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**PERFORMANCE OF TAKAFUL BIBD:  
THE CASE OF AUTOMOBILE TAKAFUL SCHEME**

**BY**

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بِسْمِ اللَّهِ الرَّحِيمِ الرَّحْمَنِ

**SUPERVISION**

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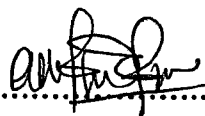


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DECLARATION

I hereby declare that this thesis is the result of my own apart from the references that I used in my writings.

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## ACKNOWLEDGEMENT

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

All praise to Allah SWT the Most Gracious and Most Merciful.

*Alhamdulillah*, It is with His guidance and by His grace and praise upon our Prophet Muhammad *Sallallahu 'alaihi wasallam*, member of his family and his honest loyal companions till the end of time.

First of all, I would like to land my thanks and appreciation to the Faculty of Business and Management Sciences of Sultan Sharif Ali Islamic University in giving me an opportunity to do my research as part of my academic exercise program required in my final year. These special thanks also go to my supervisor Hajah Nur Annisa binti Haji Sarbini who has continuously given advice and supervision on the progress of my work until my report is finally completed.

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## Abstract

This academic writing focuses on the management of the participant funds by the Takaful BIBD in the case of Automobile Takaful scheme under general Takaful. This research will include the discussion regarding with level of knowledge and understanding the people of Brunei Darussalam towards the concepts, arabic and shariah terms in takaful especially the term like *mudarabah* and *tabarru'* that are using in the aqad. In supporting this research and to make this research into more relevant context the information gathered were through personal interview with shari'ah department of the Takaful BIBD; a questionnaires handed to Takaful BIBD; the public views and awareness regarding with the practice of Takaful BIBD under general takaful through questionnaires and personal experience through the real practice dealing with the takaful BIBD. This research will be based on the practice of Takaful BIBD before it merged with the Takaful IBB. A total of 100 questionnaires were distributed to the takaful BIBD customers, but only 78 questionnaires were able to be collected for analysis. Surprisingly, majority of the respondents 64 out of 78 about 82.1 % respondents do not understand the *Mudarabah* contract offered by Takaful and this create some doubtfulness about the current practice of takaful BIBD. Furthermore in theoretical part of this research I will also discuss on the definition of takaful and the types of Takaful model applied in the general Takaful. To conclude this research, I will highlight some of the issues arise from the contract used by Takaful BIBD such as the issues of *tabarru'*, excess money, the processing fees and loading fees. Finally, I hope with this research, it will give some useful information and benefit to the people of Brunei Darussalam regarding the current practice of Takaful BIBD especially in the case of Automobile Takaful Scheme under general Takaful scheme.



## Abstrak

Penulisan latihan akademik ini berfokuskan kepada pengurusan dana peserta oleh BIBD Takaful dalam skim Takaful bermotor di bawah Takaful umum. Penyelidikan ini akan merangkumi perbincangan mengenai dengan tahap pengetahuan dan pemahaman masyarakat Brunei Darussalam terhadap istilah konsep, Arab dan shari'ah di takaful terutama sekali seperti istilah *Mudarabah* dan *tabarru'* yang digunakan didalam aqad. Dalam menyokong kajian ini dan membuat kajian ini didalam konteks yang lebih relevan, maklumat yang diperolehi adalah melalui wawancara peribadi dengan Jabatan shari'ah dari Takaful BIBD; mengutarakan soalan kepada Takaful BIBD; megedarkan soalan kaji selidik kepada pelanggan Takaful BIBD bagi mendapatkan gambaran mengenai dengan peroperasian Takaful BIBD bawah takaful awam dan pengalaman peribadi berurusan dengan BIBD takaful. Kajian ini berdasarkan amalan Takaful BIBD sebelum mereka bergabung dengan Takaful IBB. Sebanyak 100 soalan kaji selidik diagihkan kepada pelanggan Takaful BIBD, tetapi hanya 78 mampu dikumpulkan kembali untuk dianalisis. Anehnya, majoriti dari 64 responden daripada 78 sekitar 82,1% responden tidak memahami kontrak Mudarabah yang ditawarkan oleh Takaful BIBD dan ini mencetuskan beberapa keraguan dengan cara Takaful BIBD beroperasi. Selanjutnya pada bahagian teori, kajian ini juga membahas tentang definisi takaful dan jenis model Takaful yang diterapkan di dalam Takaful umum. Dalam pernyataan akhir kajian saya ini, saya akan menyentuh beberapa isu yang timbul daripada kontrak yang digunakan oleh Takaful BIBD seperti isu tabarru', wang berlebihan (*excess money*), bayaran pemprosesan dan bayaran loading. Akhirnya, saya berharap dengan kajian ini nantinya akan dapat memberikan maklumat yang berguna dan bermanfaat kepada masyarakat Brunei Darussalam berhubung dengan praktis takaful BIBD terutama sekali didalam hal Automobile Takaful Skim dibawah skim Takaful umum.

