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Rules and regulations review on micro-*takaful* scheme development in Malaysia

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Abstract

Purpose – This study aims to review the current rules and regulations on micro-*takaful* in Malaysia to determine whether it addresses the basic principles of micro-*takaful*. Although the features of the first micro-*takaful* are slightly different from the customary long-established *takaful* settings, the rules and regulations remain unchanged following the original guidelines of operating insurance and *takaful*. Until Perlindungan Tenang makes its first premiere, the rules and regulations on micro-*takaful* are gaining ground. The dissimilarity of micro-*takaful* from the original *takaful* calls for updated guidelines, so that any micro-*takaful* scheme launched in the market meets the demand and needs of the targeted population.

Design/methodology/approach – This study uses content analysis as the best method to review each guideline in the related rules and regulations across several documents such as microinsurance and micro-*takaful* discussion paper and guidelines on family *takaful* products.

Findings – Overall, the findings reveal that guidelines on micro-*takaful* operating in Malaysia support the micro-*takaful* requirement to be affordable, valuable, accessible, understandable and simplified. Matching the rules and regulations with this population feedback, the extended distribution channel may need further scrutiny due to deficit trust among public members toward insurance and *takaful*.

JEL classification – G21, G22, G23
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Originality/value – The insights presented are of important illumination to achieve long-term sustainability financial protection while preserving human well-being among those underserved.

Keywords Micro-takaful development, Micro-takaful Malaysia, Micro-*takaful* scheme, Rules and regulations

Paper type Research paper

1. Introduction

A lower rate of financial inclusion among low-income or bottom 40% income classification households (B40) has affected a lower demand of Islamic insurance or *takaful*. Poor people will have to gather resources in the case of incapacitation, death of family members and accidental causes just to cover the temporary liabilities carried by the breadwinners when they are no longer productive and supportive to their families. As financial inclusion is important, the level of income should not be an obstruction to this underserved population. Thus, a more appropriate *takaful* scheme should be made available with attention to the access of coverage, affordability pricing and valuable benefits. In addition, product channeling and distribution must be made suited with the target needs of such vulnerable people to be seen more appealing.

Many companies and *takaful* operators are developing, establishing and offering micro-*takaful* products in the market following the cognizant and demand of B40 households. To better facilitate the needs of the targeted consumers, a new micro-*takaful* product should be designed by addressing the most suitable channel and distribution when dealing with any advice prior to a subscription, monthly premium payment and claim redemption. A good micro-*takaful* product understands well the needs of consumers while designing the product disclosure, especially when taking into account the rural area B40 households who are less knowledgeable in financial decision making.

According to a survey, Mohd Rom and Abdul Rahman (2012) highlight a significant rate of 97% B40 respondents, who are being excluded from any financial protection mainly due to the lack of pecuniary capacity. Moreover, the enforced government policy and regulation are perceived hostile and unfriendly towards the communities. Lack of government support in the sense of joint payment contribution subsidy suppresses their inclination to affix in the system. Following the established *takaful* scheme, it is unreasonable for micro-*takaful* offering in a position which subject to the same policy and regulation. Alternatively, a special guideline must be constructed with at least, some of the requirements being relaxed in a pursuit for societal objectives. The success of a micro-*takaful* scheme would largely be depending on the consensus between regulatory, community and private commercial aspects despite the conflicting interests among various stakeholders. While many scholars devote their works on developing several possible frameworks for micro-*takaful*, the suitability of government policy has been ignored that would contribute to a restriction in achieving a tailored channel of distribution preferred by both participants and micro-*takaful* operators. Thus, a question emerges as to what extent the current policy and regulation designed for micro-*takaful* meet the requirement and the relaxation expected by different stakeholders.

This paper aims to review the rules and regulations provided by Bank Negara Malaysia (BNM) to align with the affordability, value, channels of distribution and method of payment preferred by B40 household respondents. A good micro-*takaful* product must also meet the needs and preferences of B40 consumers, especially during the subscription process, the convenience method of payment and the complex procedure of claim redemption. Upon the completion of a research emphasis on the B40 needs of micro-*takaful*, we use the findings to correspond with the stipulated rules and regulations. This is because B40 needs a special non-conventional arrangement to ensure the product and services are well-received and well-advised, thereby improving the rate of financial inclusion pertaining to personal risk mitigation.

In general, this study builds contribution to the similar area of literature in two ways. First, it reviews the national rules and regulations of managing micro-*takaful* with some justifications. Second, this study matches the needs of B40 groups with the stipulated rules and regulations so that micro-*takaful* operators are known friendlier in the market by smashing all the barriers and ensuring the operation in a seamless fashion. Comparing the B40 needs and requirements through a market survey with the regulations is, thus, important to capture some insights on the micro-*takaful* operator's capabilities to reach them and the prospect development of a more appealing micro-*takaful* scheme in the market.

