. pp. I-II.

eligible to receive compensation of up to RM40000 due to accidents while at work, as well as other benefits including death benefits, hospitalization and medical costs under the scheme under the Domestic Helpers Affairs Programme (Helpers).<sup>180</sup>

### **2.2.12.2 Prime Islami Life Insurance Ltd – Bangladesh**

In 2001, Prime Islami Life Insurance Ltd. (PILIL) launched several Micro-*Takāful* products for the poor people of Bangladesh. By 2008 they had provided three individual and one group Micro-*Takāful* products to cover the financial risks of the mass people and to build small amount of capital for them at maturity: Monthly Small-Savings Assurance Plan (MSAP), Prime Islami Deposit Pension Scheme (PIDPS), Kalyan-Bima-Two payments deposit pension scheme (K.B.) and Samajik Nirapatya Bima (Premium Back Group Assurance Plan) (S.N.B.). These products aim to serve agricultural and factory workers, small traders, house-wives and self-employed people, who are unable to pay large amounts of premium once or twice in a year, but can easily contribute as low as USD 2 per month. The Contribution (premium) is charged at flat rate and the policyholder contributes according to his/her ability.<sup>181</sup>

### **2.2.12.3 PT Asuransi *Takāful* Keluarga – Indonesia**

In late 2006, PT Asuransi *Takāful* Keluarga (ATK), Takmin Working Group and *Shariāh* microfinance institutions (LKMS) collaborated under the partner-agent model to launch *Takāful* Micro *Sakinah*, a *Sharī'ah*-compliant credit insurance programme for micro businesses and poor families in Bogor. PT Asuransi *Takāful* Keluarga has collaborated with the National Alm Board (Baznas) to develop a Micro-*Takāful* scheme for alms receivers. It covers cost 50,000 rupiah (USD 5) and consists of reciprocal assistance funds managed by *Takāful* Keluarga and donation funds managed by Baznas. The policies have a five million rupiah coverage for death resulting from natural causes and 25 million rupiah for those caused by accidents. Claims are processed within 14 days and the payout is distributed by Baznas to the deceased's heirs. *Takāful* Micro-*Sakinah* was designed mainly to free the partners or clients of LKMS from debt in the event of death. Under the

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<sup>180</sup> Maznita Mokhtar et al. (2012). *Towards Developing a Sustainable Microtakaful Program in Malaysia*. *Op cit.* p.9.

<sup>181</sup> Patel, S. (2012). *Microtakaful – Time to make a real difference to people's livelihoods*. *Op. cit.* p.39.

partner-agent model, LKMS represents their partners or clients or policyholders, ATK is the insurance provider and Takmin Working Group functions as the mediator or agency between LKMS and ATK.<sup>182</sup>

#### **2.2.12.4 *Takāful Ikhlas Berhad* – Malaysia**

In April 2007, *Takāful Ikhlas* of Malaysia launched a Micro-*Takāful* scheme in collaboration with Farmers Welfare Federation of Malaysia to support poor and destitute farmers of the country. It provides immediate death coverage up to RM. 500 in return for contribution of RM. 1.8 per annum to 100,000 poor families. Such Micro-*Takāful* schemes are increasingly becoming popular in Malaysia for poverty stricken families who want to protect themselves upon sudden death of their breadwinners.<sup>183</sup>

#### **2.2.12.5 *Amana Takāful* – Sri Lanka**

*Amana Takāful* Insurance in collaborating with NGOs and MFIs has added Micro-*Takāful* products to its portfolio to uplift and spur entrepreneurship amongst the poor. *Amana Takāful* is working with Muslim Aid Sri Lanka to introduce credit services to the people in villages. The product covers the credit life of the client, hospitalization and medical charges in the event of hospitalization of both client and family members. They have 5-10 minutes of the monthly center meetings to discuss insurance. Members who have received claims are given time to share their experience with fellow members. The support of the village leaders is very important to spread the message across the community effectively and efficiently. In addition, *Amana* engaged various garment manufacturing companies to promote Micro-*Takāful* to factory workers who fall into the lower income bracket. The Navodaya (dawn of a new era) policy, is a unique cover aimed at providing both a death and disabilities cover at a cost of Rs.1.00 a day, targeted at factory blue collar workers, tea estates, apparel sector, laborers and other self-employed workers.<sup>184</sup>

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<sup>182</sup> Patel, S. (2012). *Microtakaful – Time to make a real difference to people’s livelihoods*. Op. cit. p.39.

<sup>183</sup> Akhtar, W. (2009). *Potential of Takāful in Pakistan: Operational and Transformational Paradigm*. Op. cit. p.133.

<sup>184</sup> Patel, S. (2012). *Microtakaful – Time to make a real difference to people’s livelihoods*. Op. cit. p.39.

## 2.3 Previous Studies

Given that *Micro-Takāful* is still a developing new field, there was varying quality in terms of the articles available which found to *Micro-Takāful* as a tool of securing low-income households against negative shocks. However, this section presents a review of the previous studies on Microinsurance and *Micro-Takāful* that have been conducted in relation to the research objectives. As such, the study analyzes the low-income households' products' preferences, *Micro-Takāful* products provider(s), sources of *Micro-Takāful* funds, contracts and *Shari'ah* compliance mechanism, and role of government and *Takāful* operators on the scheme.

### (i) *Insurance Products' preferences*

It is highly recommended that, before introducing any product or scheme, understanding differences in the needs and preferences of the low-income households is a key not only to take up of insurance, but also to use and appreciation of the policy as well as satisfaction with the insurance. In the low-income products preferences related studies, Giesbert, L.<sup>185</sup> examined the various features of the Life Insurance Policy (ANIDASO) brought out by The Gemini Life Insurance Company (GLICO) in the villages Brakwa and Benin in the Central Region of Ghana. This paper aims at presenting major descriptive results of the analysis of the survey data with regard to the socio-economic profile of the target market, general knowledge of insurance, the characteristics, and the satisfaction of the Anidaso policyholders, business competition regarding other insurance providers and the potential demand in area of observation. Quantitative household surveys and focus group discussions among currently insured and non-insured low-income households are implemented. Besides, data was collected on other strategies applied by the households in their effort to manage risks in order to receive a broader picture about Microinsurance in the context of risk management strategies in general. The overall results of this study reveal that the potential demand for insurance in the survey area seems to be very high, with 95% of the non-insured survey households showing a general interest to buy insurance. Most of the potential clients are interested in health insurance, yet this is

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<sup>185</sup> Giesbert, L. (2008). *Demand for Microinsurance in Rural Ghana*. GIGA German Institute of Global and Area Studies.

followed by quite a large share of households which show interest in insuring death or old age. By putting effort in the measures suggested above, the author is of the view that Microinsurance providers will be able to reach a much higher number of clients in the survey area. The limited sample size was not representative of the population at large since it only included a segment of the society. Also the selection of some products doesn't represent preferences of other products. Therefore, the research cannot be widely generalised.

In the same situation with the previous study, Ahmed M.<sup>186</sup> studied a market research on Microinsurance demand in Sri Lanka. The study also explored issues and constraints on access to Microinsurance services. It has a special focus on remote rural, as well as tsunami and the war affected areas. The research used both qualitative and quantitative market research techniques. The results indicate that usage of Microinsurance is quite low amongst the low-income households in spite of high awareness about insurance and the insurers. The occurrence of risk events, their frequency and severity signal a need for Microinsurance for the low-income households. The Microinsurance products currently available are not suitable in terms of cost coverage, payment terms, delivery mechanism and low-income households are skeptical about insurers. The study finally recommends designing of Microinsurance products that are better suited to low income groups and an insurer-agent model of partnership of high reputation players. Like the previous study, the limited sample size was not representative of the population at large since it only included a segment of the society. Therefore, the research cannot be widely generalised.

In the same context with the previous research, Cohen *et al.*<sup>187</sup> examined the desire of people in Africa from Microinsurance and how attributes that meet the needs and preferences of the poor can be incorporated into the design of Microinsurance products. They stated that often the poor distrust the Microinsurance sector. Some of the product design elements that the study recommends are providing differentiated products that are able to meet different client needs, time premium payments to match income flows and de-link micro credit and Microinsurance. The results indicate that there is a clear demand

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<sup>186</sup> Ahmed, M. (2006). *Market Research on Microinsurance Demand*. International Market Research Specialist. pp.3-5.

<sup>187</sup> Cohen, M. & Sebstad, J. (2003). *Reducing Vulnerability: The Demand for Microinsurance*.



for Microinsurance to help the poor manage risk. The results further indicate that there is a need for significant client education in Microinsurance to build up client confidence. In order to succeed in providing low income insurance, the results recommend private insurance players should be involved in the design and delivery of insurance products based on market analysis of potential customer preferences. The findings here are consistent with those of the previous study. Like in the previous case, the main focus of these two studies was on the demand side for the insurance products related to the risk they suffer. The point is that whilst client demand is the most important driver, other considerations must also be fully taken into account when designing a new product. A successful product is one that starts with client demand, is modified by other variables but still manages to meet the majority (but certainly not all) of the client's needs when launched. This reveals the need to involve the low-income households in designing a product. However, despite these patterns, households' priorities regarding demand for insuring certain risks are nevertheless context specific and solid research is essential before entering a market.

**(ii) *Micro-Takāful products provider***

There is no objection that the purpose of designing and introducing a product is to effectively reach as large a client base as possible. But this success depends on the insurance providers and distribution partners. During the last decade, insurance providers and distribution partners have experimented with innovative ways to extend insurance to low-income households. Bargin E. *et al.*<sup>188</sup> explored the Microinsurance landscape and established knowledge on the regulatory framework for insurance in Philippines. The study used secondary and primary data gathered through desk review, key informant interviews, survey of MSEs, and case studies to identify the details of Microinsurance operations and the demand for insurance by micro and small enterprises (MSEs). The study states there are three types of organizations currently providing Microinsurance in the Philippines. (1) MFI-owned insurance companies that offer formal insurance to small and micro entrepreneurs through their co-operative members. (2) Co-operatives. (3)

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<sup>188</sup> Bargin E., Lomboy, C. & Soriano, E. (2002). *A Field Study of Microinsurance in the Philippines*. International Labour Organization (ILO).

NGO-MFIs that may offer insurance on their own or as an agent for an insurer. The results show that Microinsurance complements MFIs' other interventions with MSEs because it reduces their vulnerability to business and personal risks and Microinsurance is a sustainable approach to risk management for the informal sector. It further reveals that MFIs are currently in the best position to provide Microinsurance to the informal sector and should actively experiment and innovate to make the mainstreaming of Microinsurance a reality. Though the study reveals the success of MFIs in providing insurance products, these institutions including co-operatives are affiliated to a network of co-operations usually savings and credit co-operations, and provides insurance services to members through such a sponsored insurer. Therefore, the study failed to highlight the success of provision of products to non-members.

Besides the provision of insurance products for low-income households by MFIs, Devltère, P. *et al.*<sup>189</sup> examined the ways in which Microinsurance institutions can fit into the local health care situation in developing countries. The study describes Microinsurance institutions as institutions not only pooling financial resources of local people but also negotiating with medical personnel to improve the quality of services provided and give advice and information to their members. It argues that Microinsurance institutions can play an important role in improving access to health care, and finds other advantages of Microinsurance institutions. The study further argues that a better organization and quality of health care provisions can promote general welfare and social integration of members. Though the study approached the ability of Microinsurance institutions to provide health product, it limited its concentration on one product. The researcher is of the view that insurance institutions can also provide other products such as life, property, etc.

As empirically showed, an insurance institution can provide different categories of insurance products. Enarsson, S. *et al.*<sup>190</sup> examined two Microinsurance schemes in Sri Lanka - ALMAO and Yasiru operating through local organizations and targeting the local

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<sup>189</sup> Devltère, P., Doyen, G. & Fonteneau, B. (2004). *Micro-insurance and Health Care in Developing Countries - An International Picture*. Cera Foundation, Leuven, Belgium.

<sup>190</sup> Enarsson, S. & Wirén, K. (2006). *ALMAO and YASIRU, Sri Lanka*. CGAP Working Group on Microinsurance, Good and Bad Practices Case Study No. 21.

poor are the common features. ALMAO operates through a nationwide network of savings and credit cooperatives and has developed rapidly. It offers coverage for disability, hospitalization, death and maturity; and loan protection, life savings, property and health insurance. Through local partners, it recruits clients, collect premiums and administer claims. On the other hand, Yasiru partners with local nongovernment organizations (NGOs) and covers death, disability and hospitalization and has a low-income profile. The study concludes that ALMAO needs to build up its client-base and develop new products. Yasiru needs to increase its network of partners. Both companies need to build on awareness, marketing and sales. Using existing institutions for distribution is an efficient way to run the service. Though the study suggested enhancing awareness, it did not propound any strategies for insurance awareness among the low-income households to encourage them to take insurance.

Apart from commercial insurers to take part in insurance for low-income sector, Islamic insurance operators can also expand their wings to design *Sharī'ah*-compliant products that meet the needs of the low-income people in a society. Patel, S.<sup>191</sup> in his study reveals that there are a number of *Takāful* operators offer *Micro-Takāful* schemes these include; Prime Islamic Life of Bangladesh, PT Asuransi Takaful Keluarga (ATK) of Indonesia, Shiekan of Sudan, Takaful Trinidad & Tobago, Amana Takaful of Sri Lanka and Takaful Insurance Africa (TIA) of Kenya. These operators have designed and introduced different *Micro-Takāful* products for low-income households in their countries. Maznita *et al.*<sup>192</sup> reveals that Etiqa Takaful, Takaful Ikhlas and the Central Bank of Malsyia also provide various *Micro-Takāful* products. The study provided a great number of *Takāful* operators on great effort to offer different categories of *Micro-Takāful* products for low-income households. However, the study failed to find out challenges and prospects of these operators. In addition, it also failed to reveal how the success these companies have achieved.

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<sup>191</sup> Patel, S. (2012). *Microtakaful – Time to make a real difference to people's livelihoods. Op cit.*

<sup>192</sup> Maznita Mokhtar, Ruslinda Sulaiman & Azman Ismail. (2012). *Towards Developing A Sustainable Microtakaful Program In Malaysia.*

### (iii) *Sources of Micro-Takāful funds*

Poor households generally faced difficulty in generating regular and substantial income and are extremely vulnerable to economic, political and physical downturns. Majority of households do not have any permanent source of income and nearly half of rural households lived on self-subsistence agriculture. Therefore they do not have the means to contribute to any form of micro insurance scheme. In addition, the contributions made by the policyholders might be insufficient for any compensation arose. Hence other financial resources for the scheme have to be identified. With regard to the sources of Micro-*Takāful* funds and the role of government on the scheme, Noor Ashikin M. *et al.*<sup>193</sup> investigated whether there is any means of financial protection among the poor, and to determine their financial capacity and perseverance in making monthly contribution for a Micro-*Takāful* policy in the rural area of Perak, Malaysia. 132 poor people were surveyed using questionnaires. The study reveals that 97% of the respondents are without financial protection and unable to contribute any amount of money to get the protection. It further reveals that intervention and support from government is vital in providing the financial capacity for the poor to have the needed protection against risks. The study recommends the government to enforce a policy in providing aid to the poor via Micro-*Takāful* by providing subsidy and *zakāt* forming part of their monthly contribution. With *zakāt* fund, these low-income and poor could have their own Micro-*Takāful* schemes which should be able to provide sufficient benefits, preventing them to be trapped into the poverty cycle permanently. Though the study suggested that intervention and support from government to enforce a policy and provide subsidy, it did not propose any framework or model for those policy and subsidy.

Undoubtedly majority of low-income people are without financial protection and unable to contribute any amount of money to get the protection and with *Zakāt* they can improve their secure and their living standard. Nevertheless, this instrument alone is insufficient to achieve this goal. However, more other sources of funds have to be identified. Mohieldin,

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<sup>193</sup> Noor Ashikin & Zuriah. (2012). *Financial Protection for the Poor in Malaysia: Role of Zakah and Micro-takaful*. *JKAU: Islamic Econ.*, Vol. 25 No. 1.

M. *et al.*<sup>194</sup> examined the role of Islamic Finance in enhancing financial inclusion in OIC countries. The study reveals that use of risk-sharing financing instruments can offer *Shari'ah*-compliant Microfinance, SME financing and micro insurance to enhance the access to finance. And redistributive instruments such as *Zakāt*, *Sadaqat*, *Waqf*, and *Qard al-hasan* complement risk-sharing instruments to target poor sector of the society to offer a comprehensive approach to eradicating poverty and to build a healthy and vibrant economy. The study finally recommends the policy makers in Muslim countries who are serious about enhancing the access to finance or “financial inclusion” should exploit the potential of Islamic instruments to achieve this goal and focus on improving the regulatory and financial infrastructure to promote enabling environment. Like in the previous case, it did not propose any framework to show how these funds instruments can be used to support insurance schemes for low-income people.

**(iv) Contracts and *Shari'ah* Compliance Mechanism**

For effectively provision of Micro-*Takāful* products, contracts and *Shari'ah* compliant mechanisms for Micro-*Takāful* scheme have to be identified. The purpose behind the Micro-*Takāful* contract is to achieve the welfare of all members who are in need of help. And instead of treating Micro-*Takāful* a buying or selling contract, an appropriate contract between the policyholders and insurer has to be designed. With regards to contracts, Ya'u, A.<sup>195</sup> explored the *Takāful* concept and particularly to provide a mirror look at Micro-*Takāful* and also prosper strategies and modalities for the establishment of Micro-*Takāful* companies in Nigeria without contravening the related provisions in the Nigerian constitution. *Takāful* models and variety of products are discussed and three ways of initiating a Micro-*Takāful* entity are proposed (i.e. through the establishment of *Takāful* Multipurpose Cooperative Societies, companies limited by guarantee and *Takāful* partnership businesses) pending the realization of *Takāful* specific legislations from the parliament. The study finally suggests that Micro-*Takāful* would be beneficial to Nigerian entrepreneurs if operated using the *Wakālah* model, which empowers the participants

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<sup>194</sup> Mohieldin, M., Iqbal, Z., Ahmed Rostom & Xiaochen Fu. (2012). *The Role of Islamic Finance in Enhancing Financial Inclusion in OIC Countries*. 8th International Conference on Islamic Economics and Finance.

<sup>195</sup> Ya'u, A. (n.d). *Prospecting for Sustainable Micro-Takāful Business in Nigeria*.

with competent agents handling the business. Though the study suggested *Wakālah* as the best contract for Nigeria, it did not propose any framework for its application.

In the same context with the previous research Anja E. *et al.*<sup>196</sup> conducted a field study of two Micro-*Takāful* schemes in Indonesia, *Asuransi A* and *Asuransi B*, to evaluate their practices against the theoretical benchmark. The objective of the empirical study is to find out how requirements of Islamic law and Microinsurance best practices are reflected in Micro-*Takāful* practices in Indonesia. Both qualitative and quantitative approaches were used. The study reveals that both Indonesian insurers entered the low-income market with a *Sharī'ah*-compliant credit life Microinsurance. The products are based on best practices of conventional Microinsurance as well as on the insurers' practice of *Sharī'ah*-conform insurance. Both qualitative and quantitative approaches were used. In general *Micro-Takāful* operations of *Asuransi A* are based on a *Wakāla bil Ujrah* contract which is mandatory for *Sharī'ah* approved insurances in Indonesia. This model is a combination of a modified *Mudārabah* and *Wakāla* model, and the operator receives a *Wakāla* fee (*Ujrah*) as well as a share of investment and underwriting surpluses. The study finally suggests that an international commercial insurer can successfully offer Micro-*Takāful* schemes and, hence, participate in this untapped market segment. However, the study failed to investigate challenges and prospects of this model.

With regards to *Sharī'ah* compliance mechanism related literature, Quraishi, Z.<sup>197</sup> examined governance from Microinsurance perspective. He began his study by introducing the concept of governance in general and describing its unique characteristics (such as (i) the areas of business in which the company is expected to operate, (ii) the uses to which the capital of the company may be put, (iii) the procedures for the appointment of members of the board of directors (as well as dismissal procedures), (iv) the powers the board of directors. (v) the way the directors' votes are used to make a decision, (vi) the financial prudential norms (i.e. financial limits), (vii) the procedures for shareholders entering and leaving the company, (viii) the procedures for shareholders

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<sup>196</sup> Anja, E., Muhammed A. & Thomas, R. B. (2011). *Microtakaful : Field study evidence and conceptual issues*. 206 Brooks Hall, Athens, GA 30602: Georgia.

<sup>197</sup> Quraishi, Z. (n.d). *Governance*, in Churchill, G. (2006). *Protecting the Poor*. A Microinsurance Compendium. Vol. 1. ILO.

exercising their votes to make a decision entrusted to them, and (ix) the decisions over which the shareholders have control) in the context of Microinsurance. It then covers the important issues of composition and expertise of the board. The study also described five case studies that illustrate lessons for Microinsurance governance. In general, the study reveals that to govern a micro insurer effectively, one must devote time to understand insurance for the poor and take the director's responsibilities and obligations seriously. Some things are better left to management to decide and follow through. The study recommends that chair and the chief executive should jointly ensure that officials nominated to the board have expertise and skills that make for a proper mix, including a well-balanced composition in representation of various stakeholders. However, the study failed to identify other areas of governance such as auditing, reporting, transparency, disclosure, etc. which also parts of governance practices.

Besides the mechanisms of governance in general and describing its unique characteristics, those specific requirements concerning the personal or professional qualification of shareholders, members of the board of directors and other managers should be guided by *Sharī'ah* principles. Depending on one's position and the legal form of the Micro-*Takāful* these qualities could relate to a proper degree of integrity in attitude, personal behavior and business conduct, soundness of judgment, degree of knowledge, experience and professional qualifications and financial soundness. To address the issue, Hassan, Z.<sup>198</sup> explored and analyzed the extent of *Sharī'ah* governance practices by highlighting seven main areas of *Sharī'ah* governance: (i) *Sharī'ah* governance approaches; (ii) regulatory frameworks and by-laws; (iii) roles of *Sharī'ah* boards; (iv) attributes of *Sharī'ah* boards in terms of independence, competence, transparency and confidentiality; (v) operational procedures; (vi) *Sharī'ah* board assessment; and (vii) disclosure practice in IFIs, particularly in Malaysia, GCC countries (Kuwait, Bahrain, United Arab Emirates, Qatar and Saudi Arabia) and the UK. The study used both quantitative and qualitative methodology. The overall results show that *Sharī'ah* governance practices in Malaysia, GCC countries and the UK are still at a very minimal level. With regards to *Sharī'ah* compliance mechanism, the study recommends the

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<sup>198</sup> Hassan, Z. (2011). *Sharī'ah Governance in Islamic Financial Institutions in Malaysia, GCC Countries and the UK*.

observance of the IFSB-10 and the AAOIFI Governance Standards. Maznita *et al.*<sup>199</sup> suggest the minimum number of members sitting in the *Sharī'ah* committee may need to be reduced to three instead of the usual five. Though the study approached the *Sharī'ah* governance practice in IFIs, one needs to examine the extent to which reasonable adaptations (appropriate requirements) can be made for Micro-*Takāful* particularly in case of smaller insurers possibly even operating in rural areas, which might require a different management profile and knowledge. However, this study encourages further study on identifying appropriate *Sharī'ah* compliance mechanisms for Micro-*Takāful* scheme.