## المقدمة

يتناول مخلص البحث كيفية تدبير أموال العملاء التامين التكافلي السيارات في البنك الإسلامي البرناوي . ويحاول هذا البحث أن يتحقق من مدى فهم المجتمع البرناوي مصطلحات المستخدمة في التامين التكافلي وخاصة مصطلح " عقد المضاربة والتبرع". والمنهج المستخدم لأخذ المعلومات هو المقابلة الشخصية مع موظفي البنك، وتوزيع الاستبانة للعملاء التامين السيارات. وقد وزعت 100 استبانة التكافلي وأجيب على 78 منها. وكان من نتائج البحث أن 81% لا يفهمون عن عقد المضاربة . في نهاية البحث ناقش البحث المسائل الموجودة حول عقد التامين التكافلي في هذا البنك مثل التبرع ، وفائض المال، وأجرة الإجراءات والرسوم. سيقدم هذا البحث توصيات نافعة حول تطبيق التامين التكافلي في هذا البنك وخاصة عن التامين التكافلي السيارات.



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# CHAPTER ONE

## INTRODUCTION

### 1.1 Introduction

The central idea of takaful is to bring equity to all parties involved as its prime objective is not for profit maximization but rather the aim is to help others who face risks and share misfortunes. The concept of takaful is grounded in Islamic *muamalat* (Islamic banking), observing the rules and regulations of Islamic law. This concept has been practiced in various Muslim jurists acknowledging that the basis of shared responsibility in the system of aquila as practiced between Muslims of Mecca and Medina laid the foundation of mutual insurance. The Takaful industry in its current form only started in 1979 in Sudan, then in Malaysia in 1985, followed by Brunei in 1993 and Singapore and Indonesia in 1995 (AEIC website). According to Shariah law, the emergence of Islamic Insurance is as an alternative to that of conventional insurance. This is due to conventional insurance practices that contain the element of *Riba'* (interest), *Gharar* (uncertainty), and *Maysir* (gambling). The performance of Islamic insurance or well known as Takaful has showed a remarkable growth from time to time. As a result, it is an interesting subject to be discussed. The Takaful industry has a huge potential to be emphasized. However, there are still many people who do not know what takaful is all about, and the term takaful seems not very familiar since it is an Arabic term. Furthermore, this is one of the challenges which must be faced and answered by the takaful industry to make it well known. This research will study the operation of the takaful BIBD especially in the case of Automobile takaful scheme under general takaful products. The information derived from this research will be based on interviews with the Shariah department of BIBD, questionnaires answer by Takaful BIBD, distribution of questionnaires to the Takaful BIBD customer and through the real practice and experience with Takaful BIBD.

## 1.2 Background of the study

The emergence of Takaful BIBD plays an important role in the financial system of Brunei Darussalam. Takaful BIBD Sdn Bhd is a subsidiary company of Bank Islam Brunei Darussalam (BIBD). Takaful BIBD Sdn Bhd officially started their operation on 1st March 2001 with a different name and on 24th October 2003 where later the name was changed to the current name by the state Mufti Yang Berhormat Pehin Datu Seri Maharaja Dato Paduka Seri Ustaz Awang Haji Abdul Aziz bin Juned . Takaful BIBD is a Takaful Operator offering Life (Family) and Non-Life (General) Takaful products based on the *Mudarabah* and *wakala* principles. In enhancing customer service towards excellence, Takaful BIBD has located their headquarter at Unit 1&2, Kompleks Seri Kiulap, Kg. Kiulap, Gadong, BE1518, Negara Brunei Darussalam. Since it commences its operation, Takaful BIBD has opened 9 branches throughout the country whereby six are located in Brunei Muara District, one in Tutong District and two in Belait District (Takaful BIBD website).

In November 2010, in fulfilling the requirement of Takaful order 2008, Takaful BIBD and Takaful IBB were officially merged. Takaful BIBD Sdn Bhd is now known as Takaful Brunei Keluarga while Takaful IBB Berhad has changed its name to Takaful Brunei Am. Following this merger, Takaful BIBD Sdn Bhd transferred all their general takaful business to Takaful Brunei Am and family takaful business is transferred to Takaful BIBD. According to Barudin Hj Kudil, the Deputy General Manager of Takaful Brunei Am, "even though with the merger of Takaful BIBD is under the new name of Takaful Brunei Keluarga, however, the operation of general Takaful product such as renewal car insurance is still available at Takaful BIBD" (The Brunei Times February 16, 2011). The merger of Takaful BIBD does not change

the concept that they had been practicing before but their operation is more concentrated on family Takaful products.