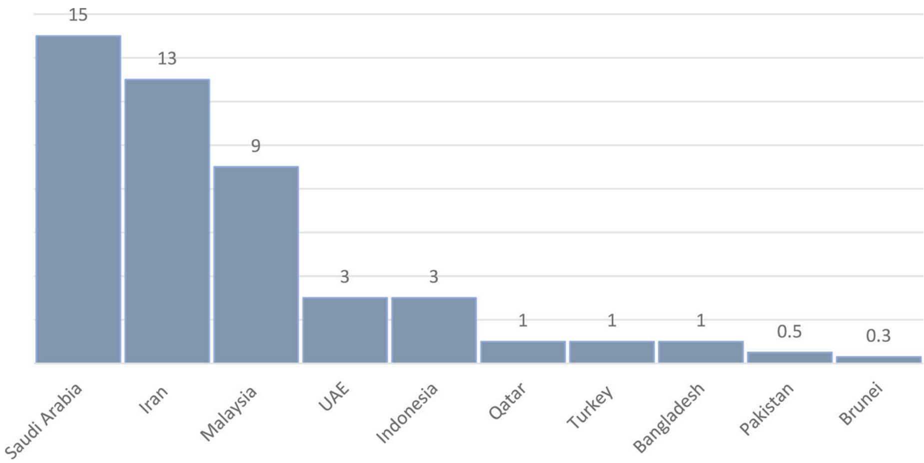
The paper has been organized in the following way. Section 2 reviews the history of micro-*takaful* in Malaysia, the previous related published works and the theoretical background. Section 3 presents the method used in this paper. Section 4 elaborates the findings, and ultimately, Section 5 recapitulates the study and underlines the suggestions for future research.

2. Literature review

2.1 Takaful history and regulation in Malaysia

As Islamic finance remains a beneficial and significant value contributor to the Malaysian financial market, the first *takaful* operator namely, Syarikat *Takaful* Malaysia was first established in November 1984 following the enacted *Takaful* Act in the same year. The act guides the *takaful* management funds and its operations especially when it must adhere to the Shariah principle by establishing a Shariah committee. In June 1993, the second *takaful* operator came into the market known as National *Takaful*. Both operators have been collaborative developing code of ethics for *takaful* sector. Early 2000s witnessed more *takaful* operators to strengthen the market amidst the Financial Sector Master Plan launch, the inauguration of Malaysian *Takaful* Association and the launch of the Malaysian International Islamic Financial Centre to liberalize and promote the industry towards becoming an international hub for Islamic finance.

The *takaful* regulation recorded a series of improvements where the *takaful* operational framework, Shariah governance framework and the Islamic Financial Services Act (IFSA, 2013) were successfully launched. These massive efforts made Malaysia the leader of *takaful* services providers in Southeast Asia and third in the world as illustrated in Figure 1 with



Sources: Islamic Corporation for the Development of Private Sector (2019)

Figure 1. Top countries by *takaful* assets in 2018 ($billion)

15.9% penetration rate, 34.4% market share measured by total contributions and overall market share of 15.7% viewed by total assets (Malaysian Takaful Association, 2019a). Although the amount of contribution and total assets for this sector are increasing annually, surprisingly low-income households remain neglected in this Islamic risk protection plan. It looks like whether they prefer the alternative conventional insurance or their unaffordability to subscribe one has been the reason for exclusion from such financial risk management plan.

A broader range of products to complement *takaful* scheme offering tailors the various customer segments and modern preferences including annuities, medical and health-care protection, investment-linked and the most recent being *waqf* fund. While these new options are available for subscription, this new undertaken regulation would ensure the relevance of *takaful* industry to remain competitive against its counterparts. In addition, the *takaful* efficiency can possibly be ramped up through the capitalization of strategic alliance. For example, Banca*takaful* enables the affiliation of both local and foreign banks to conveniently offer any new *takaful* products. Not to mention, alternative distribution channels are equally good suggestion where *takaful* operators can now promote the schemes through the expanded nationwide government-linked corporation, such as Pos Malaysia Berhad (Malaysian Postal Services) and Lembaga Tabung Haji (Pilgrims Fund Board).

The newly regulatory environment (IFSA, 2013) has mainly redesigned a more comprehensive and stronger framework of Shariah compliance regulation and supervision. As such, Islamic financial institutions and *takaful* operators must ensure that its underlined aims, objectives, operations, business affairs and activities are consistent with Shariah compliance rules and principles at all times. Along the same line, the financial reporting obligation on Shariah non-compliance issues should be followed where auditor is granted a power to report any breach, fraud, irregularities, conduct, activity, non-compliance or weaknesses in internal controls as highlighted in Section 81 (IFSA, 2013). Financial products and services consumers continue to be the central attention when their right and protection are strengthened. *Takaful* operators are more risk-focused with the new requirement for family *takaful* and general *takaful* to carry out the business separately, except those license professional reinsurers and re-*takaful* operators, within five years from the date of the enforced regulation.

2.2 Previous related studies

According to Lin (2018), life insurance and family *takaful* penetration rate among B40 households is relatively too low at 36.5% in 2017. Among the working population in this group, the penetration rate of life insurance and family *takaful* is even lower at 30.3% as at the end of 2016. More specifically, 36% of B40 households who live in Johor have insurance and *takaful* coverage significantly lower compared to non-B40 who contribute 68% to the penetration rate. In rural areas like Perlis state, the gap of penetration rate is getting closer where B40 households report 26% compared to 46% penetration rate by non-B40. The fact that Malaysia has a great number of *takaful* operators as listed in Table 1, does not translate into a higher acceptance of financial protection among B40. In this regard, Lin (2018) highlights the complexity features of a *takaful* product in the market resulting into a greater uncertainty, reducing the suitability, impeding their affordability and perplexing the accessibility. Moreover, many benefits offered such as investment-linked and personal accidents are sometimes beyond the necessity of the targeted B40 households just to make the coverage profitable only to one party.

