PROTECTING THE WELL-BEING OF HOUSEHOLDS: DELINEATING A SOCIAL *TAKĀFUL* FUND INITIATIVE FOR POSITIVE SOCIAL IMPACT

Norazlina Abd Wahab
Institute of Shariah Governance and Islamic Finance, Islamic Business School, Universiti Utara Malaysia, Sintok, Malaysia
Mohamad Yazid Isa
Institute of Shariah Governance and Islamic Finance, Islamic Business School, Universiti Utara Malaysia, Sintok, Malaysia
Rosylin Mohd Yusof
UUM Zakat and Waqf Centre, Universiti Utara Malaysia, Sintok, Malaysia
Wan Ahmad Najib Wan Ahmad Lotfi
FWD Takaful Berhad

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ABSTRACT

Purpose — This study aims to examine the social *takāful* fund (STF) initiative, developed by Islamic Business School–Universiti Utara Malaysia (IBS–UUM) in collaboration with FWD Takaful Berhad in Malaysia, as a measure to address economic uncertainties and vulnerabilities by enhancing household well-being. It also analyses the potential impact of the STF on marginalised communities.

Design/Methodology/Approach — This study employs a case study method to generate an in-depth understanding of the STF. A semi-structured in-depth interview was conducted with the manager of the STF, and the responses were transcribed and examined based on content and thematic analysis.

Findings — The STF initiative is being applied for the benefit of the community in the state of Kedah in Malaysia before it can be extended to all other states in the country. It fosters inclusivity and resilience by pooling resources to provide a safety net for disadvantaged households. The model promotes collective responsibility and has the potential to enhance societal well-being and sustainable development. Utilising the fund for four main programmes (notably, community outreach, educational empowerment, the *takāful* lab, and *takāful* subsidy programmes), this initiative addresses economic uncertainties and vulnerabilities especially among the unserved and underserved communities through income improvement, empowering financial knowledge and *takāful* protection.

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Originality/Value — This study offers an innovative approach to social finance by introducing an STF model. The initiative is unique in its alignment with Islamic finance and community support principles, providing a new perspective on collective social protection and broadening the scope by positioning *takāful* as a comprehensive community empowerment strategy.

Research Limitations/Implications — The implementation of this model requires further investigation into the regulatory framework for such an initiative and the sustainability of funding sources to ensure long-term impact.

Practical Implications — The initiative suggests that community, financial, and government institutions can collaborate effectively to implement and sustain social support programmes, contributing to the overall resilience of vulnerable households.

Social Implications — The STF initiative has the potential to create a culture of compassion and mutual support within communities, addressing social disparities and fostering a sense of collective responsibility for well-being.

Keywords — Micro-*takāful*, Social impact, Social *takāful*, Sustainable development, Well-being

Article Classification — Research paper

INTRODUCTION

Takāful (Islamic insurance), rooted in Islamic principles, exemplifies a unique and inclusive approach to risk management. It embodies the concept of mutual assistance and shared responsibility, distinguishing itself from conventional insurance by aligning with Sharīʿah (Islamic law) principles. Nevertheless, studies found that the penetration of *takāful* in the B40 group (the bottom 40 per cent of households by income) is still low (20 per cent in 2024 as compared to 34 per cent for conventional insurance). This group includes young parents and gig workers who are not financially protected. In tandem with Bank Negara Malaysia's (BNM) objective of bridging the protection gap, the Malaysian *takāful* industry is advocating for more affordable products targeting the B40 group.

Nevertheless, the premiums required for participation in *takāful* schemes represent a considerable portion of the already limited resources of the B40 persons. This issue underscores the necessity for the establishment of a social *takāful* fund (STF). Such a fund could serve as a safety net, providing financial assistance to those who struggle to afford *takāful* participation. This fund could ensure that everyone has access to the protection and benefits offered by *takāful* schemes, regardless of their financial situation. Moreover, it aligns with the core principles of solidarity and mutual support inherent in Islamic finance, fostering a more inclusive and equitable society. By adopting a new social *takāful* model to accommodate lower-income brackets and implementing financial inclusion strategies, the barriers to accessing protective coverage can gradually be mitigated, fostering resilience and security within marginalised communities, especially low-income earners.

Accordingly, the present study aims to examine the innovative STF initiative developed by the Islamic Business School–Universiti Utara Malaysia (IBS–UUM) in collaboration with FWD Takaful Berhad in Malaysia, and analyse its potential impact on the community. It provides a ground-breaking model that could be emulated by other institutions, either in Malaysia or in other countries. While previous studies have examined traditional *takāful* systems primarily as financial protection tools focusing on the operational, financial, and regulatory aspects of *takāful*, this study broadens the scope by positioning *takāful* as a comprehensive community empowerment strategy.

This paper is organised as follows: the next section discusses the concept of social finance and *takāful*. The paper then reviews prior studies on *takāful*, micro-*takāful* and social *takāful*. Thereafter, it delineates the methodology adopted to achieve the aim of this study. The following section examines the STF initiative developed by IBS-UUM in collaboration with FWD Takaful Berhad, followed by some analysis and discussion of it. The last section concludes the study.

