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DEVELOPING A MICRO-*TAKĀFUL* FRAMEWORK IN BRUNEI DARUSSALAM

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**DEVELOPING A MICRO-*TAKĀFUL* FRAMEWORK IN BRUNEI
DARUSSALAM**

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of the requirements for the degree of
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SUPERVISION

**DEVELOPING A MICRO-*TAKĀFUL* FRAMEWORK IN BRUNEI
DARUSSALAM**

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**DEVELOPING A MICRO-TAKĀFUL FRAMEWORK IN BRUNEI
DARUSSALAM**

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ABSTRACT

DEVELOPING A MICRO-TAKĀFUL FRAMEWORK IN BRUNEI DARUSSALAM

Micro-*Takāful* is the provision of insurance services to the low-income people. It is of supreme importance for protecting poor lives against accidents, threats and other types of risks. Like any kind of insurance, Micro-*Takāful* can cover different risks to family/life, health, property/fire among others. This research aims at developing a Micro-*Takāful* framework in Brunei Darussalam by exploring six main areas of a Micro-*Takāful* scheme: (i) Micro-*Takāful* products; (ii) Micro-*Takāful* providers; (iii) Micro-*Takāful* funds mobilization; (iv) Micro-*Takāful* contracts; (v) *Sharī'ah* compliance mechanisms; and (vi) role of the Government and *Takāful* operators. In order to explore and explain the topic effectively, a mixed-method approach was adopted. As part of the quantitative research strategy, (1) a survey questionnaire was used with the low-income households. On the other hand, (2) in-depth interviews were conducted with *Takāful* operators, Government officers and *Sharī'ah* scholars. The findings in this study interestingly reveal that there is a potential for a Micro-*Takāful* scheme in Brunei Darussalam. The overall research findings reveal that low-income households are willing to buy insurance products and pay for them, the products can be provided by *Takāful* operators, MFIs and NGOs, *zakāt* can be the main sources of funds, *Tabarru'* can be the best contracts for the scheme, *Sharī'ah* compliance mechanisms for IFIs can be implemented on Micro-*Takāful* scheme, and finally, the Government is ready to support the scheme. Based on the revealed findings the study finally offers and formulates some recommendations to make a Micro-*Takāful* scheme successful when introduced in Brunei Darussalam.

ABSTRAK

MEMBANGUNKAN RANGKA KERJA MIKRO-TAKAFUL DI NEGARA BRUNEI DARUSSALAM

Micro-Takaful adalah penyediaan perkhidmatan insurans kepada golongan yang berpendapatan rendah. Ianya sangat penting untuk melindungi kehidupan daripada kemalangan, ancaman dan lain-lain jenis risiko. Seperti jenis insurans yang lain, Micro-Takaful juga boleh melindungi risiko yang berbeza-beza sama ada untuk keluarga/kehidupan, kesihatan, kehilangan harta, kebakaran dan sebagainya. Kajian ini bertujuan untuk membangunkan satu rangka kerja Mikro-Takaful di Negara Brunei Darussalam dengan meneroka enam bidang utama skim Mikro-Takaful: (i) produk Micro-takaful (ii) pembekal Mikro-Takaful (iii) mobilisasi dana Mikro-Takaful; (iv) Kontrak Mikro-Takaful (v) mekanisma pematuhan Syariah dan (vi) peranan Kerajaan dan Pengendali Takaful. Untuk meneroka dan menerangkan topik dengan lebih berkesan, pendekatan kaedah gabungan (mixed-method) telah diguna pakai. Sebagai sebahagian daripada strategi penyelidikan kuantitatif, (1) soal kaji selidik telah digunakan dengan menumpukan kepada golongan yang berpendapatan rendah. Dan dalam pada masa yang sama, (2) temubual secara mendalam telah dijalankan dengan pengendali takaful, pegawai-pegawai Kerajaan dan ulama Syariah. Hasil kajian mendedahkan bahawa terdapat potensi bagi skim Mikro-Takaful di Negara Brunei Darussalam. Hasil kajian secara keseluruhan menunjukkan bahawa golongan berpendapatan rendah bersedia membeli produk insurans dan membayar bagi produk insurans tersebut, produk ini boleh disediakan oleh pengendali takaful, MFI dan NGO, zakat boleh menjadi sumber utama dana, Tabarru' boleh menjadi kontrak terbaik bagi skim ini, mekanisme pematuhan Syariah bagi IFI boleh dilaksanakan di skim Mikro-Takaful, dan akhirnya, Kerajaan telah bersedia untuk menyokong skim Mikro-Takaful tersebut. Berdasarkan pendedahan hasil kajian, hasil kajian ini akhirnya menawarkan dan merumuskan beberapa cadangan untuk membuat satu skim Mikro-Takaful yang berjaya apabila diperkenalkan di Brunei Darussalam.

