

## The Concept of Takaful (Islamic Insurance) and Its Functions in the Establishment of Syarikat Takaful Malaysia; the First Takaful Operator in Malaysia

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**ABSTRACT:** *The concept of insurance is not a new phenomenon in the history of human civilization. It has been around since the days of Babylon in Mesopotamia aimed at protecting private property, real estate, commercial and family affairs. Similarly, the idea and practice of Takaful is not new as it was practiced during the time of the Prophet Muhammad (PBUH) by its adoption of the concept of Aqilah. Starting the 1970s and increasingly in the 1990s, Islamic countries and other countries with a significant Muslim population have encouraged the provision of financial services, including insurance, under Islamic principles. The concept of Takaful or Islamic insurance was first introduced in Sudan in 1979, inspired by the growing needs of the Muslim consumers for an insurance protection that conforms to the Islamic law. In Malaysia, the emergence of the first Takaful operator took place in 1985. This paper describes the concept of al-Takaful in Islam and its development in Malaysia, specifically in the establishment of Syarikat Takaful Malaysia Berhad (TMB), Malaysia's pioneer in Islamic insurance.*

**Keywords:** *Takaful, Islamic insurance, Syarikat Takaful Malaysia, Takaful operator*

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### I. INTRODUCTION

Due to the rapid development in the field of international trade and commerce, insurance has internationally come to play an important and significant role in the daily lives of people everywhere. Insurance has started hundreds of years ago and has evolved over the centuries. Some historians traced the origin of insurance to 215 CE, when the Roman government was required by military supplies to accept all risks arising from enemy attacks, storms, and other natural disasters for supplies carried on their ships (Lim, Idris, & Carissa, 2010). In other words, it is evident that there is a need for human to prepare for the loss. On the contrary, modern insurance can be traced its existence from the 1600's, when British merchants and ship owners began to meet at a coffee house popularly known as Lloyd's near Lombard Street in London. During the meeting, they made an agreement to mutually share in the profits and losses of sea voyages. Nevertheless, there is an essential necessity for Muslims to have an insurance which complies with the Islamic principles. As a result, emerged the first Islamic insurance in Sudan in 1979.

Islamic insurance or Takaful is an insurance product which is based on *Shari'ah* compliance. Takaful holds a different concept from conventional insurance which is prohibited by the *Shari'ah* due to the elements of uncertainty (*gharar*), interest (*riba*) and gambling (*maysir*). There is the uncertainty of what the insurance policyholder is "buying" or paying for if no loss occurs where policyholder receives nothing. If any loss occurs, policyholders get compensation in varying amounts. The second element in conventional insurance is gambling (*maysir*) and the third, element of *riba* where insurance funds are commonly invested in interest – bearing securities. Consequently, Takaful is regarded as an alternative to conventional insurance which presents itself as a form of mutual help (*taawun*) in furthering good virtue by helping others who are in need or in hardship.

Takaful is derived from its Arabic root word *kafala* which literally means "to guarantee". In terms of usage and implication, the term *kafala* certainly denotes the agreement by one party to indemnify another for any liability that has been pre-agreed upon. Since Islamic banking is developed into a system that carries the principle of *Shari'ah*, which prohibits the payment or acceptance of interest fees for lending and accepting of money respectively. In addition, Islam prohibited any kind of investment in business that involve interest (*riba*), or goods and services that considered contrary to Islamic principles.

Takaful is an Islamic substitute to conventional insurance based on the theory of trusteeship, brotherhood and cooperation encouraged by the beliefs of Islam. The majority of Muslims across the world is practicing Takaful as their own way of sharing financial losses to assist each other. This paper describes the concept of Takaful in Islam and its implementation in the Islamic insurance industry in Malaysia, specifically in the establishment of Syarikat Takaful Malaysia Berhad (TMB), the first Takaful operator in Malaysia.