LITERATURE REVIEW

Overview of Social Finance and *Takāful*

Social finance is defined as the provision of financial services to build social protection for the needy and help reduce their dependency through cooperation between various parties. Social finance has received great attention from various parties because of its role as a complement to the existing financial system. Today's society can no longer rely on current financial institutions such as banks and credit institutions for obtaining financing. The profit-motivated and commercial function of these institutions makes them suitable to only certain groups, to the point of excluding some other groups of society. Those who live in rural areas and have low incomes, for example, are often marginalised in gaining access to current financial products and services.

From the Islamic perspective, social finance refers to the provision of financial resources to community members, in line with the principles of Sharīʿah, for the purpose of creating socio-economic welfare. There are several financial instruments to achieve Islamic social financial goals, including *ṣadaqah* (charity), waqf (Islamic endowment), zakat (almsgiving), *takāful* and others, that have been adopted in the Islamic financial system. These instruments are used to provide education and health care, develop infrastructure, and maintain social welfare provisions for the poor and needy. Islamic social finance aims to be a platform to strengthen and distribute wealth and income in the community.

Takāful, which is derived from an Arabic word (*kafālah*) means mutual guarantee, whereby a group of participants agree to mutually guarantee each other against a defined loss (Engku *et al.*, 2008). This simple concept of *takāful* is the foundation of the *takāful* business, which is the present form of Sharīʿah-compliant insurance. The Islamic Financial Services Act 2013 (IFSA 2013) defines *takāful* as an arrangement based on mutual assistance under which *takāful* participants agree to contribute to a common fund providing for mutual financial benefits payable to *takāful* participants or their beneficiaries on the occurrence of pre-agreed events (IFSA, 2013). As *takāful* operates with the principle of *taʿāwun*, whereby participants pool resources to support one another in times of need, it can be a significant component of Islamic social finance that is structured to include provisions for the marginalised community.

In a conventional insurance model, policyholders pay premiums to an insurance company, and the company assumes the risk of potential losses in exchange for those premiums. Indeed, the concept of insurance dates back 300 years and operates through a risk transfer mechanism. It is based on a contract of sale and purchase where an insured transfers their potential risks to an insurance company, the insurer, in exchange for a premium (Yusof *et al.*, 2015). In contrast, *takāful* operates on the concept of a cooperative or mutual arrangement. Policyholders contribute to a common fund managed by a *takāful* operator. This fund is used to compensate any member who suffers a loss or financial setback according to the principles of Islamic finance. The primary distinction between insurance and *takāful* lies in the absence in *takāful* of elements directly conflicting with Sharīʿah principles (Ansari, 2022). Salient features of conventional insurance which do not align with Sharīʿah principles include:

1. *Maysir* (gambling): In conventional insurance, *maysir*, akin to gambling, is prevalent. Policyholders risk losing their premiums if a claim is not made or if the anticipated loss does not occur. Conversely, they may receive a payout exceeding their contributions. This dynamic arises from the insurer promising indemnity if the risk materialises and charging a premium even when it does not. *Takāful*, however, operates on a mutual assistance basis, whereby policyholders contribute funds to help one another in case of losses. The focus shifts from speculative transactions to collective support within the *takāful* community.

2. *Gharar* (uncertainty): Islamic principles prohibit transactions involving *gharar*, referring to risk, hazard, or peril. Conventional insurance often involves uncertainty, as neither the insured nor the insurer knows when or if a loss will occur. *Takāful* addresses this by structuring a policyholders' fund where mutual assistance prevails. There is no guarantee from the *takāful* company to policyholders, fostering a mutual assistance contract that eliminates uncertainty and promotes risk sharing among policyholders.
3. *Ribā* (interest): The objection to *ribā* is a cornerstone of Islamic finance, and conventional insurance often involves investment in interest-bearing assets. *Takāful* entities, in contrast, strictly adhere to an interest-free system, aligning with Sharīʿah principles. This requires careful investment management to ensure that both the policyholder and shareholder funds are directed to assets without *ribā*. Additionally, the excess payouts in life insurance, beyond the total premiums paid, are deemed *ribā*, as they are considered repayments which exceed the initial loan represented by the premiums. *Takāful*, by following an interest-free system, aims to eliminate any association with interest-based transactions, adhering to Islamic financial principles.

Takāful and Social Responsibility

The relationship between *takāful* and social responsibility is inherently intertwined, reflecting the Islamic principles upon which *takāful* is built. *Takāful* is designed to align with ethical, social, and community-oriented values. Through the community-centric approach, it is rooted in the Islamic principles of mutual assistance and shared responsibility. In the *takāful* model, policyholders contribute to a common fund, and in the event of a loss, the community collectively supports the affected individual or business. This sense of mutual aid fosters a community-centric ethos, recognising that the well-being of each member is interconnected. For example, if a member experiences a financial setback due to some losses, the *takāful* community rallies together to provide financial support, emphasising the collective responsibility to uplift one another through the element of *tabarru*ʿ (cooperation).

In addition, *takāful*'s foundation in Islamic values underscores its commitment to social responsibility. Islamic principles of compassion, fairness, and concern for others are woven into the *takāful* business model through the concept of *al-*ʿ*adl* and *al-iḥsān*. This alignment with broader Islamic principles encourages individuals to view their participation in *takāful* not just as a financial transaction but as a positive contribution to the well-being of the community. For instance, the emphasis on shared responsibility encourages policyholders to prioritise the collective welfare of the *takāful* community over individual gain.