### 1.3 Problem Statement

In the normal practice of *mudarabah* model, the fund collected from the participants will be treated as *tabarru'*. Since the participant enter a contract of *mudarabah* that means the fund still belong to the participants as it cannot be treated as *tabarru'*. If it is under *tabarru'* it is not necessary to give back to the participants and the participants cannot expect any surplus to be given back to them. (Azman bin Ismail, 2004).

Takaful company, receiving the money from the premium or contribution paid by the participants, which agree to pay the whole amount (or part thereof) as a donation (*Tabarru'*), an individual insured party is considered to waive his/her right to the money paid. The Takaful operation up to this point is Shariah-compliant, but the *mudarabah* contract should be examined in greater detail. However, if a general view of Shariah is to be relied upon with regard to all the insured parties as a group, the whole amount collected by the Takaful fund (particularly in the case of the general takaful i.e. the compensation fund) must be considered either as trust money or as a trust fund for the benefit of all of the contributors. It can in no way be treated as funds belonging to the takaful companies (Islamic law of finance website).

If the paid contribution from the participants treated as *tabarru'* therefore the ownership of the funds will immediately be transferred from donor to the one in favor of whom the donation is made. Under Islamic law, it is unlawful for the donor to seek any benefit over donated property after the property is given away as a donation (Mohd Ma'sum Billah, 2003).

Dr. Qardawi in one of his book named "The Lawful and the Prohibited in Islam" had mentioned that none of those who buy insurance are conscious that the premium is for mutual help. The insured individuals do not pay the premium as donations; such a thought never occurs to them (Sheikh Yusuf al-Qardawi, 2001).

Whether a *mudarabah*, modified *mudarabah*, *wakalah* or a combination of the foregoing contracts is adopted as a takaful model for an individual takaful operator, its issue is about transparency in declaring fees, expenses and contract conditions that must be practiced. For example, if expenses can be charged to a participant's account on a *mudarabah* contract basis, should only actual operational expenses be charged or a fee? Where a fee is charged under such contract arrangement, are the participants being charged more than the actual expenses and therefore not being justly treated under a *mudarabah* principle? (Dawood Taylor, 2000).

#### **1.4 Research questions**

The present research aims to address the following questions:-

- 1) By looking at *Mudarabah* model, why does processing fees is charged to the participant when they make a claim as this reflect to *Wakalah* model (BIBD policy holder)?
- 2) As mentioned in the declaration form that all participants' fund will be credited into Takaful BIBD Sdn Bhd as a form of *Tabarru'*, is it allowed that the return from *Tabarru'* fund to be shared between the participants and Takaful operator as a form of *Mudarabah*?
- 3) Why does excess money being charged to the participants when the claim is made under *Mudarabah* Model as the participants already paid the premium.
- 4) Why does loading fees charges to the participants when the car ages above 7 years?

## 1.5 Objectives of the Study

The overall objective of this study is to examine the application of Takaful BIBD in relation to participants fund under *Mudarabah* Model. However, the specific objective of this research

- 1) To analyze the way Takaful BIBD managed the participant funds in *Mudarabah* model.
- 2) To investigate the claim process made by the participants in this *Mudarabah* model.
- 3) To make a clear justification the treatment of participant funds between *tabaruu'* and Investment account.
- 4) To find out the way Takaful BIBD divided the participants fund between *Tabarru* and Investment fund.

## 1.6 Significance of the study

The importance of this research will give an overall view to the public regarding the practice of Takaful BIBD especially under *mudarabah* model in reference to Automobile Takaful scheme. In addition, it explores how the participant fund had been managed by Takaful BIBD and the claim procedure made by the participants under *mudarabah* model. The finding from this research later will help to increase the level of knowledge and understanding to the people of Brunei Darussalam towards the takaful industry especially on how Takaful BIBD managed its participant's fund.



## 1.7 Research hypothesis

1.7.1 Ho: Profit from *tabarru* fund cannot be shared between the participants and Takaful operator as a form of *Mudarabah*.

H1: Profit from *tabarru* fund can be shared between the participants and Takaful operator as a form of *Mudarabah*.

In an insurance policy, the policy holder pays the amount as *tabarru*' for the charitable fund, the participants may cease to have the right of ownership over the *tabarru*' once it is given away as a charity without consideration. The terms *tabarru*' is in principle interchangeable and share a common meaning of donation. Once a person creates as *tabarru*', they are made in favour of someone or something for love or affection or for spiritual achievement without seeking any form of consideration. This means that once the donor creates the above donations, the ownership of the donated property will be immediately being transferred from the donor to the one in favour of whom the donation is made. The ownership in this situation is transferred in perpetuity, nature in which the donor ceases to have any form of right of benefit over the donated property after it is given away. Under Islamic law, it is unlawful for donor to seek any benefit over the donated property after the property is given away as a donation (Mohd. Ma'sum Billah, 2001). Therefore Profit from *tabarru* fund cannot be shared between the participants and Takaful as a form of *Mudarabah*.