## II. CONCEPT OF TAKAFUL

The concept of Takaful is very widespread and comprehensive. The initial idea is to safeguard the people explicitly, when they are in the need of assistance or in any difficulty. The principle of living in a community states that when one person is in a problem or in a state of vulnerability, the rest of the people will help that person who is suffering the loss. In other words, it gives the impression that every person is taking care about the well-being of the others.

Allah SWT precisely explains in the Qur'an that human beings should help each other when they are in danger or in need of help. And there are a lot of verses in the Qur'an that encourages human being to help each other, these verses are, *Surah Al-Maidah* (5): 3. Essentially Takaful is a cooperative insurance where members are those who face the same risk or threat of incurring losses and who willingly contribute a certain sum of money which will be used to compensate those members of the group who incur such losses. As in the case of ancient Arab tribal custom, every member of the tribe faces the same danger of being inflicted harm by another tribe which is at war with them. Takaful is not only concern to protect individual or one's own life, it is based on the concept of protection and offering help for the whole society, especially to those who are suffering from financial problems. It is one of the means of providing a material safeguard for offspring and is thus in line with the saying of the Holy Prophet (PBUH). He (PBUH) spoke to this effect: "it is better for you to leave your offspring wealthy than to leave them poor, asking others for help". The Holy Prophet (PBUH) also encouraged the providing of security for the widows and poor persons as he highlighted in one of his traditions: "The one who looks after and works for a widow and for a poor person (dependent), is like a warrior fighting for the cause of Allah (SWT), or like a person who fasts during the day and prays throughout the night".

Nowadays, Takaful becomes a popular term in the insurance industry all over the world. It has been acknowledged as an alternative to conventional insurance and is offered in both Muslim and non-Muslim countries. Takaful products can also be offered in other different names such as Islamic insurance, Halal insurance, ethical insurance, Islamic mutual insurance, co-operative insurance and community insurance (Salman S. A., 2014). Looking at the bigger picture of all the insurance companies, almost all of Takaful companies are business entities and they are offering similar products. Hence, they need to compete with the well-established insurance companies and have to be profit oriented entities while operating within the framework of *Shari'ah*. In other words, Takaful operators have two motives, i.e. earning profit and complying with *Shari'ah*. In reality, it is not easy to achieve both objectives ultimately. There is a tendency that Takaful operators might engage in the prohibited elements in order to maximize profit (Nordin, Muwazir, & Madun).

According to World Islamic Insurance Directory 2012, it is understood that there are approximately 200 Takaful operators' worldwide, mostly providing general Takaful business. It is estimated that the combined total premium managed by world Takaful industry is around USD 13 billion in 2014. In addition to that, according to the Bank Negara Malaysia, the assets of Takaful industry has been increased by 20% from 2012 to reach RM16 billion as at end of 2013. Now the Takaful assets account for 10% of the total assets in the insurance and Takaful industry. It is admitted that this amount is very small and insignificant compared to the total Muslim population of Islamic countries.

Number of Takaful firms (2010)