Takāful also goes beyond financial transactions by actively promoting financial literacy and education within communities. *Takāful* operators organise educational initiatives to enhance understanding of risk management and financial planning among policyholders. This empowerment through education enables individuals to make informed decisions about their financial well-being. For example, *takāful* agents play an important role in educating policyholders about the importance of planning for unexpected events, empowering them to take charge of their financial futures. This educational aspect aligns with social responsibility by contributing to the overall financial literacy and empowerment of communities.

Moreover, some *takāful* operators integrate philanthropy into their business model, allocating a portion of surplus funds to charitable causes. This philanthropic component demonstrates a commitment to social causes and community development. For instance, a *takāful* company may allocate funds to support education initiatives, healthcare programmes, or infrastructure development within communities. These charitable contributions extend the impact of *takāful* beyond its core financial services, positively influencing broader community welfare. This reflects a holistic approach to social responsibility, recognising the interconnectedness of financial well-being and societal development.

Poor households, which are also known as the B40 group, are more exposed to risks since they are less resilient to shocks as their earnings are low and they do not have savings or emergency funds. In the event of emergencies, they are often forced to make choices, such as depleting productive assets, reducing food intake, or withdrawing children from school, all of which may jeopardise their economic and human development prospects (Htay *et al.*, 2015).

A micro-*takāful* product is designed to respond to the financial protection needs of the B40 group. This product is developed according to the requirements of poor people, who are generally ignored by mainstream products. The data from the Department of Statistics Malaysia (DOSM) show that the penetration of *takāful* among the B40 is low relative to the national population. This low penetration rate may expose them to financial shocks due to insufficiency of funds to pay for unexpected medical expenses. There is a huge gap in penetration rate between the B40 and non-B40 groups in Malaysia, the gap being most obvious in states with large urban centres. The Financial Sector Blueprint 2011-2020 expresses the importance of the *takāful* industry developing commercially sustainable micro-*takāful* products (BNM, 2011). Bank Negara Malaysia (BNM), as the financial regulatory body in Malaysia, has listed four basic features of micro-*takāful*:

- Affordability: *takāful* contributions should be yearly renewable and reasonably priced.
- Simplicity: the terms and conditions in *takāful* contracts should be easy to understand.
- Easy to purchase: *takāful* should be offered through online modes and be easy to access
- Easy claims process: *takāful* claims should be processed within a reasonable time.

Takāful and Micro-*Takāful*

While *takāful* was introduced as an alternative to conventional insurance as a risk management tool, micro-*takāful* developed as an innovative branch within the broader sphere of Islamic finance in response to the need for inclusive financial services catering for low-income populations BNM, 2016; Jahya *et al.*, 2023). The concept draws inspiration from microfinance, which aims to alleviate poverty by providing financial services to the economically marginalised. Micro-*takāful* extends this principle to insurance, seeking to provide affordable and accessible risk protection to individuals and communities previously underserved by traditional insurance models. The development of micro-*takāful* reflects a broader global movement towards financial inclusion and social empowerment, emphasising the ethical principles of solidarity and mutual assistance inherent in Islamic finance.

The establishment of micro-*takāful* schemes has the potential to increase access to *takāful* for low-income populations while retaining the benefits of traditional *takāful* models, although the needs of the impoverished in Muslim countries differ from those of low-income individuals in other societies. Therefore, implementing micro-*takāful* structures could serve as a viable solution to make insurance more accessible to low income earners.

In Malaysia, micro-*takāful* gained traction alongside the broader expansion of Islamic finance and the government's efforts to promote financial inclusion. The early 2000s saw microfinance initiatives introduced to empower low-income households and micro-enterprises. Several micro-*takāful* initiatives have been launched to serve low-income communities, including those living in rural or urban areas. One notable example is the collaboration between Takaful Ikhlas and the Selangor Zakat Institution, which resulted in Malaysia's first micro-*takāful* being established in April 2007 (Abdullah, 2021). This programme offers affordable coverage for urgent death expenses and additional benefits to the 100,000 members of the Farmers Welfare Federation. Another initiative, the Skim Tabarru' Koperasi micro-*takāful* programme, was launched in March 2009 by Etiqa Takaful and Angkatan Koperasi Kebangsaan Malaysia (ANGKASA) for all ANGKASA members. This programme provides low-cost coverage against death and total permanent disability (Mokhtar *et al.*, 2012).

According to several studies, micro-*takāful* is an effective initiative for providing accessible and affordable risk coverage to low-income individuals and small businesses (Mohd Rom & Rahman, 2012; Bakhtiari, 2013; Mohamad Hasim, 2014; Ahmed, 2016; Abdullah, 2021; Jaiyeoba *et al.*, 2022). Mohamad Hasim (2014) suggested that micro-*takāful* is one of the best options for the poor, while Ahmed (2016) highlighted its potential for filling the gap in microfinance for small and medium enterprises (SMEs). Additionally, Mohd Rom and Rahman (2012) and Abdullah (2021) noted that micro-*takāful* can fulfil the protection needs of low-income people at a lower cost. Furthermore, Abdullah (2021) emphasised the importance of micro-*takāful* in poverty reduction, as it empowers the most vulnerable individuals to become financially self-sufficient. The recent study by Jaiyeoba *et al.* (2022) supported the idea that the sustainability of halal small businesses is significantly influenced by disability micro-*takāful* and family micro-*takāful* products.