ملخص البحث

إيجاد مشروع التأمين التكافلي للفئات ذوي الدخل القليل في بروناي دار السلام

التكافل المصغّر هو تقديم خدمات التأمين لذوي الدخل القليل. فإنه من الأهمية العليا لحماية حياة الفقراء ضد الحوادث والتهديدات وغيرها من أنواع الأخطار. كما أنه يمكن به تغطية الأخطار المختلفة للعائلة أو الحياة، والصحة، والممتلكات أو الحريق وغيرها. يهدف هذا البحث إلى إيجاد مشروع التكافل المصغّر في بروناي دار السلام من خلال استكشاف ستة مجالات رئيسية من مخطط التكافل المصغّر: (أ) منتجات التكافل المصغّر، (ب) مقدمي التكافل المصغّر، (ج) مصدر أموال التكافل المصغّر، (د) عقود التكافل المصغّر، (هـ) آليات التوافق مع الشريعة، (و) ودور الحكومة وشركات التكافل. من أجل استكشاف الموضوع وشرحه بشكل فعال، يتبع هذا البحث منهج مختلط الأساليب، باعتباره جزءاً من استراتيجية المنهج التحليلي، (1) تمّ استخدام الاستبانات مع الأسر ذات الدخل القليل. ومن ناحية أخرى، (2) أجريت مقابلات معمّقة مع شركات التكافل، وموظفي الحكومة، وعلماء الشريعة. وقد توصلت نتائج الدراسة إلى الكشف مثير الاهتمام أن هناك إمكانية إيجاد مشروع التكافل المصغّر في بروناي دار السلام. كما أن النتائج الشاملة للبحث تكشف أن الأسر ذات الدخل القليل على استعداد لشراء خدمات التأمين، ودفع ثمنها، ويمكن توفير هذه المنتجات من قِبَل شركات التكافل، ومؤسسات التمويل المصغّر، والمنظمات غير الحكومية، ويمكن أن تكون الزكاة هي المصدر الرئيسية لأموال التكافل المصغّر، كما يمكن أن يكون عقد التبرع أفضل عقود للتكافل المصغّر، وآليات التوافق مع الشريعة للمؤسسات المالية الدولية يمكن تنفيذها على نظام التكافل المصغّر، وأخيراً، فإن الحكومة على استعداد لدعم هذا المشروع. استناداً إلى نتائج هذا البحث، تقدم الدراسة بعض التوصيات والاقتراحات لجعل نظام التكافل المصغّر ناجحاً عندما يُقدّم في بروناي دار السلام.

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TRANSLITERATION

Name of the Letters	Form	Transcription
Aliff	ا	a
Bā	ب	b
Tā	ت	t
Thā	ث	th
Jīm	ج	j
Hā'	ح	Ḥ/ḥ
Khā'	خ	kh
Dāl	د	d
Dhāl	ذ	dh
Rā'	ر	r
Zay	ز	z
Sīn	س	s
Shīn	ش	sh
Sād	ص	Ṣ/ṣ
Dād	ض	Ḍ/ḍ
Tā'	ط	Ṭ/ṭ
Zā'	ظ	Ẓ/ẓ
Ayn	ع	‘
Ghayn	غ	gh
Fā	ف	f
Qāf	ق	q
Kāf	ك	k
Lām	ل	l
Mīm	م	m
Nūn	ن	n
Hā	هـ/ة	h
Wāw	و	w
Yā	ي	y
Hamzah	ء	`