Bakhtiari (2013) equates microinsurance and micro-*takaful* mechanism as one of innovation strategies that would be able to reduce poverty among poor people and underprivileged segment of households by designing a special low premium contribution to suit with their risk-specific exposure. Following the similarity between both mechanisms, poor people in Islamic countries are facing the accessibility and affordability issues to subscribe to the protection plan conditioned primarily by the faith practice. Thus, the *takaful* operators are in the right direction when micro-*takaful* is successfully offered in the market as the best alternative to microinsurance established in the conventional market (Swartz and Coetzer, 2010). Micro-*takaful* operationalization follows *takaful* in which agreement is signed on mutual guarantee, cooperation and solidarity basis among the participants from the collected contribution depending on the type of risk coverage and meeting the Shariah principles.

Aimed at protecting the poor and vulnerable to suit their needs, Hasim (2014) explains the crucial involvement of government subsidies, *zakat* funds and non-governmental organizations (NGOs) to support the micro-*takaful* operators maintain their sustainability. Moreover, she adds that services offered through the prevalent micro-*takaful* in the countries where a *takaful* industry that is well-developed would be considered part of social contribution events. This idea would be favorable with the integration of various social finance institutions in tunneling the funds to the targeted poor and B40 households. However, if a proportion of premium contribution is heavily subsidized by these institutions, B40 households would considerably enjoy the benefit of coverage protection without being held responsible to the foundation of risk sharing, brotherhood and mutual assistance among the *takaful* participants in the event of misfortunes and catastrophes. Besides, *takaful* operators are running on the trade-off between profit and expenses contradictorily to a sole function of non-profit purposes. Despite the suggestion by Mikail *et al.* (2017) to use *zakat* and *waqf* funds, the main concern is whether it serves micro-*takaful* for an urgent need and does not defer the usage and benefits to a specific future period through some financial intermediaries.

In her micro-*takaful* model based on cooperative principle, Hasim (2014) portrays the importance of a special subsidy fund from government and *zakat* institutions managed by a board of trustees in an ordinary *takaful* operational framework. More interestingly, she has

No.	*Takaful* Operator	Re-*takaful* operator
1	AIA Public *Takaful* Berhad	ACR Re-*Takaful* Berhad
2	AmMetlife *Takaful* Bhd	Malaysian Reinsurance Bhd
3	Etiqa Family *Takaful* Bhd	Munchener Ruckversicherungs-Gesellschaft (Munich Re Re-*takaful*)
4	Etiqa General Takaful Bhd	Swiss Re Asia Pte. Ltd. (Swiss Re Re-*takaful*)
5	FWD Takaful Berhad	
6	Great Eastern *Takaful* Bhd	
7	Hong Leong MSIG *Takaful* Bhd	
8	Prudential BSN *Takaful* Bhd	
9	Sun Life Malaysia *Takaful* Bhd	
10	Syarikat *Takaful* Malaysia AM Bhd	
11	Syarikat *Takaful* Malaysia Keluarga Bhd	
12	*Takaful* Ikhlas Family Bhd	
13	*Takaful* Ikhlas General Bhd	
14	Zurich General *Takaful* Malaysia Bhd	
15	Zurich *Takaful* Malaysia Bhd	

Source: Bank Negara Malaysia (2021)

Table 1. *Takaful* and re-*takaful* operators in Malaysia

also suggested the charitable trust fund which collects donations and *waqf* to advocate the micro-*takaful* operating expenses and the surpluses would be channeled to the subsidy fund. The interaction and incorporation between both funds corroborate micro-*takaful* framework to effectively play the mechanism role of alleviating poverty among B40 by matching public funds with the needy in a strategic and collective manner. Nevertheless, through *zakat* fund assistance, *zakat* institutions will be able to enhance the redistribution efficiency and employ a more financially sustainable approach to reach the underprivileged Muslims (Mohieldin *et al.*, 2012).

Alternative form of supporting micro-*takaful* is by using *waqf* as voluntary public donation to address the issue of poverty alleviation among Muslim B40 group. In this light, Sadeq (2002) extends the use of traditional waqf into cash *waqf* to raise new funds to facilitate the development of micro-*takaful*. The opportunity is greater which appeals publicly to individuals and many institutions to continuously support a significant reach of micro-*takaful* establishment. Based on *takaful* settings, micro-*takaful* also exercises the concept of donation by providing a temporary relief of financial assistance to those participants who face unforeseen hardship. Participants will be bound by *mudharabah* dan *wakalah* contracts simply because the former agrees on the terms of savings and investment funds from the monthly premium paid while the latter appoints micro-*takaful* managers to receive, siphon and manage the pooled funds with due diligence.

In Malaysia, the earliest micro-*takaful* has been launched during April 2007 by *Takaful* Ikhlas together with the Farmers Welfare Federation of Malaysia and funded by the Malaysian government (Islamic Financial Services Board and International Association of Insurance Supervisors, 2006). Later in March 2009, Angkatan Koperasi Kebangsaan Malaysia, a government agency, collaborated with ETIQA *Takaful* to offer a micro-*takaful* scheme based on *tabarru'* to all the members of cooperatives. Risk coverage includes death and total permanent disability, and the protection is open for subscription to all members aged up to 80 years (IFSB and IAIS, 2015). Well documented micro-*takaful* history describes a slightly different operation from *takaful* products where *takaful* operators identify a particular group of participants eligible for coverage protection, typically members under cooperatives and NGOs. Direct promotion and channel of distribution significantly reduce the overall costs comparable to *takaful* schemes. Agreement between many stakeholders makes the services easily accessible, simplified and effortlessly straightforward in contribution payment and claims procedure. Using government subsidies, the contribution pricing rate could be made lower to match with the risk covered based on the job nature of participants.