Social *Takāful*

The term 'social *takāful*' is a new concept in the Islamic social finance industry, to the best of the researchers' knowledge. A few terms are similar to the concept of social *takāful*, which includes *al-takāful al-ijtimāʿī* and social protection/security/wealth protection. This section will elaborate on two terms related to the concept of social *takāful*: *al-takāful al-ijtimāʿī* and social protection.

Al-takāful al-ijtimāʿī embodies the principle of collective responsibility and mutual support within society. It emphasises that individuals should care for and protect one another's spiritual and material interests, fostering a strong sense of community and solidarity (Mohd Rom *et al.*, 2022). In this framework, the well-being of society as a whole is prioritised over individual interests, with members committed to assisting and supporting each other in times of need. *Al-takāful al-ijtimāʿī* is guided by the principles of compassion, concern, and faith inherent in Islamic teachings, encouraging individuals to demonstrate acts of assurance and support towards others, whether individually or as a group (Hanna, 1969). By promoting unity and resilience in the face of challenges, *al-takāful al-ijtimāʿī* establishes a robust social structure built on a foundation of compassion and mutual assistance.

Al-takāful al-ijtimāʿī is a fundamental social obligation for all members of a community. It requires individuals to protect others from harm and destruction, promoting a sense of mutual responsibility. An individualistic approach is unacceptable, and everyone must prioritise the needs of all members, particularly those who are underprivileged. *Al-takāful al-ijtimāʿī* encompasses more than just basic necessities such as food and shelter. It also includes the five rights: the right to live, the right to freedom, the right to education, the right to ownership, and the right to dignity. These encompass all aspects of life's spiritual, material, and moral dimensions (Mustafa, 1959) as cited in Mohd Rom *et al.* (2022).

The concept of *al-takāful al-ijtimāʿī* has been institutionalised across various levels of society, including the micro, meso, and macro levels (Abu Seman *et al.*, 2020). At the micro-level, individuals, households, and neighbourhoods participate in *takāful* arrangements, pooling resources to provide mutual protection and support. This grassroots approach fosters community cohesion and ensures the most vulnerable members receive assistance when needed. At the meso level, institutions such as cooperatives, associations, and non-profit organisations play a key role in organising and administering *al-takāful al-ijtimāʿī* schemes. These institutions facilitate collective action and enable broader participation in *takāful* initiatives, extending the reach and impact of social welfare programmes. Finally, at the macro level, national policies and regulations shape the framework for *al-takāful al-ijtimāʿī* operations, promoting the development of a robust and inclusive *takāful* market. Muslim scholars have extensively discussed *al-takāful al-ijtimāʿī* within the sphere of Islamic socio-economic principles, recognising its importance in fostering solidarity, equity, and social justice within Muslim communities. By institutionalising *al-takāful al-ijtimāʿī* across multiple levels of society, Islamic economics seeks to create a just and inclusive financial system that serves the needs of all members of society (Maysami & Kwon, 2001; Petrick & Ahmad, 2003; Kwon, 2007).

Previous studies have revolved around the concept of *al-takāful al-ijtimāʿī* in the Malaysian context. For instance, a study conducted by Abu Seman *et al.* (2020) examined the concept and scopes of *al-takāful al-ijtimāʿī* from an Islamic perspective, as well as provided the current state of the art in its application during the COVID-19 pandemic in Malaysia. The key highlights of the application of *al-takāful al-ijtimāʿī* during COVID-19 in Malaysia included the two phases of stimulus from the government, the aid from China and other countries, loan deferment by BNM, and various relief measures by *takāful*/insurance operators (Abu Seman *et al.*, 2020). Another empirical work by Abu Seman (2021) investigated the awareness and understanding of *al-takāful al-ijtimāʿī* among Malaysians. According to the research, 71.9 per cent of those surveyed were not familiar with the concept of *al-takāful al-ijtimāʿī* due to the use of Arabic terms. However, it is interesting to note that despite their lack of knowledge, the majority of the respondents expressed their trust in *takāful* operators' ability to deal with people (Abu Seman, 2021).

Social protection encompasses a range of policy measures to provide basic income security, universal access to essential needs, and enhance individuals' resilience to vulnerabilities (Khazanah Research Institute, 2021). At its core, a social protection system should ensure four fundamental elements: basic income security for children, ensuring they have access to essential resources and services for their well-being and development; basic income security for the working-age population, supporting individuals to maintain their livelihoods and meet their needs; basic income security for the elderly, providing financial support and assistance to seniors in their retirement years; and essential healthcare for all, ensuring access to necessary medical services and treatment. By addressing these key areas, a comprehensive social protection system aims to promote social justice, reduce poverty, and enhance individuals' capabilities to lead productive and dignified lives, thereby contributing to overall societal well-being and resilience (ESCAP, 2018).

In Malaysia, the Department of Social Welfare administers a social welfare programme that offers first-pillar social assistance. This programme is mandatory, publicly managed, and funded through taxes. Its primary objective is to support beneficiaries living at subsistence levels or having special needs (Koutronas, 2020). Assistance is typically provided in the form of social assistance and support to help improve the well-being of beneficiaries. The value of benefits is determined based on specific criteria, considering income from other sources such as supplementary income, assets, and family resources. This targeted approach ensures that assistance is directed to those most in need, helping alleviate poverty and address social vulnerabilities within Malaysian society.