1.7.2 Ho: Additional fees such as loading fees and excess money cannot be charged to the participants when the claim is made under *Mudarabah* Model.

H1: Additional fees such as loading fees and excess can be charged to the participants when the claim is made under *Mudarabah* Model.

In *Mudarabah* contract, there are two party involved one party provided fund (*rabulmal*) and the other party provided skill/labour (*Mudharib*). In the practice of general takaful the fund will be provided by the participants as *rabulmal* and the fund will be managed by the takaful company as a *mudharib* by providing skill/labour. The fund later will be invested and the profit from investment will be divided between *rabulmal* and *mudharib* base on agreed ratio. The lost from investment will be bear by the *rabulmal*. By looking at the contract of *Mudarabah*, it is very clear that there are no additional fees or excess money charges to *rabulmal* (participant) once the contract agreement conclude between the participants and the takaful operator.

### **1.8 Scope and limitation of the study**

This research will only cover Automobile Takaful Scheme under general takaful of BIBD as it is the most preferred products among Brunei people. This research is carried out based on the practice of Takaful BIBD before it merges with Takaful IBB Berhad in November 2010. This is due to the majority of the respondents is not very familiar to the new name and most of the respondents is still holding old policy certificates. The information gathered based on interview, questions handed to the Takaful BIBD and questionnaires given to the Takaful BIBD customer. The interview was done with BIBD Shariah department as Takaful BIBD products screening body. During the interview, some of the issues can be disclosed and some cannot be disclosed due to company strategies as the discussion was limited on product approval, the types of contract applied and how the products are implemented especially in the case of Automobile Takaful scheme. However, the interview cannot be done with Takaful BIBD due to some reason but I was able to get some information through the question submitted to Takaful BIBD headquarter. Whereas the sampling of questionnaires distributed

to the Takaful BIBD customer was limited to 100 due to limited time in doing data analysis. However, only 78 questionnaires were able to be collected. The selection of the sample was not limited to the working class but also to those who are unemployed and higher learning education as long as they have car insurance policy with Takaful BIBD.

### 1.9 Definition of Terms

- ❖ Takaful is derive from the Arabic root-word "*kafala*" which mean guarantee, bail, warrant or an act of securing one's need. Therefore, takaful (in its reciprocal form) means joint guarantee where a group of people mutually guarantee each other against defined loss (Engku Rabiah, 2008).
- ❖ *Tabarru'* is derived from Arabic noun that means "donation, gift, and contribution (applied-islamicfinance website).
- ❖ *Mudarabah* is a special kind of partnership permitted by Shari'ah where one partner gives money to another for investments in a commercial enterprise (mortgage, insurance, credit, financing and other business). The investment comes from the first partner who is called *rabbul mal*, while the management and work is an exclusive responsibility of the other, who is called *mudarib* (Islamic Banking website).
- ❖ *Wakalah* means "agency, or the delegating of a duty to another party for specific purposes and under specific conditions. Under this concept, the bank acts as an agent in completing a particular financial transaction. As an agent, the Bank will be paid a certain amount of fee for the services it provides" (standard chartered website).
- ❖ *Aqad* means tie, contract, binding. For example: Business *aqad* (contract), Marriage *aqad* (contract)-intention is important while making *aqad* and witnesses.

- ❖ Underwriting means "the process of issuing insurance policies. Underwriter's job is to make sure that the insurance charges just the right amount for the coverage it provides. They figure how much risk you represent, how much coverage the company can offer you, and how much that coverage should cost underwriter's opinion is going to determine how much you pay for insurance" (Insurelane website).
- ❖ Excess means "the responsibility of the Participant which means the excess amount. The Participant can transfer that responsibility to Takaful BIBD Sdn. Bhd by purchasing the Excess Cover. The Excess Cover provides protection to the Participant and Authorized driver's excess amount in the event of a claim. Therefore, in the event of a claim, the excess amount is borne by Takaful BIBD Sdn. Bhd" (Takaful BIBD insurance policy booklet).

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Concept of Takaful

The shari'ah alternative to the conventional insurance is al-Takaful. The word Al-Takaful (التكافل) is derived from a verb *kafala* which means to help or to take care of one's needs. Takaful is operated based on shared responsibility, brotherhood, solidarity and mutual cooperation or assistance, which provides for mutual financial security and assistance to safeguard participants against a defined risk. Its operation should not be against the shariah principles.

As mention in the al-Quran:

... *"And co-operate ye with one another in righteousness and piety, and do not co-operate in sin and rancor"* ... ( Surah Al-Ma'idah: ayah 2).