Another example is *takaful* bantuan rakyat 1 Malaysia (i-BR1M) where a *takaful* operator consortium managed the underwriting process during the cash disbursement by the Malaysian government to the B40 low-income households in 2014 (IFSB and IAIS, 2015). It was a one-year *takaful* protection whose premium contribution was fully paid out by the government. Hence, people in this group did not only receive the periodical cash relief, but also a free *takaful* protection to ease the burden of households in the event of death resulting from accidental and non-accidental cause and total permanent disability. A different version of micro health *takaful* is launched in 2018 known as *my*salam automatically offered to B40 households and sponsored by the government. Likewise, while the beneficiaries receive the cash relief under the different scheme of bantuan sara hidup, they are also covered by a special protection from which the family members will be able to claim a total amount of cash if one of the 45 listed critical diseases is diagnosed from the participants. In addition, hospitalization also entitles them to make a claim of RM50 daily for income replacement up to RM700 per year. More interestingly, the coverage has been extended to hospitalization due to the coronavirus (COVID-19) for up to 14 days a year (MySalam, 2020).

From the rules and regulation perspective of micro-*takaful*, Htay *et al.* (2015) reveal that new legislation specifically for micro-*takaful* is not necessary when asked by the regulators and they refuse to develop a new and separate version. This is especially because micro-*takaful* follows the existing *takaful* framework. However, this could be confounding in an effort to deliver affordable, accessible, understandable, simplified and good value micro-*takaful* stressed by Lin (2018). As for micro health *takaful*, the readiness of *takaful* operators to offer such schemes will depend on the demand of B40 households, appropriate pricing structure and the complete packages which include basic access to medical facilities. On the other hand, *zakat* institutions have no answer to subsidize the beneficiaries micro-*takaful* contribution, as it requires a stern resolution from National Fatwa Council and State Fatwa Committee. Thus, micro-*takaful* is made relevant between the collaboration of *takaful* operators and government agencies for the time being without the presence of low-income championing institutions. However, much uncertainty remains unanswered about the new regulation for micro-*takaful* to fulfil the demand from its population.

The importance of regulation in microinsurance, even though it reflects the similarity with traditional insurance according to Llanto *et al.* (2006) is to ensure safe and sound microinsurance operations, to protect the contribution payment by the consumers, to guarantee the claims payment within the stipulated time and to promote the good governance practice. For example, the difference in consumers and features between commercial insurance and microinsurance will have a significant effect when the services are expected to deliver if the prevailing regulation is not reassessed. Perhaps Matul *et al.* (2013) are right about the lower demand for microinsurance primarily due to public trust deficit, less value-added and annoyance which results in the unconvinced state of being associated with the services. Consequently, it turns to a nightmare and even unresolved dispute if the regulators are not playing their part.

Brown (2001) supports that people who subscribe to insurance do not have any idea of what they are buying. Banthia *et al.* (2009) are of the opinion that poor women do not have adequate knowledge about the benefit, future coverage, and the purpose of having such a scheme. Mohd Rom and Abdul Rahman (2012) find that low awareness on financial protection tools such as insurance and *takaful* would be attributed to a lower level of educational background, having low-income sources, and relating with trust issues. Again, to meet the demand of B40 households, the regulators must at least ascertain that all guidelines, rules and regulations on micro-*takaful* is straightforward to reach them in a rewarding manner.

In a continuous effort to provide financial protection to B40 households, BNM has introduced *perlindungan tenang* on 24 November 2017 as alternative solutions to insurance and *takaful* framework (Lin, 2018). It is imperative to note this new scheme with significant characteristics such as affordable, fair value, accessible, understandable and easy to buy and claim. Affordability is the main issue among B40 households and BNM has targeted a ceiling monthly premium of RM15. Good value can be explained by expecting excess in benefit pay-outs, at least half of the generated premium. Further, technology and distribution channels must be enhanced to achieve a significantly reduced cost. Subsequently, an effective distribution channel is the one that could appeal people conveniently to deal with the schemes. Marketing this scheme would be involving a direct and simple explanation while reducing the ambivalence. More importantly, the procedure from the first step of subscription until the claim payment shall be made simpler, predominantly on the number of documentations and the submission point for subscription, monthly contribution and claim payment. For instance, BNM has been clear on the claim payment to be resolved within five working days after the application received. Table 2 illustrates the list of micro-*takaful* operators in Malaysia.

2.3 Institutional Logics framework

An institution often filled with plenty of human activities that drive a form of social structure attributed to norms, routines and practices (Scott, 2000). The human interaction in an organization is made under a leadership or management hegemony by the setting of a certain rules, guides and regulations to determine the member behavior. In fact, institution has been a significant influence at ratifying and constraining the institutional and individual actions. Thus, some activities within an institution should be undertaken in accordance with a prescription rule which later can be institutionalized as part of the organizational norms if the set and interpretation are easily and regularly practiced by the members.

