Chapter 35

Takaful in Malaysia:
Emergence, Growth, and Prospects

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ABSTRACT

Takaful is an Islamic insurance contract introduced to substitute the conventional insurance which has been precluded by nearly all Muslim scholars as it encompasses the components of gharar (uncertainty), maysir (gambling), and riba (usury). Its feasibility is evidenced after numerous Fatwas were issued by Fiqh academies and Ulama in its support. Takaful is founded on the basis of cooperation and mutual aid as it is broadly used in the commercial sector. The Takaful business operation is regulated by the codes of Shari’ah and by other laws. Many models such as the Wakalah model, Mudharabah model, and the amalgamation of Mudharabah and Wakalah models have been applied in the Takaful corporate operation. This chapter explicates the existing implications and future prospects of the Takaful industry in Malaysia. It offers a review on Takaful industry in Malaysia and emphasizes issues and challenges, opportunities, and recommendations.

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INTRODUCTION

Insurance protection is a financial necessity of life because every day people are more susceptible to a variety of risks and uncertainties in their environments. Death, disability, injury, sickness, or damage of property because of misfortunes can occur to anybody at any time. It is obvious that insurance cannot stop these misfortunes from occurrence, but it can offer financial support to minimize the weight of the losses emanating from such eventualities (Abdul Rahman et al., 2009; Salleh et al., 2018). Insurance coverage is inevitable because of the multifaceted nature of business dealings and human lifestyles.

Conversely, the existence of forbidden features in the conventional insurance along with non-Shari’ah compliant nature has motivated Muslim scholars to propose Takaful as a substitute for conventional insurance. Takaful merchandises are meant to meet the needs of people, including non-Muslims. The significance and impact of Takaful have attracted the attention of Muslim societies in modern time (Saleh, 2016). Takaful is viewed as a substitute to orthodox insurance because of its strong base of Islamic codes, which are based upon the concept of unity, mutual support, and harmony. It has become a swift increasing and developing the industry with the tremendous prospect and has positively advanced into a broad system which reduces non-Shari’ah compliant characteristics including Riba (interest), gharar (uncertainty) and maysir (gambling) that exist in the traditional insurance (Salman & Htay, 2013; Nordin, 2018).

Conventional insurance exists shoulder to shoulder in Malaysia with Takaful as its complementary, which the Islamic financial insurance is built on mutual agreement and Shari’ah code (i.e. Islamic law). Takaful is principally founded on religious contexts to complement the introduction of Islamic banking, has in the last decade displayed its potential as an innovative financial system (Thanasegaran, 2008; Nazarov & Dhiraj, 2019). Thus, this chapter traces the history, background of the Takaful industry in Malaysia, regulations, guidelines and how related framework Takaful industry is organized in Malaysia is reviewed. It also explicates how the government and the private sector operate together to safeguard the success of Takaful in Malaysia. The objectives of this chapter are:

- To describe the concept and history of the Takaful industry in Malaysia.
- To illustrate the Takaful models and product in Malaysia.
- To discuss the challenges facing Takaful industry in Malaysia.
- To predict the future of the Takaful industry in Malaysia.

Takaful Industry Background in Malaysia

Takaful industry plays a key role in plummeting risks and global basic economic growth, predominantly in the financial sector (Sherif & Azlina Shaairi, 2013; Arifin et al., 2018). Between the mid-1960s and 1970s, about 93% of the global insurance market was retained in the countries in Europe and Northern America.

The late 1970s oil price shocks along with the subsequent inflationary pressure had a deteriorating impact on the percentage of global insurance market of these nations which raised up to 56% in 2012 (Swiss Re, 2013). In contrast, during this period the share of emerging Asian economies improved from 3.8% in the 1960s to 30% in 2012. It was anticipated that emerging economies of Asian countries will enable growth with a rate of 8% which is more than triple of developed countries growth rate of 2.6% (Swiss Re, 2013).