Malaysia has implemented a comprehensive social protection system that operates on a three-tiered basis (Koutronas, 2020). The first tier includes religious tithes for Muslims and the Ministry of Health's broad range of healthcare services. Malaysia's social service expenditures make up 8 per cent of the gross domestic product (GDP) (Ministry of Finance, 2023), a significant investment in social welfare. The second tier provides old age, disability, and survivor protection through savings in the Employees Provident Fund (EPF). Social security insurance covers work-related contingencies, and employer liability schemes cover sickness, maternity, and unemployment. Civil servants and armed forces personnel can access specialised schemes tailored to their needs. The third tier consists of voluntary private insurance, which offers coverage beyond statutory protection for those who can afford it. This includes life, accident, and medical coverage at primary and hospitalisation levels. Foreign workers are also covered under a specialised insurance scheme for employment-related injuries, death, and sickness, which is mandatory.

The social security system in Malaysia operates through interdependent mechanisms involving various ministries and agencies (Sim & Hamid, 2010). The Prime Minister's Department's Economic Planning Unit (EPU) plays a central role in coordinating policies and planning related to social security at the national level. These policies and plans are outlined in documents such as the Outline Perspective Plans (OPP), including the New Economic Policies (NEP), the National Development Plan (NDP), and the National Vision Policy (NVP). Other government initiatives, such as the National Transformation Programme, New Economic Model, and five-year development plans, notably the 10th Malaysia Plan (2011-2015), address macroeconomic aspects of social security. The overarching goals of the New Economic Policy, focusing on poverty eradication and community restructuring, remain relevant within Malaysia's social security framework (Rohaizat *et al.*, 2012).

Conceptualisation of Social Takāful

To the best of the authors' knowledge, the concept of social *takāful*, as conceptualised by past researchers, remains relatively underexplored. However, a parallel concept known as social insurance has garnered significant attention in previous research. Social insurance, unlike *takāful*, is typically a publicly funded programme aimed at mitigating various economic risks such as loss of income due to old age, sickness, disability, death, or unemployment. Participation in social insurance programmes is usually mandatory, and they are often considered a form of social security. Despite the similarities, it is important to note that social *takāful* operates within an Islamic framework, emphasising principles of mutual assistance and shared responsibility, while social insurance may have different underlying principles (Chek & Ismail, 2021b).

Social insurance programmes differ from private insurance in several key ways. Firstly, contributions to social insurance programmes are typically compulsory and may be made by the insured's employer, the state, and the insured individual themselves (Chek & Ismail, 2021a). This mandatory nature ensures broad participation and helps spread the financial risk across a larger pool of contributors. Additionally, benefits in social insurance programmes are not as strictly tied to individual contributions as in private insurance. Social insurance schemes often include provisions to ensure that certain social purposes are met, even extending benefits to contributors who may not have contributed for the required period. This inclusivity helps address social welfare goals and ensures that vulnerable populations receive the necessary support. Moreover, benefits in social insurance programmes may be adjusted to account for the rising cost of living, ensuring that the value of benefits remains adequate over time despite changes in economic conditions (Chek & Ismail, 2021a, 2021b). This flexibility helps mitigate the impact of inflation and maintains the effectiveness of social insurance programmes in providing financial security to beneficiaries.

Conceptualising social *takāful* using the concept of social insurance in Malaysia entails drawing upon existing research on social insurance frameworks while integrating the principles and mechanisms unique to *takāful* within an Islamic context. Although social *takāful* has received less attention in past studies, understanding it through the lens of social insurance can provide valuable insights into its potential role in promoting social welfare and financial inclusion.

Social insurance in Malaysia involves compulsory contributions from individuals, employers, and the state to provide financial protection and support to beneficiaries (Khazanah Research Institute, 2021; Abdul Hamid & Megat Muzafar, 2023). Similarly, social *takāful* operates on principles of mutual cooperation and collective responsibility, where participants pool their resources to provide financial assistance within the community (ISRA, 2012). Contributions to social *takāful* are mandatory and serve to create a shared pool of funds, reflecting the compulsory nature of social insurance contributions.

In social insurance, benefits are distributed based on the principle of solidarity, rather than being strictly tied to individual contributions (Abdul Hamid & Megat Muzafar, 2023). Similarly, in social *takāful*, benefits are distributed to all members of the community based on the principles of mutual cooperation and shared responsibility. This inclusive approach ensures that all members receive support, regardless of their level of contribution or financial status.

Furthermore, social *takāful* may incorporate provisions to address social welfare objectives and promote inclusivity, similar to social insurance programmes. For example, benefits may be extended to individuals who may not have contributed for the required period but are deemed eligible based on specific criteria such as financial need or vulnerability (Chek & Ismail, 2021b).

Despite the potential of social finance to address poverty, scaling these models remains a challenge. For instance, the social impact bond and crowdfunding have proven successful in funding social programmes in areas like education and health but struggle with sustainability and high transaction costs (Fraser *et al.*, 2018; Gustafsson-Wright & Osborne, 2022). Therefore, sustaining social finance initiatives requires overcoming barriers to capital access, administrative complexity and financial literacy gaps (Morduch & Schneider, 2017).