In view of the institutional analysis, early studies have long focused on the formal institution and the process of institutionalization through the rule of internalization. Selznick (1957) investigates the relationship between institution and the environment focusing on the assimilation of institution with the society through the process of internalization. Later, the work of new institutionalism advocates the legitimacy of an institution at the macro level along the cultural process of institutionalization. The work of DiMaggio and Powell (1983) gains the spotlight following their prominent isomorphism actions in regulative, normative and cognitive manner. However, the expanding institutional theory ignores the organizational change issue (Thornton *et al.*, 2012), following the role of many actors with different interest and purpose of power that would likely raise the human agency problem. The idea of organizational stability will less likely be meaningful if institution preoccupies only in a legitimate form taking together the practice among its members. Retaining the foundation of an institution means that all institutions are deemed homogenous without a specific explanation to characterize the modern institution in a heterogenous manner.

Critics by scholars have led to the expansion of institutional analysis which built on several branches include institutional entrepreneurship, institutional work and institutional logics. An interesting feature in the institutional logics is when human agency accounted to explain the perspective. A shift to redefine institutional by logics encompasses two crucial constituents, namely the organizational change over time and the institutional practices under the actor's control (Thornton and Ocasio, 1999). Besides, the incorporation of social reality would support a wider meaning to the multiple layers of society system. In Thornton *et al.* (2012), institutional logics display the interrelationships between institutions, organizations and individuals in multiple social locations situated under institutional orders emanating from family to community, religion, market, profession and corporation. More interestingly, they are attributed to the central logic, symbols and practices, respectively, centered at the interaction between individuals and institutions to rule out a set of behavior and perceive the ground of rationality.

Although actors such as micro-*takaful* players have partial autonomy to bring a change in the institutions with objectives, the effective outcomes are subject to multiple institutional logics such as the structural view in addition to the variability of human agency. Another important argument to be considered is the multiple, contradicting and yet competing institutional logics from internal (Seo and Creed, 2002) and external sources (Beck *et al.*, 2015) for their future survival. An example from Nicholson *et al.* (2015) on the effective enforcement of a new law presents external sources towards institutional change. While adhering to the newly published written guidelines and regulations on micro-*takaful* offering, the decoupling strategy enables the market players to observe the rules, albeit on a symbolic basis, as long as meeting the goals by having a new line of *takaful* distribution at society level. The operators, hence, embrace a type of logic to external parties and another set of logic to rationalize their operation. As micro-*takaful* operators are susceptible to various stakeholders, particularly the community, it is imperative to understand the matching reaction between the operators and conflicting external demands to explain the potential practice.

It would be more challenging if institution faces multiple demands from the surrounding environments and conflicting logics from the institutional members. Welfare logic as explained by Battilana and Dorado (2010) and Sandeep *et al.* (2013) pays attention primarily to poverty alleviation or the related welfare motives to serve the communities, who are their main beneficiaries. Consistent with Battilana and Dorado (2010), welfare logic is pursued by micro-*takaful* operators to help the B40 communities gaining access to financial protection while increasing the rate of financial inclusion. Simultaneously, the commercial logic is embedded by the evidence of profit maximization, cost efficiency and business effectiveness objectives and these would be seemed self-interest. Likewise, corporation logic held to strategically position an institution in the market as a result of increased share and institutional size (Thornton *et al.*, 2012). With multiple institutional logics established in a micro-*takaful* operators, striking a balance between different logics and the way how they deal with various stakeholders, especially external parties are of importance to continue their legitimacy. Thus, we offer an extension of the existing institutional logics framework by interpreting the micro-*takaful* operating aspects while understanding its complexity, the social world, the logics multiplicity, heterogeneity and the coexistence of different logics simultaneously.

Perlindungan Tenang provider	*Tenang* plan offered
Prudential BSN	Micro-*Takaful* Jariyah Program
AIA Public *Takaful*	AIA i - Starter Plan (*Skim Perlindungan Tenang*)
Allianz	Allianz Kasih hayat (*Skim Perlindungan Tenang*)
Allianz	BIMA Life (*Skim Perlindungan Tenang*)
ETIQA *Takaful*	Pos Tenang (*Skim Perlindungan Tenang*)
FWD *Takaful*	FWD Kasih (*Skim Perlindungan Tenang*)
Great Eastern	Easy Care Plus (*Skim Perlindungan Tenang*)
Hong Leong Assurance	Life Protector (*Skim Perlindungan Tenang*)
MCIS Insurance Berhad	Merchantrade Insure Life (*Skim Perlindungan Tenang*)
Prudential BSN	PruBSN Lindungi (*Skim Perlindungan Tenang*)
Sun Life Malaysia	GOLIFE (*Skim Perlindungan Tenang*)
Takaful Ikhlas	AGRO Mabrur - i (*Skim Perlindungan Tenang*)
Tokio Marine Life	Tokio Marine-starter Pack (*Skim Perlindungan Tenang*)

Sources: Life Insurance Association of Malaysia (2020) and Malaysian Takaful Association (2019a, 2019b)

Table 2. *Perlindungan Tenang* operators in Malaysia

3. Method of study

Prior to this study, we have completed a research survey among B40 Malaysian respondents whose age ranges from 18 to 60 years. More specifically, we focus on B40 respondents among four different groups including the Federal Land Development Authority residents, fishery sector groups, urban B40 households, agricultural sector employees and self-employees. We have received completed feedback from a total of 1,165 respondents from the initial targets of 2,021 respondents signifying a 57.64% rate of response. Among the highlighted findings are affordable amount of premium contribution, worthy value coverage benefit, the preferred micro-*takaful* channel of distribution, the reliability of a micro-*takaful* scheme and agent selection criteria because it has a significant difference from catering the conventional products to a more developed and inclusive consumers, especially focusing on the underserved segments while achieving the national rate of financial inclusion. However, we have no intention to emphasize on the whole structure of survey since it would be of supplementary findings to match with the main discovery in this study. Further explanation on the selected contents and matching results will be presented in the next section.