ABBREVIATION

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AGM	Annual General Meeting
AHC	Association of the Handicapped Children
AIA	American Insurance Association
AIG	American International Group
AMBD	Autoriti Monetari Brunei Darussalam
ATK	Asuransi <i>Takāful</i> Keluarga
BDNAB	Brunei Darussalam National Association for the Blind
BIBD	Bank Islam Brunei Darussalam
BOD	Board of Directors
DCD	Department of Community Development
DFID	Department for International Development
GCE	General Certificate of Education
GLICO	Gemini Life Insurance Company
GTZ	German Development Cooperation
IFIs	Islamic Financial Institutions
ILO	International Labor Organization
KB	Kalyan-Bima-Two payments deposit pension scheme
MDGs	Millennium Development Goals
MFI	Microfinance Institutions
MSAP	Monthly Small-Savings Assurance Plan
MTB	Mayban <i>Takāful</i> Berhad
MUIB	Majlis Ugama Islam Brunei
NGOs	Non-Governmental Organizations
OKP	Persatuan Orang Kurang Pendengaran
PA	Participant's Account
PAPDA	Paraplegic and Physically Disabled Association
PIDPS	Prime Islami Deposit Pension Scheme
PILIL	Prime Islami Life Insurance Ltd.
PSA	Participant's Special Account
SIDA	Swedish International Development Cooperation Agency
SMARTER	Society for the Management of Autism Related issues – in Training, Education and Resources
SMEs	Small Micro-Enterprises
SNB	Samajik Nirapatya Bima
SOBD	Special Olympics Brunei Darussalam
SPSS	Statistical Package for the Social Sciences
SSB	<i>Shari'ah</i> Supervisory Board
TAIB	Tabung Amanah Islam Brunei
TTT	<i>Takāful</i> Trinidad and Tobago
UAE	United Arab Emirates

CHAPTER I: INTRODUCTION

1.0 Introduction

This chapter provides an introduction to and overview of the thesis. The first section explains the research background, which emphasizes the importance of insurance as the main instruments against risks. The sections that follow state the research problem that encouraged doing this research. More importantly the research questions section focuses on the issues that are the main pillars for developing a Micro-*Takāful* model. This is followed by the objectives of the study that answer the research questions, and an explanation of the significance of the study. In order to draw the boundary of the study, the scope of the study was also stated. Finally, the chapter concludes by providing a brief description of all chapters in the thesis.

1.1 An overview of the research background

In recent years, Micro-*Takāful*¹ has received considerable attention in Islamic insurance sector, as an important tool of economic growth of a country. It has been identified as effective risk management mechanism in dealing with insurable risk for low income household and micro entrepreneurs when unforeseen incidents befall them. It is due to fact that it can cover numerous perils, including illnesses, accidental injuries, and death and property loss – as long as the product is affordable and accessible for low-income households.² This, however, has increased interest in the subject from a wide range of stakeholders such as insurance professionals, distribution channels, policymakers and supervisors, technical assistance and service providers, donors, community organizations and academics to possibly provide sustainable insurance solutions to huge numbers of low-income households who are still inadequately protected.

Apart from using Micro-*Takāful* as risk mitigation technique, it is also recognized as an innovative approach in alleviating poverty. Without protection against losses and natural

¹ The scheme meant to serve the low-income households at affordable cost.

² Churchill, C. (2011). *Going downmarket: African insurers and the low-income market*. International Labour Organization. p.2.

perils, many individuals – especially the poor will fall back into poverty. Unnecessary increase in their expenses or unexpected loss of income can be a great disaster to the family's economy. It is only through schemes like Micro-*Takāful* that the poor people are being compensated for their losses instead of exhausting their limited wealth to cover the risk. By paying a little premium and getting a small sum insured, they are ensured of some protection and peace of mind.³