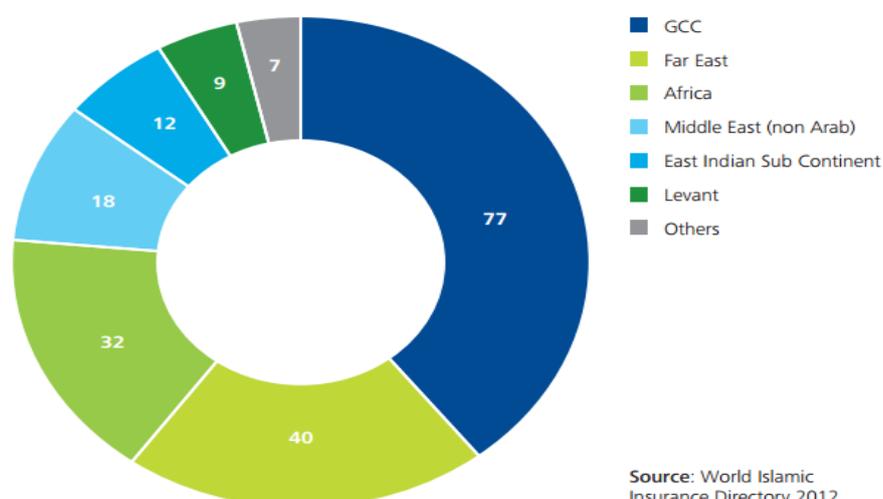
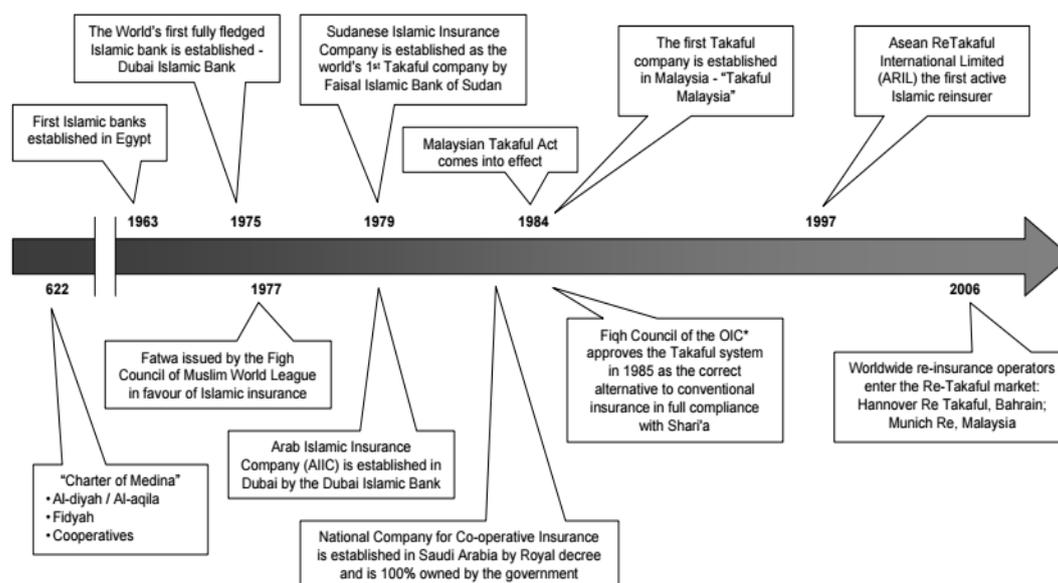


Chart 1: Number of Takaful Firms in Malaysia in the year 2010

### III. THE HISTORY OF TAKAFUL IN MALAYSIA

The development of the Takaful industry in Malaysia in the early 1980's was inspired by the needs of the Muslims in Malaysia for a *Shari'ah*-compliant alternative to conventional insurance due to some prohibitions in Islam regarding the conventional insurance. The Malaysian National fatwa committee issued that conventional insurance is haram due to the presence of the elements of *gharar* (uncertainty), *riba* (interest), and *maysir* (gambling). A special task force was established by the government in 1982 to study the viability of the setting up of an Islamic insurance company. And following the recommendations of the task force, the Takaful Act 1984 and the first Takaful operator was incorporated in Malaysia.



\* The Organisation for the Islamic Conference (OIC).

**Chart 2:** The Chronology of Events of Takaful Industry

Source: World Islamic Insurance Directory 2012

In more than thirty years, Takaful industry in Malaysia has experienced rapid growth and transformation. From a single player with limited products to becoming an industry which has several players inside. The successful of Takaful industry in Malaysia could be achieved by the support from the Malaysia's government by publishing guidelines for international Takaful Operators (ITOs) in late 2006. The development of Takaful industry can be seen through several phases. In the early 1980's, which was the birth of Takaful company in Malaysia, it was focusing on the establishment of the basic infrastructure for the industry. In the early 1990's, several companies of Takaful in Malaysia was emerging which can be marked as the introduction of the competition and cooperation among other Takaful operators. Furthermore, in the early 2000s, began the introduction of the financial sector master plan (FSMP) in 2001 which, among other objectives, is to enhance the capacity of the Takaful operators and strengthen the legal, *Shari'ah* and regulatory framework (Bank Negara Malaysia, 2004).