From the above literature, it is found that while studies in *takāful* have been done extensively, the concept of social *takāful* remains relatively underexplored. This study sheds some light on the introduction of a new initiative named the social *takāful* fund (STF) in addressing the needs to improve awareness on the importance of *takāful* especially among the marginalised community through the subsidy programme which will eventually help to improve the social well-being of the community at large.

METHODOLOGY

This study utilised the qualitative approach, using semi-structured interviews as the primary data source, featuring in-depth questions developed from the main research topics. The semi-structured format enabled a two-way communication, whereby interviewers and participants could both ask questions, fostering a richer verbal interaction and allowing for more comprehensive data collection. The interview was conducted with the manager of the STF as he possesses more knowledge and information on the organisation. Three main questions were asked during the interview which consist of background on the STF, activities and programmes implemented, and STF's potential impact. The interview was conducted in January 2024 at UUM.

A case study method was applied to generate an in-depth understanding of the research context. A purposive sampling method was adopted to identify and select the respondent of the study. The STF office under IBS-UUM was selected as a single case study because the institution is the sole institution entrusted by FWD Takaful Berhad (abbreviated as FWD Takaful) with the initiative.

Furthermore, secondary data that relied on past literature and published reports (hardcopy and online), such as STF documents and websites, were also utilised to achieve the objective of the study. This study applied content analysis for analysing texts, websites, and interview recordings to identify the potential impact of the STF initiative.

FINDINGS

Social *Takāful* Fund

The STF is an initiative undertaken by IBS-UUM in collaboration with FWD Takaful to promote sustainable financial inclusiveness through the execution of activities to improve the lives of the most vulnerable among the communities and improve their social well-being via an endowment fund from FWD Takaful. These include organising community outreach programmes centred on financial literacy, pro bono consultancy of Islamic financial planning and subsidised micro-*takāful* products offered to communities. Established in 2022, the STF is an example of a strategic collaboration between a university and an industry partner to create awareness about financial literacy, provide *takāful* protection to all, and offer programmes to generate sustainable income to the lower-income segment of the communities in Kedah. A total of MYR15 million has been granted by FWD Takaful to IBS-UUM under the Institute of Shariah Governance and Islamic Finance (ISGaIF), as an endowment for the implementation of high-impact programmes with the aim to improve income, empower financial knowledge and enhance financial and social well-being of the community via a *takāful* subsidy programme. The *takāful* subsidy programme is the financial support or assistance provided to help the unserved and underserved community to afford their participation in the *takāful* scheme.

With this strategic collaboration, IBS-UUM has set a stage where academics can go beyond the academic and scholarly objectives to further contribute towards economic empowerment of the community. This value-based intermediation education (VBiE) is expected to bring the practical aspects of education back to classrooms where lecturers can share their experience and link them with theories which may also culminate with a case study research that can be published locally and globally. Hence, besides teaching and research, UUM also contributes to the social, economic and intellectual growth of the region through its involvement in community-based projects. The STF allows the industry to use the expertise available in the university as well as student talents to actively participate in community engagement programmes. **Table 1** provides a summary of the four mandates of the STF and the specific programme objectives.

Table 1: Four Mandates of the Social *Takāful* Fund

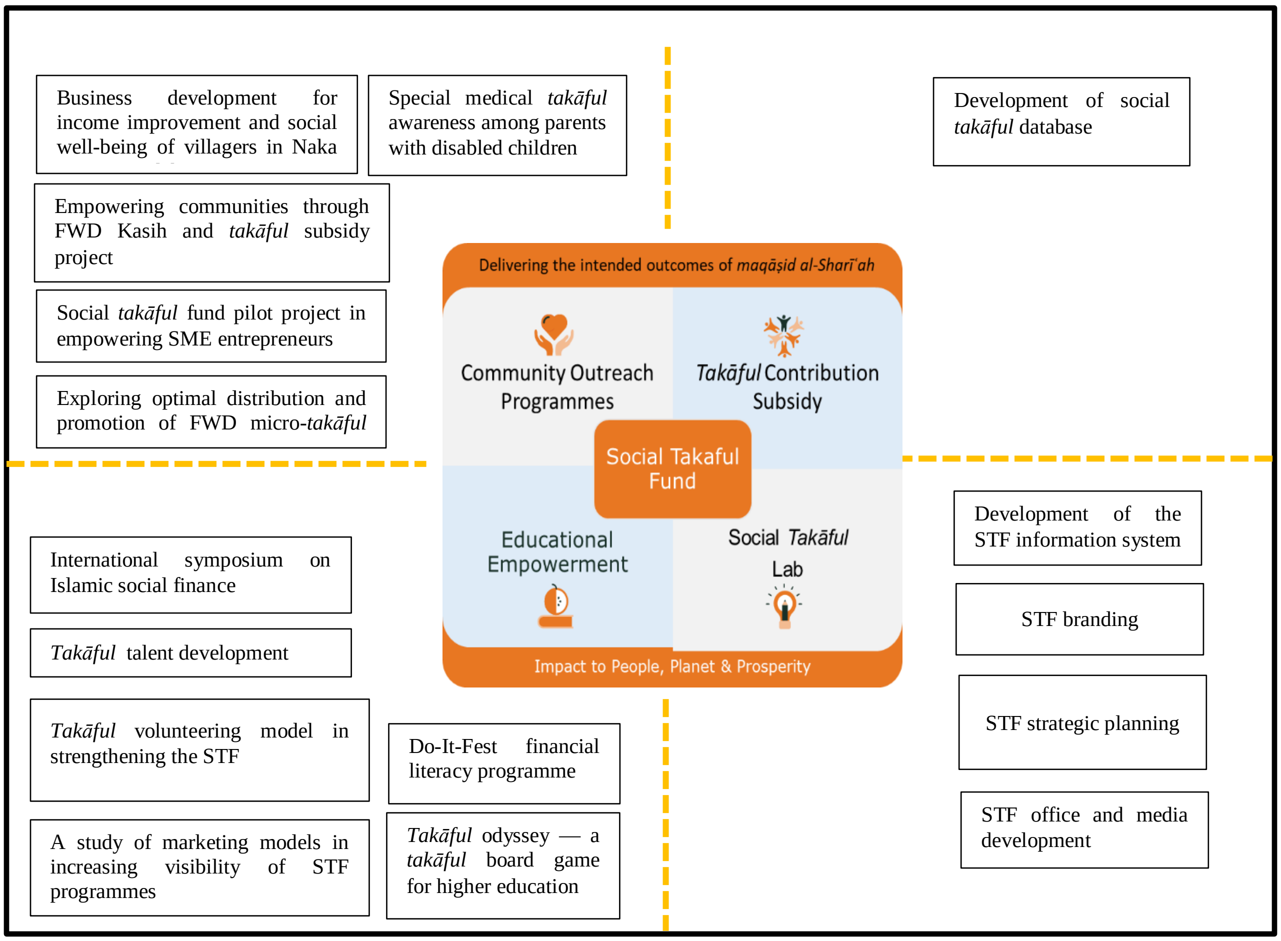
Mandate	Objective
Community outreach programmes	To organise and execute community outreach programmes centred on financial literacy, pro bono services or consultancy on Islamic financial planning and promotion of FWD Takaful's social *takāful* and products to the disabled group.
Takāful contribution subsidy	To provide *takāful* contribution subsidy to the underserved participants through social *takāful* and products to the disabled community.
Educational empowerment	To offer scholarships, awards, and/or development programmes to members of underserved families.
Social *Takāful* Lab	To analyse data from research and outreach programmes for continuous improvement and innovation of social *takāful* and/or product development and distribution to the disabled segment of the population.