**(v) *Role of Government and Takāful operators***

Governments can play different roles when trying to use all possible means to deliver this public good and to create an environment in which equitable access to social protection systems is promoted. Trommershäuser, S. *et al.*<sup>200</sup> investigated different roles the governments can play to promote insurance for low-income people. The study explored the role of governments (1) to provide social protection, such as universal healthcare, workers' disability benefits and old-age pensions, and (2) to regulate and supervise the insurance industry, which provides valuable protection to the country's businesses and citizens, especially to those able to pay for it. In general, the study recommends the following roles the government can play; (i) to facilitate a participatory process with key stakeholders to weigh the pros and cons of Microinsurance and assess whether this approach would contribute to the country's overall social policy objectives, (ii) to assist in the creation, replication and development of Microinsurance through a variety of instruments, (iii) to promote institutional support through Microinsurance networks and sound apex structures, linking Microinsurance schemes to donors and international funds, and facilitating links between potential delivery agents and commercial insurers, and (iv) to promote financial support through targeted transfer payments to ensure a high level of participation by the poorest and most vulnerable people, to improve the financial viability of Microinsurance schemes, to cover certain socially important investments and

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<sup>199</sup> Maznita Mokhtar, Ruslinda Sulaiman & Azman Ismail. (2012). *Towards Developing A Sustainable Microtakaful Program In Malaysia*.

<sup>200</sup> Trommershäuser, S., Lindenthal, R. & Krech, R. (n.d). *The promotional role of governments*, in Churchill, G. (2006). *Protecting the Poor*. A Microinsurance Compendium. Vol. 1. ILO.



reinsuring Microinsurance providers against covariant risks. However, the study failed to mention other roles for instance, tax incentives for micro insurance entities and micro insurance awareness among low-income people of micro insurance, as it is for the public good.

Insurance operators have a vital role to play in the success of Micro-*Takāful* schemes. They can make a concrete contribution to implementing business processes that reduce the long-term cost of underwriting risk for low-income persons. David & Thomas<sup>201</sup> examined the role of insurers and reinsurers in supporting insurance for the poor. The study focused mainly on the role of insurers and reinsurers in supporting community-based insurance schemes that operate the mutual model, namely communities of individuals that bear the insurance risk and operate the scheme. Taking different case studies to provide several examples of cooperation between commercial (re)insurance companies and Microinsurance organizations, the case studies contain few references to symbiotic business relationships between micro insurers and commercial (re)insurers which can be defined as simplified versions of underwriting assistance. The study finally recommends insurance operators to extend their roles in (i) the development of a capacity-building institution, a “Microinsurance Academy”, to create insurance competence at the community level and (ii) it can enable Microinsurance schemes to access reinsurance. The study fell short to identify other roles of insurance operators such providing insurance products for low-income people, managing the business, subsidizing the scheme, etc.

As seen from previous research, the issue of insurance for low-income households has been extensively studied. Understanding differences in the needs and preferences of the low-income households is a key not only to take up of insurance, but also to use and appreciation of the policy as well as satisfaction with the insurance. The studies investigating that issue have suggested provision of differentiated products that are able to meet different client needs, time premium payments to match income flows and

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<sup>201</sup> David, M. Dror & Thomas Wiechers, T. (2005). *The Role of Insurers and Reinsurers in Supporting Insurance for the Poor*, in Churchill, G. (2006). *Protecting the Poor. A Microinsurance Compendium*. Vol. 1. ILO.

insurance, and significant client education in Microinsurance to build up client confidence.

With regards to provision and delivery of insurance for low-income people, the studies reveal that there are a number of institutions such as commercial and *Takāful* operators, Banks, MFIs, NGOs and Microinsurance that can offer and deliver insurance products to the intended clients. The studies suggested that these institutions can collaborate and provide insurance products to the intended clients based on their agreements.

Looking at the size of the business capacity of micro insurance undoubtedly, it is very small due to low premium contributions. The studies investigating that issue have suggested *Zakāt*, *Sadaqh*, *Qard al-hasan*, Waqf and subsidies can cover this gap.

On the other hand, for effectively provision of Micro-*Takāful* products, contracts and *Sharī'ah* compliant mechanisms for Micro-*Takāful* scheme are significance. The studies investigating that issue have suggested *Wakālah* and *Wakāla bil Ujrah* contracts, and *Sharī'ah* compliance mechanisms that meet the IFSB-10 and the AAOIFI Governance Standards can be the key factors promoting *Sharī'ah*-compliant Micro-*Takāful* schemes.

Apart from contracts and *Sharī'ah* compliant mechanisms, roles of governments and insurance operators are also vital. The studies investigating that issue have suggested for these two stakeholders to come up with policies and strategies to introduce and improve insurance schemes for low-income people in their respective areas.

However, these suggestions have raised the debate of how to implement those issues and succeed in Micro-*Takāful* schemes considering Micro-*Takāful* is still new in the field of Islamic finance. Most of academic studies focus on operational significance of insurance for low-income households. Although this research contains studies on low-income insurance products preferences, insurance providers, sources of funds and the Government and *Takāful* operators' supports in existing literature, this study aims at extending previous studies by suggesting a *Sharī'ah* compliant Micro-*Takāful* framework that can secure the low-income households in Brunei Darussalam against any unpredictable future risk. The study applies quantitative and qualitative research methodology (Mixed-methods) to gather primary data from the intended respondents. It is

expected to cover low-income insurance products preferences, insurance providers, sources of funds and government supports, role of *Takāful* operators on scheme as well as Micro-*Takāful* contracts. Besides the research will add to literature, all the more as it will study Micro-*Takāful* scheme modelling in an area where no research has been conducted.

## **2.4 Conclusion**

This chapter discussed the literature related to Micro-*Takāful* and Microinsurance. It further presented various conceptual, theoretical frameworks, sources of Micro-*Takāful*, benefits of success of Micro-*Takāful* as well as challenges for providing Micro-*Takāful*. It also explained the contemporary Micro-*Takāful* schemes in selected countries in Asia. Finally, this chapter explained the previous researches related to this study pointing out the differences between the previous studies and the current one. The next chapter explores the research design and methodology.

## **CHAPTER III: RESEARCH METHODOLOGY**

### **3.0 Introduction**

This chapter describes the research setting and procedures for primary data collection, the survey questionnaire and interview guidelines, and considers the advantages and disadvantages of these approaches. It also describes the method of data analysis pursued in empirical analysis. The chapter discusses the main issues involved in survey process, data analysis methods. Furthermore, it provides an outline of the research methods used in the fieldwork and also presents a description of the study sample and the statistical techniques used to analyze the data. Finally, it presents the importance of ethical conduct, and how this was employed throughout the study. In addition, it highlights the limitations of the study.

The researcher humbly claims that this study is indeed original, since the empirical work in this research is conducted in Brunei Darussalam with a mixed method approach, which represents the research's distinctiveness and uniqueness. In fact, the study offers a new interpretation of the primary sources that significantly introduce substantial new evidence and findings that would be beneficial for players in the Islamic Insurance industry, including policymakers and regulators to develop, enhance and improve the Micro-*Takāful* scheme.

### **3.1 Research Setting: An Overview of Brunei Darussalam**

Brunei Darussalam is a small country strategically located on the northwest coast of the island of Borneo, right in the heart of Asia. The country has a total land area of 5,765 km<sup>2</sup> and 161 kilometers of coastline along the South China Sea. Sitting on the equator, Brunei Darussalam enjoys an equatorial climate with an average temperature of about 28° Celsius, high humidity and heavy rainfall.<sup>202</sup>

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<sup>202</sup> [http://www.bruneidirecthys.net/about\\_brunei/](http://www.bruneidirecthys.net/about_brunei/) Accessed on 19<sup>th</sup> November 2014.

The country is made up of four districts: Brunei-Muara, Tutong, Belait and Temburong. The capital is Bandar Seri Begawan, located in Brunei-Muara District, which is the smallest and most populated district.

Latest statistical report put Brunei Darussalam's population at 422,675 (July 2014 est.) and growing at an average rate of 1.69% per annum. Brunei Darussalam has a multi-racial society, comprising of 67% Malays and 15% Chinese. Other races such as Indians, indigenous ethnic groups and expatriates make up the rest of the country's population. Brunei Darussalam has a young population: 54% are in the 20-54 working age groups, another 39% are below the age of 19 while only 7% are 55 and above.<sup>203</sup>

Study on Poverty in Brunei Darussalam by the Ministry of Culture, Youth and Sports showed that more than 4500 families fall in the category of the poor and needy.<sup>204</sup> Most of these families are residing in remote and rural areas of the villages in Tutong District and Ulu Belait which are some of the most affected areas socially and economic conditions.<sup>205</sup>

### 3.2 Research Methodology

The term 'Research Methodology' refers to the study of research process itself – the principles, procedures, and strategies for gathering information, analyzing it, and interpreting it.<sup>206</sup>

In the social sciences, there are two main types of research methodologies, namely quantitative and qualitative. Quantitative research methodology is mainly deductive and it emphasizes procedures and statistical measures of validity.<sup>207</sup> On the other hand,

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<sup>203</sup> <http://www.indexmundi.com/brunei/population.html> Accessed on 19th November 2014.

<sup>204</sup> Ministry of Culture, Youth & Sports Report. (2013). *Study on Poverty in Brunei Darussalam*. Data provided by the ministry during the interview, one page.

<sup>205</sup> Brunei Times. <http://www.bt.com.bn/news-national/2012/08/06/poor-families-remote-areas-need-basic-amenities>. Accessed on Monday, August 6, 2012.

<sup>206</sup> Gray, S. P, John, B.W, David, A. K and John, R. D. (2007). *The Research Imagination: An Introduction to Quantitative and Qualitative Method*. United Kingdom: Cambridge University Press. p.14. In Ismal, Rifki (2010) *The Management of Liquidity Risk in Islamic Banks: The Case of Indonesia*. Durham Theses, Durham University. p.87

<sup>207</sup> Frankfort-Nachmias, C. and Nachmias, D. (1996). *Research Methods in Social Sciences*. London: Arnold. p.554. In Hasan, Zulkifli, Bin (2011). p.151.

qualitative research methodology usually emphasizes words rather than quantification in the collection and analysis of data.<sup>208</sup>

It is important to note that, this research uses both quantitative and qualitative research methodology to answer the research questions. Since this study is a social research, the researcher considers that combining both methodologies is an appropriate approach to ensure the originality and quality of the study. It is also important to state that this research is mainly based on primary data gathered through questionnaires and interviews, which reveals the perceptions and opinions of the participants. The researcher also chose both methodologies on the basis that it requires fieldwork and empirical study to analyze the perceptions, opinions and practices of the research participants.

With regard to research strategies, this study used the sequential exploratory strategy to gather data and information; this involved two phases, with the priority given to the quantitative data collection and analysis, which was then followed by a phase of qualitative data collection and analysis. In terms of data collection and analysis, several instruments were used to ensure the validity and reliability of the data.

Preliminarily, the study utilized a descriptive research method in collecting secondary data and information for the literature review. The literature review was conducted intensively and critically to justify the viability of the research topic as well as to identify gaps and issues related with the research. Since the availability of primary data on the research topic is very limited, this study used questionnaires to generate data and feedback from the research participants. In the light of several weaknesses and disadvantages of the questionnaires, this study also conducted in-depth interviews in order to provide additional evidence and to strengthen the justification of the research findings.

### **3.3 Sampling Technique**

Sampling is the process of selecting units (e.g., people, organizations) from a population of interest so that by studying the sample it may fairly generalize the results back to the

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<sup>208</sup> Bryman, A. (2001). *Social Research Methods*. Oxford: Oxford University Press. p.264.

population from which they were chosen.<sup>209</sup> The aim of this research sampling process is to get an accurate estimate of the population's characteristics from measuring the sample's characteristics.<sup>210</sup>

The study used two types of sampling techniques in selecting the research respondents namely; the convenience sampling that is simply available to the researcher by virtue of its accessibility and the purposeful sampling that identifies a specific group of respondents that would be able to reflect the purpose and objectives of the research.<sup>211</sup> The researcher opted to use convenience and purpose sampling techniques, because it was difficult to get list of the poor people, and in order to acquire more information from the key informers (i.e. *Takāful* marketing managers, government officers, etc.)

Based on the convenience sampling process, five *Sharī'ah* scholars were interviewed in the in-depth interviews and 200 low-income households were surveyed using questionnaire (see Table 3.1 for details). Those five *Sharī'ah* scholars were selected from Sultan Sharif Ali Islamic University who are knowledgeable on *Sharī'ah*, especially on Islamic Finance and who could be contacted and interviewed during the survey to share their in-depth information regarding *Sharī'ah* compliant Micro-*Takāful* scheme. On the other hand, those low-income households were selected from the four Districts namely, Brunei-Muara, Tutong, Temburong and Belait based on their job type, living environment and those will be available during the survey.

With regard to sample size estimation, the study used the Roscoe approach that a sample size of 30–500 is appropriate for most researches.<sup>212</sup> Although the research sample is relatively small in this study, it is sufficient to represent *Sharī'ah* scholars and low-income households in Brunei Darussalam. In fact, Simon<sup>213</sup> claims that accuracy is slightly greater in a smaller research sample.

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<sup>209</sup> Greener, S. (2008). *Business Research Methods*. Ventus Publish ApS. P.47. [www.bookboom.com](http://www.bookboom.com)

<sup>210</sup> Simon, J.L. (1969). *Basic Research Methods in Social Science, The Art of Empirical Investigation*. New York: Random House. p.423.

<sup>211</sup> Bryman, (2001). *Social Research Methods*. Oxford: Oxford University Press. *Op. cit.* pp.97–100.

<sup>212</sup> Sekaran, (2003). *Research Methods for Business: A Skill Building Approach*. USA: John Wiley and Sons Inc. p.295.

<sup>213</sup> Simon, (1969). *Basic Research Methods in Social Science, The Art of Empirical Investigation*. *Op. cit.* p.423.

On the basis of the purposeful sampling process, two marketing managers of *Takāful* companies were interviewed with the in-depth interviews. The choice of these *Takāful* companies was based on the grounds that they are the only pioneers because they have built an infrastructure and acquired skills, experience and capabilities that will make it less costly to deliver Micro-*Takāful* products. In addition, they currently offer different types of *Takāful* products in Brunei Darussalam and it was expected by the researcher that these two *Takāful* companies can provide enough information that will help to achieve the research objectives. On the other hand, two Government officers (Director of the Department of Community Development and the Director of *zakāt* Management) were interviewed with the in-depth interviews. The choice of these two officers was based on their direct contact to the low-income households and the services they offer to them relate to my study which could help to achieve the research objectives.

### **3.4 Quantitative Data Collection Method**

A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering statistical information from respondents.<sup>214</sup> It is very useful in qualitative research as an effective tool for data collection and serves the function of measurement.<sup>215</sup> Since this study is exploratory in character, and with the view of the scarcity of the primary data on the research topic, the study employed the survey method to generate fresh data to answer the research questions.<sup>216</sup>

#### **3.4.1 Questionnaire Design**

There are two main types of survey questions, namely open-ended questions that leave the respondent free to respond in an unrestricted manner and closed-ended question that restrict the choice of responses by providing answers in terms of given categories or

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<sup>214</sup> <http://questionnaire.askdefine.com> Accessed on Monday, August 6, 2012.

<sup>215</sup> Oppenheim, A. N. (1992). *Questionnaire Design Interviewing and Attitude Measurement*. London: Continuum. p.100.

<sup>216</sup> Hasan, Zulkifli, Bin. (2011) *Shari'ah Governance in Islamic Financial Institutions*. *Op. cit.* p.154.



alternatives.<sup>217</sup> The survey questions in this research were designed in both types to reveal all the desired answers from the research participants.

A survey questionnaire was used to answer research question 1. It was designed in English and Malay language (see Appendix D). However, the questionnaire sets were prepared which covered the following items, and were distributed to all respondents.

1. Part one: Demographic information. In this part, an attempt is made to gather data on the respondent age, gender, highest level of education, occupation, income level, marital status, district of residence and residential status. This information would give a general feel of the type of all respondents responding to the questionnaire.
2. Part two: Questions regarding the Micro-*Takāful* scheme suitable for the low-income people in Brunei. An attempt is made to gather data on the respondent product awareness, source of information, willingness to take insurance, insurance product(s) to take, contribution / premium payment, time of premium payment and reason for unwilling to take insurance. This information would give significant findings on the research objective one.

Several approaches were taken to ensure the clarity and readability of the survey questions. (i) The sentence structure of the survey questions was kept simple. (ii) Comments and feedback from the supervisor were obtained to ensure that the survey questionnaires were clear and precise as well as to mitigate the potential for errors and misleading questions. (iii) The survey questions were divided into two sections as highlighted before. (iv) The survey questions were structured in a way so that the respondents would be able to answer them by ticking the appropriate circled number in the survey questionnaire. These processes are imperative not only to ensure the readability of the survey questions but to minimize any potential for invalidity or unreliability of the data collected.

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<sup>217</sup> Frankfort-Nachmias and Nachmias, (1996). *Op. cit.* pp.253–254.

### 3.4.2 Administration of the Questionnaires

The process of data collection involves several exercises and instruments. The survey questionnaires used self-administered questionnaires instrument to improve the response rate. The self-administered questionnaires instrument is much more preferable ways of data collection as it is convenient and produce a significant cost and time saving.<sup>218</sup>

Cover letters and reminder notices are other important instruments that can be used to improve the response rate of survey questionnaires. The researcher issued a specific cover letter attached together with the survey questionnaire to all the research participants. This cover letter contained several essential points and explanations about the research including the purpose of the survey, the potential value of the research, the importance and benefit of the research, the simplicity of the survey questions, an assurance of confidentiality and a note of appreciation. A brief explanation about *Micro-Takāful* scheme was also conveyed orally to the participants. On top of that, following up with personal telephone call to the respondents was made. Accurate and precise information in the cover letter, explanation about *Micro-Takāful* scheme and follow-up with personal telephone call will help the respondents to really understand and appreciate the importance and significance of the research and therefore will improve the response rate of the survey.

The survey was launched on 1<sup>st</sup> April 2013 and ended on 15<sup>th</sup> June 2013. Since it was not possible to get exact names of the low-income households in these Districts, the researcher opted to use their job type and living environment as best criteria for the researcher to identifying the respondents.

### 3.4.3 Response Rate

The target respondents of the survey questionnaire were the low-income households from the four Districts namely, Brunei-Muara, Tutong, Temburong and Belait. Table 3.1 illustrates the number of the questionnaires distributed and those which were valid in each District.

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<sup>218</sup> Saris, W.E. and Gallholfer. I.N. (2007). *Design, Evaluation and Analysis of Questionnaires for Survey Research*. New Jersey: John Wiley & Sons Inc. p.165.

**Table 3.1:**  
The Response Rate

District	No. of distributed questionnaires	No. of questionnaires returned
Brunei-Muara	80	76
Kuala Belait	40	32
Tutong	40	27
Temburong	40	5
<b>Total</b>	<b>200</b>	<b>140</b>

Source: *Researcher's analysis.*

Table 3.1 reveals that a total of 200 questionnaires were distributed among the low-income in the four Districts and 140 questionnaires only were valid. For Brunei-Muara 80 questionnaires were distributed and only 76 were valid. The reasons for high number of questionnaires distributed in Brunei-Muara District are due to higher population compare to other Districts.<sup>219</sup> In addition, it has also higher number of *zakāt* recipients.<sup>220</sup> Hence, indicates the number of low-income households. 40 questionnaires were distributed among the low-income households in the three Districts: Kuala Belait, Tutong and Temburong and 32, 27 and 5 questionnaires were valid from Kuala Belait, Tutong and Temburong District respectively. The researcher decided to distribute 40 questionnaires in the three Districts due to slightly difference in population in Belait and Tutong.<sup>221</sup> While in the Temburong District, which has the least population, was to gather as more respondents as possible. The response rate is 70% out of 200 questionnaires which is relatively satisfactory and significant.<sup>222</sup> Hence, no further attempt was made to increase the sample.

<sup>219</sup> <http://www.indexmundi.com/brunei/population.html> Accessed on 19th November 2014.

<sup>220</sup> Rose binti Abdullah. (2011). *Zakat Management in Brunei Darussalam: A Case Study*. *Op. cit.* p.387.

<sup>221</sup> *Brunei Darussalam Country Report*. (2011). *Op. cit.* p.6.

<sup>222</sup> Sekaran. (2003). *Research Methods for Business: A Skill Building Approach*. USA: John Wiley and Sons Inc. p.237.

### 3.5 Qualitative Data Collection Method

The interview method is one of the prominent data collection strategies and has been used in a wide variety of social movement studies.<sup>223</sup> There are three types of interview namely, structured interview, semi-structured interview and unstructured or in-depth interview.<sup>224</sup> As part of the qualitative research strategies, the study used in-depth interview to gather more desired information from the interviewees. Unlike other types of interview in-depth interviews provide much more detailed information than what is available through other data collection methods, such as surveys. In addition, they provide a more relaxed atmosphere in which a participant may feel more comfortable having participating in a survey, thus yielding more relevant information required.<sup>225</sup> Realizing these advantages, the study used in-depth interview to gather more information from the *Shari'ah* scholars and *Takāful* marketing managers so the richness and originality of data can be uncovered to answer the research questions.

#### 3.5.1 In-depth Interview Design

Based on the research questions formulated in this study, the researcher generated a number of interview questions (guides). The majority of the questions were open-ended, to which all the interviewees could answer in whatever way they wished; only a few of them were closed-ended. Open-ended questions are very useful in getting clean and unbiased feedback because the interview participants can answer in their own terms, it allows unusual responses to be derived and enables the potential to explore new areas in which the researcher has limited knowledge.<sup>226</sup> The few questions that were closed-ended were for the researcher to confirm and validate certain *Micro-Takāful* scheme issues with an option for respondents to elaborate their affirmative or negative answers.

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<sup>223</sup> Blee, K. M. and Taylor, V. (2002). *Semi-Structured Interviewing in Social Movement Research*, in Hasan, Zulkifli, Bin. (2011) *Shari'ah Governance in Islamic Financial Institutions*. *Op. cit.* p.160.

<sup>224</sup> Saunders, M., Philip Lewis, P. and Thornhill, A. (2009). *Research methods for business students*. Pearson Professional Limited. 5<sup>th</sup> ed. p.320.

<sup>225</sup> Boyce, Carolyn. (2006). *Conducting In-Depth Interviews: A Guide for Designing and Conducting In-Depth Interviews for Evaluation Input*. Pathfinder International Tool Series. p.3.

<sup>226</sup> Bryman, A. (2001). *Social Research Methods*. Oxford: Oxford University Press. *Op. cit.* p.143), in Hasan, Zulkifli, Bin. (2011). *Shari'ah Governance in Islamic Financial Institutions*. *Op. cit.* p.161.

All the interview questions were drafted in short sentences. This enables the respondents to understand exactly the context of the questions and therefore provide good quality answers. In addition, proper selection of question design is very important for the purpose of processing the data. The study took into consideration this aspect and all questions were generated, structured and arranged in a way that all the data could be analyzed easily through a coding and thematic approach.

In order to reduce the potential for errors during interview, the interviewees were given a copy of the interview questions and the researchers posed the questions to them and, if necessary, explained their meanings and objectives. This approach is significant to the validity of the interview findings since it is able to reduce interviewer variability and thereby to mitigate any potential for errors.

### **3.5.2 Target Respondents of the Interviews**

The in-depth interviewing approaches were used to get more reliable information from the respondents. The study used the key informant interviewing approach in designing the interview questions. In the key informant interviewing method, the study selected the respondents by considering their position, role and willingness to communicate. In this regard, the study chose *Takāful* marketing managers to find out their role on Micro-*Takāful* scheme introduced considering their role regarding designing and marketing Islamic insurance products, Government officers to investigating the role of His Majesty's Government to support the proposed Micro-*Takāful* framework introduced in Brunei Darussalam considering their essential role in planning and providing social security for the low-income households in Brunei Darussalam, and *Sharī'ah* scholars to investigate their views and suggestions on Micro-*Takāful* scheme considering their knowledge in *Sharī'ah*. In order to answer the research questions and to fulfill all of the research objectives, the study generated a number of questions which were used to interview the three key informers (see Appendix A, B and C). Below is the summary of the key informers and number of their questions.