There are a number of factors to consider when introducing a Micro-*Takāful* scheme. One among them is to know the low income households insurance products preferences. Understanding differences in the needs and preferences of the low income households is a key not only to take up of insurance, but also to use and appreciation of the policy as well as satisfaction with the insurance. Brown⁴ argues that verifying affordability can be complex, as people will often say that they cannot afford the full cost of insurance plan when it is described to them in general, but are willing to pay when they are presented with a product that meets their needs and demonstrates clear value to them. According to Churchill⁵ people may declare that they would purchase the insurance, however, they are not really keen to buy it. Nevertheless, Loster and Reinhard⁶ argued that people on low incomes are perfectly willing to pay for a good product if the insurance product can satisfy three conditions: (1) ability to pay the premium, (2) willing to purchase insurance cover and (3) conclude a contract of insurance. They further stressed that the poor may only afford small premium installments and may not necessarily make a regular contribution.

For most efficient provision of Micro-*Takāful* products, establishment of the most effective delivery channels for different risk categories is needed.⁷ Further knowledge is

³ Maznita Mokhtar, Ruslinda Sulaiman & Azman Ismail. (2012). *Towards Developing A Sustainable Microtakaful Program In Malaysia*. p.2.

⁴ Brown, W. (2001) *Micro-insurance-the risks, perils and opportunities*. Small Enterprise Development, Volume 12. pp.11-24(14).

⁵ Churchill, C. (2002). *Trying to understand the demand for Microinsurance*. Journal of International Development. Volume 14. pp.381–387.

⁶ Loster, T. and Reinhard, D. (2010) *Micro-insurance and Climate Change*, in Morelli E., Onnis G.A., Ammann W.J., Sutter C. (Eds.) (2010), *Micro-insurance - an Innovative Tool for Risk and Disaster Management*. Global Risk Forum GRF Davos, Switzerland. pp.39-42.

⁷ McCord, M.J. (2008). *Visions of the future of Microinsurance, and thoughts on getting there*, *Microinsurance note no. 9*. United States Agency for International Development. pp.5-10.

also required regarding effective marketing and selling, and underlying incentive contracts of agents. Like in conventional insurance, Micro-*Takāful* is delivered with the help of agents and financial institutions. Three major suppliers can be identified though: firstly, cooperatives, secondly non-governmental organizations (NGOs) or government-subsidized programs, and thirdly Islamic financial institutions (IFIs).⁸ Shabir Patel⁹ suggests that *Takāful* can provide the safety net for communities to achieve sustainable development of their standard of living, providing a basis for families to look to the future with a sense of security and optimism. According to Marie Lemaire¹⁰ *Takāful* Pakistan has already taken certain initiatives in this regard. Anja Erlbeck *et al.*¹¹ in their study recommend that an international insurance corporation can also offer Micro-*Takāful* that complies with sociocultural Islamic principles. They also assured it is possible for international companies to enter the promising Micro-*Takāful* insurance market. Study of Dercon *et al.*¹² further suggest that to keep distribution cost low, Microinsurance as well as Micro-*Takāful* is usually distributed by partner organizations which already have an established relationship with potential customers like microcredit institutions. According to Akhtar, W.¹³ Micro-*Takāful* schemes should be introduced by *Takāful* operators to low income people especially of remote areas of the country who have no direct access to *Takāful*. He also recommends that these schemes could be arranged with the cooperation of microfinance institutions, SMEs, or other development institutions that provide financing to low income groups.

With regard to the financial capacity, poor households generally faced difficulty in generating regular and substantial income and are extremely vulnerable to economic, political and physical downturns Brown and McCord¹⁴. Matul¹⁵ found that a quarter of

⁸ Dercon, Stefan; Kirchberger, Martina; Gunning, Jan Willem; Platteau, Jean Philippe, (2008). *Microinsurance*. Paper No.1: ILO. pp.4-7.

⁹ Patel, Shabir. (2010). *Takaful and Poverty Alleviation*. ICMIF. p.17.

¹⁰ Marie Lemaire, (n.d). *Social Security And Microinsurance In Pakistan*. ILO/STEP.

¹¹ Anja Erlbeck *et al.* (2011). *Microtakaful: Field Study Evidence and Conceptual Issues*. p.2.

