Chapter 34
Corporate Social Performance of Takaful Operators

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ABSTRACT

This chapter discusses the Takaful operators’ corporate social performance which has been given limited attention in previous studies as compared to financial performance. In addition, essential features of Takaful operators like structure and models are presented. These aspects influence the way Takaful operators perform their social obligations which can be categorized into several components: CSR₁, CSR₂, and CSR₃, which are collectively referred to as CSP. Being Islamic financial institutions (IFIs), the Takaful operators are expected to achieve the social and financial objectives.

INTRODUCTION

This chapter discusses Takaful operators’ corporate social performance (CSP) in term of social contribution. In the context of Takaful, financial performance has been studied extensively by many researchers as recorded in the literature when compared to social performance – this is the gap that this chapter intends to bridge by providing discussion on this aspect. Previous studies mostly discuss on the corporate social responsibilities’ activities and social disclosure of the companies instead of their CSP. Also, it is important to highlight that previous studies on CSP of Takaful operators are scarce and more attention are given to the Islamic banks.

This chapter emphasizes that social performance is categorized into several components: CSR₁, CSR₂, and CSR₃, which are collectively referred to as CSP. The formation of Takaful operators either as mutual or stock form Takaful operators causes significant influence on the governance process of the firms. The governance aspect of Takaful operators as well as the adopted Takaful model influence the behaviour of Takaful operators towards formulating and implementing CSR activities in order to achieve their CSP.
This chapter contributes towards enriching literature on the CSP of Takaful operators as well as encouraging discussion on this interesting aspect. On the managerial part, this chapter delineates the importance to formulate and execute the CSR activities so that the CSP will be achieved. Accordingly, past studies have indicated that companies with commendable CSP are companies that are financially profitable.

**Principles of Takaful**

Originally, *Takaful* was a kind of social protection which was formed to assist member of society during unfortunate event. The ethos can be traced back to an old Arab tradition at which time participants contributed money (*diyyah*) to compensate the other tribe for the unintentional injury or death of a member, under the system known as *aqilah* (Billah 1993). By compensating the victim’s family, most of the tribal war managed to be avoided (Engku Ali, Odierno & Ismail 2008).

The advent of Islam and the expansion of Islamic territory have influenced the conduct of *Takaful* activities. Some pre-Islamic traditions have been retained, since they are compatible with the teachings of Islam. *Tabarru’* (donation) is the essential component that becomes the main reference to differentiate between *Takaful* and conventional insurance. As a form of gratuitous contract and not a sale contract; *tabarru’* exclude the needs for consideration which is present in normal business conduct has been removed and this has solved Shari‘ah concerns regarding *gharar* (uncertainty). Engku Ali, Odierno and Ismail (2008) clarify that *tabarru’* has changed the insurance contract from an exchange contract to a charitable contract. Charitable contract does not require return (consideration). *Takaful* operates on a risk sharing basis, whereas the conventional insurance is a mechanism of risk transfer (Wahab, Lewis & Hassan 2007).

Participant Special Account (PSA) is the dedicated account for risk which is based on the *tabarru’* principle, whereby the fund will be used to compensate *Takaful* contributors in the event of catastrophe as agreed in the policy. At the end of the financial period, if there is surplus, it shall be distributed back to the *Takaful* contributors. Notwithstanding this, there is another important account. This is the Participant Account (PA) which will be used for investment purposes based on the discretion of *Takaful* operators, as well as for the investment-linked policies. *Takaful* operators are entitled to share the investment profit either in the form of a percentage of return or by charging an administration fee for managing the investment activities on behalf of *Takaful* contributors.

**Takaful Structure**

*Takaful* was historically formed as a closed-knit society protection scheme to assist their members. This exhibits a form of cooperative which is based on mutuality. The needs to expand rapidly and to be able to provide more services to the customers have caused many *Takaful* operators to be established as stock form *Takaful* operators.