Chronologies of events of the Malaysian Takaful industry are depicted in Table 1:

**Table 1:** The Chronology of Events of the Malaysian Takaful Industry

Dates	Events
October 1982	Setting up of special Task Force to explore the viability of setting up an Islamic insurance company.
November 1984	Incorporation of Syarikat Takaful Malaysia Sdn. Bhd. (STMB).
December 1984	Takaful Act 1984 gazette.
August 1985	STMB commenced operations.
May 1988	Bank Negara Malaysia entrusted with the regulatory and supervisory role over the insurance and Takaful industries.
October 1993	MNI Takaful Sdn. Bhd. commenced operations.
October 1995	Setting up of ASEAN Takaful Group.
May 1997	Incorporation of ASEAN ReTakaful International (L) Ltd. in the international offshore Financial Centre, Labuan.
November 1998	MNI Takaful changed its name to Takaful Nasional Sdn. Berhad.

Dates	Events
February 2001	Establishment of Islamic banking and Finance Institute/Malaysia.
July 2002	Establishment of the Malaysian Takaful Association (MTA).
July 2003	TakafulIkhlasSdn. Bhd commenced operations.
November 2004	Approval in principal granted to commerce Asset Holding to conduct Takaful business.
2005 – 2007	Start of operational Takaful licenses - Sun Life Malaysia Takaful, HSBC Amanah Takaful, MAA Takaful, Hong Leong, MSIG Takaful, Prudential, BSN Takaful
2008 – 2010	Establishment of four Retakaful operators: ACR RetakafulBhd, MNRB, RetakafulBhd, Munich Re, RetakafulBhd, Swiss Re, Retakaful Bhd.
2011	BNM unveiled Financial Sector Blueprint 2011-2020.
2012	Enforcement of Takaful Operational Framework and the revised Shariah Governance Framework
2013	The new Islamic Financial Services Act 2013
2014	Enforcement of Risk-based Capital for Takaful
2015	Internal Capital Adequacy Assessment Process (ICAAP) for Takaful operators

Source: (Malaysian Takaful Dynamics , 2015)

And later there were seven Takaful operators in Malaysia in 2006. And in 2005 Maybank acquired, via the insurance company Mayban Fortis, MNI Insurance and Takaful Nasional and later in 2007 were rebranded as Etiqa Insurance and EtiqaTakaful respectively. Subsequently, MaybanTakaful transferred all its business, assets and liabilities to EtiqaTakaful. Furthermore, now currently there are 8 Takaful operators and 3 ReTakaful operators in Malaysia.

**Table 2:** Licensed Takaful Operators in Malaysia

Takaful Operators		
No	Name	Ownership
1	AIA PUBLIC Takaful Bhd	F
2	AmMetLife Takaful Berhad	L
3	Etiqa Takaful Berhad	L
4	Great Eastern Takaful Berhad	F
5	HSBC Amanah Takaful (Malaysia) Berhad	L
6	Hong Leong MSIG Takaful Berhad	L
7	Prudential BSN Takaful Berhad	L
8	Sun Life Malaysia Takaful Berhad	L
9	Syarikat Takaful Malaysia Berhad	L
10	Takaful IkhlasBerhad	L
11	Zurich Takaful Malaysia Berhad	L

Source: (Licensed Insurance Companies & Takaful Operators)

#### IV. THE DEVELOPMENTS OF SYARIKAT TAKAFULMALAYSIA

The need for a scheme of insurance in Malaysia which is in line with Islamic teachings was officially affirmed when the Fatwa Committee declared in 1972 that the conventional concept of life insurance as practised in Malaysia was unlawful in Islam as it contained the elements of *riba*, *gharar* and *maysir*.