¹² Dercon, S., Bold, T., and Calvo, C. (2004). *Insurance for the Poor?* (University of Oxford QEH Working Paper No. 125), in Anja Erlbeck *et al.* (2011). *Microtakaful: Field Study Evidence and Conceptual Issues*. *Op cit.* p.7.

¹³ Akhtar, W. (2009). *Potential of Takaful in Pakistan: Operational and Transformational Paradigm*. p.259.

¹⁴ Brown, W. and McCord, M.J. (2000). *Virtual Conference on Micro-insurance*. USAID Microenterprise Best Practices (MBP) Project, Development Alternatives /USAID.

households in Georgia do not have any permanent source of income and nearly half of rural households lived on self-subsistence agriculture. Therefore they do not have the means to contribute to any form of micro insurance scheme. In addition, the contributions made by the policyholders might be insufficient for any compensation arose. Hence other financial resources for the scheme have to be identified. Noor Ashikin *et al.*¹⁶ recommend that intervention and support from government is vital in providing the financial capacity for the poor to have the needed protection that principally cover death, medical and savings benefits. They further suggest that government of Malaysia should enforce a policy in providing aid to the poor via Micro-*Takāful* by providing subsidy and *zakāt* forming part of their monthly contribution. Study of Anja Erlbeck *et al.*¹⁷ reveals that some insurers in Indonesia finance their Micro-*Takāful* activities by means of the *zakāt* fund.

For effectively provision of Micro-*Takāful* products, contracts and *Sharī'ah* compliant mechanisms for Micro-*Takāful* scheme have to be identified. The purpose behind the Micro-*Takāful* contract is to achieve the welfare of all members who are in need of help. And instead of treating Micro-*Takāful* a buying or selling contract, an appropriate contract between the policyholders and insurer has to be designed. Maznita Mokhtar *et al.*¹⁸ suggest that *Tabarru'* is an appropriate contract for the scheme. Siti Khadijah, A. *et al.*¹⁹ reveal that *Wakālah* contract is widely used in a Micro-*Takāful* scheme. According to Anja Erlbeck *et al.*²⁰ *Wakālah bil Ujrah* is a *Sharī'ah* compliant contract and most acceptable for the scheme.

On the other hand, *Sharī'ah* compliant mechanisms are also important pillar in a Micro-*Takāful* scheme. It determines the compliance of any particular Islamic business or

¹⁵ Matul, M. (2005) *Demand for Micro-insurance in Georgia. Quantitative Study Results*. Microfinance Centre for Central and Eastern Europe and the New Independent State. Available at http://www.mfc.org.pl/sites/mfc.org.pl/files/Demand_for_Micro-insurance_in_Georgia.pdf.

¹⁶ Noor Ashikin and Zuriah. (2012). *Financial Protection for the Poor in Malaysia: Role of Zakah and Micro-takaful*. *JKAU: Islamic Econ.*, Vol. 25 No. 1. p.119.

¹⁷ Anja Erlbeck *et al.* (2011). *Microtakaful: Field Study Evidence and Conceptual Issues*. *Op. cit.* p.17.

¹⁸ Maznita Mokhtar, Ruslinda Sulaiman & Azman Ismail. (2012). *Towards Developing A Sustainable Microtakaful Program In Malaysia*. *Op cit.* p.25.

¹⁹ Siti Khadijah, A. *et al.* (2013). *Sustainability of Islamic Micro Finance Institutions*. *Universal Journal of Accounting and Finance* 1(2). pp.75-76.

²⁰ Anja Erlbeck *et al.* (2011). *Microtakaful: Field Study Evidence and Conceptual Issues*. *Op. cit.* p.16.

financial institution. In this regard, best mechanisms have to be identified and applied on the scheme. Akhtar, W.²¹ suggests an establishment of a central *Sharī'ah* board, developing a *Sharī'ah* compliant corporate governance framework and adherence to AAOIFI guidelines. According to Hassan, Zulkifli²² those *Sharī'ah* board members should meet the qualifications for appointment. Maznita Mokhtar *et al.* recommend that the number of the *Sharī'ah* board members should be three.²³

However, most of these academic studies focus on the operational significance of insurance for low-income households. Several empirical studies that investigate the effect of the insurance sector as a provider of risk transfer on economic growth, insurance providers, sources of Micro-*Takāful* funds, role of government, and donors on the scheme found positive. An aspect of particular importance to this study is to identify gaps and solutions to provide a promising risk management tool.