**Table 3.2:**  
Target Respondents of the Interviews

Key Informer	Number of Questions
<i>Takāful</i> Marketing Managers	11
Government Officers	9
<i>Sharī'ah</i> Scholars	6

Source: *Researcher's initiative.*

Most of the questions asked about possibility of introducing a Micro- *Takāful* scheme in Brunei, Micro-*Takāful* contracts and *Sharī'ah* compliant mechanisms for the scheme, obstacles for introducing the scheme, the scheme provider, sources of fund, Government and *Takāful* support and role on the scheme, and suggestions for success. Specific questions addressed the *Takāful* operators about availability of any scheme currently on offer by them and future plan for a Micro- *Takāful* scheme in Brunei Darussalam.

### 3.5.3 Administration of the Interviews

The researcher prepared a list of potential respondents consisting of *Takāful* marketing managers, Government officers and *Sharī'ah* scholars in Brunei Darussalam. He also prepared a list of interview guides for each category of the potential respondents. Several attempts were made to contact the respondents via email and telephone. Despite numerous problems and constraints in getting the potential respondents for interview, the researcher successfully interviewed two *Takāful* marketing managers, two Government officers (one from the Department of Community Development and the other from Brunei Islamic Religious Council) and five *Sharī'ah* scholars from Sultan Sharif Islamic University in Brunei Darussalam. The interviews were conducted in the participants' office as this was private and comfortable location.

A face-to-face interview technique is useful to get detail information in a study. This is because in a face-to-face interview the researcher has the chance to explain the questions to avoid any misunderstanding and respondents may be more co-operative when all they have to do is to talk. In this situation, the researcher and the respondent may feel more relaxed and the respondent may give more reliable information. In addition, a face-to-face

interview minimizes missing answers and errors. Moreover, it helps to create an atmosphere between the researcher and the respondents. It also gives the respondent the feeling that there is some interest being shown in them and their role in society.<sup>227</sup> On the basis that the advantages of a face-to-face interview technique overwhelm the disadvantages, the study chose this technique to generate the primary data that would be able to fulfill the research objectives.

In order to get access to the site, a number of strategies were implemented. Potential participants were facilitated by handling in an invitation letter (i.e. introduction letter to potential respondents) personally. Potential participants usually responded with their agreement within one to two weeks. If they did not give a response, the researcher contacted them by either visiting at their offices or telephone to confirm their decision. Another strategy was to handle in interview guidelines and covering letters alongside the invitation letters. The researcher opted to use this strategy to attract participants to keep them aware of the goals and the areas to be discussed in an interview as well as to give them opportunity to dig in for more information or to refer to for the correct responds of some questions.

The interviews started with Islamic greeting and thanking participants for their contributions. The researcher introduced himself, explained about the background of the study and stated the purpose and objective of the interview. The researcher also explained the significance of the study and the reason why the respondents had been selected. These modes of interviewing are very useful for establishing rapport and motivating the respondents to offer quality answers. The usual formalities of introduction, discussion about self were used to break the ice. This allowed for an open and friendly atmosphere so the researcher had no difficulties entering the main stage of interview.

In order to reduce potential sources of error, the respondents used their copies of the questions sent to them earlier and the researcher kept exactly to the wording of the questions with some explanations and clarifications. When participants understood very

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<sup>227</sup> Phellas, N., Bloch, A. & Seale, C. (2011). *Structured Methods: Interviews, Questionnaires and Observation*. p.183.

well the subject being studied and produced significant responds, the researcher just asked for further elaboration. However when participants had difficulties with aspects of the topic, the researcher elaborated the questions to stimulate more ideas or help capture more clearly the issues related to the questions. Otherwise, the conversation flowed freely around the core subject matter.

During the interviews, the researcher employed two methods to record the interviews, namely taking notes and tape recording. As a matter of courtesy, the researcher asked for permission from the respondents to record the interview on digital recorder and if they refused the researcher just made written notes. It is important to record all the answers either in writing or on tape because information recalled from memory is imprecise and likely to be incorrect. Some participants agreed for interviews to be recorded, although in certain circumstances when they explained a sensitive issue, some asked the researcher to turn the recorder off for a while. Again, they were reassured that the information would remain confidential. In general, the participants were friendly and helpful during the interviews.

The interviews were carried out in English for those who understand the language and in Arabic for those who understand the language. Although some participants were able to converse in both languages, they preferred to use the language which is familiar and fluency. When unfamiliar terms the researcher did not understand were used, the meaning was clarified carefully and politely so the exact meaning could be captured.

The main interviews were conducted up to two hours duration depending upon the number of questions asked and additional information needed. Two interviews with the *Takāful* operators took approximately two hours each. While five interviews with *Shari'ah* scholars took approximately one hour and thirty minutes each, and two interviews with the Government officers took approximately one hour and forty minutes each.



### **3.6 Data Analysing Methods**

This section elaborates on the data analysis methodology employed in this study. The data analysis methodology used illustrates the process of giving further meaning to the data gathered from the whole research process and provides justification and verification for the research findings.

#### **3.6.1 Quantitative Data Analysis**

The process of data analysis involves several research exercises. It involves editing, coding, and verification of data in order to remove errors that may have occurred during the data collection process. In the early process of data analysis, the survey questionnaires were defined and entered in one SPSS sheet by the researcher, and then the data sheet was checked for accuracy. This sheet was specifically designed to ensure that all data gathered was stored, structured and organized efficiently. The analyzed data were also transferred to MS Excel 2010 for charts designing. Because of the nature and size of the data, the researcher used SPSS 11.5 Software version to process all the information for analysis.

In analyzing the data, descriptive statistical methods were used. These methods include frequencies and percentages, in order to clarify the differences between the different characteristics and performance, and to enable the research findings to be clearly and systematically presented. Furthermore, the study utilized an interpretative method to provide examination of the data derived from the survey. All the findings such as low-income demography and their products preferences were summarized and presented in tables.

#### **3.6.2 Qualitative Data Analysis**

In analyzing the data, the study employed systematic procedures of coding and categorizing. The process of coding and categorizing was done systematically in a specific format on the computer. In the coding process, all the answers given by the respondents were coded descriptively following the sequence of research questions which were divided into five parts, namely *Micro-Takāful* products, *Micro-Takāful* provider, Funds mobilization, types of *Micro-Takāful* contracts and *Sharī'ah* compliance

mechanisms, and role of the Government and *Takāful* Operators on Micro-*Takāful* Scheme. Furthermore, the obstacles for introducing Micro-*Takāful* Scheme and suggestions to make Micro-*Takāful* Scheme successful in Brunei Darussalam were also included.

The study predominantly utilized the content analysis approach in extracting and analyzing the data. This method is very useful and the most appropriate approach to provide a description of the respondents' opinion, perceptions and suggestions. In addition, it enabled the researcher to capture the extent, nature, volume and size of the data collected.

In analyzing the data, the researcher undertook several structured exercises. Firstly, the researcher transcribed the data onto paper in writing form with the support of software program called audacity software. Secondly, the researcher broke the data down into discrete parts, which were closely examined and compared for similarities and differences. Grouping concepts into categories enabled the researcher to reduce the number of units with which the researcher was working. Thirdly, tables were generated from the data for analysis. Finally, the researcher analyzed all the data and the results of the research to provide further meaning to the data analysis.

The study was also concerned with the issues of reliability and validity of using content analysis method. In this aspect, reliability issues may arise due to ambiguity of meanings or category definitions while validity problems are related to the "extent to which a variable measure of the construct the investigator intends it to measure". In view of these issues, precautionary measures have been taken to improve both reliability and validity.

The process of data analysis was conducted manually in consideration of the interpretive philosophical underpinning.

### **3.7 Ethical Considerations**

Qualitative research is primarily based upon what people think, feel, and experiencing relation to Micro-*Takāful*. Involving human participants, means it is critical and necessarily for the researcher to be aware, understand and give close attention to the

ethical issues that arise in a research process. This includes the research design, data collection, data analysis, and presenting the results.

To ensure all ethical considerations were met, the researcher followed the following procedures:

- The researcher sent an invitation letter, including an interview covering letter and questions, to the potential participants. These documents provided full information about the nature of the research in lay terms, so potential volunteers could fully understand what they were being asked to contribute to.
- To ensure the privacy, confidentiality, and anonymity of the interviewees' responses no individual is named or can be identified. All responses are coded based on the special initials, and as a result, all data remains confidential and anonymous; only the researcher knows the individuals and organizations that participated in this study.

### **3.8 Difficulties and Limitations of the Study**

Like any other research, this research was not immune to practical challenges and difficulties as well as limitations and some of the obstacles encountered and limitations included:

1. Some respondents expressing a degree of suspicion concerning the objectives of the survey due to the general feeling about any study on *Micro-Takāful* scheme. Despite assurances regarding their anonymity and the strict confidence of their responses and detailed explanations of the aims of the survey, some still remained sceptical about our intention and declined to take part.
2. Considering that some participants are pessimistic about issues relating to *Micro-Takāful*, some low-income households considering that *Micro-Takāful* scheme is meant for rich people only they were not ready to participate in a survey.
3. Considering that some participants are not aware or having little knowledge about the subject matter, they accepted to participate but some of the survey questionnaires were incomplete; thus reduced the number of questionnaires intended to collect more

data from them. In addition to that, some interviewees have no information about *Micro-Takāful* and what feedback is to deliver. However, the researcher ensured use of good communication skills to explain more about the scheme to encourage them to participate.

4. Slow from respondents as most of them were very unwilling to participate. However, it had insignificant impact on the study because the researcher and his assistants persisted to follow up all the appointments till completion of the assignment.
5. Lastly, The literature on *Micro-Takāful* and low-income households in Brunei Darussalam was extremely limited and thus the references were seriously affected.

All of these difficulties and limitations had a significant effect on the research. However, the researcher is of the opinion that this research has uncovered some interesting findings which are very relevant to all the parties trying to improve the life standard and security of the low income households in Brunei Darussalam.

### **3.9 Conclusion**

This chapter has presented an overview of the research methodology used in this study. It provides an overview of Brunei demographic and low-income households. It also provides an insight into the whole research process, which is imperative for the purpose of ensuring the originality and quality of the research. Since the mixed-method approach is the most appropriate research strategy in this study, the researcher chose this methodology in organizing, structuring and designing the whole research process, including research design, development of research questions, reliability and validity, mitigating potential of errors, data collection, sampling and data analysis. These overall research processes demonstrate the extent of the quality and originality of this study. To establish the quality of the study, this chapter has also presented the ethical code of conduct that was maintained by the researcher throughout the research process. The next chapter explores the presentation and discussion of findings.

## **CHAPTER IV: PRESENTATION AND DISCUSSION OF FINDINGS**

### **4.0 Introduction**

This chapter presents and discusses the research findings. Eight main topics have emerged from the research field and these are explained; they encompass the approaches to rate of response and low income households' demographic information and Micro-*Takāful* products' preferences. In terms of approaches to interviews' findings, the chapter describes the (i) Micro-*Takāful* products, (ii) fund mobilization and (iii) Micro-*Takāful* providers. In addition, it explains the (iv) types of Micro-*Takāful* contracts and (v) *Shari'ah* compliance mechanisms applicable to Micro-*Takāful* scheme in Brunei Darussalam. Furthermore, it highlights the (vi) role played by the Government and *Takāful* operators on Micro-*Takāful* scheme. Finally, the chapter discusses the findings.

### **4.1 Presentation of Findings and Interpretations**

This section presents and interprets the findings of the quantitative and qualitative data. However, the analysis will be presented and interpreted in separate sub-sections. Qualitative data will be presented and interpreted in 'Survey Results of Low-income Households' section, while 'Findings from the Interviews' presents and interprets qualitative data.

#### **4.1.1 Survey Results of Low-income Households**

Survey results of low income households include demographic information and Micro-*Takāful* preferences. It is worth to mention that the results of quantitative survey of this study were presented during the International Postgraduate Studies Seminar 2014 (SAPLI2014), organized by Centre for Postgraduate Studies and Researches (CPSR), Sultan Sharif Ali Islamic University, Negara Brunei Darussalam.

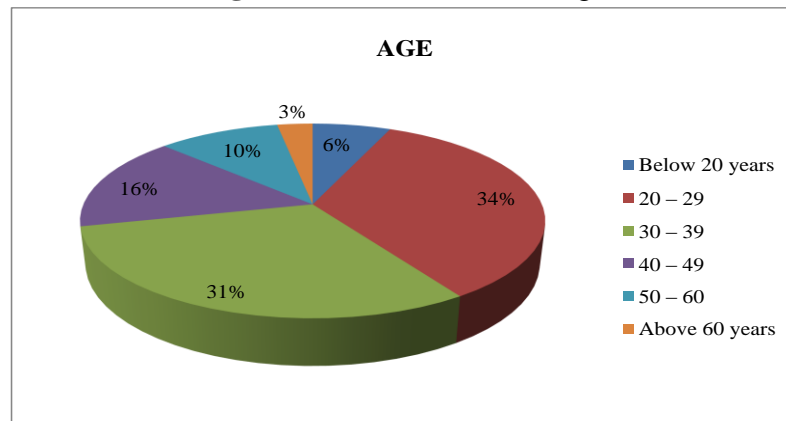
#### 4.1.1.1 Demographic Information

The following results show demographics statistics of low income households indicating the frequency distribution of each item under study together with its percent in the form of tables.

**Table 4.1:**  
Frequency Distribution of Age

Categories	Frequency	Percent
Below 20 years	9	6.4
20 – 29	48	34.3
30 – 39	43	30.7
40 – 49	22	15.7
50 – 60	14	10
Above 60 years	4	2.9
<b>Total</b>	<b>140</b>	<b>100</b>

**Figure 4.1:** Distribution of Age



Source: *Researcher's analysis using SPSS & MS Excel*

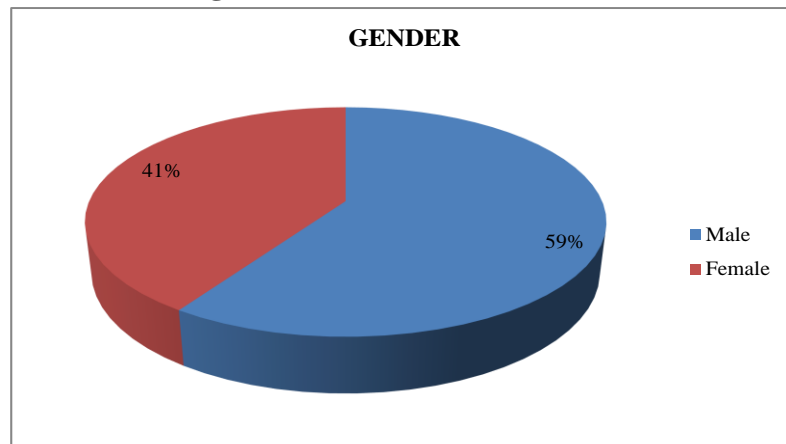
The Table 4.1 and Figure 4.1 show the age distribution of low income households participated in the survey. The data was distributed in six age groups. About 34.3% of participants belong to the age group 20-29 years that was the maximum whereas only 2.9% was above 60 years of age that was the minimum. About 30.7% of the participants were in the age group 30-39 years that was the second largest ratio. About 15.7% of the participants were in age group 40-49 years that was the third largest ratio. About 10% of

the participants belong to the age group 50-60 years. About 6.4% of the participants were below 20 years. Cumulative data indicates that about 91.1% of the participants were 60 years of age or below.

**Table 4.2:**  
Frequency Distribution of Gender

Categories	Frequency	Percent
Male	83	59.3
Female	57	40.7
<b>Total</b>	<b>140</b>	<b>100</b>

**Figure 4.2:** Distribution of Gender



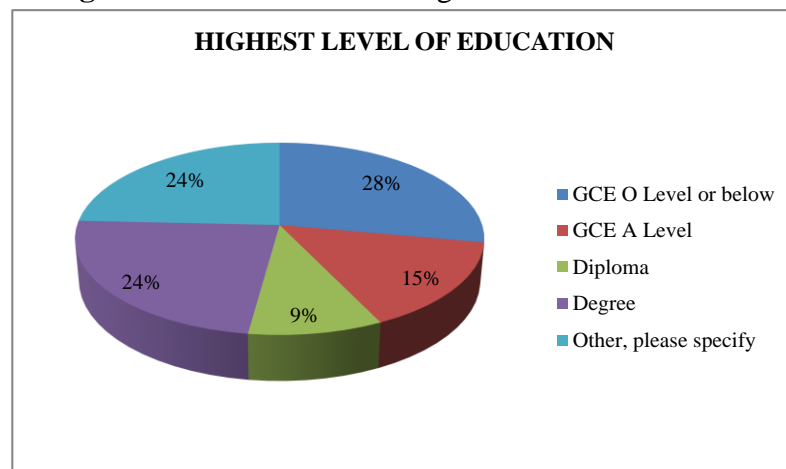
Source: *Researcher's analysis using SPSS & MS Excel.*

The Table 4.2 and Figure 4.2 show the gender distribution of the participants in the survey. Male participants constitute a major portion of the sample and account for 59.3% of the participants surveyed. 40.7% of participants were females who participated in the survey. It indicates a low discrepancy ratio between male and female low income households. The main reason for this low level of gender inequality is that even though male participants are considered bread-winners and play the role of the head of the family that their insurance is more important as the whole family has to depend on them, it also indicates high women participation in the employment sector to cater other needs.

**Table 4.3:**  
Frequency Distribution of Highest Level of Education

Categories	Frequency	Percent
GCE O Level or below	39	27.9
GCE A Level	21	15
Diploma	13	9.3
Degree	33	23.6
Other, please specify	34	24.3
<b>Total</b>	<b>140</b>	<b>100</b>

**Figure 4.3:** Distribution of Highest Level of Education



Source: *Researcher's analysis using SPSS & MS Excel.*

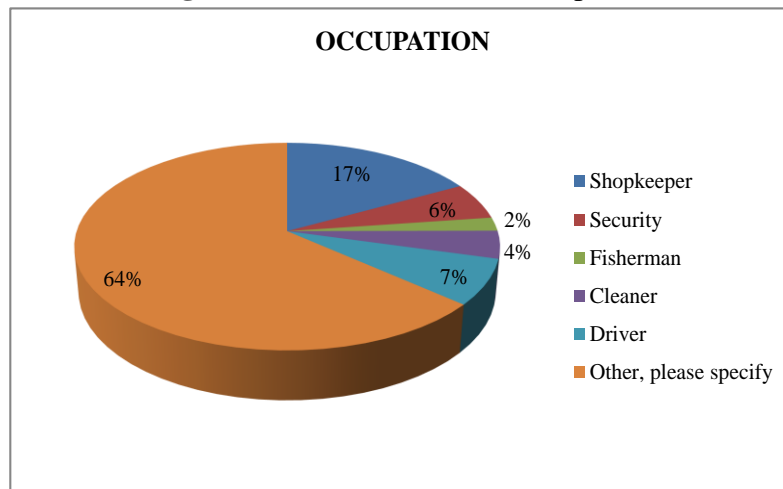
The Table 4.3 and Figure 4.3 show the educational level of low income households participated in the survey. The data was distributed in five educational groups. About 27.9% of participants had their education up to GCE O Level that was the maximum whereas only 9.3% had diplomas that was the minimum. 24.3% of the participants were holding other qualifications such as Brunei Junior Certificate of Education (BJCE), Social Media Knowledge Certificate (SMKC), etc. 15% of the participants had GCE A Levels while 23.6% of the participants surveyed had degrees. Cumulative data indicates that about 75.7% of the participants had degrees or below qualification.



**Table 4.4:**  
Frequency Distribution of Occupation

Categories	Frequency	Percent
Shopkeeper	24	17.1
Security	8	5.7
Fisherman	3	2.1
Cleaner	6	4.3
Driver	10	7.1
Other, please specify	89	63.6
<b>Total</b>	<b>140</b>	<b>100</b>

**Figure 4.4:** Distribution of Occupation



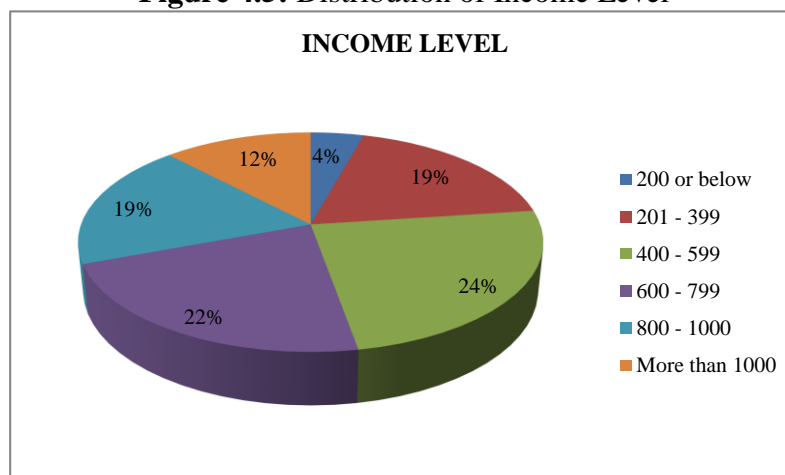
Source: *Researcher's analysis using SPSS & MS Excel.*

The Table 4.4 and Figure 4.4 show the occupation distribution of low income households participated in the survey. The data was distributed in six categories. About 63.6% of the participants had other occupations like teaching, cashier, mechanic, etc. that was the maximum whereas only 2.1% of the participants were fishermen that was the minimum. About 17.1% of the participants were shopkeepers; that was the second largest category. About 7.1% of the participants were drivers. 5.7% of the participants worked as security officers while 4.3% of the participants worked as cleaners. Cumulative data indicates that about 36.4% of the participants were drivers, cleaners, fishermen, security officers and shopkeepers.

**Table 4.5:**  
Frequency Distribution of Income Level

Categories	Frequency	Percent
BND200 or below	6	4.3
BND201 – 399	26	18.6
BND400 – 599	34	24.3
BND600 – 799	31	22.1
BND800 – 1000	26	18.6
More than BND1000	17	12.1
<b>Total</b>	<b>140</b>	<b>100</b>

**Figure 4.5:** Distribution of Income Level



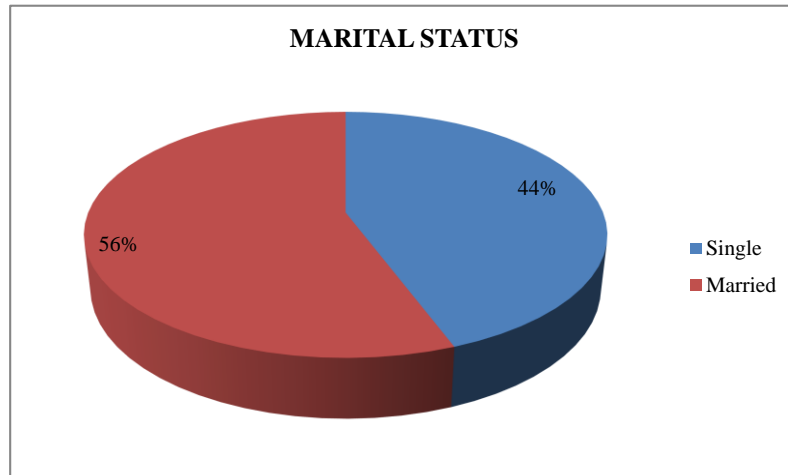
Source: *Researcher's analysis using SPSS & MS Excel.*

The Table 4.5 and Figure 4.5 show the distribution of income level of low income households participated in the survey. The data was summarized in six groups. About 24.3% of the participants had income level between BND400-599 that is the maximum ratio whereas only 4.3% of the participants had income level BND200 or below that was the minimum ratio and indicates first category of the low income households. 18.6% of the participants had each income level between BND201-399 and between BND800-1000. About 12.1% of the participants had income level more than BND1000. Cumulative data indicates that about 87.9% of the participants had income level BND1000 and below.