Malaysia's first Takaful operator, Takaful Malaysia is the industry leader, shaping the industry with creative innovations and setting standards that have become industry benchmarks. Takaful Malaysia was incorporated on the 29th of November 1984 with an authorized capital of RM500 and a paid-up capital of RM162 million.

In 1982, a Committee set up by the government to study the implementation of the Islamic system of insurance in Malaysia recommended the introduction of the Takaful scheme of insurance. The Committee also included in its report a draft proposal for the Takaful Bill 1984 which provided for the setting-up, control and regulation of Takaful businesses and other related matters. Following the acceptance by the government of introducing Takaful businesses in Malaysia, the Parliament gazetted the Takaful Act in 1984, and finally a Takaful Company was incorporated as a private limited company under the Companies Act 196548 on 29th November 1984, taking the name of Syarikat Takaful Malaysia Sendirian Berhad (STMSB), with its registered office situated in Malaysia. The Company started its business on 2nd August 1984. The corporate objective of its establishment is to provide Takaful services (Islamic Insurance) at (the highest standard of efficiency and professionalism to all Muslims and the population in the country.

Takaful Malaysia provides two types of Takaful businesses namely Family and General Takaful. The company has 27 service centres nationwide with total assets of RM6.9 billion at group level and was listed on the Main Board of the Malaysian Stock Exchange on 30 July 1996.

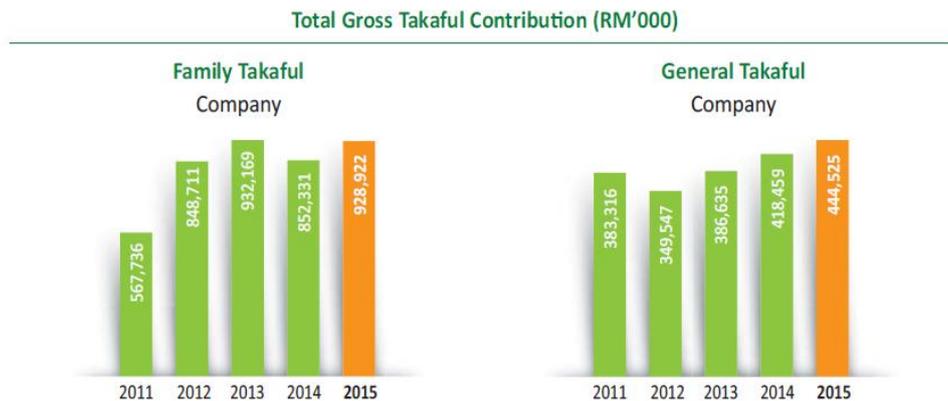


Chart 3: 5 years comparison on the performance of Syarikat Takaful Malaysia products

As the first Islamic insurer in Malaysia, Takaful Malaysia has a long history of providing the best insurance solutions and pioneering innovations particularly the 15% Cash Back privilege for making no claims during the period of coverage. This year Takaful Malaysia is proud to celebrate its 32 years of growth and strength.

## V. CONCLUSION

In a nutshell, introducing Takaful system has given the option to the Muslims an alternative to the conventional insurance. As conventional insurance contradict the *Shari'ah* due to elements of *gharar* (excessive uncertainty), *riba* (interest), and *maysir* (gambling), thus, the application of the Takaful system has avoided those elements and provide a transparency as well as fair contract.

Takaful in Malaysia and elsewhere is relatively young when compared to other sectors of the financial industry but it has enjoyed robust growth. As an industry, Malaysia has more experience in developing the Takaful. One advantage that makes Takaful industry in Malaysia to grow successfully is the involvement of the Bank Negara Malaysia (the central bank of Malaysia) to provide a separate regulatory body, exclusively responsible for the regulation and monitoring the Takaful industry. It remarkable grow has reached a 30 per cent growth during the past few years.

However, there are still many challenges in the future for the Takaful industry to grow nationally and internationally. And future research focused on those challenges would help for the best performance of Islamic insurance.

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