Micro-*Takāful* is recognized as an important tool in supporting sustainable poverty alleviation in the poor and poorer areas of the world.²⁴ In addition to that, the number of different Micro-*Takāful* schemes has increased significantly around the world, as well as the number of stakeholders involved in the sector. The first Micro-*Takāful* scheme was established in 1997 in Lebanon. By January 2010, Micro-*Takāful* providers exist in Lebanon, Indonesia, Malaysia, Bangladesh, Kuwait, Sudan, UAE, Sri Lanka, Bahrain and Pakistan.²⁵ Various approaches are being tested in the search for an easily scalable, highly affordable, yet financially sustainable Micro-*Takāful* approaches.²⁶

In view of the impressive growth and increasing potential to promote economic development, Micro-*Takāful* is still considered new in the field of Islamic finance. It was indicated that this new trend is still lacking of enough empirical research in Micro-

²¹ Akhtar, W. (2009). *Potential of Takaful in Pakistan: Operational and Transformational Paradigm*. *Op. cit.* pp.256-258.

²² Hasan, Z. (2011) *Sharī'ah Governance In Islamic Financial Institutions In Malaysia, GCC countries and the UK*, Durham theses. p.326.

²³ Maznita Mokhtar, *et al.* (2012). *Towards Developing A Sustainable Microtakaful Program In Malaysia*. *Op. cit.* p.25.

²⁴ Lemaire, M. (2009). *Social Security and Microinsurance in Pakistan*, ILO/STEP. *Op. cit.*

²⁵ Mohieldin, M. *et al.* (2011). *The Role of Islamic Finance in Enhancing Financial Inclusion in OIC Countries*. Policy Research Working Paper 5920.

²⁶ Ralf R. and Johannes B. (2012). *Insurance for the poor? First thoughts about Microinsurance business ethics*. New Delhi: India. p.2.

Takāful, more so when it meant about its designing/developing and offering in the market.²⁷ Therefore, further research in this area is necessary and very much recommended.

However, despite its growing importance in the world, we are not aware of any study examining operation of Micro-*Takāful* scheme in Brunei Darussalam. Indeed, Micro-*Takāful* scheme is aimed at a broad range of clients including individuals, households and whole communities in both rural and urban areas. In order to achieve this goal a *Sharī'ah* compliant Micro-*Takāful* framework that contain all these vital pillars (low-income products preferences, insurance providers, sources of Micro-*Takāful* funds, contracts, and role of government and *Takāful* operators on the scheme) has to be designed and introduced. In this regard, the study aims to suggest a *Sharī'ah* compliant operational model/framework of Micro-*Takāful* for the low-income group with the insurance products they prefer and what support will be initiated by the government, donors and the *Takāful* operators. However, this study intends to extend the literature review on Micro-*Takāful*.

1.2 The Research Problem

All over the world, the low-income households are more vulnerable to numerous risks and economic shocks²⁸ than the middle and higher-income groups due to their inferior housing and living conditions, their lower income and education levels and suffer from the ongoing uncertainty about whether and when a loss might occur.²⁹ These risks occur frequently and create financial pressures that aggravate the ever-present stress of meeting regular needs such as food, rent, school fees, etc. Although poor households often have informal coping strategies to manage risks such as borrowing, saving, selling productive and non-productive assets and informal group-based risk sharing systems, generally the effectiveness of these strategies is limited. So the poor have to patch together support from a variety of sources. And before the households have a chance to fully recover from one crisis, they are struck by another.

²⁷ Siti Khadijah, A. *et al.* (2013). *Sustainability of Islamic Micro Finance Institutions*. *Op. cit.* p.76.

²⁸ Including illness, accidental death of breadwinner or disability, loss of property due to theft or fire, agricultural losses, and disasters of both the natural and manmade varieties.