**Table 4.6:**  
Frequency Distribution of Marital Status

Categories	Frequency	Percent
Single	62	44.3
Married	78	55.7
<b>Total</b>	<b>140</b>	<b>100</b>

**Figure 4.6:** Distribution of Marital Status



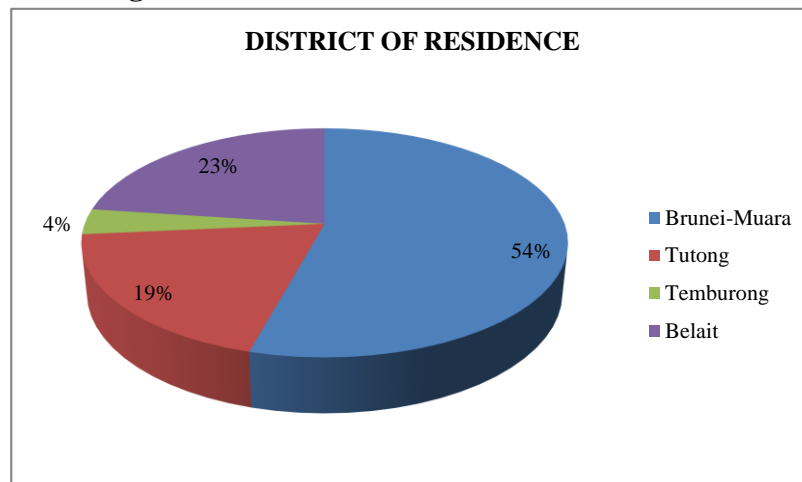
Source: *Researcher's analysis using SPSS & MS Excel.*

The Table 4.6 and 4.6 show the distribution of marital status of low income households participated in the survey. The data was summarized in two groups: single and married. About 44.3% of the participants under study were single whereas 55.7% of the participants were married. This data indicates that married persons are more likely to become the target customers of *Micro-Takāful* scheme than non-married ones. The reason may be due to responsibilities the married persons have over their families. The data only indicates the marital status of the participants and did not show the number of dependent children of married persons.

**Table 4.7:**  
Frequency Distribution of District of Residence

Categories	Frequency	Percent
Brunei-Muara	76	54.3
Tutong	27	19.3
Temburong	5	3.6
Belait	32	22.9
<b>Total</b>	<b>140</b>	<b>100</b>

**Figure 4.7:** Distribution of District of Residence



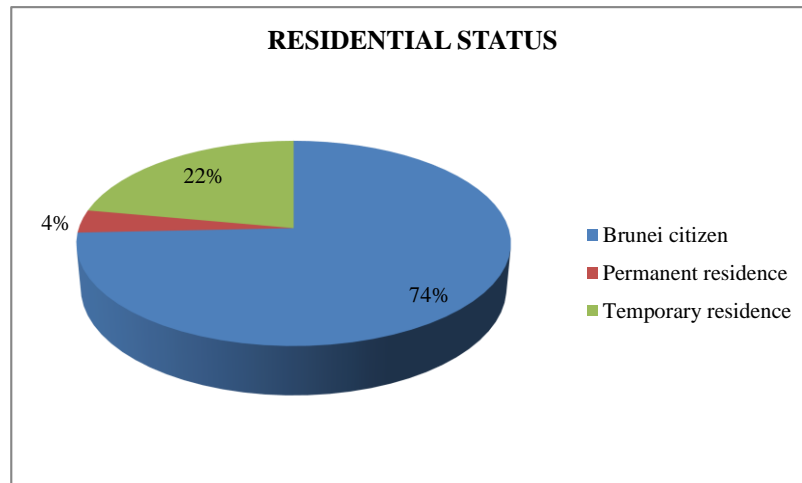
Source: *Researcher's analysis using SPSS & MS Excel.*

The Table 4.7 and Figure 4.7 show the distribution of district of residence of low income households participated in the survey. The data was collected from the four districts of Brunei Darussalam. About 54.3% of the participants were from Brunei-Muara district that was the maximum whereas only 3.6% of the participants were from Temburong district that was the minimum. About 22.9% of the participants were from Belait district while 19.3% of the participants were from Tutong district. Cumulative data indicates that about 77.1% of the participants were from Temburong, Tutong and Brunei-Muara Districts.

**Table 4.8:**  
Frequency Distribution of Residential Status

Categories	Frequency	Percent
Brunei citizen	104	74.3
Permanent residence	5	3.6
Temporary residence	31	22.1
<b>Total</b>	<b>140</b>	<b>100</b>

**Figure 4.8:** Distribution of Residential Status



Source: *Researcher's analysis using SPSS & MS Excel.*

The Table 4.8 and Figure 4.8 show the distribution of residential status of low income households participated in the survey. The data was summarized in three groups. About 74.3% of the participants under study were Bruneian citizens; that was the maximum whereas 3.6% of the participants were permanent residences; that was the minimum. 22.1% of the participants were temporary residences. Cumulative data indicates that about 77.9% of the participants were Bruneian citizens and permanent residences.

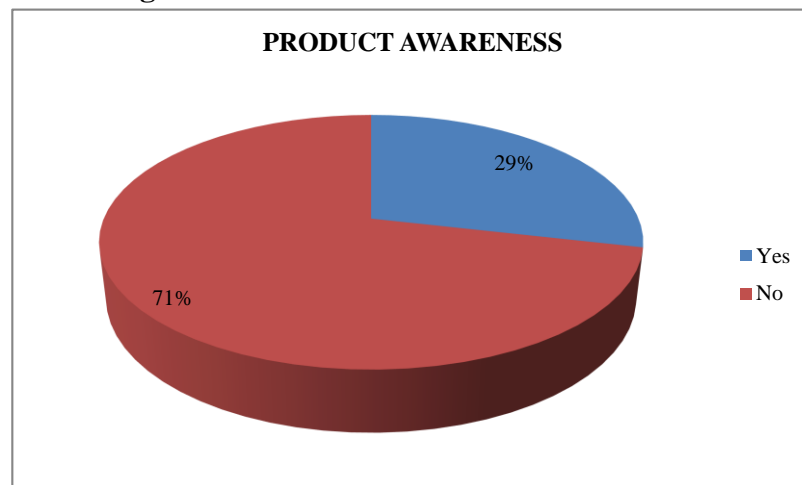
#### **4.1.1.2 Micro-Takāful Product Preferences**

The following results show Micro-Takāful Product Preferences statistics of low income households indicating the frequency distribution of each item under study together with its graphic shape in the form of bar graphs or pie charts.

**Table 4.9:**  
Frequency Distribution of Product Awareness

Categories	Frequency	Percent
Yes	40	28.6
No	100	71.4
<b>Total</b>	<b>140</b>	<b>100</b>

**Figure 4.9:** Distribution of Product Awareness



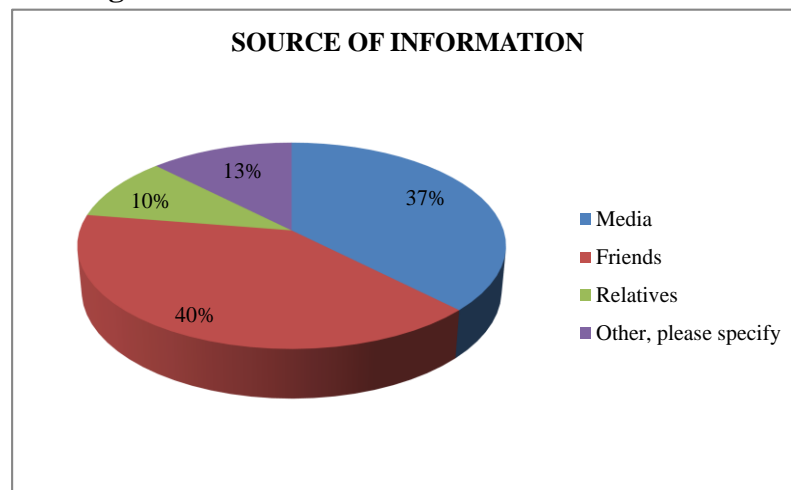
Source: *Researcher's analysis using SPSS & MS Excel.*

The Table 4.9 and Figure 4.9 show the awareness of *Micro-Takāful* products among low income households participated in the survey. The low income households were asked if they were aware of any *Micro-Takāful* product. The data was summarized in two responses: Yes and No. Approximately 71.4% of the participants under study were found to be unaware about *Micro-Takāful* product while 28.6% were found to be familiar with *Micro-Takāful* product. It indicates that majority of the respondents is unaware about *Micro-Takāful* product(s) in Negara Brunei Darussalam.

**Table 4.10:**  
Frequency Distribution of Source of Information

Categories	Frequency	Percent
Media	15	37.5
Friends	16	40
Relatives	4	10
Other, please specify	5	12.5
<b>Total</b>	<b>40</b>	<b>100</b>

**Figure 4.10:** Distribution of Source of Information



Source: *Researcher's analysis using SPSS & MS Excel.*

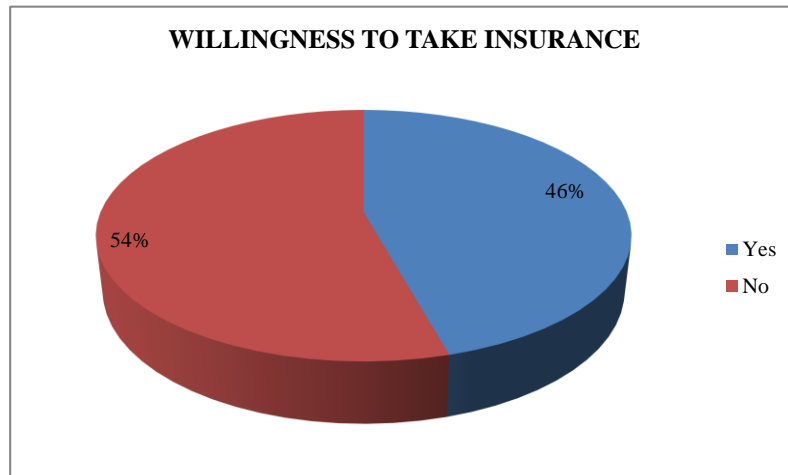
The Table 4.10 and Figure 4.10 show the source of information which low income households came to know about Micro-*Takāful* product. For this purpose, low income households were asked how they came to know about Micro-*Takāful* product. The data collected through survey revealed that 40% of the low income households were introduced to Micro-*Takāful* product through their friends that were found to have greatest influence on the target low-income households. 37.5% of the low income households told that they came to know about Micro-*Takāful* product through media such as newspapers, TV and Radio. 10% of the low income households told that they came to know about Micro-*Takāful* product through relatives while 12.5% of the low income told that they came to know Micro-*Takāful* product through other sources of information such as websites, books from libraries, etc. It was found that relatives, friends and media

account for 87.5% of the low income households' awareness about *Micro-Takāful* products.

**Table 4.11:**  
Frequency Distribution of Willingness to Take Insurance

Categories	Frequency	Percent
Yes	64	45.7
No	76	54.3
<b>Total</b>	<b>140</b>	<b>100</b>

**Figure 4.11:** Distribution of Willingness to Take Insurance



Source: *Researcher's analysis using SPSS & MS Excel.*

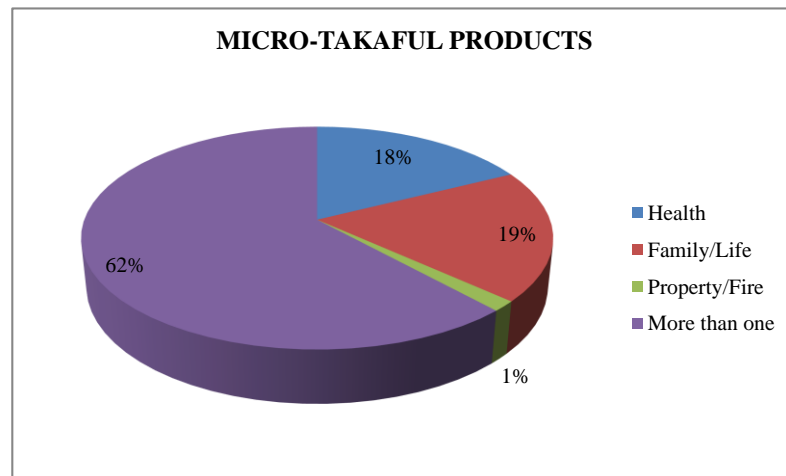
The Table 4.11 and Figure 4.11 show the views of low income households about willingness to take insurance if a *Micro-Takāful* scheme was introduced in the country. The data was summarized in two responses: Yes and No. Approximately 54.3% of the participants under study were found to be unwilling to take insurance while 45.7% of the participants were found to be ready to take insurance if a *Micro-Takāful* scheme is introduced in the country. This slight difference between those participants who want *Micro-Takāful* scheme and those who don't want may be due to lack or low awareness about the scheme among people in Brunei Darussalam.



**Table 4.12:**  
Frequency Distribution of Micro-*Takāful* Products

Categories	Frequency	Percent
Health	12	17.6
Family/Life	13	19.1
Property/Fire	1	1.5
More than one	42	61.8
<b>Total</b>	<b>68</b>	<b>100</b>

**Figure 4.12:** Distribution of Micro-*Takāful* Products



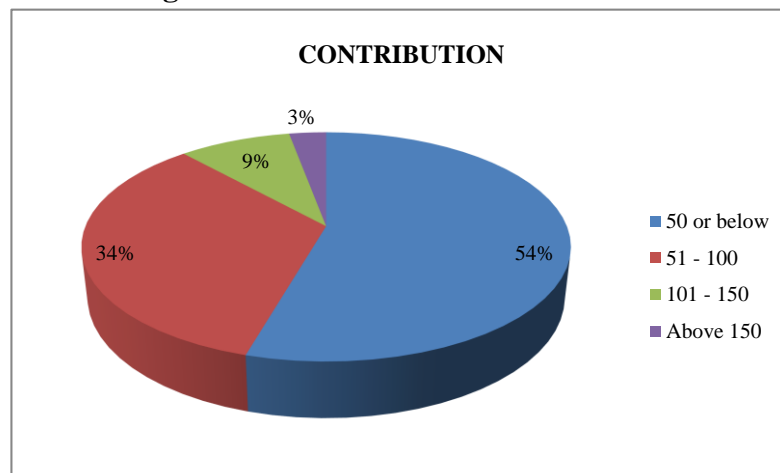
Source: *Researcher's analysis using SPSS & MS Excel.*

The Table 4.12 and Figure 4.12 show the views of low income households about the Micro-*Takāful* product(s) they are willing to take. The data was summarized in four categories. About 61.8% of the participants under study were ready to buy more than one insurance product that was the maximum whereas 1.5% of the participants were ready to take insurance for property/fire that was the minimum. About 19.1% of the participants were ready to insure for family Micro-*Takāful* product while 17.6% of the participants were ready to take insurance for health product. The result indicates that low income households have less interest in insuring their properties. The reason may be due to lack of proper understanding about how property is insured and against which negative shocks.

**Table 4.13:**  
Frequency Distribution of Contribution

Categories	Frequency	Percent
BND50 or below	37	54.4
BND51 – 100	23	33.8
BND101 – 150	6	8.8
Above BND150	2	2.9
<b>Total</b>	<b>68</b>	<b>100</b>

**Figure 4.13: Distribution of Contribution**



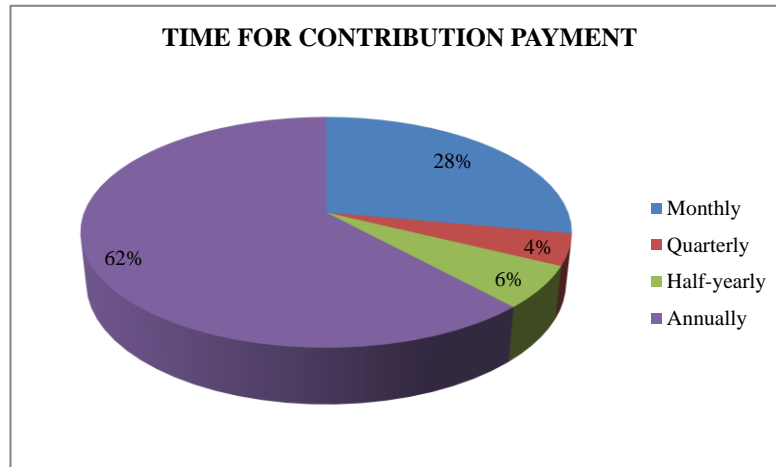
Source: *Researcher's analysis using SPSS & MS Excel.*

The Table 4.13 and Figure 4.13 show the views of low income households about the contribution they are willing to pay for their Micro-*Takāful* product (s). The data was summarized in four groups. About 54.4% of the participants under study were ready to contribute BND50 or below that was the maximum whereas about 2.9% of the participants were of view to contribute above BND150 that is the minimum. 33.8% of the participants were ready to pay between BND51-100 while 8.8% of the participants were ready to pay between BND101-150. Cumulative data indicates that about 97.1% of the participants were ready to pay BND150 and below. The result indicates the contribution for one product only.

**Table 4.14:**  
Frequency Distribution of Time for Contribution Payment

Categories	Frequency	Percent
Monthly	19	27.9
Quarterly	3	4.4
Half-yearly	4	5.9
Annually	42	61.8
<b>Total</b>	<b>68</b>	<b>100</b>

**Figure 4.14:** Distribution of Time for Contribution Payment



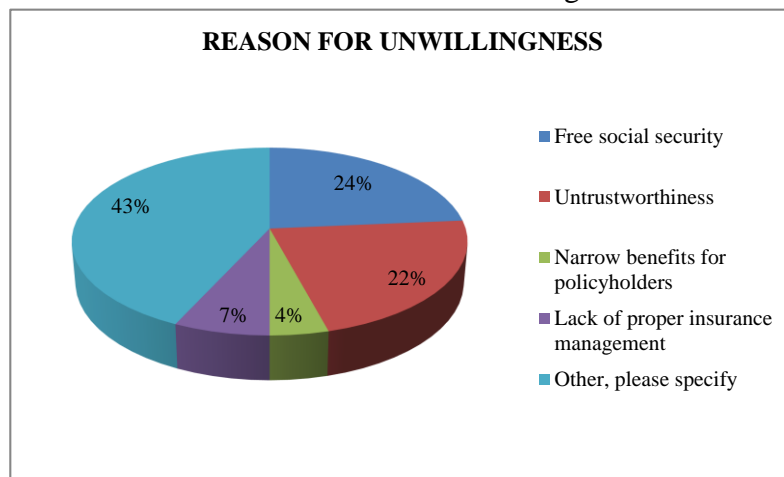
Source: *Researcher's analysis using SPSS & MS Excel.*

The Table 4.14 and Figure 4.14 show the views of low income households about the time they are willing to pay for their Micro-*Takāful* product(s). The data was summarized in four groups. About 61.8% of the participants under study were ready to pay their contributions annually; that was the maximum whereas 4.4% of the participants were ready to pay their contributions quarterly that was the minimum. 27.9% of the participants were ready to pay their contributions monthly while 5.9% of the participants were ready to pay their contributions half-yearly. Cumulative data indicates that about 38.2% of the participants were of the view to pay their contributions after every six months and less than.

**Table 4.15:**  
Frequency Distribution of Reason for Unwillingness to Take Insurance

Categories	Frequency	Percent
Free social security	17	23.6
Untrustworthiness	16	22.2
Narrow benefits for policyholders	3	4.2
Lack of proper insurance management	5	6.9
Other, please specify	31	43.1
<b>Total</b>	<b>72</b>	<b>100</b>

**Figure 4.15:** Distribution of Reason for Unwillingness to Take Insurance



Source: *Researcher's analysis using SPSS & MS Excel.*

The Table 4.15 and Figure 4.15 show the distribution of reason for the low income households' unwillingness to take insurance. The data was summarized in five samples. About 43.1% of the participants under study specified other reasons such as when somebody is insured he/she can live without any shock, hence his/her contributions will go for good. Others said they need more information about *Micro-Takāful*. Whereas 4.2% of the participants told that policyholders enjoy a narrow range of benefits under the same policy that was the minimum. About 23.6% of the participants told that the Government of His Majesty offers free social security that was the second large sample. 22.2% of the participants told that they do not trust insurers while 6.9% of the participants told that products do not meet customers' expectations in relation to the costs, contribution payments and claims management. It was found that free social security,

untrustworthiness, narrow benefits for policyholders and lack of proper insurance management account for 59.9% of low income households' unwillingness to take insurance.

#### **4.1.2 Findings from the Interviews**

This section presents and interprets the analysis of the in-depth interviews that have been conducted with *Takāful* operators, *Sharī'ah* scholars and Government officers. The study successfully interviewed two *Takāful* marketing managers, two Government officers and five *Sharī'ah* scholars who were selected from Sultan Sharif Ali Islamic University. The researcher considers that the interview findings from those nine experts are acceptable and significant.

As explained in the research methodology chapter, the responses of the interviewees were first individually recorded, but later grouped according to the particular theme they represent to simplify the analysis as some of the questions explore the same concept. For instance, the responses of the interview questions related to types of Micro-*Takāful* contracts were picked from all the interview groups (i.e. *Takāful* Operators, Government officers and *Sharī'ah* scholars). The researcher is of the opinion that carrying out the analysis in this manner improves the presentation and enables the reader to digest the information faster as it is more concise and informative.

It is worth mentioning that the findings presented in this section are classified into five groups: Micro-*Takāful* products, fund mobilization, Micro-*Takāful* provider(s), types of Micro-*Takāful* contracts and *Sharī'ah* compliance mechanisms, the role played by the Government and *Takāful* operators on Micro-*Takāful* scheme, obstacles for introducing Micro-*Takāful* Scheme and suggestions for success. To be more understandable, the findings are presented in the narrative style.

However, before proceeding to analysis, the researcher will present the summaries of the interviewees and their respective institutions, departments or faculties.

**Table 4.16:***Takāful* Operators interviewed and their respective institutions

INSTITUTION	JOB TITLE OF THE INTERVIEWEE
TAIB INSURANS	Marketing Manager ( <i>Takāful 1</i> )
Syarikat Takaful Brunei Darussalam Sdn Bhd	Marketing Manager ( <i>Takāful 2</i> )

Source: *Designed by the Researcher.***Table 4.17:**

Government Officers interviewed and their respective Departments

DEPARTMENT	JOB TITLE OF THE INTERVIEWEE
(Department of Community Development [DCD], Ministry of Culture, Youth and Sports	Director ( <i>Government Officer 1</i> )
Majlis Ugama Islam Brunei (MUIB)	<i>Zakāh</i> Management Director ( <i>Government Officer 2</i> )

Source: *Designed by the Researcher.***Table 4.18:***Sharī'ah* scholars interviewed and their respective Faculties

FACULTY	JOB TITLE OF THE INTERVIEWEE
Sharī'ah & Law	Lecturer ( <i>Scholar 1</i> )
Sharī'ah & Law	Senior Lecturer ( <i>Scholar 2</i> )
Sharī'ah & Law	Senior Lecturer ( <i>Scholar 3</i> )
Sharī'ah & Law	Senior Lecturer ( <i>Scholar 4</i> )
Business & Management Sciences	Lecturer ( <i>Scholar 5</i> )

Source: *Designed by the Researcher.***4.1.2.1 Findings on Micro-Takāful Products**

This section attempts to examine the possibility of introducing Micro-*Takāful* scheme. The study identified six questions to explore the type of Micro-*Takāful* products which are suitable for low income households in Brunei Darussalam. Table 4.19 illustrates the general findings of the possibility of introducing Micro-*Takāful* scheme suitable for low income households in Brunei Darussalam.