...*"Allah s.w.t permitted trade and transaction while prohibited in involving usury"*...

(Surah Al-Baqarah: ayah 275).

According to Islamic Financial Services Board (IFSB) which is based in Kuala Lumpur Takaful is defined as the Islamic counterpart of conventional insurance, and exists in either Family (or "Life") and General forms. Takaful is derived from an Arabic word which means joint guarantee, whereby a group of participants agree among themselves to support one another jointly for the losses arising from specified risks. In Takaful arrangement, the participants contribute a sum of money as a *Tabarru'* and commitment into a common fund that will be used mutually to assist the members against a specified type of loss or damage. The underwriting in a Takaful is thus undertaken on a mutual basis, similar in some respects

to conventional mutual insurance. A typical Takaful undertaking consists of a two-tier structure that is a hybrid of a mutual and a commercial form of company which is the Takaful operator (TO), although in principle it could be a pure mutual structure (IFSB website).

The financial solution of takaful (Islamic insurance) has emerged in response to consumer demand for shari'ah compliant insurance products. Takaful is perceived as cooperative or mutual insurance where members contribute a certain sum of money to a common pool. The purpose of this system is not profits but to uphold the principle of "bear ye one another's burden". Generally takaful is a mutual protection among the policyholders. It provides a scheme of mutual protection and indemnity that one participant is helping the other participants in the case of loss, damage, or financial difficulty. In takaful, the loss and risk are essentially distributed amongst the policyholders. In Islam, the division of loss is motivated by humanitarianism and the principle of bearing one another's burden. There is no commercial motive as there is no transfer of loss or speculation on risk. Overall, Takaful is a scheme of mutual protection that exists amongst the participants making them both the insurer and the insured.

In Takaful there is no insurance company speculating on the risk in order to pre-determine profit based on the premium ratio. It is a mutual assistance scheme whereby the members become both the insurer and the insured and are insured against hardship instead of belonging to a money-making racket where they may be partially or under-insured with insurance companies fighting them every step of the way to make any kind of payout as profit is the main motivation of the conventional insurance scheme. The Takaful mutual assistance scheme is centered on the participants as one group putting their monies in one common pool to benefit one of the participants in the case of loss or damage.

However, to make it commercially viable, the participants need to engage in a licensed Takaful operator to manage both the administrative and the investment activities of the

Takaful business. The contributions from the participants are invested according to Shari'ah principles. The contract between the participants and the licensed Takaful operator could be based on *Wakalah* or *Mudarabah* or a hybrid of the two. This contract refers to a management contract between the participants and the Takaful operator.

In order to eliminate the element of uncertainty in the takaful contract, the concept of *tabarru* (to donate, to contribute, to give away) is incorporated. In relation to this concept, a participant shall agree to relinquish as *tabarru*, certain proportion of his takaful installments or takaful contributions that he agrees or undertakes to pay should any of his fellow participants suffer a defined loss. This agreement enables him to fulfill his obligation of mutual help and joint guarantee.

In essence, *tabarru'* would enable the participants to perform their deeds in sincerely assisting fellow participants who might suffer a loss or damage due to a catastrophe or disaster. The sharing of profit or surplus that may emerge from the operations of takaful is made only after the obligation of assisting the fellow participants has been fulfilled. It is imperative, therefore, for a takaful operator to maintain adequate assets of the defined funds under its care whilst simultaneously striving prudently to ensure the funds are sufficiently protected against undue over-exposure.

The principles of Takaful include first, the Policyholders cooperate among themselves for their common good. Second, every policyholder pays her subscription to help those that need assistance. Third, losses are divided and liabilities spread according to the community pooling system. Fourth, uncertainty is eliminated in respect of subscription and compensation. Fifth principle, it does not derive advantage at the cost of others. Finally is that commercial insurance is strictly not allowed for Muslims as agreed upon by most contemporary scholars because it contains the following elements such as *Al-Gharar* (Uncertainty), *Al-Maisir* (Gambling) and *Riba* (Interest).



## 2.2 Takaful Models

There are four main types of Takaful models mentioned by Jacky Lim, Muhammad Fahmi Idris and Yura Carissa such as *Tabarru'* (donation)-based Takaful, *Mudaraba*-Based Takaful, *Wakala*-Based Takaful and Mixed Model:

### 2.2.1 *Tabarru'* (Donation) -Based Takaful

The *tabarru'*-based takaful is mainly the ideal model among other takaful models. The practice of this model is based on non-profit oriented activities. The central ideas of this model are based on solidarity, responsibility and brotherhood among participants. Each participant who participates in this model is willing to make donation to the takaful fund with sincere intention to extend financial assistance to other participants who are faced with difficulties. This model will not provide any return to both of the takaful operator and the participants (policyholder). Therefore, such model prevents large-scale expansion of takaful business.