²⁹ Churchill, C. (2006). *Protecting the Poor: A Microinsurance Compendium*. Vol. I. (ILO). Munich. Germany. p.12.

In Brunei Darussalam, there are more than 4500 families fall in the category of the poor and needy.³⁰ Most of these families are residing in remote and rural areas of the villages in Tutong District and Ulu Belait which are some of the hardest hit when it comes to securing basic amenities such as food, accessible roads and education. In addition, a lot of their houses are very old and in serious disrepair so they need a lot of repair and renovation. Although there are families in need even in urban areas, but those in remote areas are most in need to find solutions for their problems.³¹ The need for risk management strategies arose out of the concerns about the low income households, especially those in rural areas, have been desperate for new alternatives, strategies and/or more accessible social and financial programs. Unfortunately, there is limited presence of risk management strategies in Brunei Darussalam.

There are a number of social protection schemes in Brunei Darussalam offered by His Majesty's Government through the ministries and institutions concern. These schemes including free health service and *Zakāt* are based on specified rules, often underpinned by law, and provide benefits when a member of the household experiences a sudden shock due to a specific risk that is predefined by law. Although, the state is still the major provider of free health services through public health centers, but those poor people in remote areas are not benefiting due to lack of extension of public health centers to the remote areas. Moreover, this free health service is provided to the local people while the foreign and permanent residents are exempted. On the other hand, *Zakāt* is collected and meant to benefit the identified categories. Nevertheless, this scheme is managed haphazardly where some are benefited while others are not.³²

Despite the large support given by His Majesty's Government on the matters, problems still persist. Death of a family member or long-illness due to road accident or other causes and loss of property due to theft, fire or flood are common shocks affecting the low-income people in Brunei Darussalam. People drive vehicles at a high speed resulting in

³⁰ Ministry of Culture, Youth & Sports Report. (2013). *Study on Poverty in Brunei Darussalam*. Data provided by the ministry during the interview, one page.

³¹ Brunei Times, <http://www.bt.com.bn/news-national/2012/08/06/poor-families-remote-areas-need-basic-amenities>. Accessed on Monday, August 6, 2012.

³² Rose binti Abdullah. (2010). *Zakat Management in Brunei Darussalam: A Case Study*. Seventh International Conference – The Tawhidi Epistemology: Zakat and Waqf Economy, Bangi. p.392.

road accidents. Moreover, Brunei is a country of heavy rain through the year. And in many occasions, rain has caused floods that affected many properties in rural areas. Although there is an emergency aid offered by the Government and public to the affected individuals, but the aid usually covers the basic needs such food, clothes, building materials, etc. while the affected poor people will still need other resources to start new life from the scratch, and mostly they don't succeed, hence this informal mechanism for mitigating and coping with risks become ineffective.

Furthermore, *Takāful* industry in Brunei Darussalam has been blessed with tremendous growth and strong performance. *Takāful* companies' share in total gross premium has increased at 31.1%, 39.0%, and 41.9% in 2008, 2009, and 2010, respectively. These increases were indicative of the public's awareness and interests toward *Takāful* products based on the profit-sharing approach that is not offered by conventional companies.³³ But the main focus of this industry is on the middle and high-income people. As more products are designed to cater the needs of the middle and high income individual. Few efforts have been made on the low income households. With tremendous growth and strong performance of *Takāful* companies in Brunei Darussalam can extend their service to the low income households in urban and rural areas. Low cost and affordable Micro-*Takāful* products can be designed to cater the need of the poor people in the country. This will join other hands to secure and uplift the life standard of the poor people, and to achieve the government goal of eliminating poverty in His Majesty's Government to zero level.³⁴

In view of these facts, this study attempt to investigate the potential Micro-*Takāful* scheme in order to suggest a framework for entrenching Micro-*Takāful* as a tool for socio-economic empowerment and risk management for low income households in Negara Brunei Darussalam. With Micro-*Takāful* scheme however, the urban and rural poor households can mitigate those risks that would otherwise cause them to slide back into the poverty they seek to escape. It is expected that the empirical findings of such an extensive

³³ Bashir, M.S. & Nor Hafiizah, M. (2011). *Consumer Perceptions of Islamic Insurance Companies in Brunei Darussalam*. Int. J. Emerg. Sci., 1(3). pp. 286-287.