Focused Coding:

- (i) Coding 1: Proposing the idea of establishing Micro-*Takāful* scheme;
- (ii) Coding 2: Reason;
- (iii) Coding 3: Possibility of providing a Micro-*Takāful* scheme in Brunei;
- (iv) Coding 4: Micro-*Takāful* products can be offered in Brunei Darussalam;
- (v) Coding 5: Micro-*Takāful* product/s offered; and
- (vi) Coding 6: Future planned to provide Micro-*Takāful* product/s in Brunei.

**Table 4.19:**

The Respondents' Answers Regarding Micro-*Takāful* Products

<p><b>Questions</b> (There are 6 questions in this category)</p>		<ul style="list-style-type: none"> <li>• Do you agree with the idea of establishing Micro-<i>Takāful</i> scheme for low income people in Brunei Darussalam?</li> <li>• Could you please explain to me the reasons from the Islamic perspective?</li> <li>• Is there any possibility of providing a Micro-<i>Takāful</i> scheme in Brunei?</li> <li>• In your opinion, which Micro-<i>Takāful</i> products can be offered in Brunei Darussalam?</li> <li>• Types of Micro-<i>Takāful</i> product/s offered by your company.</li> <li>• Types of Micro-<i>Takāful</i> products are you planning to provide to the low income households in Brunei.</li> </ul>
<b>Focused Coding</b>	<b>Interviewee</b>	<b>Response</b>
1) Proposing the idea of establishing Micro- <i>Takāful</i> scheme	<i>Takāful 1</i>	<input type="radio"/> Yes.
	<i>Takāful 2</i>	<input type="radio"/> Yes.
	<i>Government Officer 1</i>	<input type="radio"/> Agree with the idea of establishing Micro- <i>Takāful</i> scheme for low income people in Brunei Darussalam. 60% agreed depends on the demand of the low income people and also the institutions that will establish the scheme.
	<i>Government Officer 2</i>	<input type="radio"/> Yes.
	<i>Scholar 1</i>	<input type="radio"/> Yes I agree with the idea of establishing Micro- <i>Takāful</i> scheme for low income people in Brunei Darussalam.
	<i>Scholar 2</i>	<input type="radio"/> I agree.
	<i>Scholar 3</i>	<input type="radio"/> Yes.

	<i>Scholar 4</i>	○ Agree.
	<i>Scholar 5</i>	○ I disagree.
2) Reason	<i>Scholar 1</i>	○ Because it is a mutual co-operation and help which Islam has commanded through the Quran (5:2) and the Traditions of the Prophet (SAW). ○ It was practiced during the time of the Prophet (SAW) and his companions after him.
	<i>Scholar 2</i>	○ It is a mutual cooperation which Islam encourages through the Holy Qur'an (5:2) and the <i>Sunnah</i> of the Prophet (SAW). ○ It is a way of poverty alleviation and helps improve life standard of the poor people.
	<i>Scholar 3</i>	○ It is a form co-operation and <i>Taawun</i> which many verses from the Qur'an and Hadith of the Prophets have come to insist on that.
	<i>Scholar 4</i>	○ It is allowed in Islam because it does not aim at generating profits.
	<i>Scholar 5</i>	○ The reason is because Brunei is a rich country.
3) Possibility of providing a Micro- <i>Takāful</i> scheme in Brunei	<i>Takāful 1</i>	○ Yes.
	<i>Takāful 2</i>	○ Yes.
4) Micro- <i>Takāful</i> products can be offered in Brunei Darussalam	<i>Takāful 1</i>	○ Family/Life & Property.
	<i>Takāful 2</i>	○ Family & Property.
	<i>Government Officer 1</i>	○ Family & Property.
	<i>Government Officer 2</i>	○ Family.
5) Micro- <i>Takāful</i> product/s offered currently.	<i>Takāful 1</i>	○ Yes. Students group packages.
	<i>Takāful 2</i>	○ Yes, students group packages.
6) Future planned to provide Micro- <i>Takāful</i> product/s in Brunei	<i>Takāful 1</i>	○ Family & Property.
	<i>Takāful 2</i>	○ Family & Property.

Source: *Designed by the Researcher.*

In the analysis of the respondents' answers regarding Micro-*Takāful* products, the research findings in the Table 4.19 reveal that majority of the respondents agree on the



idea of establishing a Micro-*Takāful* scheme in Brunei Darussalam. The study reveals that 88.9% of the total interviewees support the idea which indicates that there is a high potential for Micro-*Takāful* schemes or products in Brunei Darussalam.

The rationale for their support is that the main objective of a Micro-*Takāful* scheme is to create a mutual co-operation and *Taawun* among the Muslim communities, which in Islam *Taawun* is considered as an act of worship. Allah (SWT) and His Prophet (SAW) encourage Muslims in the Holy and Hadiths to help one another in case of hardship and difficulties. In addition to that, Micro-*Takāful* scheme does not aim at generating profit which goes against the principle of *Taawun*.

With regards to the possibility of providing a Micro-*Takāful* scheme in Brunei Darussalam, the results reveal that there is a possibility of designing Micro-*Takāful* products such as Family and Property for low-income in general and young entrepreneurs. *Takāful* operators are planning to come up with the best Micro-*Takāful* scheme for young entrepreneurs. The results also reveal that currently there are Micro-*Takāful* packages for university students which they are ensured in small groups.

#### **4.1.2.2 Findings on Micro-*Takāful* Providers**

This section attempts to examine the possibility of introducing Micro-*Takāful* scheme in Brunei Darussalam. The study identified one question to find out institution that can provide Micro-*Takāful* product(s) to low-income households. Table 4.20 illustrates the general findings of the provider (institution) that will provide Micro-*Takāful* products in Brunei Darussalam.

Focused Coding: Micro-*Takāful* product(s) provider in Brunei Darussalam

**Table 4.20:**  
The Respondents' Answers Regarding Micro-*Takāful* Provider

<b>Question</b> (There is 1 question in this category)		
<b>Focused Coding</b>	<b>Interviewee</b>	<b>Response</b>
Micro- <i>Takāful</i> product(s) provider in Brunei Darussalam	<i>Takāful 1</i>	○ Which provider (institution) that will provide Micro- <i>Takāful</i> products in Brunei Darussalam?
	<i>Takāful 2</i>	○ Micro- <i>Takāful</i> products/ scheme can be offered and delivered by Islamic banks, Government, MFIs, and NGOs.
	<i>Government Officer 1</i>	○ Micro- <i>Takāful</i> products/ scheme can be offered and delivered by Islamic banks, American Insurance Association (AIA) for life insurance, and NGOs for non-life insurance.
	<i>Government Officer 2</i>	○ Companies, Islamic banks as well as by the Government.
		○ Islamic banks.

Source: *Designed by the Researcher.*

With regards to the provision and delivery of Micro-*Takāful* product/s, the research findings in the Table 4.20 reveal that apart from *Takāful* operators, there are many other institutions and organizations which can provide Micro-*Takāful* product/s in Brunei Darussalam. These include Islamic banks, Government, MFIs, and NGOs. Additionally, American Insurance Association (AIA) in Brunei can also deliver life insurance, while NGOs can offer non-life insurance. This indicates that once a Micro-*Takāful* scheme is introduced in Brunei Darussalam it can be easier to deliver the product/s to low income clients.

#### **4.1.2.3 Findings on Fund Mobilization for Micro-*Takāful* Scheme**

This section attempts to examine the instruments used for mobilization of Micro-*Takāful* funds. The study identified one question to explore sources of funds that can be used to subsidize Micro-*Takāful* scheme. Table 4.21 illustrates the general findings of the instruments used for mobilization of Micro-*Takāful* funds.

Focused Coding: Mobilization of Micro-*Takāful* funds

**Table 4.21:**

The Respondents' Answers Regarding Findings on Funds Mobilization

<b>Question</b> (There is 1 question in this category)		
<b>Focused Coding</b>	<b>Interviewee</b>	<b>Response</b>
		○ Which instruments used for mobilization of Micro- <i>Takāful</i> funds (sources of Micro- <i>Takāful</i> funds)?
Mobilization of Micro- <i>Takāful</i> funds	<i>Takāful 1</i>	○ Through general <i>Takāful</i> funds' investments. ○ Through Government subsidies.
	<i>Takāful 2</i>	○ Through donation from well-wishers. ○ Through <i>Zakat</i> and <i>Sadaqah</i> .
	<i>Government Officer 1</i>	○ Social security such as <i>Zakāt</i> and <i>Sadaqah</i> .
	<i>Government Officer 2</i>	○ Donations from well-wishers.

Source: *Designed by the Researcher.*

In the analysis of the respondents' answers regarding findings on fund mobilization, the study findings in the Table 4.21 reveal that there are different instruments of mobilization of funds for a Micro-*Takāful* scheme. These instruments include: surplus generated from *Takāful* fund investments, *Zakāt* and *Sadaqah*. In addition to that, the Government can also provide subsidies for the scheme as well as donations provided by well-wishers to support for a Micro-*Takāful* scheme in Brunei Darussalam.

#### 4.1.2.4 Types of Micro-*Takāful* Contracts and *Sharī'ah* Compliance Mechanisms

This section attempts to examine the types of contracts, *Sharī'ah* compliance mechanisms and the responsibilities of *Sharī'ah* Board for Micro-*Takāful* scheme in Brunei Darussalam. The study identified three questions to explore types of Micro-*Takāful* contracts, *Sharī'ah* compliance mechanisms and *Sharī'ah* Board's responsibilities. Table 4.22 illustrates the general findings of the types of Micro-*Takāful* contracts and *Sharī'ah* compliance mechanisms suitable for Micro-*Takāful* scheme in Brunei Darussalam and *Sharī'ah* Board's responsibilities.

Focused Coding:

- (i) Coding 1: Contracts used in Micro-*Takāful* scheme
- (ii) Coding 2: Mechanism of *Sharī'ah* compliance

(iii) Coding 3: Responsibilities of *Sharī'ah* Board for Micro-*Takāful* scheme

**Table 4.22:**

The Respondents' Answers Regarding Types of Micro-*Takāful* Contracts and *Sharī'ah* Compliance Mechanisms

<b>Questions</b> (There are 3 questions in this category)		
<b>Focused Coding</b>	<b>Interviewee</b>	<b>Response</b>
1) Contracts used in Micro- <i>Takāful</i> scheme	<i>Takāful 1</i>	○ <i>Mudhārabah</i> .
	<i>Takāful 2</i>	○ <i>Wakālah</i> .
	<i>Government Officer 1</i>	○ <i>Tabarru'</i> (or <i>Hibah</i> ).
	<i>Government Officer 2</i>	○ <i>Tabarru'</i> (or <i>Hibah</i> ).
	<i>Scholar 1</i>	○ <i>Waqf</i> , <i>Tabarru'</i> , <i>Wakālah</i> and <i>Mudhārabah</i> .
	<i>Scholar 2</i>	○ <i>Tabarru'</i> or <i>Taawun</i> .
	<i>Scholar 3</i>	○ <i>Tabarru'</i> (or <i>Hibah</i> ).
	<i>Scholar 4</i>	○ <i>Tabarru'</i> / <i>Hibah</i> .
	<i>Scholar 5</i>	○ <i>Tabarru'</i> , <i>Wakālah</i> and <i>Mudhārabah</i> .
2) Mechanism of <i>Sharī'ah</i> compliance	<i>Takāful 1</i>	○ <i>Sharī'ah</i> compliance mechanisms of <i>Takāful</i> can be applied in Micro- <i>Takāful</i> scheme.
	<i>Takāful 2</i>	○ I think the <i>Sharī'ah</i> compliance mechanism for <i>Takāful</i> and Islamic Banks can be applied in Micro- <i>Takāful</i> scheme.
	<i>Scholar 1</i>	○ The insurer should set time limit in contracts to avoid uncertainty. ○ There should no fixed amount of premium to be paid by the participants. ○ In case of any surplus, it should be distributed equally among the participants except when it is haphazardly it is permitted to differ in shares.
	<i>Scholar 3</i>	○ To select those with experience in the field. ○ To include different professions in the board such as scholars, economists, administrators, accountants, etc.

	<i>Scholar 4</i>	<ul style="list-style-type: none"> <li>○ To select those experts and professions from different sectors such Muslim scholars, economists, administrators, accountants, etc.</li> </ul>
	<i>Scholar 5</i>	<ul style="list-style-type: none"> <li>○ Choosing from friends.</li> <li>○ Consider qualifications.</li> <li>○ Experience.</li> <li>○ Specialization.</li> <li>○ Those who know social responsibilities.</li> </ul>
3) Responsibilities of <i>Sharī'ah</i> Board for Micro- <i>Takāful</i> scheme	<i>Takāful 1</i>	<ul style="list-style-type: none"> <li>○ Roles of Shariah Board in Micro-<i>Takāful</i> are the same as in <i>Takāful</i>.</li> </ul>
	<i>Takāful 2</i>	<ul style="list-style-type: none"> <li>○ To supervise, monitor and review and services and products offered by the Micro-<i>Takāful</i> product provider.</li> </ul>
	<i>Scholar 2</i>	<ul style="list-style-type: none"> <li>○ To review the Micro-<i>Takāful</i>/Re-<i>takāful</i> operations, supervise its development of Islamic insurance products, and determine the <i>Sharī'ah</i> compliance of these products and the investments.</li> <li>○ To carry their own independent audit and certify.</li> <li>○ To give approval those Micro-<i>Takāful</i> products and services offered comply with the <i>Sharī'ah</i>.</li> <li>○ To issue independently a certificate of <i>Sharī'ah</i> compliance.</li> </ul>
	<i>Scholar 3</i>	<ul style="list-style-type: none"> <li>○ To ensure that an institution has attained a higher level in integrity.</li> <li>○ To operate or offer services in institutions.</li> <li>○ To supervise.</li> <li>○ To give out reports monthly half-yearly or annually.</li> </ul>
	<i>Scholar 4</i>	<ul style="list-style-type: none"> <li>○ Collection of funds from donations, contributions, etc.</li> <li>○ To manage the funds and invest it halal businesses.</li> <li>○ To study the participants' funds to know the first priority to help them.</li> <li>○ To study the participants' funds and suggest the best ways of helping them in terms of compensations.</li> </ul>
	<i>Scholar 5</i>	<ul style="list-style-type: none"> <li>○ Roles of Shariah Board in Micro-<i>Takāful</i> are the same roles in Islamic Banking and <i>Takāful</i>.</li> </ul>

Source: *Designed by the Researcher.*

In the analysis of the respondents' answers regarding types of micro-*Takāful* contracts, the studies in the Table 4.22 reveal that, the majority of respondents are in the opinion of suggesting *Tabarru'* as the main type of contracts that can be used in Micro-*Takāful*

scheme in Brunei Darussalam. Others are suggesting *Wakālah* and *Mudhārabah* or either. Only one respondent suggests Waqf as the best contract for the scheme. It is found that *Takāful* 1 and 2 suggest *Mudhārabah* and *Wakālah* respectively.

In regards to *Sharī'ah* compliance mechanisms for Micro-*Takāful* scheme in Brunei Darussalam, the studies reveal that two respondents suggest that the *Sharī'ah* compliance mechanism for *Takāful* and Islamic Banks can be applied in Micro-*Takāful* scheme. On the other hand, *Sharī'ah* Scholars consider the scheme as new idea in the world of economy in general and in Brunei Darussalam specially; hence they put more emphasis on technical and governance. In technical they suggest the setting of time limit in contracts to avoid uncertainty, there should be no fixed amount of premium to be paid the participants and in case of any surplus, it should be distributed equally among the participants except when it is haphazardly it is permitted to differ in shares. In appointment of *Sharī'ah* Board they suggest those with experience in the field and to include different professions in the board such as scholars, economists, administrators, as well as accountants.

In analysis of responsibilities of *Sharī'ah* Board for Micro-*Takāful* scheme, Scholars classified their functions as being advisory and supervisory and these include giving advice, conduct training, approving and reviewing products and endorsement of *Sharī'ah* compliance. Only two *Sharī'ah* scholars mentioned that *Sharī'ah* board have a duty beyond giving ordinary advice on *Sharī'ah* matters, where they stated that it is important for them to promote and instill Islamic ethics and values. In addition to that, they have also a responsibility to carry out administrative duties such as collection of funds from donations, contributions, managing the funds and invest it halal businesses, and studying the participants' funds to know the first priority to help them in terms of compensations.

#### **4.1.2.5 Role of the Government and *Takāful* Operators in Micro-*Takāful* Schemes**

This section attempts to examine the role played by the Government and *Takāful* operators on Micro-*Takāful* schemes in Brunei Darussalam. The study identified one question to explore the role played by these institutions. Table 4.23 illustrates the general

findings of the role played by the Government and *Takāful* operators on Micro-*Takāful* scheme.

Focused Coding: Role played by the Government and *Takāful* operators in Micro-*Takāful* scheme

**Table 4.23:**  
The Respondents' Answers Regarding Role played by the Government and *Takāful* Operators in Micro-*Takāful* Scheme

<b>Question</b> (There is 1 question in this category)		○ Which role the Government and <i>Takāful</i> Operators can play to support the Micro- <i>Takāful</i> scheme in Brunei Darussalam?
<b>Focused Coding</b>	<b>Interviewee</b>	<b>Response</b>
Role played by the Government and <i>Takāful</i> operators in Micro- <i>Takāful</i> scheme	<i>Takāful 1</i>	<ul style="list-style-type: none"> <li>○ Through providing funds to cover other risks.</li> <li>○ To introduce law regarding Micro-<i>Takāful</i> schemes and operations.</li> <li>○ Facilitating the exchange of information between actors.</li> <li>○ Marketing the scheme.</li> <li>○ <i>Takāful</i> operator manages the funds, invests, compensates, etc.</li> </ul>
	<i>Takāful 2</i>	<ul style="list-style-type: none"> <li>○ Government can play a major role by introducing law to obligate taking insurance in Brunei. Also the government can provide subsidies and technical support to the scheme, and signing of ceremonies.</li> <li>○ <i>Takāful</i> operator, on the other hand, can play the role by managing the scheme effectively, marketing it as well facilitating the compensations.</li> </ul>
	<i>Government Officer 1</i>	<ul style="list-style-type: none"> <li>○ Giving subsidies for this scheme.</li> <li>○ To make it compulsory for low income and poor people to take up this scheme.</li> </ul>
	<i>Government Officer 2</i>	<ul style="list-style-type: none"> <li>○ By providing financial aid to the scheme.</li> </ul>

Source: Designed by the Researcher.

In analysis of role played by the Government and *Takāful* operators on Micro-*Takāful* scheme in Brunei Darussalam, the study results in the Table 4.23 reveal that Government can act effectively to ensure that the scheme is successful. Based on the above finding, the government can introduce law to make it compulsory for low income and poor people

to take up this scheme. Additionally, the government can also play role in technical and financial support, marketing as well as facilitating the exchange of information between actors.

*Takāful* operators on the other hand, can ensure that the scheme is successful through managing the scheme effectively, marketing its products as well facilitating the compensations. In my opinion, these are not the limit roles that *Takāful* operators can play it is beyond those mentioned.

#### 4.1.2.6 Obstacles for Introducing Micro-*Takāful* Scheme in Brunei Darussalam

This section attempts to examine obstacles for introducing Micro-*Takāful* Scheme. The study identified one question to explore the difficulties of introducing Micro-*Takāful* Scheme in Brunei Darussalam. Table 4.24 illustrates the general findings of the obstacles for introducing Micro-*Takāful* Scheme in Brunei Darussalam.

Focused Coding: Obstacles for introducing Micro-*Takāful* Scheme in Brunei Darussalam

**Table 4.24:**

The Respondents' Answers Regarding Obstacles for introducing Micro-*Takāful* Scheme in Brunei Darussalam

<b>Question</b> (There is 1 question in this category)		• What are obstacles for implementing Micro- <i>Takāful</i> scheme in Brunei?
<b>Focused Coding</b>	<b>Interviewee</b>	<b>Response</b>
Obstacles for introducing Micro- <i>Takāful</i> Scheme in Brunei Darussalam	<i>Takāful 1</i>	<ul style="list-style-type: none"> <li>○ Taking insurance policy in other ways is option. Therefore, some people might not be interested to buy a Micro-<i>Takāful</i> product (unwillingness).</li> <li>○ Difficulty in pricing a product.</li> <li>○ Lack of awareness.</li> </ul>
	<i>Takāful 2</i>	<ul style="list-style-type: none"> <li>○ Lack of awareness.</li> <li>○ Taking insurance policy in other ways is option. Therefore, some people might be unwilling to take it.</li> </ul>
	<i>Government Officer 1</i>	<ul style="list-style-type: none"> <li>○ Existing of number of benefits given by the government to support the low income.</li> <li>○ People might be confused with the existing <i>Takāful</i> products.</li> </ul>

Source: Designed by the Researcher.



In analysis of the respondents' answers regarding obstacles for introducing Micro-*Takāful* scheme in Brunei Darussalam, the study in the Table 4.24 reveals that, there is lack of awareness regarding Micro-*Takāful* scheme or might be confused with the existing *Takāful* in Brunei. This indicates that it might take more time to create awareness among public; hence more funds are needed to educate the public about the scheme. The results also reveal that with existing of number of benefits given by the Government to support the low income, some people might not be interested in buying a Micro-*Takāful* product.

#### 4.1.2.7 Suggestions to Make Micro-*Takāful* Scheme successful in Brunei Darussalam

This section attempts to examine suggestions to make Micro-*Takāful* Scheme successful in Brunei Darussalam. The study identified one question to explore the ways and ideas of making Micro-*Takāful* Scheme successful in Brunei Darussalam. Table 4.25 illustrates the general findings of the suggestions to make Micro-*Takāful* Scheme successful in Brunei Darussalam.

Focused Coding: Suggestions to make Micro-*Takāful* scheme successful

**Table 4.25**

The Respondents' Answers Regarding Suggestions to make Micro-*Takāful* Scheme successful in Brunei Darussalam

<b>Questions</b> (There is 1 questions in this category)		• What are your suggestions to make Micro- <i>Takāful</i> scheme successful in Brunei Darussalam?
<b>Focused Coding</b>	<b>Interviewee</b>	<b>Response</b>
Suggestions to make Micro- <i>Takāful</i> scheme successful	<i>Takāful 1</i>	<ul style="list-style-type: none"> <li>○ Government should support it.</li> <li>○ Awareness campaign.</li> </ul>
	<i>Takāful 2</i>	<ul style="list-style-type: none"> <li>○ Through sponsorship.</li> <li>○ Through education to low income households.</li> <li>○ Through participations.</li> </ul>
	<i>Government Officer 1</i>	<ul style="list-style-type: none"> <li>○ Education to create awareness.</li> <li>○ To carry out thorough tests before introducing full scheme.</li> <li>○ Do to do campaign.</li> </ul>
	<i>Scholar 1</i>	<ul style="list-style-type: none"> <li>○ Government support.</li> <li>○ Awareness campaign.</li> <li>○ The scheme should concentrate mainly on the</li> </ul>

		basic needs.
	<i>Scholar 2</i>	<ul style="list-style-type: none"> <li>○ Through socialization.</li> <li>○ Marketing.</li> <li>○ Through propagation by Imams during Friday <i>khutbahs</i>.</li> <li>○ To introduce in teaching curriculum.</li> </ul>
	<i>Scholar 3</i>	<ul style="list-style-type: none"> <li>○ To encourage people to participate through <i>khutbah</i>, advertisement, promotions, conducting draws.</li> <li>○ Government should offer certificate for the best performance.</li> <li>○ Awareness.</li> <li>○ Education.</li> </ul>
	<i>Scholar 4</i>	<ul style="list-style-type: none"> <li>○ To get a business license to Micro-<i>Takāful</i> scheme.</li> <li>○ To carry out more studies about the low income people and to suggest ways of securing them.</li> <li>○ To study the conditions for helping the low income people.</li> <li>○ To march between the funds collected and the needs arise and how to cater all these needs.</li> </ul>
	<i>Scholar 5</i>	<ul style="list-style-type: none"> <li>○ Education.</li> <li>○ To create awareness through advertisements, media, keeping posters.</li> <li>○ To attract and involve people during launching.</li> <li>○ Attract them through transparency.</li> </ul>

Source: *Designed by the Researcher.*

In analysis of the respondents' answers regarding suggestions to make Micro-*Takāful* scheme successful in Brunei Darussalam, the study finding in the Table 4.25 reveals that different measures can be taken. These include launching awareness campaign via media to educate the public, marketing, advertisements, media, keeping posters, as well as organizing promotions and competitions to involve the public. On the other hand, imams also can deliver the message through Friday sermons and public lectures. In addition to that, the Government can financially and technically support the scheme in Brunei.