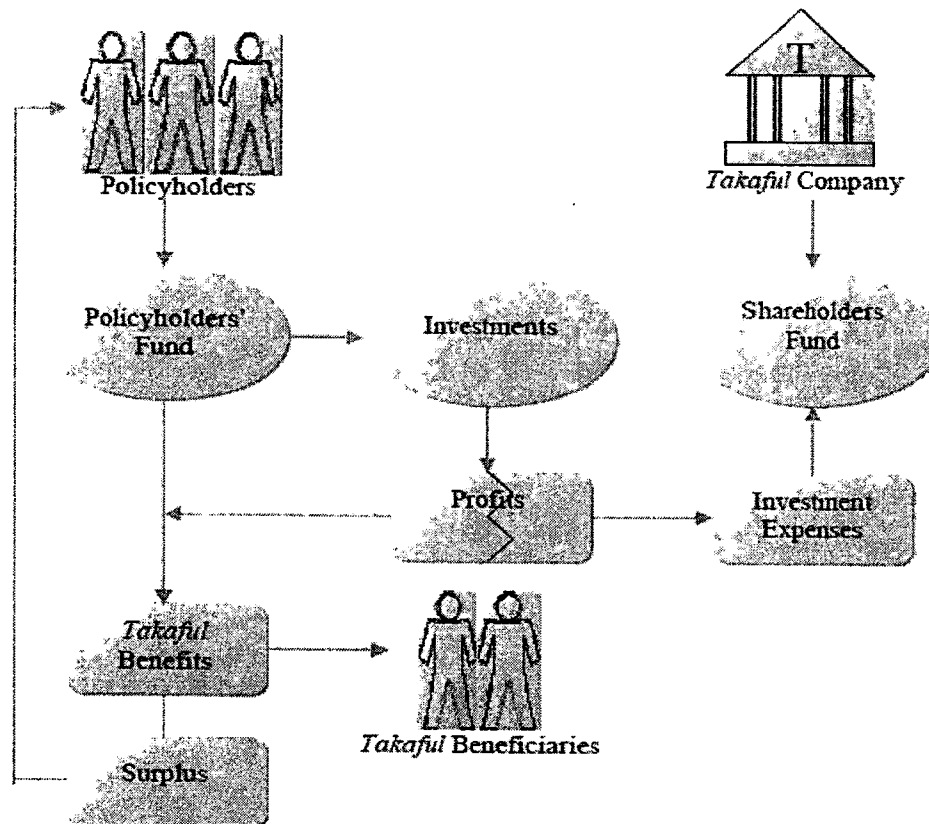
### 2.2.2 *Mudarabah*-Based Takaful

*Mudarabah* is an Arabic term, which means profit-sharing. It seeks returns from the business of investing the policyholder funds in agreed ratio such as 50:50, 60:40, 70:30, and etc.

Technically, the policyholders pay premium that is credited to a policyholders fund, while the shareholders of the takaful operator company contribute to a shareholders' fund which is different from the policyholders' fund. The takaful operator act as *mudarib* and invest the policyholders' fund to the shari'ah compliant instruments. The Profits generated from the investment are shared between the policyholder and takaful operator in agreed ratio. Any losses are charged to the policyholders' fund. In a *mudarabah* concept, operational

expenses relating to investment are charged to the shareholders' fund. In managing the operations, general and administrative expenses other than relating to investments are charged to the policyholders' fund. As valid claims are made, takaful benefits are paid to beneficiaries depending upon occurrence of actual losses and damages. In case of surplus, the policyholders will receive full refund and have to make additional payment of deficit if any.