Source: STF website (https://www.stfund.my/CoverPage/STFInfo)

The STF is also in line with the agenda of Value Based Intermediation for Takaful (VBIT) which integrates environmental, social and governance (ESG) principles. It supports community projects through financial and non-financial assistance to initiatives within local communities that aim to improve income, empower financial knowledge and provide community protection.

The mandate of the STF focuses on *takāful* protection for lower-income households, notably the B40 group through the distribution of FWD Kasih. FWD Kasih is a micro-*takāful* product introduced by FWD Takaful which seeks to empower low-income groups with affordable and adequate *takāful* cover. With this *takāful* protection, the low-income segment can ease the family's burden and help protect their loved ones in cases of unforeseen events in the future. This community social *takāful* empowerment model (C-STEM) includes a few steps, starting with community engagement and including economic empowerment support, financial literacy empowerment, and the *takāful* subsidy programme. To date, five community outreach programmes, six education empowerment programmes, four initiatives of the social *takāful* lab and one project on *takāful* contribution subsidy are funded under the STF initiatives implemented around the State of Kedah. Eventually, these initiatives will be expanded throughout all states in Malaysia. Over the past one year, more than 2,500 participants have benefited from the programmes and activities organised. It involves primary and secondary students, university students, the disabled community, UUM staff and the B40 group. **Figure 1** depicts the programmes/projects carried out under STF for the past one year. With a vision 'to improve everyone's social well-being with *takāful*', the STF is hoped to increase Malaysians' uptake of *takāful*, especially among the B40 group.

Figure 1: List of Programmes/Projects under the Social *Takāful* Fund



Source: STF website (https://www.stfund.my/CoverPage/STFInfo)

DISCUSSION

Potential Impact of the Social *Takāful* Fund

In the landscape of global economic uncertainties, the STF represents a novel paradigm in Islamic social finance aimed at improving the conditions of marginalised communities (Engku Ali, 2008). This study aims to explore the STF's comprehensive approach to fostering financial inclusivity and resilience, underscoring its pivotal role in enhancing societal welfare with strategic academic-industry collaboration. The following are the potential impacts of the STF based on the case study and interview done with the respondent.

i. *Enhancing financial inclusivity:* Central to the STF's mission is the democratisation of financial services. By tailoring micro-*takāful* products to the unique needs and fiscal realities of lower-income groups such as the unserved and the underserved, the STF effectively bridges the chasm between traditional financial offerings and these community groups. The STF helps to mitigate economic vulnerabilities through enhanced access to protective financial mechanisms by incorporating such elements like the *takāful* subsidy (Htay *et al.*, 2015). The informant from the STF fund explained:

> The mandate given by FWD Takaful to us is to make sure that the B40 [cohort] is not left behind…we have to make sure that income will not be the main reason for not taking up *takāful*...

ii. *Healthcare access and education opportunities:* The STF plays a critical role in facilitating access to essential healthcare services and educational opportunities (Kazeminajafabadi & Hoseini, 2024). By allocating financial resources such as *takāful* subsidy and financial literacy programmes whilst ensuring that there is transfer of knowledge from academics to participants of the programme (the community), the fund substantially elevates the quality of life and future prospects of individuals and families. The STF thus helps in countering the socio-economic detriments associated with prohibitive costs, which will in turn, reduce the socio-economic disparities towards achieving sustainable development goals (SDGs) 1, 2, 3 and 4. The informant pointed out:

> IBS-UUM has a very crucial role to empower the community with financial literacy, including educating them about the importance of *takāful* in life….At IBS-UUM, we have experts in Islamic financial planning…so, it is our responsibility to educate not only our students, but also people out there...

iii. *Economic empowerment and resilience:* The STF's support for entrepreneurial ventures and income-generating activities catalyses economic empowerment and resilience among its beneficiaries (Sarkawi *et al.*, 2016). This initiative not only enables self-sufficiency but also instills robustness within communities, empowering them to navigate and rebound from economic adversities with greater efficacy. The support also includes monitoring the impact of the entrepreneurship programmes by fellow lecturers/academics and assessing the impacts via students' involvement and community engagement. The informant accordingly highlighted:

> We have a few projects with entrepreneurs in Kedah…we provide financial support to scale up their businesses…we monitor the business growth…at the end, it is expected that this will help the business owners to improve their standards of living...

iv. *Community well-being and social solidarity:* At its core, the STF fosters a culture of mutual aid and social cohesion, resonating with the intrinsic Islamic values of solidarity and collective welfare (Ansari, 2022). The marketing team from among the researchers further provides a communal support network that not only enhances the social fabric but also advocates for a financial ecosystem that incorporates such concepts like ‘waste to wealth’, green, and halal and *ṭayyib* (permissible and pure for consumption). The informant stated:

> One of our signature projects under STF now is the Kak Ros project, which aims to improve the well-being of the community…because Kak Ros herself has a noble desire to help people in Naka by providing them with a salary...

v. *Alignment with Sustainable Development Goals (SDGs):* The STF’s endeavours align with key SDGs, including poverty eradication, health and well-being promotion, quality education provision, and inequality reduction (Engku Ali, 2008). This alignment underscores the fund’s contribution to the global sustainable development agenda, highlighting the role of Islamic social finance in addressing pressing global challenges, making it a model that is easily adaptable by other parts of the world across communities for enhancement of social well-being.

CONCLUSION

The STF underscores the transformative power of Islamic social finance in fostering social welfare and economic development (Sarkawi *et al.*, 2016). Through its multifaceted approach such as strategic industry-academic partnership, targeted beneficiaries, and the provision of financial and educational support to addressing the needs of marginalised communities, the STF sets a precedent for the integration of financial inclusivity and social responsibility. It offers key insights to stakeholders who are committed to societal enhancement and sustainable progress and can be a model for national and international socio-economic agendas. One of the stakeholders that the STF addresses is the government, which can support this initiative by providing tax-exemption incentives to industry players who are engaged with academics in such types of programme implementation. The government can also allocate more funds to universities that have successfully created significant impact to the sustainability of community well-being.

Implementing a tax exemption policy for the STF and waqf funds as part of the endowment could have significant policy ramifications. Firstly, it would reduce the operational costs of the STF as well as waqf administrators, enabling them to allocate more resources towards expanding coverage and improving services for lower-income groups. This policy could also incentivise the development of new micro-*takāful* products tailored to the unique needs of the unserved and underserved populations. Moreover, by reducing the financial burden on these projects, tax exemptions can encourage more private sector participation and investment in social welfare initiatives. This, in turn, would promote financial inclusion and social equity, aligning with broader governmental goals of poverty alleviation and social protection. Furthermore, tax exemptions for waqf funds would enhance their ability to support a wide range of community development projects, from education to healthcare, thereby multiplying the social impact.

Further research is proposed to analyse the impact of social *takāful* initiatives on financial inclusion, particularly within the unserved and underserved communities. This research could involve tracking improvements in economic resilience, access to healthcare, and educational outcomes for beneficiaries.

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ABOUT THE AUTHORS

Norazlina Abd Wahab, PhD, is an associate professor and currently serves as a Deputy Dean at the Islamic Business School, Universiti Utara Malaysia. She is the corresponding author and can be contacted at: norazlina.aw@uum.edu.my

Mohamad Yazid Isa, PhD, is a senior lecturer and a research fellow of the Institute of Shariah Governance and Islamic Finance at the Islamic Business School, Universiti Utara Malaysia.

Rosylin Mohd Yusof, PhD, is a professor and currently serves as a Director at the Centre for Management of Zakat and Waqaf at Universiti Utara Malaysia (UUM).

Wan Ahmad Najib Wan Ahmad Lotfi is the Chief Distribution Officer of FWD Takaful Berhad.

DECLARATION

Credit Authorship Contribution Statement

- Norazlina Abd Wahab: Conceptualisation, interview, write-up, analysis.
- Mohamad Yazid Isa: Interview, write-up.
- Rosylin Mohd Yusof: Analysis, write-up.
- Wan Ahmad Najib Wan Ahmad Lotfi: Approval of final draft.

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The authors declare that they have no known competing financial interest or personal relationships that could have influenced the research work.

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Ethical Statement

The authors declare that they understand the Ethical Guidelines and have adhered to all the statements regarding ethics in publishing. They also confirm that this paper is original and has not been published in any other journal nor is under consideration by another publication.

Data Availability

None.

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