## **4.2 Discussion of Research Findings**

This section represents one of the most important parts of the thesis. It provides a discussion of the overall research findings and attempts to illustrate how they answer the four research questions mentioned in section 1.3 of the first chapter. The findings were extracted from two research methods, namely the survey questionnaires and the in-depth interviews. To make it easier to understand the discussion, the section presents six subsections that answer these research questions. From these analyses in subsections 4.1.1 – 4.1.2, the sections will identify the respondents' preferences and perceptions about *Micro-Takāful* scheme, *Micro-Takāful* products, *Micro-Takāful* fund mobilization, *Micro-Takāful* providers, types of *Micro-Takāful* contracts and *Sharī'ah* compliance mechanisms, and role of the Government and *Takāful* operators in *Micro-Takāful* scheme as the major pillars of developing an operational *Micro-Takāful* framework as a tool for socio-economic empowerment and risk management for low-income households in Brunei Darussalam. In summary, this study has yielded substantial findings and successfully fulfilled all of the research aim and objectives. After this brief summary of the research process, the discussion on the findings is now presented in the following 6 subsections 4.2.1 – 4.2.6.

### **4.2.1 Low-income Households Survey**

For public preference and perception survey, 200 survey questionnaires were self-administered by individual low-income households from the four districts of Brunei namely: Brunei-Muara, Tutong, Temburong and Belait and 140 responses returned.

In the low-income households' survey, it was found that a number of low-income households are unwilling to take insurance if a *Micro-Takāful* scheme was introduced in the country as shown in the Table 4.11. Based on the research findings, the study highlights some of the reasons why low-income households are not willing to take insurance. Firstly, they think that *Micro-Takāful* scheme is meant for middle and higher income people, and contributions charged for the premium is always high. Due to high premium charge it will be difficult for them to pay for their products. Secondly, the concept of *Micro-Takāful* scheme is not fully *Sharī'ah* compliant scheme. It just the same

as conventional insurance which contains the element of interest, gambling and uncertainty which according to *Shari'ah* they are prohibited to be applied in Islamic financial schemes. Thirdly, they have negative attitudes towards insurance. They believe that there is no transparency and accountability among the *Takāful* operators who manage and invest *Takāful* funds of the contributors. Due to that *Takāful* operators may take advantages to benefit themselves widely and leave out narrow benefits for policyholders or contributors. Finally, some of them mentioned that the Government of His Majesty is offering some free insurance products such health for the citizens which provided through government hospitals all over the country. In addition to that, the level of awareness among the low-income households is low. Even though the researcher tried his best to explain to them about Micro-*Takāful* scheme, still there is lack of awareness. However, because of these reasons and many others have led them to cling to free social security offered by the Government of His Majesty and think that there is no need to have paid or chargeable insurance scheme.

Despite these facts, there is potential for introducing Micro-*Takāful* scheme in Brunei. This is because Government of His Majesty is planning to issue law to enforce young entrepreneurs to take insurance to secure their businesses. Regarding the awareness towards Micro-*Takāful* for poor people, it is not immediate and that individual may need more time to learn that a Micro-*Takāful* scheme is appropriate for them. Based on the research findings the problem of low level of awareness among the low-income households can be improved by taking responsibility to educate the public through print advertisements, TV advertisements, hoardings, campaigning, through the oral communication, incorporation of insurance in the education curriculum, adopt-a-school campaign and introduction of Insurance clubs in schools and resources mobilization for public education. As a result, these will encourage the low-income households to take insurance, and improve the confidence level of the common investors and providers to take part in this new market.

#### **4.2.2 Micro-*Takāful* Products**

This section discusses the research findings of the first research question related to the Micro-*Takāful* products that can be offered and suggesting appropriate providers

(institutions) that will provide for these products in Brunei Darussalam. This question has two parts; first part is related to the *Micro-Takāful* products that can be offered, and the second part is related to the appropriate *Micro-Takāful* provider. This section will discuss the first part, while the second part will be discussed in section 4.2.3 that follows.

In responding to this part of the first research question, one question was formulated in the questionnaires and six questions in the in-depth interviews. The results of the in-depth interviews in the Table 4.19 reveal that majority of the respondents agree with the idea of establishing a *Micro-Takāful* scheme in Brunei Darussalam. Further the results reveal that there is also a possibility of designing *Micro-Takāful* products such as Family and Property for low income in general and young entrepreneurs in specific. In fact, *Takāful* operators are planning to come up with the best *Micro-Takāful* schemes for young entrepreneurs. The results also reveal that currently there are categories of *Micro-Takāful* packages for university students which they are ensured in small groups by *Takāful* operators. These results show that there is potential for a *Micro-Takāful* scheme in Brunei Darussalam. These findings indicate that there is a need for introducing a *Micro-Takāful* scheme in Brunei Darussalam. Even though currently there are many social securities offered by the Government, still *Micro-Takāful* can be provided and play a major role in poverty alleviation.

In view of the nature and situation of Brunei Darussalam, the researcher has no doubt all these products (i.e. Health, Family and Property) are most appropriate products for the Bruneian market. Healthcare in the government sector is provided virtually free for all citizens and non-citizen government employees with their families, and is affordable to all permanent citizens and non-citizens. Maternal and Child Health Services, however, are provided for free for all pregnant mothers and children regardless of their citizenships.<sup>228</sup> It should be noted that not everybody among those exempted may afford to pay for health services. Among them are private sectors' foreign employees, international students and so on. These people may have to look for alternative to have affordable health service. Even though some private sectors in Brunei offer free health services to their workers but

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<sup>228</sup> *Brunei Darussalam Country Report. (2008). THE 6<sup>TH</sup> ASEAN AND JAPAN HIGH LEVEL OFFICIALS. P.4.*

in reality it is not free; it's deducted and charged from their salaries. These circumstances highlight the need for alternatives, including the provision of inclusive health insurance for the exempted people from government free health services. And the best alternative is to introduce a *Micro-Takāful* health product in Brunei Darussalam.

On the other hand, a *Micro-Takāful* family product is designed for family solidarity which provides protection, long-term savings and an investment instrument. It also provides a mutual guarantee of financial assistance in the event of death to the participant. A *Micro-Takāful* family plan has three main objectives: to save over a fixed period of time and contribute a certain amount of money to a *Micro-Takāful* fund, to earn returns on contributions from investment in *Shari'ah* compliant instruments, and to receive protection in the event of death to the participant prior to the maturity of the plan. Family products not only care the participant but also care the dependents of the participants. *Micro-Takāful* family policy is a transaction for welfare aimed at compensating and providing material protection for the unfortunate offsprings, the widows and the poor in the society, who had been left helpless upon the death of the deceased (participant). The Holy Prophet (SAW) had also advised people to provide for their offspring's material protection. He (SAW) said to the effect:

عَنْ عَامِرِ بْنِ سَعْدٍ، عَنْ سَعْدِ بْنِ أَبِي وَقَّاصٍ رَضِيَ اللَّهُ عَنْهُ قَالَ، قَالَ النَّبِيُّ ﷺ: «... إِنَّكَ أَنْ تَدَعَ  
وَمِنْكَ أَغْنِيَاءَ خَيْرٌ مِنْ أَنْ تَدْعَهُمْ عَالَةً يَتَكَفَّفُونَ النَّاسَ فِي أَيْدِيهِمْ، ...».

Narrated by Amir bin Saad bin Abi Waqqas (RA), The Holy Prophet (SAW) said: “*Verily it better for you to leave your offsprings/inheritors wealthy than to leave them poor asking others for help....*”<sup>229</sup>

عَنْ أَبِي هُرَيْرَةَ، قَالَ قَالَ النَّبِيُّ ﷺ: «السَّاعِي عَلَى الْأَرْمَلَةِ وَالْمَسْكِينِ كَالْمُجَاهِدِ فِي سَبِيلِ اللَّهِ، أَوْ  
الْقَائِمِ اللَّيْلِ الصَّائِمِ النَّهَارَ.»

Narrated by Abu Hurairah (RA), the Holy Prophet (SAW) said: “*The one who looks after and works for a widow and for a poor person, is like a warrior fighting for the cause of Allah (SWT), or like a person who fasts during the day and prays over the night.*”<sup>230</sup>

<sup>229</sup>Sahih Bukhari (trans. Eng.) Khan, Dr. Muhammad Muhsin, Kazi Publication, Lahore, 1979, Vol. 8, No. 725.

However, these two and many other Hadiths insist that a Muslim should do his best to ensure that after his death all his dependents will live in a comfortable life with endless bliss. The researcher has no doubt that a *Micro-Takāful* family product can assure this achievement.

Finally, *Micro-Takāful* property product aims at protecting the insured property from future material constraints upon the occurrence of a particular unexpected future risk such as fire, floods, theft and so on. In Brunei Darussalam, many cases have been reported about houses catch fire and burnt down completely. In addition, flood is another problem in Brunei, especially during rainy seasons. And the most vulnerable are the low land areas and those underwater houses resided by the poor people. Most of these areas are affected by either losing the property completely or partially, which force the owners of the properties to look for alternative to either rebuild or repair it completely. Although the Government of His Majesty quickly responds to these disasters and offers some aids to comfort them, still an alternative way to relieve the government from these burdens and to make these poor people self-reliable should be innovated. However, a *Micro-Takāful* property product policy can be an effective way to respond to these disasters.

In order to succeed in this mission, the low-income households' products' preferences must be identified. From here, the challenge becomes how to zero in on insurable risks and design products that are feasible, acceptable, and affordable. To design and introduce a *Micro-Takāful* product, insurers need to know the types of risks facing the poor people. For instance, in Brunei Darussalam poor people are not keeping cattle, and if they do so, they are very few to the extent that it is impossible to design cattle insurance for them due to lack of demand. Hence, it would be more advisable for insurers not to introduce the product because the demand is not feasible. Acceptable is another factor to consider when introducing an insurance product. Poor people need to know the benefits of *Micro-Takāful* products, information on eligible and excluded services, and the procedure for filing claims as well as where their money goes and how it managed. Unclear procedures or benefits may soon cause dissatisfaction among clients, hence they would not be ready to take insurance. On the other hand, if insurers are serious about serving the low-income

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<sup>230</sup> *Sahih Bukhari*, Vol. 23, No. 35.

households, there is no need to make insurance products expensive. This is because majority of them are incapable of contributing or paying for their premium. When insurers will not address the issue of designing cheaper insurance products and concentrate on expensive products, low-income households would not afford to buy it, as a result, they would be left out unsecured. However, there is a need to look for a strategy to identify and develop the most suitable products for the low-income households in Brunei Darussalam.

Market research can play an important role in developing appropriate *Micro-Takāful* products for the poor by addressing these problems. In addition, it can inform decisions about whether to enter the market, what type of product to introduce, and what market segments to target. Once a general product concept has been identified, market research can help to identify specific product attributes that match the needs, preferences, cash flow patterns, and other capacities of the target market.<sup>231</sup>

Furthermore, market research on actual products can be valuable in addressing issues related to accessibility, timeliness, pricing and effectiveness. Once a product has proven successful in one place, market research can play a role in assessing its potential for expansion into new markets or new market segments. It can also identify activities that complement or reinforce *Micro-Takāful*, for example, family savings products. Finally, market research can reveal people's understanding, perception, and trust of insurance, which is crucial for its uptake and important for designing client education and marketing strategies.<sup>232</sup>

#### **4.2.3 Micro-Takāful Provider(s)**

With regard to the second part of the first research question, one question was formulated in the in-depth interviews. The research findings reveal that *Takāful* operators in Brunei can develop a successful *Micro-Takāful* scheme. This is because they have built an infrastructure and acquired skills and capabilities that will make it less costly to deliver *Micro-Takāful* products. In addition, they have the resources required to measure and

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<sup>231</sup> Sebstad, J. and Cohen, M. (2006). *Guidelines for Market Research on the Demand for Microinsurance*. USAID. p.1.

<sup>232</sup> *Ibid.* p.1.



manage insurance risk. *Takāful* company in Brunei is growing very fast since it was established 20 years ago. Its capital is estimated to have more than BD30 million. The companies' corporate mission is to provide competitive *Takāful* products and services that comply with *Sharī'ah* principles as well as to give sound and professional consultation services to customers through well-trained, highly courteous, and efficient personnel supported by the use of the latest advanced information technologies.<sup>233</sup> In terms of claiming process, the companies have set simple and clear guidelines to the participants. Once the participants follow those guidelines, compensation is made within a week time. To educate and improve awareness among the clients (participants), the companies organize and conduct regular seminars and workshops in different parts of Sultanate.<sup>234</sup> In addition to that, *Takāful* companies have opened more branches almost in all districts to bring the services nearer to the intended clients. This step has increased incentive of the participants to buy more *Takāful* products.

Based on the findings, it also shows that there are a number of institutions such as NGOs and IMFIs which can play a major role in delivering Micro-*Takāful* products to the intended clients in Brunei Darussalam through a partner-agent model. In Brunei Darussalam, there are two IMFIs namely, Bank Islam Brunei Darussalam (BIBD) and TAIB Islamic Bank. These two Islamic microfinance institutions have the ability in terms of both human and capital resources to offer Micro-*Takāful* products to the intended clients. Currently, BIBD offers financial planning services such as Budgeting, Control Your Spending, Using Credit Wisely, Saving Money, Investing, Saving for Retirement and Protect What You Have. Looking at wide range, these services are just form of securities against future problems. The institution is offering these services to encourage their depositors to save money for future needs. In addition, this institution offers a group insurance package for university students. The aim of this package is to secure the future of the students in terms of disability, loss of property and so on. These services offered by the institution indicate that it has the capacity and ability to offer more offer Micro-*Takāful* products to the intended clients in Brunei Darussalam.

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<sup>233</sup> Bashir, M.S. & Nor Hafiizah, M. (2011). *Consumer Perceptions of Islamic Insurance Companies in Brunei Darussalam*. *Op. cit.* pp. 287-288.

<sup>234</sup> <http://www.takafulbrunei.com.bn>. Accessed on 9<sup>th</sup> January 2014.

On the other hand, Perbadanan Tabung Amanah Islam Brunei (TAIB) is a body corporate established in Brunei Darussalam under the Perbadanan Tabung Amanah Islam Brunei Act (Cap 163). TAIB was officially launched by His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaullah on 29<sup>th</sup> September 1991. The launching of TAIB marked a new beginning for Brunei Darussalam as TAIB was the first Financial Institution that conducted all its activities in accordance with Islamic faith. Since its establishment TAIB has two subsidiary companies which are Insurance Islam TAIB Sendirian Berhad (*Takāful*/Insurance) and Darussalam Holdings Sendirian Berhad (Haj/Umrah Services, Travel agent) where both of it TAIB has 100% shareholdings.<sup>235</sup> Currently, TAIB Bank offers a variety of products and services such as deposits, retail financing and many others. Offering Micro-*Takāful* products will help them to secure their loans.

Moreover, there are a number of NGOs in Brunei Darussalam, namely The Association of the Handicapped Children (KACA), Paraplegic and Physically Disabled Association (PAPDA), Pusat Ehsan Al-Ameerah Al-Hajjah Maryam (Pusat Ehsan), Society for the Management of Autism Related issues – in Training, Education and Resources (SMARTER), Special Olympics Brunei Darussalam (SOBD), Brunei Darussalam National Association For The Blind (BDNAB), Learning Ladders (for ASD) and, Persatuan Orang Kurang Pendengaran (OKP) for those with Hearing disability / Impairment (HI).<sup>236</sup> These NGOs can collaborate with Micro-*Takāful* operators to deliver Micro-*Takāful* products to the intended clients.

As mentioned earlier that partnership model is the best one, over the other models, to deliver products and services to the intended clients in Brunei Darussalam. This is because critical components of successful Micro-*Takāful* are efficient transactions and operations. If efficiency cannot be improved, the only way to reduce the premium costs to affordable levels is by reducing coverage. Providing a good product at an affordable price therefore requires efficient, yet controlled, processes. The key to efficient processes is the interface with the policyholder. This relationship defines the efficiency of sales, premium

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<sup>235</sup> <http://www.taib.com.bn/abouttaib/profile.htm>. Accessed on 9<sup>th</sup> January 2014.

<sup>236</sup> *Brunei Darussalam Country Report*. (2011). Presented in *THE 9<sup>TH</sup> ASEAN & JAPAN HIGH LEVEL OFFICIALS MEETING ON CARING SOCIETIES*. p.26.

collection, information dissemination, and, in many cases, claims processing. The strength of the partner-agent model is that the agent, usually a microfinance institution or an NGO, generally has an existing effective interface with the low-income market that can enhance efficiency.<sup>237</sup>

In practice this model involves a partnership between an insurer and an agent that provides financial services to large numbers of low income people. In this model each partner can focus on its core business: the insurance provider is responsible for designing and pricing the product, the final claims management and the investment of reserves, and absorbs all the insurance risks, while the agent offers its infrastructure for product servicing such as marketing the product, premium collection, and assists in claims management.<sup>238</sup> In Brunei Darussalam, *Takāful* operators can take the role of partner to design and introduce Micro-*Takāful* products, while Islamic Banks and NGOs can take the role of an agent to deliver those products to the intended clients. No doubt, these institutions have a much better ability to reach the target group and can deliver the products to the low-income households. Due to their work, these institutions possess inroads into the community and often enjoy the trust of the target group.

#### **4.2.4 Micro-*Takāful* Funds Mobilization**

To answer the research question regarding the sources of Micro-*Takāful* funds, the findings of only one question in the in-depth interviews is utilized. The findings reveal that there are many sources of funds to support a Micro-*Takāful* scheme in Brunei Darussalam. These sources include: surplus generated from *Zakāt*, *Sadaqah*, government and donors' subsidies, and *Takāful* fund investments. It should be noted that insurance schemes for the poor are financially unsustainable due to high overheads, low premiums and high claims. There is a need for either a large capital base or donor contributions in the initial years to give time for the correct infrastructure and number of policyholders to be obtained. The majority of schemes rely on funds other than those received from

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<sup>237</sup> McCord M.J.(n.d.). *The partner-agent model: Challenges and opportunities*, in Churchill, C. (2006). *Protecting the poor*. A Microinsurance compendium. *Op. cit.* p.358.

<sup>238</sup> *Ibid.* pp.359-362.

premiums to maintain sustainability and to ensure that the low-income markets continue to be served.<sup>239</sup>

Based on the research findings, the researcher is of the view that, the main source of Micro-*Takāful* funds in Brunei Darussalam can be *zakāt*. It is estimated that *zakāt* wealth accumulated is around BND\$239.6 million.<sup>240</sup> Even though *zakāt* is utilized to cater the needs of the poor people in Brunei, still a portion of it has not been distributed. Some of this huge amount of money can be used to support Micro-*Takāful* scheme. The best thing that this study has learnt is that the director of *zakāt* management has assured the researcher that the Government of His Majesty is ready to support the scheme in terms of subsidies once the scheme is introduced in Brunei Darussalam.

With the general phenomenon of contemporary poverty classified as structural poverty, the tendency of utilization of *zakāt* funds are now increasingly focused on development and empowerment programs. Utilization of traditional *zakāt* programs that are exclusively charitable and consumptive oriented is no longer sufficient to liberate humankind from the downturn.<sup>241</sup> One way of preventing the increase of the number of poor is to avoid the poor who are vulnerable due to some negative shocks. This can be done in a couple of various ways. One way is utilization of *zakāt* funds to ensure the assets of the poor at the margin are protected against negative shocks.<sup>242</sup> Other sources of funds such as *Sadaqah* and donors' subsidies can also fill the remaining uncovered gaps.

In Brunei Darussalam, people are willing to pay *Sadaqah*. This evidently shown during Friday prayers in the congregation mosques where people regardless of their status are dumping in the boxes whatever amount of money they possess. This shows that Bruneians are much concern about welfares. Additionally, Yayasan, a royal family's NGO paly many roles in helping the citizens, these include, not limit, offering

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<sup>239</sup> Brown, W. and Churchill, C. (2000). *Insurance Provision in Low Income Communities Part II : Initial Lessons from Micro-Insurance Experiments for the Poor*. At <http://www.mip.org/pubs/mbp-def.htm> accessed on 9 January 2014.

<sup>240</sup> Rose Abdullah. (2012). *Zakat Management in Brunei Darussalam: Funding the Economic Activities of the Poor*. Published by UNISSA. p.55.

<sup>241</sup> Rose Abdullah. (2012). *Zakat Management in Brunei Darussalam*. *Op. cit.* p.55.

<sup>242</sup> Ahmed, H. (2004). *Role of Zakah and Awqaf in Poverty Alleviation*. *Op. cit.* p.127.

scholarships to Bruneians to study abroad. This commendable job and generosity can be further extended to donate for Micro-*Takāful* scheme in Brunei Darussalam.

#### 4.2.5 Types of Micro-*Takāful* Contracts and *Sharī'ah* Compliance Mechanisms

In answering the research question regarding Micro-*Takāful* contracts and *Sharī'ah* compliance mechanisms, one question was formulated in the in-depth interviews. The research findings reveal that *Tabarru'* can be the best contract fits for a Micro-*Takāful* scheme in Brunei Darussalam. The philosophy of this contract is based on the concept of brotherhood, solidarity and mutual cooperation among participants. Based on the findings, the researcher is of the view that *Tabarru'* contract is more appropriate for the scheme in Brunei Darussalam. This is because Islam encourages its followers to help each other. This is clearly highlighted by the Holy Qur'an and Hadith. Allah (SWT) said:

﴿وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَىٰ ۖ وَلَا تَعَاوَنُوا عَلَى الْإِثْمِ وَالْعُدْوَانِ﴾

“...Help you one another in *Al-Birr* and *At-Taqwa* (virtue, righteousness and piety); but do not help one another in sin and transgression...”<sup>243</sup>

On the other hand, the Prophet said in a Hadith:

عن عَبْدِ اللَّهِ بْنِ عُمَرَ رَضِيَ اللَّهُ عَنْهُمَا أَخْبَرَهُ أَنَّ رَسُولَ اللَّهِ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ قَالَ: «الْمُسْلِمُ أَخُو الْمُسْلِمِ، لَا يَظْلِمُهُ وَلَا يُسْلِمُهُ، وَمَنْ كَانَ فِي حَاجَةِ أَخِيهِ كَانَ اللَّهُ فِي حَاجَتِهِ، وَمَنْ فَرَّجَ عَنْ مُسْلِمٍ كُرْبَةً فَرَّجَ اللَّهُ عَنْهُ كُرْبَةً مِنْ كُرْبَاتِ يَوْمِ الْقِيَامَةِ، وَمَنْ سَتَرَ مُسْلِمًا سَتَرَهُ اللَّهُ يَوْمَ الْقِيَامَةِ».

Narrated by Abdullah Ibn Umar (RA) from the Prophet (SAW) saying, “A Muslim is a brother of another Muslim, so he should not oppress him, nor should he hand him over to an oppressor. Whoever fulfilled the needs of his brother, Allah will fulfill his needs; whoever brought his (Muslim) brother out of a discomfort, Allah will bring him out of the discomforts of the Day of Resurrection, and whoever conceals a Muslim's fault, Allah will conceal his fault on the Day of resurrection.”<sup>244</sup>

<sup>243</sup> *Al-Qur'an*, 5:2.