Table 1: *Mudarabah*-Based Takaful Model



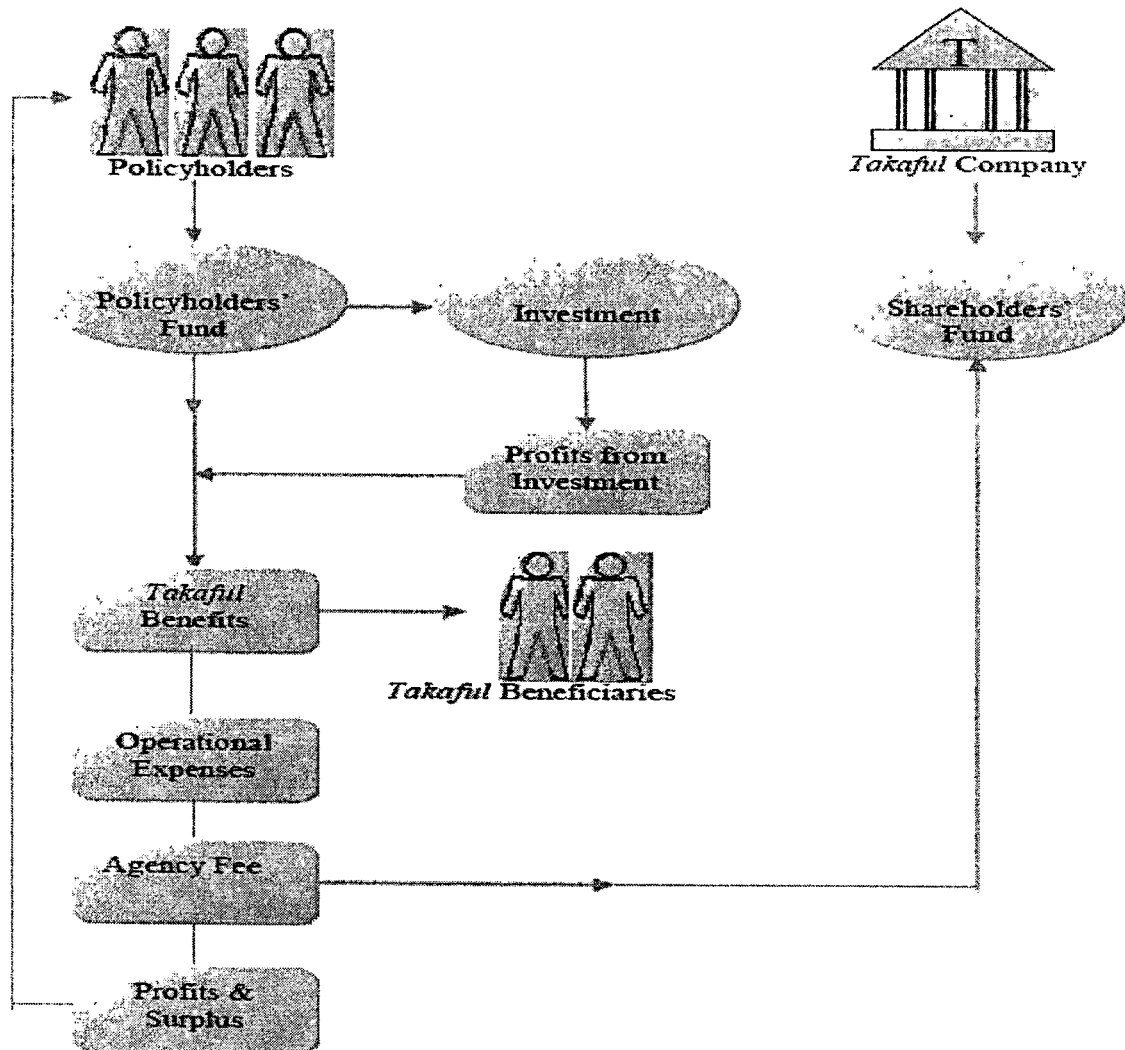
(Source: Jacky Lim, et al, 2010)

### 2.2.3 *Wakala*-Based Takaful

Under *wakala*-based model, the takaful operator acts as the agent of the policyholders and is consequently entitled to a fee for the services provided. In theory, the policyholders pay premium that is credited to a policyholders' fund. As an agent, the shareholders of the takaful

operator company donate to a shareholders' fund which is maintained separately from the policyholders' fund. The takaful operator invests the policyholders' fund in shari'ah compliant instruments in its capacity as agent. All operational general and administrative expenses are charged to the policyholders' fund. The takaful operator received an agency fee from the percentage of the gross premium received. As valid claims occur, the benefits are paid to the beneficiaries depending upon occurrence of actual losses and damages. Any underwriting surplus is given back to the policyholders. And the policyholders are required to make additional payment of deficit if any.

Table 2: *Wakala* -Based Takaful Model



(Source: Jacky Lim, et al, 2010)

#### 2.2.4 Mixed Model

The mix model is the combination elements of the *wakala* and *mudarabah* models and is set so that the takaful operator has two funds; one for the shareholders and the other for policyholders. In this model, *wakala* contract is used for underwriting activities while *mudarabah* contract is used for investment activities. With regard to underwriting activities, the takaful operator act as *wakil* or agent on behalf of policyholders to manage their funds. In exchange for managing the funds, the takaful operator received a fee known a *wakala* fee of agency fee which normally a percentage of the contribution paid for the premium.

An incentive fee is entitled to the takaful company if there is a surplus in the policyholders fund as a result of managing the fund effectively. Generally, any surplus contributions will be invested in different Islamic instrument based on *mudarabah* contract, which the takaful operator acts as *mudarib* on behalf of policyholders (capital provider). Like other *mudarabah* contract, the ratio of profit is fixed and agreed upon between the two contracting parties (Jacky Lim, Muhammad Fahmi Idris and Yura Carissa, 2010).

