Introduction

What is Takaful?

The concept of takaful was first introduced in Malaysia in 1984 when the first takaful operator was established to fulfill the need of the general public to be protected based on Islamic principles. From the emergence of takaful now on, the term 'takaful' has become well-known and understood by all. Takaful has also become another good alternative for Muslims when dealing with financial planning.

'Takaful' was derived from the Arabic root word 'kafala' which means:

- to bail
- to guarantee
- to warrant
- to indemnify
- to secure one's needs

The term has been used in al-Quran, i.e. the word of Allah, the major ruling of Muslims by His saying:

"Help (ta'awun) one another in furthering virtue (birr) and God consciousness (taqwa) and do not help one another in furthering evil and enmity". Al-Maidah (5:2)

It was also found in al-Hadith, i.e. the word of Prophet Muhammad (Pbuh), another ruling source of Muslims: "Tie the camel, then submit (tawakkal) to the will of God" (Narrated by Al-Tirmidhi)

The word ‘takafala’ refers to mutual indemnity and the concept of takaful refers to mutual contribution of participants to the same fund with the purpose of having mutual indemnity in the case of peril or harm.

In some situations, Allah used the word al-Ta’min as in surah (Quraish 106:4) by saying:

“(He) who have fed them against hunger, and has made them safe from fear”. (Quraish 106:4)

The word ‘al-Ta’min’ was derived from the word ‘amana’ meaning:

- to secure
- to calm
- to feel free
- a feeling of being free of harmful and frightening elements.

The term is related to takaful since it also provides a person security and a peaceful life with the protection given in a takaful contract. Another term related to takaful is ‘al-Tadhamun’ which was derived from the word ‘dhamana’ meaning ‘to guarantee’. Thus, al-Tadhamun refers to mutual guarantee given by various parties to assist and provide for any calamities and tragedies experienced by any member of that takaful.

As a conclusion, takaful in the Islamic point of view is an alternative to insurance based on the principle of ta`awun or mutual assistance. It provides mutual protection of assets and property and offers joint risk-sharing in the event of loss incurred by one of its members. Takaful is similar to mutual insurance by which the members are the insurers as well as the insured. In other words, Takaful is a protection plan based on Shariah principles. Once a person contributes a sum of money to a common takaful fund in the form of participative contribution (tabarru’) he/she undertakes a contract (aqad) to become one of the participants by agreeing to mutually help each other, should any of the participants suffer a defined loss.

In Malaysian context, takaful is regulated under IFSA 2013 based on the following provision:

National Fatwa Committee in Malaysia resolved that the present-day life insurance business provided by the conventional insurance companies was not in line with the principles of Shariah as it contains elements which are against Islam such as riba (usury), gharar (uncertainty) and maisir (gambling).

Family Takaful Plan

A family takaful plan, equivalent to the Islamic life insurance, provides protection with a long-term saving and investment program. It provides mutual financial assistance among its participants through a financial program that pools efforts to help the needy due to untimely death and other mishaps resulting in personal injury or disablement. Family takaful would enable participants to participate in the scheme with the following aims: -

- To save regularly for a fixed period of time to create a kind of retirement or long-term contingency fund.
- To invest with a view of earning profits which are Shariah compliant.
- To avail of cover in the form of payment of takaful benefits to heir(s) should the participant (insured) dies or becomes disabled before the expiry date of his/her participation in the takaful plan. (Takaful is a contract to participate not buy and sell, hence, the word ‘expiry’ is more appropriate.)
- To obtain the blessing of Allah for helping others. A family takaful scheme provides participants with a protection and savings plan. The participant or his/her beneficiary will be provided with financial benefits if the participants (insured) suffer a mishap. At the same time, the participant will also enjoy savings because a major portion of the contribution will be deposited in an account for the purpose of investments.

Types of Family Takaful Scheme

Generally, family takaful plans can be grouped as follows:

1. Ordinary Family
2. Annuity Plan
3. Investment-Linked Plan

1. Ordinary Family

There are two categories under this type of cover, namely, ***Individual Family Takaful*** and ***Group Family Takaful.***

Individual Family Takaful

The plan provides financial benefits arising from death or permanent disability, as well as long term savings and investment profits that are distributed upon claim, maturity or early surrender.

Example: Education Plan, Mortgage Plan and an Individual Medical Plan.

Group Family Takaful

Under this plan, a minimum number of participants are required to qualify. The Plan usually covers employees of companies, members of clubs, associations and societies. The participants will receive protection in the form of financial benefits arising from death or permanent disability.

Example: Group Term Takaful Plan, and Group Medical and Health Takaful

2. Annuity Plan

The plan provides regular income upon the participant's retirement where he is not actively employed. Commonly, in Malaysia the Normal Retirement age is 55 years old. An Annuity Plan is a plan that actually protects the annuitant (person receiving the payment) against the risk of outliving his/her financial resources by providing guaranteed income for life.

Even though a retiree is not actively working he/she will still incur personal and household expenses during the retirement years. Furthermore, invariably, cost of medical expenses would increase during old age for which no other cover is afforded. Hence, uncertainties exist as to how long individuals will need the income after they have retired to provide for old age. If personal savings and investment are not sufficient, individuals living to advance age may outlive their income sources.

Some annuities are payable throughout the life of the annuitant, whereas others are payable for a certain period of time that does not depend on anyone’s life or death. However, annuity plans are still not common in Malaysia.

Annuity payments are composed of both earnings and a partial liquidation of principal. Example of annuity plans that was available in the market at one point of time was the EPF Annuity Scheme (SAKK) and EPF Annuity Takaful Scheme (SATK).

3. Investment-Linked Plan

An investment-linked plan is a takaful plan that provides flexibility to the participant in terms of managing his/her protection and investment needs in one account. The plan gives the participant a mix of takaful protection and an investment account with the flexibility to change this mix at any time. The takaful protection covers death and permanent disability. Some plans may allow a person to vary the amount of contribution according to the individual changing financial circumstances.

A portion of the participant’s contribution is used to buy investment units, such as units in equities, fixed income securities or other form of assets, as long as they are Shariah compliant. An investment linked plan usually allows the participant to ‘switch’ their current investment fund to other types of investment fund. You can claim part of your investment-linked units at any point in time based on the prevailing unit price. The plan contributions can be made as single contribution i.e. one lump sum or on a regular basis, either monthly, quarterly, half-yearly or yearly.

What is Hibah Takaful?

Hibah Takaful, or conditional gift, is used by takaful operators as a method of disbursing takaful benefits upon the death of the takaful policyholder. Through hibah takaful, the distribution of takaful benefits is given to the nominated beneficiary in the hibah policy, following the death of the policyholder. Family members or other heirs cannot dispute the assets that have been gifted to the hibah recipient.

In other words, you can nominate anyone you want to receive the takaful benefit as a beneficiary through a conditional hibah (gift) upon the event of your death. The option for a beneficiary via conditional hibah is a special provision under the Islamic Financial Services Act 2013 (“IFSA 2013”), in order to ensure your loved ones, receive the takaful benefits without having to go through the lengthy process for property inheritance.