<sup>244</sup> *Sahih Muslim*, Hadith No.7028. Beirut: *Dārul-Jail and Dār al-Awfāq al-Jadid*. (n.d.).

In line with modern-day business environment the participant funds will be prudently invested by the *Micro-Takāful* operators. In practice, whenever one of the participants suffers a defined loss and makes a legitimate claim, operators would settle the claim by using funds from the *Tabarru'* pool. In the meantime, the funds in the pool are invested in *Sharī'ah* compliant investment portfolio without exposing the policy holders to any extra significant risk. In this manner the position of the funds will be strong financially and would be able to meet all its obligations effectively, in particular in meeting its primary objective of providing financial assistance to any unfortunate participant suffering a loss. Islam accepted this principle of reciprocal compensation and joint responsibility.<sup>245</sup> Furthermore, this type of contract is widely applied in *Micro-Takāful* scheme in Indonesia.<sup>246</sup>

The results further reveal that Insurans Islam TAIB intends to use *Mudhārabah* contract. In this contract, the *Takāful* operator seeks no returns from managing the *Micro-Takāful* business in line with the spirit of *Micro-Takāful*. Rather, it seeks returns from the business of investing the *Micro-Takāful* funds under a *Mudhārabah* agreement with the policyholders for managing their funds in agreed ratio. On the other hand, Syarikat Takaful Brunei Darussalam Sdn Bhd intends to use *Wakālah* contract. In this contract the *Takāful* operator will act as an agent. All operational general and administrative expenses are charged to the policyholders' fund. The *Takāful* operator will receive an agency fee from the percentage of the gross premium received.

Despite the majority of respondents suggest *Tabarru'* contract for *Micro-Takāful* scheme in Brunei, another option of contract can be suggested for the scheme, which combines two contracts: *Wakālah* and *Mudhārabah*, which is known as a mixed model. However, in this model, *Wakālah* contract is used for underwriting activities while *Mudhārabah* contract is used for investment activities. With regard to underwriting activities, the *Micro-Takāful* operator act as *wakīl* or agent on behalf of policyholders to manage their funds. In exchange for managing the funds, the *Micro-Takāful* operator received a fee known as *Wakālah* fee of agency fee which normally a percentage of the contribution paid for the premium. On the investment side, the company invests the surplus

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<sup>245</sup> Nasser, Y. and Jamil, R. (2011). *Takaful: A Study Guide*. Kuala Lumpur. IBFIM. pp.114-115.

<sup>246</sup> Anja, E., et al. (2011). *Microtakaful : Field study evidence and conceptual issues*. Op. cit. p.17.

contributions in *Sharī'ah* based instruments based on *Al-Mudhārabah* contract, whereby the company acts as *mudhārib* on behalf of participants. However, the ratio of profit is fixed and agreed upon between the two parties, at the inception of the contract.<sup>247</sup> This model is the dominant model in the Middle East market and it is widely practiced by *Takāful* companies worldwide. In Malaysia, it is being practiced by *Takāful* Nasional Berhad and Etiqa *Takāful*.<sup>248</sup>

With regards to *Sharī'ah* compliance mechanisms for Micro-*Takāful* scheme in Brunei Darussalam, one question was formulated in the in-depth interviews. The research findings reveal that Scholars have set *Sharī'ah* compliance mechanisms which should be applied in the scheme. The Scholars suggest that there should be a time limit in contracts to avoid uncertainty. In addition, there should be no fixed amount of premium to be paid the participants and in case of any surplus. Further, it should be distributed equally among the participants except when it is haphazardly it is permitted to differ in shares. In appointment of *Sharī'ah* Board they suggest those with experience in the field and to include different professions in the board such as scholars, economists, administrators, as well as accountants.

Besides this, it should be set clear that Micro-*Takāful* is a new Islamic scheme in the market, and it is provided to serve the low-income people. A proper sophisticated *Sharī'ah* compliance mechanism has to be designed and implemented to ensure that all the products and services offered comply with the *Sharī'ah* Law. In this regard the researcher suggests a simple *Sharī'ah* compliance mechanism for Micro-*Takāful* scheme in Brunei Darussalam.

The most important element of *Sharī'ah* compliance mechanism refers to its process. This process includes the appointment, composition and qualification of the *Sharī'ah* board, the *Sharī'ah* compliance review and the *Sharī'ah* report.

In contemporary practice, the members of the *Sharī'ah* board are appointed by the shareholders in the annual general meeting (AGM) or by the BOD. In order to ensure

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<sup>247</sup> Akhtar, W. (2009). *Potential of Takāful in Pakistan: Operational and Transformational Paradigm*. *Op. cit.* pp.56-71.

<sup>248</sup> *Ibid.* p.71.

freedom and independence, the *Sharī'ah* board members must not be working as personnel in the Micro-*Takāful* schemes operator and are not subject to the authority of BOD, hence produces pronouncements in favor of the BOD.<sup>249</sup> On this basis, the researcher recommends that the *Sharī'ah* board members should be appointed from Autoriti Monetari Brunei Darussalam (AMBD) because AMBD is an independent government institution that deals with supervision and approval of all products from all IFIs in Brunei Darussalam. And if the *Sharī'ah* board members of the *Takāful* operators are from AMBD, they should use the same board members to deal with Micro-*Takāful* scheme. In addition, *Sharī'ah* board members should improve in their services.

With regard to composition and qualification of the *Sharī'ah* board, a *Sharī'ah* board is normally comprised of *Sharī'ah* scholars who are experts in *Fiqhul Muamalat* and *Usulul Fiqh*. The reason behind this is that the *Sharī'ah* board mostly deals with the issues related to commercial transactions. Having vast knowledge in these fields, this will help the *Sharī'ah* board members to give out correct and proper pronouncements. The researcher is of the view that, apart from the *Sharī'ah* scholars who are experts in these areas, different professions such as economists, administrators, as well as accountants should also be included in the board. This is because Micro-*Takāful* is a new scheme in Brunei Darussalam, and more experts and professions are required to give ideas and suggestions to make the scheme successful. In addition to that, it is also recommended that the number of the *Sharī'ah* board members should be less than five. This is because the scheme is meant to serve the low-income people, and in most cases, the products are simple and if there is any investment for the contribution fund, it is also a simple one just to keep the scheme stable to achieve its goals.

Regarding the *Sharī'ah* compliance review and the *Sharī'ah* report, there is currently no specific standard guideline for *Sharī'ah* governance as to the aspects of management, products approval, and *ex ante* and *post ante* auditing in IFIs. The practice is that there is a *Sharī'ah* secretariat or department to coordinate and handle *Sharī'ah* matters. The officer in the *Sharī'ah* department mostly handles clerical and office works pertaining to

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<sup>249</sup> Hasan, Z. (2011). *Sharī'ah Governance in Islamic Financial Institutions*. *Op. cit.* p.93.



*Sharī'ah* board matters, such as compiling and handling documents that need to be presented during the *Sharī'ah* board meeting.<sup>250</sup> In terms of meeting, the researcher recommends that the *Sharī'ah* board can have a weekly or monthly meeting depending on the needs of the individual *Micro-Takāful* operator due to the nature of the scheme. On the other hand, the *Sharī'ah* audit and report are very important exercises in IFIs to ensure that all activities and operations carried out in the *Micro-Takāful* scheme do not contravene the *Sharī'ah* rules and principles. In view of these issues, the researcher recommends that the transactions should be recognized, measured and reported accurately and reflects the rights and obligations arising from the various *Sharī'ah* financial contracts. Additionally, *Sharī'ah* audit should undertake a systematic examination of policies and procedures of the *Micro-Takāful* products development, such as product manuals, operational processes, contracts, etc. Furthermore, *Sharī'ah* audit should examine the organizational structure of the *Micro-Takāful* products as well as looking to *ex-post* process of *Sharī'ah* governance to ensure their feasibility to undertake *Sharī'ah*-compliant activities. Also the *Sharī'ah* Supervisory Boards should be involve in the internal and external process of *Sharī'ah* governance, they should structure, assist in the drafting of, review and approve the documentation for *Sharī'ah*-compliant transactions in order to ensure the adequacy of compliance and to enhance the certainty, consistency and transparency of enforcement of such transactions. The relevant *Sharī'ah* provisions should be precisely and adequately incorporated in the relevant contracts so that such contracts may be enforceable in a purely secular jurisdiction. Further, *Sharī'ah* Supervisory Boards should continue to oversee the implementation and operation of the relevant product so as to ensure that it complies with all respects of the *Sharī'ah* principles up to its maturity.<sup>251</sup>

#### **4.2.6 Role of the Government and *Takāful* Operators on *Micro-Takāful* Scheme**

To answer the research question regarding the role the Government of His Majesty and the *Takāful* operators can play, one question was asked in the in-depth interviews. The findings show that the Government is the main organ that can ensure the success of a

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<sup>250</sup> Hasan, Z. (2011). *Sharī'ah Governance in Islamic Financial Institutions*. *Op. cit.* p.96.

<sup>251</sup> Abdussalam Ismail and Abdussalam Mikail. (2013). *Sharī'ah governance system: A need for professional approach*. *Op. cit.* p.79.

Micro-*Takāful* scheme in Brunei Darussalam. To play its role, in researcher's view, the Government of His Majesty should introduce a comprehensive policy environment in terms of regulatory, supervisory and policy frameworks to be adapted to Micro-*Takāful* schemes and operations in order to enable replication and expansion of Micro-*Takāful*, as well as defining the roles of the actors involved.

One of the most powerful policy tools is maybe the regulation and supervision of Micro-*Takāful*, which allows new delivery channels, includes players from outside the formal insurance system, motivates the establishment of new licensed insurers and improves market conduct rules to respond to poor clients' particularities in terms of policies, claims and consumer recourse. However, as important as regulatory adaptations may be, alone they can hardly create significant improvements in Micro-*Takāful* provision. Since often, regulation follows industry practice, the importance of dialogue with and motivation of existing insurers outside of the formal insurance system such as often *Takāful* insurers, or the commercial insurers, cannot be overstated.<sup>252</sup>

On the other hand, adapting the policy including the regulatory environment requires investing significantly in the human and institutional capacities of ministries, regulators and supervisors to equip them for the access-oriented reform of the insurance system. As each jurisdiction is unique, these approaches can serve as role models, however regulatory changes and other policy solutions need to be tailored to the country context. Further, the Government needs to understand and disseminate lessons, assess their impact and invest significant resources to back-up insurance market development with efficient and effective policies to safeguard poor peoples' investments with insurers.<sup>253</sup> Also it should build the capacity of Micro-*Takāful* schemes through improved management and monitoring systems. In Addition, it should strengthen the viability and the financial capacity of the schemes, for example through reinsurance or guarantee funds. To cement on that the Government should also support structures like second-tier associations or networks that provide technical support and training to Micro-*Takāful* schemes.

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<sup>252</sup> McCord, J. (2008). *Visions of the Future of Microinsurance, And Thoughts on Getting There. Op. cit.* p.25.

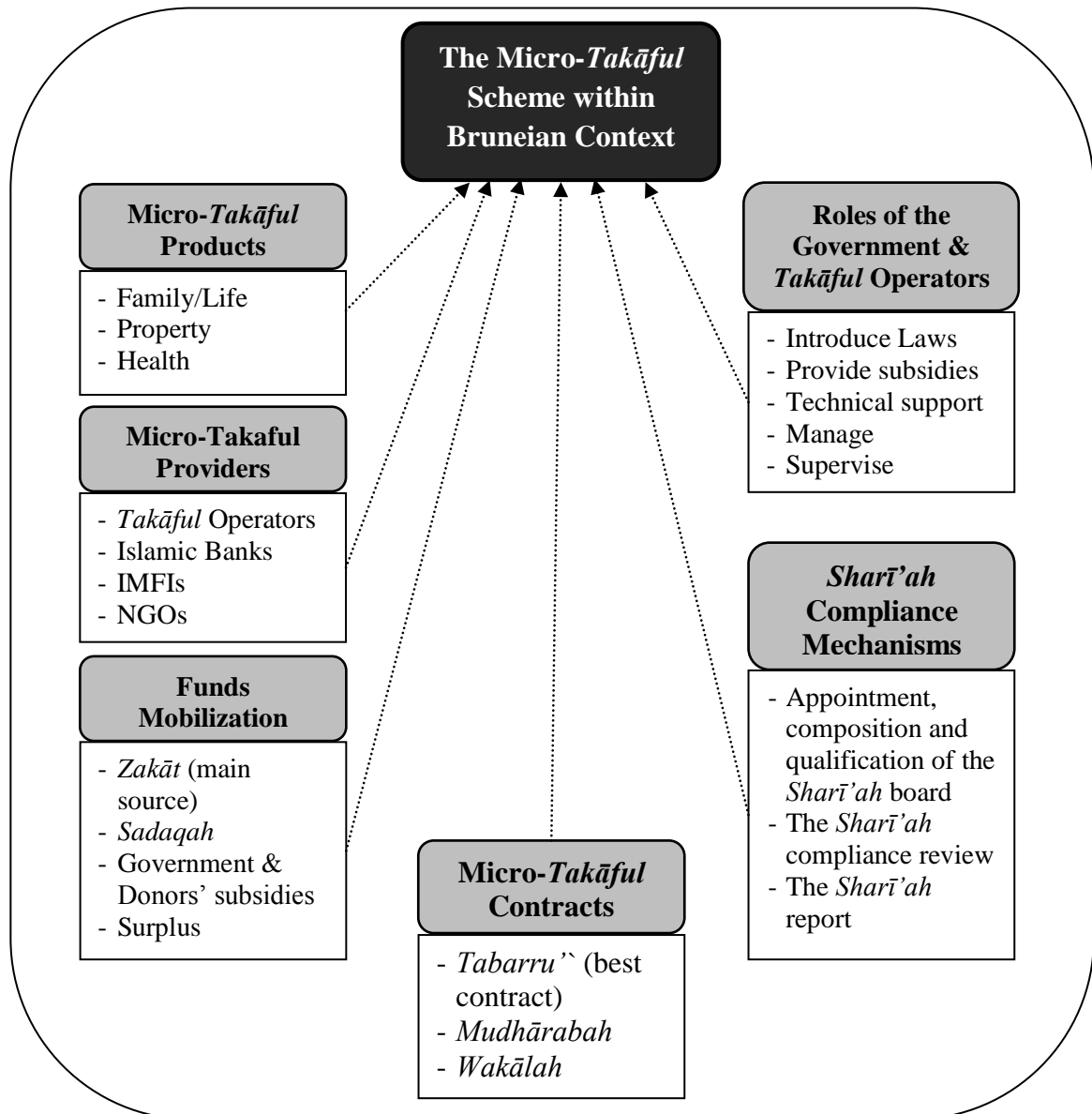
<sup>253</sup> *Ibid.* p.25.

On the other hand, *Takāful* operators are the second important organ to ensure the success of a Micro-*Takāful* scheme in Brunei Darussalam. The researcher is of the view that, *Takāful* operators can introduce products that meet the primary needs of the low income households, particularly for those who are most vulnerable. In addition, they can also manage the scheme effectively, marketing its products as well facilitating the compensations. To ensure the success of the Micro-*Takāful* however, *Takāful* operators need to share a burden of the responsibility by providing technical expertise, financial assistance and building partnerships with microfinance providers.

Consumer education is an important element for the Micro-*Takāful* scheme provision, but will also continue over a longer horizon beyond the provision phase. Time will be needed to build consumer awareness and educate consumers regarding the Micro-*Takāful* scheme, their rights under it, and the need to deal only with authorized Micro-*Takāful* providers. The benefits of consumer education are likely to only become apparent over the longer-term. However, in order to achieve and improve customer awareness, *Takāful* operators have to keep aside a fat budget to educate public about Micro-*Takāful* scheme in Brunei Darussalam. In addition, to improve the efficiency of Micro-*Takāful* delivery and servicing, *Takāful* operators should set an efficient Technology system. Technology plays several potential roles in Micro-*Takāful* that include: marketing, sale transactions, contribution collection, information tracking, claims processing, communications between key parties and long-distance linking.

However, from the above long discussion of the research findings, this study finally proposes a model of Micro-*Takāful* scheme for the Bruneian context, as can be seen in Figure 4.1.

**Figure 4.1:**  
The Summary of the Research Findings



Source: *Designed by the Researcher.*

As summarized in the Figure 4.1 above, the research findings reveal that there is potential for a Micro-*Takāful* scheme in Brunei Darussalam. The results further reveal that there is possibility to offer different types of Micro-*Takāful* products including family, property, health, and so on. The results also reveal that these products can effectively be provided by *Takāful* operators in partnership with Islamic banks, IMFI, NGOs as well as delivering through community-based model. In order to support the scheme, the results

find that *Zakāt* (as main source), *Sadaqah*, the Government and donors' subsidies and surplus can be the sources of Micro-*Takāful* fund. The results further reveal that *Takāful* contracts such as *Tabarru'* (as the main contract), *Mudhārabah*, and *Wakālah* can be applied in Micro-*Takāful* schemes. Furthermore, the results find that *Sharī'ah* compliance mechanisms used in Islamic Banking and *Takāful* can also be applied in Micro-*Takāful* schemes. And finally, in order to succeed in offering Micro-*Takāful* schemes in Brunei Darussalam, the results suggest that the Government of His Majesty should play roles in supporting the schemes. However, this is just a summary of the research findings. Further information is highlighted in chapter 5.

### **4.3 Conclusion**

This chapter has presented and discussed the research findings from one survey questionnaire and three in-depth interviews. In this chapter, the rate of response and low income households' demographic information and Micro-*Takāful* products' preferences was presented and interpreted. In addition, Micro-*Takāful* products, fund mobilization, Micro-*Takāful* providers, types of Micro-*Takāful* contracts and *Sharī'ah* compliance mechanisms applicable to Micro-*Takāful* scheme, the role played by the Government and *Takāful* operators on Micro-*Takāful* scheme were also presented and interpreted. The chapter later discussed the general findings of the study. Finally, this study suggests a model of Micro-*Takāful* scheme for the Bruneian context. The next chapter explores the conclusions, general recommendations as well as recommendations for further researches.

## CHAPTER V: CONCLUSION AND RECOMMENDATIONS

### 5.0 Introduction

This chapter presents an overall conclusion of the research findings. It also presents a number of recommendations that can make a *Micro-Takāful* scheme successful. Finally this chapter directs and recommends for further study on *Micro-Takāful* scheme within the Brunei Darussalam context.

### 5.1 Conclusions

The main aim and objective of this academic exercise was to study and suggest an operational *Micro-Takāful* framework / model in Brunei Darussalam, and the specific objectives of this study are:

5. To investigate the *Micro-Takāful* products that can be offered and appropriate provider (institution) that will provide these products in Brunei Darussalam;
6. To find out the instruments used for mobilization of *Micro-Takāful* funds;
7. To find out the types of contracts and mechanisms of *Sharī'ah* compliant used in *Micro-Takāful* arrangements;
8. To examine role that the government of Brunei Darussalam and the *Takāful* operators can play to support the *Micro-Takāful* scheme.

Below is a brief discussion to reveal how this study justifies the research objectives.

#### **I. To investigate the *Micro-Takāful* products that can be offered and appropriate provider (institution) that will provide these products in Brunei Darussalam.**

Based on the overall research findings, it should be mentioned here that there is potential for a *Micro-Takāful* scheme in Negara Brunei Darussalam. The research findings indicate that about 45.7% of the participants surveyed are willing to take insurance once a *Micro-Takāful* scheme is introduced in Brunei Darussalam. Although this percentage is less compare with the percentage of those who aren't willing to take insurance, this small

difference can be cleared or the percentage of those who want through mass awareness campaign. The results also reveal that Micro-*Takāful* products such as health, family and property can be introduced and low income households are willing to take them either one or more than one. In addition, the results also reveal that majority of the low income households surveyed are willing to pay BD50 or below for their products contributions annually. And majority of them are suggesting the payment for their contributions once in a year.

In regards to introducing and providing or delivering Micro-*Takāful* products, the results reveal that, these can be done effectively by the *Takāful* operators. While Partner-Agent system with NGOs and MFIs (i.e. Islamic Banks) can also be applied to deliver Micro-*Takāful* products to the intended clients (low-income households) in Brunei Darussalam.

## **II. To find out the instruments used for mobilization of Micro-*Takāful* funds.**

In order to run the scheme effectively, more funds are needed. To support this scheme, there are a number of sources of funds in Brunei Darussalam. These sources include: *Zakāt* as the main source, *Sadaqah*, surplus generated from *Takāful* fund investments, government subsidies and donors are other sources of Micro-*Takāful* funds.

## **III. To find out the types of contracts and mechanisms of *Sharī'ah* compliant used in Micro-*Takāful* arrangements.**

In regards to Micro-*Takāful* contracts, it is suggested that *Tabarru'* can be the best contract fits for a Micro-*Takāful* scheme in Brunei Darussalam. In addition, a mixed model of *Wakālah* and *Mudhārabah* contract can also be applied to the scheme.

In regard to *Sharī'ah* compliance mechanisms for Micro-*Takāful* scheme, the mechanism should include the following process: the appointment, composition and qualification of the *Sharī'ah* board, the *Sharī'ah* compliance review and the *Sharī'ah* report. In regard to appointment of the *Sharī'ah* board, it is recommended that the *Sharī'ah* board members should be appointed from Autoriti Monetari Brunei Darussalam (AMBD). And if the *Sharī'ah* board members of the *Takāful* operators are from AMBD, they should use the same board members to deal with Micro-*Takāful* scheme. In addition, *Sharī'ah* board

members should improve in their services. Furthermore, a *Sharī'ah* board should be comprised of *Sharī'ah* scholars who are experts in *Fiqhul Muamalat* and *Usulul Fiqh*, and to include economists, administrators, as well as accountants. It is also recommended that the number of the *Sharī'ah* board members should be less than five. Finally, their main role should be management, products approval, and *ex ante* and *post ante* auditing.

#### **IV. To examine role that the government of Brunei Darussalam and the *Takāful* operators can play to support the Micro-*Takāful* scheme.**

In regard to role that the government of Brunei Darussalam and the *Takāful* operators can play to support the Micro-*Takāful* scheme, it is recommended that the Government of His Majesty should introduce a conducive policy environment in terms of regulatory, supervisory and policy frameworks to be adapted to Micro-*Takāful* schemes and operations in order to enable replication and expansion of Micro-*Takāful*, as well as defining the roles of the actors involved.

On the other hand, *Takāful* operators can introduce products that meet the primary needs of the low income households, particularly for those who are most vulnerable. In addition, they can also manage the scheme effectively, marketing its products as well facilitating the compensations. They also educate the public to improve awareness about Micro-*Takāful* schemes to encourage them to take insurance. In addition, they improve the efficiency of Micro-*Takāful* delivery and servicing setting and installing an efficient Technology system.

Challenges and obstacles are issues need consideration. There a number of challenges and obstacles for introducing Micro-*Takāful* scheme in Brunei Darussalam. These include: lack of awareness regarding Micro-*Takāful* scheme or might be confused with the existing *Takāful* in Brunei. This indicates that more funds are needed to educate the public about the scheme. These challenges can be overcome through launching awareness campaign via media to educate the public, marketing, advertisements, media, keeping posters, as well as organizing promotions. On the other hand, imams should deliver the message through Friday sermons and public lectures. In addition to that, the Government of His Majesty should financially and technically support the scheme. On the other hand,



*Takāful* operators should introduce products that meet the primary needs of the low income households. They should also manage the scheme effectively, marketing its products as well facilitating the compensations.