This study primarily uses a qualitative approach in the data collection. Subsequently, we pair the analytical results between the prior quantitative survey and the current review on rules and regulations of micro-*takaful* in Malaysia to understand the interest from legislative and society logics of interests. For this reviewing procedure, we perform content analysis to review all the related rules and regulations for future suitability micro-*takaful* product development and implementation. The analysis will observe, among others, four main references of rules and regulations, namely, microinsurance and micro-*takaful* discussion paper dated 18 April 2016 by Bank Negara Malaysia (2016), guidelines on family *takaful* products, guidelines on *takaful* operational framework and issues in regulation and supervision of micro-*takaful* dated November 2015. As far as micro-*takaful* is concerned, its offering in the market shall be successful upon complying all the rules and regulations by the BNM while considering the needs and voice of the prospective participants.

The entire four legislation documents are used as the unit of analysis in this content analysis involving the codifying of the related qualitative information which categorized as explicit contents. While there is high possibility to come across the latent or implicit contents, we shall give priorities to the former so that the result interpretation will be comprehensible and more focused. A predefined category and its clear definition enhance the reliability of the coding and ensure the internal validity of the findings. Transparency and the replicability of this study are taken into consideration along the process. Table 3 summarizes the analytic categories and its definition.

We will emphasize on the micro-*takaful* key successful points as explained and match the respondent feedback with the rules and regulations. Every regulation is formulated to achieve its objective addressed to specific public members. Thus, a good and effective regulation on micro-*takaful* offering in the market does not only underline the best features to carry out the wishes of this group, but also bring about micro-*takaful* as one of the lists in their monthly expenses for future family protection. A match between regulation and B40 households will ensure the success rate of micro-*takaful* offering and improve their awareness, knowledge and confidence, thereby facilitating sustainability of the scheme.

4. Findings and discussion

4.1 Micro-takaful basic principles

Microinsurance and micro-*takaful* discussion paper and guidelines on family *takaful* products stress the basic principle of micro-*takaful* which is simplicity. Following the targeted consumers among B40 households, this product with its services shall be easily understood, direct and without many questions. A comprehensible feature of micro-*takaful* is self-explanatory with minimum advice from the micro-*takaful* operators. In addition, the benefits, terms and conditions are straightforward delivered to avoid uncertainty. Every disclosure material and language used responds to all the enquiries which come into view of these people. To drive the protection needs, micro-*takaful* contribution must be allocated to a maximum exposure of protection that is relevant and meaningful suitable to their daily life risks in addressing their financial security. That is, life, accidental and total permanent disability would be, inter alia, the best coverage for protection to provide a temporary financial relief in the case of such risks befallen the breadwinners, who are the primary income-earners in the family.

More importantly, the best micro-*takaful* feature ensures the contribution is affordable and the distribution channel is accessible in the best convenience manner. Product features and processes can be designed in accordance with their circumstances. Likewise, every process such as payment, certificate renewal, claims, particulars modification, beneficiary's nomination and enquiries should not be too complex. Since many respondents are concerned about the claims process surrounding the micro-*takaful* subscription, all processes involved along its operating shall be expedited in a timely manner, particularly to shorten the claims approved and disbursed to the participants given the case is evidently genuine. Further, all the processes shall be simplified and automated as much as possible to support the accessible and efficient function of micro-*takaful*.

4.2 Micro-takaful product development

In general, micro-*takaful* offers an avenue for immediate temporary relief when the participants encounter some financial difficulties pertaining to the impermanent financial impact, especially resulting from adverse events. Additionally, it would probably be the best approach to providing pecuniary support to deal with unexpected cumbersome expenses where the impact on personal financial capability is extremely at culmination. Consequently, the primary functions of micro-*takaful* put their mind at ease if access to financial relief is available in a comfortable and promptly manner whenever a catastrophe materializes.

The success of micro-*takaful* in the market would likely depend on the demand of low-income population, the attentive operators and the steadfast regulators. But the most important factor lies in the participants when they recognize and understand the importance of financial protection and have the faith in shifting the risk to micro-*takaful* providers to meet the objective and financial protection needs. On the part of the micro-*takaful* operators, they need to invest particularly on innovation and a continuous service improvement to achieve a long-term growth perspective. However, this is almost impossible to implement without friendly intervention of the regulators in encouraging and promoting positively this social finance tool. On the trade-off between social and private logics, this finding is very

Analytic categories	Definition
1. Basic features of micro-*takaful*	Attributes and basic characteristics as underlined in the regulation
2. Micro-*takaful* product development	The minimum requirement of the micro-*takaful*
3. Micro-*takaful* channel of distribution	Extension in micro-takaful distribution intermediaries in its offering
4. Selection of micro-*takaful* agents	Micro-*takaful* agent nomination relaxation in comparison to takaful scheme

Table 3. Analytic categories and their definitions

much consistent with the existing multiplicity and conflicting institutional logics theory (Thornton *et al.*, 2012).