In general takaful based on *mudarabah* model signifies the whole amount of fund contributed by the participant will be treated as *tabarru'* fund. Then takaful company will manage some portion of *tabarru'* fund to be invested where the profit from this invested *tabarru'* fund will be shared between the participant and takaful operator based on agreed ration (Syed Khalid Rashid, 1993). In general takaful of BIBD under *mudarabah* model, all the funds paid by the participants will be credited into General Takaful fund of Takaful BIBD Sdn Bhd as *tabarru'* for takaful BIBD Sdn Bhd to manage the various schemes of takaful under its General Takaful business including the investment of the said fund and the profit of the fund will be divided in a proportion of 50:50 between the participant and Takaful BIBD Sdn Bhd (Takaful BIBD declaration form).

The general takaful is for protection on a short-term basis, for example, 12 months. The participant's contribution is wholly on the basis of *tabarru'* (donation) and the sharing of profits is on the underwriting surplus and the investment income. Surplus derived after deducting company's expenses from this fund (Yon Bahiah Wan Aris, 2004).

Further explanation of *mudarabah* model is when the participants enter into a donation or *tabarru'* contract in paying their contributions to the takaful fund for the purpose of mutual indemnity. The participants will appoint the takaful operator as their investment manager (*mudarib*) to invest the fund while waiting for claims to be made and paid. Both the takaful operator and participants will share the investment profit, if any (Engku Rabiah, 2008).

In general takaful, the policyholder (takaful partners) pay subscription to assist and cover each other and share the profits earned from business run by the takaful operator. A takaful company normally divides the contribution funds into two parts such as *tabarru'* funds (donations funds) for meeting moral liability or losses of the fellow policyholders and the other part for investment account which is solely for the investment purpose and the profit from this investment will be divided between takaful operator and the policyholder (Syed Umar Farooq, et al, 2010).

The *tabarru'*-base takaful model is seen as a non-profit oriented activity. It is based on solidarity, responsibility and brotherhood among participants. In this model, each participant is willing to make donation to the takaful fund with sincere intention to extend financial assistance to other participants face with difficulties. It provides no return for both the takaful operator and the participants or policyholder. Whereas *Mudarabah*-base takaful model, it is a profit-sharing agreement between participants and takaful operator. The participants paying premium will be credited to a policyholders' fund where the funds later managed by the takaful operator and invested the fund in the Shari'ah compliant instruments. The profit generated from the investment will be shared between the policyholder and takaful operator in

agreed ratio such as 50:50, 60:40, 70:30, and etc. Any losses are charged to the policyholders' fund. In managing the operations, general and administrative expenses other than relating to investment are charged to the policyholders' fund (Jacky Lim, et al, 2010).

## CHAPTER THREE

### METHODOLOGY

#### 3.1 Analytical framework

The research is based on qualitative research which emphasizes on understanding and explaining the *mudarabah* model. The *mudarabah* model will be explained in detail based on the data that had been collected through the combination of secondary data and primary data. The secondary data through available data provided by the Takaful BIBD itself such as policy holder while the frame work of *mudarabah* model based on journals, books and the internet. The primary data were collected from the questionnaire distributed to the Takaful BIBD main office and interview with the BIBD Shariah advisor. Furthermore this research will also include customers' views based on their experience dealing with Takaful BIBD especially under Automobile Takaful Scheme. The customers' opinion will be based on 78 sampling which targeted to those who subscribed with takaful BIBD Sdn Bhd.

#### 3.2 Data Collections

The information gathered in this research was done in four ways such as through personal interview with BIBD Shariah department, by giving question to Takaful BIBD headquarters, a random survey of 78 samples base on Takaful BIBD customer and through real practice and experience dealing with takaful BIBD. First, the interview with the shariah BIBD representative was conducted with the BIBD Shariah department. Most of the discussion base on the practice of Takaful BIBD such as the types of contract applied under Automobile Takaful scheme, the product approval and the issues of excess money and loading fees. Second, data collection based on questionnaires distributed to Takaful BIBD. This is due to limited time in this research I was unable to do direct interview with the takaful BIBD



representative however I managed to get some of the useful information in this research through a questionnaire handed to the BIBD Takaful headquarter. Most of the questions were asked regarding with the operational of Takaful BIBD. Third data collection through the questionnaires distributed to the Takaful BIBD customers. This research will be base on the customer of Takaful BIBD regardless their personal background. The reason is to get the clear picture on how takaful BIBD operates. A total of 100 questionnaires allocated in this research but only 78 were able distributed to the takaful BIBD customers due to the limited time in this research. Finally is the information gathered is through personal experience dealing with the takaful BIBD. The information discover is regarding with the contract of *mudarabah* in conection with the *aqad* of *tabarru'*, the excess money, loading fees such as 30% for the car reach 7 years and 60% charges for the car 11 years of age.

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