## **5.2 Recommendations (Way Forward)**

In order to be successful in providing Micro-*Takāful* schemes in Brunei Darussalam, all stakeholders need to join hands, build capabilities, develop affordable and viable Micro-*Takāful* schemes, build an efficient marketing channel and overcome challenges towards the introduction of the Micro-*Takāful* Scheme to fulfill the dream of poverty eradication in Brunei Darussalam.

Based on the revealed findings and the best practices in regard to application of Microinsurance best practices and socio-cultural Islamic principles, this study recommends the following considerations when introducing a Micro-*Takāful* scheme in Brunei Darussalam.

### ***a) Dedicated focus for Micro-Takāful education and awareness:***

In view of the importance of public awareness, a comprehensive customer education programme need to be developed, which will promote product transparency, ensure accountability and the availability of avenues for customers to seek redress. This will be achieved through national Micro-*Takāful* champions and Incorporation of insurance in the Education curriculum, fundraising and resources mobilization for public education, capacity building for Micro-*Takāful* agenda drivers through exposure visits and participation in regional and global Micro-*Takāful* conferences among other avenues, propagation by Imams during Friday *khutbahs* as well as conducting Islamic lectures in mosques or media to educate public about Micro-*Takāful* scheme, encouraging people to participate through advertisement, promotions and conducting draws, and so on.

### ***b) Product development and design:***

In order to develop and design Micro-*Takāful* products, Micro-*Takāful* providers should consider the following elements.

- (i) Innovative Micro-*Takāful* products need to be designed to address the rural consumer's requirement/needs.
- (ii) Products should be designed in close consultation with the stakeholders.
- (iii) Follow a product development process when developing Micro-*Takāful* products.
- (iv) The policy should be affordable and product needs to be priced from professionally derived premium rather than unscientific assumptions.
- (v) Product categories should be established that reflect the needs of the low-income sector.
- (vi) Terms and conditions and processes should be transparent, and clearly and simply expressed to ensure that the client understands the product and the sales agent can adequately explain it to the client.
- (vii) Micro-*Takāful* products should have few, if any, general or individual exclusions.
- (viii) Flexible payment mechanisms should allow the client to catch up on premiums they may occasionally miss without the policy lapsing.
- (ix) Claims settlement should be rapid to be useful for the target group.
- (x) Complaints handling, recourse and arbitration modes should be tailored to the living situation of the policyholders.

***c) Product distribution channels:***

In order to facilitate the distribution of Micro-*Takāful* products, Micro-*Takāful* providers should consider the following elements.

- (i) Partnership with different corporates which have a strong presence in the rural sector such as FIs, etc.
- (ii) To have partnership with Islamic bank branches that can be used to market Micro-*Takāful* products.
- (iii) Life and non-life companies can tie-up together to launch composite products (with both general and life covers) for the poor and share the same marketing channel for its product.

- (iv) Involvement of NGOs, self-help groups, microfinance institutions to act as a *Micro-Takāful* agent along with the certified insurance agents and brokers agent along with the certified insurance agents and brokers to distribute such products.
- (v) To form a dedicated team to counsel and change the mindset of the people regarding *Micro-Takāful* Scheme. This can help and encourage them to take insurance.
- (vi) Identifying the challenge confronting the *Micro-Takāful* providers in the pursuit towards intensifying market penetration to further entrench its development underscore the importance of enhancing the productivity and efficiency of distribution capabilities, to better complement and support sound business expansion. The *Takāful* operators need to strengthen the necessary institutional capabilities via investment in information and communication technology.
- (vii) Products should be launched after a careful market study including qualitative consumer surveys.

***d) Micro-Takāful providers and Strategic Partnerships:***

*Micro-Takāful* players need to partner with different business sectors and donors if they are to increase the level of penetration of insurance. Strategic partnerships provide avenues for distribution, risk-sharing, consumer education, funding among other benefits.

*Micro-Takāful* Scheme is meant to serve the low-income people to improve their living standard. To manage this scheme a sophisticated management system is required. This is because the scheme is risky and more funds are required for compensation. The study suggests that the *Micro-Takāful* Scheme is more appropriate if it will be managed by the *Takāful* operators while Islamic Banks, IMFIs, and NGOs can be *Micro-Takāful* agents.

For proper provision of *Micro-Takāful* Scheme, *Takāful* operators should consider the following<sup>254</sup>:-

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<sup>254</sup> Mortuza, A. (n.d.). *Present Scenario and Future Potentials of Takāful*. pp.12-14.

- (i) Micro-*Takāful* Scheme providers need good accounting and timely access to management data.
- (ii) The staff members managing Micro-*Takāful* Scheme need to be physically closer to the people.
- (iii) Sufficient training and research institute having logistics of modern technology may be established to train up the manpower.
- (iv) Recruiting some trained professionals who will act as gate-keepers and help the community people in accessing Micro-*Takāful* services. This approach will also help in fraud control.
- (v) Careful and well managed rejection of claims whereby the reasons should be made clear to the poor people.
- (vi) The insurers need to be well capitalized and willing to lose some money while the Micro-*Takāful* products are growing.

***e) Establishing a central Sharī'ah board:***

A central *Sharī'ah* board consisting of scholars of different schools of thought (e.g., *Hanafī*, *Maliki*, etc.), economists, administrators, accountants, etc. should be formed at regulatory level. Scholars should be required to meet regularly to discuss *fiqh* and governance issues related to *Takāful* business. Such meetings of central *Sharī'ah* Board are essential to resolve *Sharī'ah* related issues and achieve consensus. All the major decisions should be made under the supervision of BOD and with the consultation of members of SSB.

***f) Re-insurance arrangements:***

The underwriting and pricing policies of *Takāful* operators selling Micro-*Takāful* products are likely to be based on its experience in the line of business being insured or driven by the reinsurance market. On the other hand, exclusive Micro-*Takāful* providers often do not have reserves/technical provisions commensurate to the risk in their portfolio. The government/supervisor may choose to put in place institutional arrangements or regulations for residual risks in case there is lack of reinsurance support.

The following provisions can apply with regard to the reinsurance of *Micro-Takāful*<sup>255</sup>:

- (i) Reinsurance will not be compulsory for *Micro-Takāful* providers although it will be highly recommended. As long as pricing is signed off by an Actuary, reserving should be adequate and risk accounted for.
- (ii) Registered insurers may underwrite part of the risk of *Micro-Takāful* providers, but will be required to acquire a *Micro-Takāful* license as a separate legal entity for this purpose. Isolating *Micro-Takāful* reinsurance into the *Micro-Takāful* license also allows *Micro-Takāful* reinsurance to be managed and reported on separately.
- (iii) Registered *Micro-Takāful* providers will be allowed to underwrite part of the risk of other *Micro-Takāful* providers, but subject to such licensing conditions with regard to the provision of reinsurance as may be imposed. This provision is primarily intended to allow full insurers with a *Micro-Takāful* license to act as reinsurance partners to smaller *Micro-Takāful* providers and is not intended to allow small entities into the reinsurance space who are not deemed competent to provide reinsurance.

***g) Strengthening institutional infrastructure:***

*Micro-Takāful* is a complex business and thus it is necessary to build up management capacities. Creating proper infrastructure can support the servicing of insurance along with improved managerial, administrative and technical capacities.

***h) The Role of the Government of His Majesty:***

- The Government of His Majesty needs to increase resources mobilization through the collection of Muslims' *zakāt* and *Sadaqah* and directing them to provide the poor with their basic needs, and managing Waqf funds to generate financial resources which can be used to finance projects and activities capable of alleviating poverty and improving the standard of living of poor people.

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<sup>255</sup> IRA, (2012). *The Kenya Microinsurance Policy Framework Paper*. p.30.

- The Government of His Majesty should extend subsidies on *Micro-Takāful* Scheme to make products cheaper and encourage penetration of insurance services in low-income rural and social sectors.
- The Government of His Majesty may promulgate a regular detailed and codified law to reorganise the insurance industry in line with *Sharī'ah* principles. This law should reflect the true spirit of mutual help and co-operation. All the elements making the present insurance practices un-Islamic (e.g. interest, gambling, *gharār*) should not be allowed in any circumstances. Some Islamic countries such as Malaysia, Bahrain and Sudan, have already enacted such laws which can be used as guiding examples.
- The Government of His Majesty should facilitate and encourage those companies offering *Micro-Takāful* Scheme providing them incentives such as tax exemptions in early period of establishment. This may help the *Micro-Takāful* Scheme providers to design cheaper products for low income households.
- The Government of His Majesty can encourage the corporates for funding micro-health insurance schemes by providing some tax-rebate.
- The Government of His Majesty should extend subsidies on certain high-cost equipment and such other purchases to enable the private healthcare providers to deliver more efficient, effective and economic services to the rural population.
- Providing *Micro-Takāful* coverage to the local young entrepreneurs, foreign workers, local and international students needs to be made mandatory for the small scale industries and universities respectively.

### **5.3 Recommendations for Further Research**

The researcher is of the opinion that this study has uncovered some interesting findings which are very relevant to all the parties trying to improve the life standard and security of the low income households in Brunei Darussalam. However, this research identifies the following areas of research to be further explored in future.

- i) Conducting a robust market research which will involve all the low-income households in Brunei Darussalam to identify exactly what they prefer in terms of insurance products, delivery method, insurance management, and so on.
- ii) Developing a sophisticated *Shari'ah* Governance Framework for a Micro-*Takāful* scheme in Brunei Darussalam.
- iii) Developing Accounting and Auditing System for a Micro-*Takāful* scheme in Brunei Darussalam.

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## APPENDIX A



جامعة السلطان الشريف علي الإسلامية  
UNIVERSITI ISLAM SULTAN SHARIF ALI  
SULTAN SHARIF ALI ISLAMIC UNIVERSITY

### THESIS INTERVIEW GUIDES FOR KEY INFORMANTS (*TAKĀFUL* OPERATORS MARKETING MANAGER)

#### **RESEARCH TOPIC: “DEVELOPING A MICRO-*TAKĀFUL* FRAMEWORK IN BRUNEI DARUSSALAM”**

#### **General Information and Instruction**

Micro-*Takāful* is an Islamic compliant Microinsurance which intends to serve the low income people to manage risks. Micro-*Takāful* can cover a variety of different risks, including illnesses, accidental injuries, and death and property loss – any risk that is insurable as long as the product is affordable and accessible for low-income households. However, it is the subject matter of this to find out:

- Micro-*Takāful* products that can be offered and appropriate provider (institution) that will provide for these products in Brunei Darussalam;
- Instruments used for mobilization of Micro-*Takāful* funds such *Zakāt*, *Sadaqah*, benefits from *Waqf* or donations from donors;
- The types of contracts and mechanisms of *Shari’ah* compliant used in Micro-*Takāful* arrangements;
- The role that the government of Brunei Darussalam and the *Takāful* operators can play to support the Micro-*Takāful* scheme.

Your participation in this research is greatly appreciated. The honesty of your response will determine the reliability of the research outcome. Rest assured that your individual response will be highly confidential and will not be made available in the public domain. Thank you for taking the time to assist me in my educational endeavors.

Once you are ready to participate you can call me via this number **7219840** to come and collect or send them through one the following e-mail addresses:

- 1) **alnabahany2004@yahoo.co.uk**
- 2) **alhubbuqida@hotmail.com**



## INTERVIEW GUIDELINES

1. Could you please tell me is there any possibility of providing a *Micro-Takāful* scheme in Brunei?
2. If it is possible, do you have plans to provide insurance products to low-income communities in Brunei?
3. Could you please tell me which types of *Micro-Takāful* products are you planning to provide to the low income households in Brunei?
4. Could you please tell me which type of *Micro-Takāful* product/s offered by your company?
5. Could you please tell me, what are obstacles for implementing *Micro-Takāful* scheme in Brunei?
6. Could you please tell me which instruments used for mobilization of *Micro-Takāful* funds (sources of *Micro-Takāful* funds)?
7. In your opinion, could you please tell me which types of contracts used in *Micro-Takāful* arrangements?
8. Could you please tell me what are your suggestions to make *Micro-Takāful* scheme successful in Brunei Darussalam?
9. Could you please tell me other than *Takāful* Insurance, which other provider (institutions) that will provide for *Micro-Takāful* products?
10. Could you please tell me which mechanism of *Sharī'ah* compliance is applicable for *Micro-Takāful* arrangement?
11. Could you please tell me which role the Government can play to support the *Micro-Takāful* scheme in Brunei Darussalam?

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## APPENDIX B



جامعة السلطان الشريف علي الإسلامية  
UNIVERSITI ISLAM SULTAN SHARIF ALI  
SULTAN SHARIF ALI ISLAMIC UNIVERSITY

### THESIS INTERVIEW GUIDES FOR KEY INFORMANTS (THE GOVERNMENT OFFICERS)

#### **RESEARCH TOPIC: “DEVELOPING A MICRO-TAKĀFUL FRAMEWORK IN BRUNEI DARUSSALAM”**

#### **General Information and Instruction**

Micro-*Takāful* is an Islamic compliant Microinsurance which intends to serve the low income people to manage risks. Micro-*Takāful* can cover a variety of different risks, including illnesses, accidental injuries, and death and property loss – any risk that is insurable as long as the product is affordable and accessible for low-income households. However, it is the subject matter of this to find out:

- Micro-*Takāful* products that can be offered and appropriate provider (institution) that will provide for these products in Brunei Darussalam;
- Instruments used for mobilization of Micro-*Takāful* funds such *Zakāt*, *Sadaqah*, benefits from *Waqf* or donations from donors;
- The types of contracts and mechanisms of *Shari’ah* compliant used in Micro-*Takāful* arrangements;
- The role that the government of Brunei Darussalam and the *Takāful* operators can play to support the Micro-*Takāful* scheme.

Your participation in this research is greatly appreciated. The honesty of your response will determine the reliability of the research outcome. Rest assured that your individual response will be highly confidential and will not be made available in the public domain. Thank you for taking the time to assist me in my educational endeavors.

Once you are ready to participate you can call me via this number **7219840** to come and collect or send them through one the following e-mail addresses:

- 1) **alnabahany2004@yahoo.co.uk**
- 2) **alhubbuqida@hotmail.com**

## INTERVIEW GUIDELINES

1. Do you agree with the idea of establishing Micro-*Takāful* scheme for low income people in Brunei Darussalam?
2. In your opinion, which Micro-*Takāful* products can be offered in Brunei Darussalam?
3. Could you please tell me which instruments used for mobilization of Micro-*Takāful* funds (sources of Micro-*Takāful* funds)?
4. In your opinion, could you please tell me which types of contracts used in Micro-*Takāful* arrangements?
5. Could you please tell me which provider (institutions) that will provide for Micro-*Takāful* products?
6. Could you please tell me which mechanism of *Sharī'ah* compliance is applicable for Micro-*Takāful* arrangement?
7. Could you please tell me what role can the Government play to support Micro-*Takāful* scheme in Brunei Darussalam?
8. Could you please tell me what are obstacles for introducing Micro-*Takāful* scheme in Brunei Darussalam?
9. Could you please tell me what are your suggestions to make Micro-*Takāful* scheme successful in Brunei Darussalam?

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## APPENDIX C



### THESIS INTERVIEW GUIDES FOR KEY INFORMANTS (MUSLIM SCHOLARS)

#### **RESEARCH TOPIC: “DEVELOPING A MICRO-TAKĀFUL FRAMEWORK IN BRUNEI DARUSSALAM”**

##### **General Information and Instruction**

Micro-*Takāful* is an Islamic compliant Microinsurance which intends to serve the low income people to manage risks. Micro-*Takāful* can cover a variety of different risks, including illnesses, accidental injuries, and death and property loss – any risk that is insurable as long as the product is affordable and accessible for low-income households. However, it is the subject matter of this to find out:

- Micro-*Takāful* products that can be offered and appropriate provider (institution) that will provide for these products in Brunei Darussalam;
- Instruments used for mobilization of Micro-*Takāful* funds such *Zakāt*, *Sadaqah*, benefits from *Waqf* or donations from donors;
- The types of contracts and mechanisms of *Sharī'ah* compliant used in Micro-*Takāful* arrangements;
- The role that the government of Brunei Darussalam and the *Takāful* operators can play to support the Micro-*Takāful* scheme.

Your participation in this research is greatly appreciated. The honesty of your response will determine the reliability of the research outcome. Rest assured that your individual response will be highly confidential and will not be made available in the public domain. Thank you for taking the time to assist me in my educational endeavors.

Once you are ready to participate you can call me via this number **7219840** to come and collect or send them through one the following e-mail addresses:

- 1) **alnabahany2004@yahoo.co.uk**
- 2) **alhubbuqida@hotmail.com**

## INTERVIEW GUIDELINES

- Do you agree with the idea of establishing Micro-*Takāful* scheme for low income people in Brunei Darussalam?
- If you agree, could you please explain to me the reasons from the Islamic perspective?
- In your opinion, which types of contracts used in Micro-*Takāful* arrangements?
- Could you please tell me how mechanism of *Sharī'ah* compliance can be implemented in an operating Micro-*Takāful* scheme?
- Could you please tell me what are the responsibilities of *Sharī'ah* Board for Micro-*Takāful* scheme?
- Could you please tell me what are your suggestions to make Micro-*Takāful* scheme successful in Brunei Darussalam?

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## APPENDIX D

### QUESTIONNAIRE GUIDELINE FOR DEVELOPING A MICRO-TAKĀFUL FRAMEWORK IN BRUNEI DARUSSALAM



Dear Sir/ Madam,

As part of requirements for award of master degree, am undertaking a study on developing an operational Micro-Takāful framework for the Bruneian market. This questionnaire is therefore intended to facilitate my study. The following questionnaire will require approximately 15 minutes completing. Please spare some time and fill the questions by ticking where applicable. The information that is to be obtained will only be used for academic purposes and will be treated with maximum confidentiality. Thank you for taking the time to assist me in my educational endeavors. Should you have any queries or comments regarding this survey, you are welcome to contact me telephonically at 7219840 or e-mail me at [alnabahany2004@yahoo.co.uk](mailto:alnabahany2004@yahoo.co.uk)

Sincerely,  
**Mohamed Bakar Alidini**  
Master Student  
Faculty of Business and Management Science  
University Sultan Sharif Ali (UNISSA)  
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### SOALAN KAJI SELIDIK MENGENAI MEMBANGUN PRODUK MIKROTAKAFUL BAGI BRUNEI DARUSSALAM



*Tuan/puan,*

*Sebagai sebahagian daripada syarat penganugerahan ijazah sarjana, saya sedang menjalankan kajian untuk membangun satu rangka kerja operasi mikro takaful bagi pasaran Brunei. Soalan kaji selidik ini adalah bertujuan untuk memudahkan kajian saya. Soalan kaji selidik yang berikut ini memerlukan kira-kira 15 minit melengkapkan. Sila luangkan masa anda dan mengisi soalan-soalan dengan menandakan di mana yang berkenaan. Maklumat yang akan diperolehi hanya akan digunakan untuk tujuan akademik dan akan dilayan dengan kerahsiaan maksimum. Terima kasih kerana meluangkan masa untuk membantu saya dalam usaha pendidikan saya. Sekiranya anda mempunyai sebarang pertanyaan atau komen mengenai kajian ini, anda dialu-alukan untuk menghubungi saya melalui 7219840 atau e-mail saya di [alnabahany2004@yahoo.co.uk](mailto:alnabahany2004@yahoo.co.uk)*

Yang benar,  
**Mohamed Bakar Alidini**  
Master Student  
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University Sultan Sharif Ali (UNISSA)  
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**PART ONE: DEMOGRAPHIC INFORMATION /  
BAHAGIAN PERTAMA: MAKLUMAT DEMOGRAFI**

Please tick  the answer. / Sila semak  jawapan anda.

1. Age / *Umur*

- Less than 20 years / *Kurang dari 20 tahun*
- Between 20 and 29 years / *Diantara 20 dan 29 tahun*
- Between 30 and 39 years / *Diantara 30 dan 39 tahun*
- Between 40 and 49 years / *Diantara 40 dan 49 tahun*
- Between 50 and 60 years / *Diantara 50 dan 59 tahun*
- Above 60 years / *Lebih dari 60 tahun*

2. Gender / *Jantina*

- Male / *Lelaki*
- Female / *Perempuan*

3. Highest Level of Education / *Pendidikan Tertinggi*

- GCE O level or below / *GCE O level or kebawah*
- GCE A level / *GCE A level*
- Diploma / *Diploma*
- Degree / *Ijazah pertama*
- Other, please specify / *Lain, sila nyatakan:* \_\_\_\_\_

4. Occupation / *Pekerjaan*

- Shopkeeper / *Penjaga kedai*
- Security / *Pengawal keselamatan*
- Fisherman / *Nelayan*
- Cleaner / *Pembersih*
- Driver / *Pemandu*
- Other (please specify) / *Lain-lain (sila nyatakan):* \_\_\_\_\_

5. Income Level / *Pendapatan*

- 200 or below / *Kebawah*
- 200 – 400
- 400 – 600
- 600 – 800
- 800 – 1000
- More than 1000

6. Marital status / *Status Kelamin*
- Single / *Bujang*
  - Married / *Kahwin*
7. District of residence / *Daerah tempat tinggal*
- Brunei-Muara
  - Tutong
  - Temburong
  - Belait
8. Residential status / *Status Warga*
- Brunei citizen / *Warganegara*
  - Permanent resident / *Penduduk tetap*
  - Temporary resident / *Penduduk sementara*

**PART TWO: MICRO-TAKĀFUL PRODUCT PREFERENCES /  
BAHAGIAN KEDUA: KEUTAMAAN PRODUK MIKROTAKAFUL**

Please tick  the answer. / *Sila semak  jawapan anda.*

9. Are you aware of any *Micro-Takāful* product? / *Adakah anda tahu tentang produk Mikrotakaful?*
- Yes / *Yah*
  - No / *Tidak*
10. If yes, how did you hear about *Micro-Takāful* product? / *Jika ya, bagaimana anda tahu mengenai produk Mikrotakaful?*
- Media / *Media*
  - Friends / *Kawan*
  - Relatives / *Saudara*
  - Other, please specify/ *Lain-lain, sila nyatakan:* \_\_\_\_\_
11. If *Micro-Takāful* products were available in Brunei are you willing to take insurance? / *Jika produk Mikrotakaful terdapat di Brunei, Adakah anda ingin membelinya?*
- Yes / *Yah*
  - No / *Tidak*
12. If yes, which insurance product(s) / policy (ies) are you willing to buy? / *Jika ya, produk manakah yang ingin anda beli?*
- Health / *Kesihatan*
  - Family / Life // *Keluarga / Nyawa*
  - Property / Fire // *Harta / Kebakaran*



(Note: You can select more than one / Anda boleh memilih daripada satu)

13. How much are you willing to contribute or pay? / Berapakah yang sanggup anda bayar?
- 50 or below
  - 50 – 100
  - 100 – 150
  - Above 150
14. How would you like to pay the premium? / Kesanggupan anda untuk membayar premium?
- Weekly / Mingguan
  - Monthly / Bulanan
  - Quarterly / Suku tahunan
  - Half-yearly / Setengah tahun
  - Annually / Tahunan
15. If no, why are you not willing to buy? / Jika tidak, kenapa anda tidak mahu membelinya?
- The government offers free social security/ Kerajaan menawarkan
  - I do not trust insurers / Saya tidak mempercayai syarikat Insurans
  - Policyholders enjoy a narrow range of benefits under the same policy / Pemegang polisi menikmati pelbagai faedah di bawah polisi yang sama
  - Products do not meet customers' expectations in relation to costs, premium payment and claims management / Produk tidak memenuhi jangkaan pelanggan berhubung dengan kos, bayaran premium dan pengurusan tuntutan
  - Other, please specify / Lain-lain, sila nyatakan: \_\_\_\_\_

**NOTE:** If you have any further comments, please add them here / Jika anda ada sebarang komen/cadangan, sila tuliskan dibawah ini:

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*Thank you for your co-operations /  
Terima Kasih atas kerjasama yang diberikan*