Micro-*takaful* basic idea is to develop cost-efficient and innovative business models using the community-based channel of distribution and innovative technology-based process. Cost savings from this model can be moved to a lower aggregate required for micro-*takaful* contribution and a higher protection value to the participants. This distinguishable feature from the traditional model is highly associated with the social group representative in a more efficient fashion of conducting the transaction online with less physical presence. The development and approval of micro-*takaful*, according to the discussion paper of microinsurance and micro-*takaful* must satisfy the requirement as specified in the family *takaful* products guidelines.

It is highlighted that participants in a personal accident extension to a life insurance policy or family *takaful* shall not contribute the sum of protection exceeding five times of the sum insured in any participated *takaful* scheme. As this is found to be an uncommon case among B40 households, the rules and regulations are noiseless about the minimum and maximum amount of premium contribution and coverage value for micro-*takaful*, though Lin (2018) has mentioned RM15 set as the ceiling monthly contribution. Respondents from the survey, however, are willing to contribute within the range of RM41 to RM50 followed by the range between RM50 and RM100. Only 17.9% respondents prefer affordable contributions more than RM6 but lesser than RM10. A majority of the respondents predict the value of coverage rationally between RM5,000 and RM10,000 even though a higher amount is expected more than RM50,000 subject to the premium amount paid. These results show that B40 households do not have any affordability issue surrounding the amount of premium contribution as long as it is worth the amount of protection. A low premium of contribution would be preferred, as it addresses one of the best features of micro-*takaful*. However, excess in premium contribution could be made optional because the rules and regulations remain unexpressed.

4.3 Micro-takaful distribution intermediaries

According to the microinsurance and micro-*takaful* discussion paper, guidelines on family *takaful* products and guidelines on *takaful* operational framework, a micro-*takaful* operator is allowed to appoint any special entities to distribute the product in comparison to the traditional agents. But the individual or entity must only be focusing on merely distributing micro-*takaful* products without commingling with insurance and *takaful* schemes. Besides, micro-*takaful* intermediaries are excluded from the definition of conventional agents. This explanation has been well documented in the guidelines of the national trade association of all licensed direct and reinsurance companies for general insurance in Malaysia (PIAM), LIAM and MTA.

In this effort, micro-*takaful* intermediaries will be excluded from a few significant compulsory requirements imposed on the conventional agents. Among others, they are supposed to be independent and thus, are not required to register with any relevant association. In consequence, they are not demanded to obtain qualifications, sit for any written examination, accomplish training and complete the Continuing Professional Development (CPD). The biggest change is the fact that persistence requirement and contract and promotion maintenance have been overruled. Finally, the lessening guidelines on micro-*takaful* have also emphasized on repealing the minimum number of agents allowed to represent under a specific operator.

The most interesting part is micro-*takaful* providers are not subject to conformity and the limits of commission compensated to its intermediaries. Besides, agency-related expenses incurred by micro-*takaful* intermediaries would be independently designed merely by operators in contrast to the established rules such as guidelines on operating costs of family *takaful* business, guidelines on medical and health *takaful* business, guidelines on investment-linked insurance/*takaful* business and guidelines on Banca*takaful*. Within its capacity, micro-*takaful* agents are required to promote and sell only micro-*takaful* products approved by certain micro-*takaful* operators. Additionally, they may accommodate on performing the marketing activities, contracting and assisting some other operating functions of micro-*takaful* providers. However, micro-*takaful* intermediaries are not allowed to provide advice to consumers, predominantly on planning and analyzing the financial needs in addition to recommending between various types of micro-*takaful* schemes. Another important finding is that micro-*takaful* intermediaries can be authorized to promote various micro-*takaful* schemes from many different providers.

Consistent with the respondent feedback, life *takaful* has been their priority, ranked the highest risk perturbing the households. If we consider life and permanent disability risks, it makes more than 61% of their worries. Another two inevitable types of risks include critical disease and accidental events which contribute to temporary disruption on daily income earning activities. As B40 respondents portray a mixed concern on different types of risks, rules and regulations are on the right path to allow micro-*takaful* agents venturing into a diverse micro-*takaful* scheme. However, if they have intention to subscribe for micro-*takaful* scheme, the findings show that personal accident and life protection account to almost 70% preferences. While life family protection remains on top, permanent disability and personal accident may be given a serious consideration in micro-*takaful* offering.

4.4 Selection of micro-takaful agents

A guidance is provided in selecting micro-*takaful* agents to ensure due diligence conducted when promoting and offering micro-*takaful* with full responsibility and competence. In the case of a micro-*takaful* agent who is an individual, he or she must, at least, be registered with an established entity. Alternatively, if the agent is not an individual, the entity must have been registered with, approved, or licensed by the relevant authorities. They must also have permanent business offices or premises which are deemed vital for establishing primary function of business. These rules are consistently mentioned in microinsurance and micro-*takaful* discussion paper and guidelines on family *takaful* products.

The long list of entities that can be considered by micro-*takaful* providers to appoint a micro-*takaful* agent or intermediary goes exhaustively to NGOs, retail or chain provision stores, bank agents, societies, cooperatives and unions, amenities and facilities such as hospitals, clinics and petrol stations and individuals who are formal members of a specific entities. Figure 2 provides a summary on the list of possible micro-*takaful* agents to promote and distribute micro-*takaful* schemes. Such guidelines explain the relaxation provided by BNM to make micro-*takaful* accessible almost at every convenient place. It is worth the effort to ensure that micro-*takaful* agents reach sub-urban, rural and secluded B40 households.

When asked about the most convenient micro-*takaful* subscription channel, the respondents pick the micro-*takaful* operator's office even though online transactions and post offices are equally preferred. A possible explanation of this finding is that they value the reliability of information, systematic procedure and the necessary initial payment involved. Any enquiries will absolutely be answered by the officer in charge. For the premium payment, the preference goes to an online platform followed by post office and micro-*takaful* operator's office. As the public gains confidence toward the micro-*takaful* scheme and understands its benefit during difficult times, they will likely adhere to what has been agreed in the scheme, especially with regard to timely monthly premium payment or otherwise, the protection will be treated inactive. In fact, online payment transaction corroborates the basic idea of micro-*takaful* to have both operating cost and pricing offer reduced significantly.

The most critical issue perhaps prevails around the claim submission. In imitation of the micro-*takaful* subscription stage, B40 respondents view micro-*takaful* operator's office as the best solution for submission, discussion and further clarification. This is especially true when claims payment must be done within five working days as specified in the rules and regulations, especially when the case is genuine. The findings reflect low public confidence among the B40 population against *takaful* and micro-*takaful* providers in offering the schemes. Thus, if the micro-*takaful* agents are to be extended, they must be acknowledged as the true representative of micro-*takaful* operators with high knowledge and capabilities about many ranges of schemes.

Overall, the findings recapitulate the multiple and conflicting institutional logics around micro-*takaful* business environment encompassing private, social welfare and commercial logics. Reviewing the external sources of rules and regulations on the operating of micro-*takaful*, the body of laws are deemed supreme over other logics. It is interesting to note that the private or commercial and social welfare logics are subject to the prescribed guidelines for micro-*takaful* to be recognized as a champion of financial protection among B40 households. While micro-*takaful* operators subscribe to different set of institutional demands, human agency during services is not impossible to stave off. Therefore, the micro-*takaful* market will only be established if all the institutional logics branches are fully addressed in an equal and fairly manner.

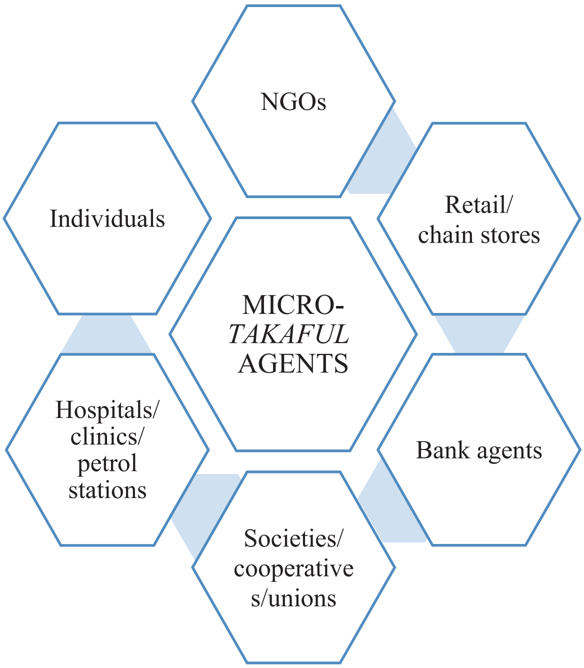


Figure 2.
Entities that can be considered by micro*takaful* providers to appoint as micro*takaful* agents

5. Conclusion

This study has reviewed micro-*takaful* rules and regulations to be aligned with the demand of its targeted consumers among B40 households. Overall, it can be said that a newly launched micro-*takaful* scheme has mostly no restriction to adhere to all the stipulated guidelines and regulations. Micro-*takaful* operators must fully take into consideration, predominantly on the appointment and selection of an agent with some limitation on their roles and financial protection advice to the customers. Moreover, the list of distribution channels suggested is without obstruction extendable to several social organizations to reach this underserved and protection excluded groups in a better solution.

Affordability of subscribing to a micro-*takaful* scheme does not mean that it must set a lower pricing plan. While some findings would support these fact, there are participants willing to opt for excess contribution to suit with the selected beneficial coverage. Understandable and easy process of buying and claiming micro-*takaful* schemes would be viewed from assertion in the rules and regulations that the scheme is designed in the simplified and straightforward version. Nonetheless, due to public confidence among B40 groups, entering and exiting micro-*takaful* schemes would be best retained with micro-*takaful* operators especially when dealing with claims submission and payment.

We believe that the findings to match between B40 households demand and the guidelines provided to micro-*takaful* operators will provide some insights on the enhancement of micro-*takaful* features to appeal more participants while increasing the protection rate and financial inclusion rate in Malaysia. Further, the findings would be relevant reference to industry players and regulators to continuously improve micro-*takaful* offering and benefits in the future. The findings are also a substantiate of evidence in relation to the expansion of multiple conflicting logics in institutional framework, thereby ascertaining the persistent legitimacy of institutions. Upon the society, this discovery helps address ethical initiatives from government and private actors with attention to financial protection and inclusion. If both parties play a significant role effectively, the objective of micro-*takaful* is achievable to accumulate low-income household's participation for a good access of *takaful* that meets the needs of financial protection. Micro-*takaful* sustainability is possible given the conscientiousness of more NGOs, social institutions and government to come forward and treat this tool as the best poverty alleviation tool.

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