³⁴ *Brunei Darussalam Millennium Development Goals and Beyond*. (2010). Department of Economic Planning and Development Prime Minister's Office. p.19.

study on this subject will be able to identify issues, gaps and problems, and at the same time propose policy recommendations pertinent to Micro-*Takāful* scheme for further development of the industry.

1.3 The Research Questions

The following questions are proposed to guide the collection, analysis and interpretation of data in line with the research aims and objectives. It is expected that the research will, in the end, provide answers to these questions to ensure the research is designed accordingly. Following the research problem, this research seeks answers to the following questions:

- 1) What are the Micro-*Takāful* products that can be offered and which appropriate provider (institution) that will provide these products in Brunei Darussalam?
- 2) What are the instruments used for mobilization of Micro-*Takāful* funds?
- 3) What are the types of contracts and mechanisms of *Sharī'ah* compliant used in Micro-*Takāful* scheme?
- 4) What role can the Government of Brunei Darussalam and the *Takāful* operators play to support the Micro-*Takāful* scheme?

1.4 The Research Objectives

The main objective of this master research is to study and develop an operational Micro-*Takāful* framework as a tool for socio-economic empowerment and risk management for low income households in Brunei Darussalam.

The specific objectives of this study are:

1. To investigate the Micro-*Takāful* products that can be offered and appropriate provider (institution) that will provide these products in Brunei Darussalam;
2. To find out the instruments used for mobilization of Micro-*Takāful* funds;
3. To find out the types of contracts and mechanisms of *Sharī'ah* compliant used in Micro-*Takāful* arrangements;
4. To examine role that the Government of Brunei Darussalam and the *Takāful* operators

can play to support the Micro-*Takāful* scheme.

1.5 The Significance of the Study

This research will be greatly beneficial to the following:

1. The Micro-*Takāful* model will enable *Takāful* operators to adopt and implement the model within their companies in order to come up with decent and comprehensive Micro-*Takāful* products.
2. The proposed framework will be used by planners for future reference when reviewing the existing policy on Insurance.
3. The research will yield information that may act as literature review for the future academicians who may write further research papers on related topics.
4. Finally the research will generate information that will contribute towards achieving some of the key pillars in the Vision 2035 and Millennium Development Goals (MDGs) of eradication of extreme poverty.³⁵

1.6 The Scope of the Study

The focus of this study is on suggesting an operational Micro-*Takāful* model that can be applied in Brunei Darussalam. This will include:

- a. Investigation of the Micro-*Takāful* products that are suitable to the Bruneian market and an appropriate provider (institution) that will provide Micro-*Takāful* products;
- b. The instruments used for mobilization of Micro-*Takāful* funds;
- c. Types of contracts and the mechanism of *Sharī'ah* compliant used for Micro-*Takāful* scheme;
- d. To find out the possibility of the Government of Brunei Darussalam to support and *Takāful* operators to support and apply this model;

1.7 The Overview of the Thesis Structure

The thesis has five chapters. Chapter one is for introduction. Chapter two covers literature review and previous study related to this study. Chapter three explains the research design

³⁵ *Brunei Darussalam Millennium Development Goals and Beyond* (2010). *Op. cit.* p.19

and methodology used. Chapter four presents and discusses the findings. Finally, chapter five covers conclusion and recommendation. The overview of the chapters is described below.

Chapter 1 provides an introduction to and overview of the thesis. The first section explains the research background, which emphasizes the importance of insurance as the main instruments against risks. The sections that follow state the research problem that encouraged doing this research. More importantly the research questions section focuses on the issues that are the main pillars for developing a *Micro-Takāful* model. This is followed by the objectives of the study that answer the research questions, and an explanation of the significance of the study. In order to draw the boundary of the study, the scope of the study was also stated. Finally, the chapter concludes by providing a brief description of all chapters in the thesis.

Chapter 2 discusses the literature related to *Micro-Takāful* and Microinsurance and starts with risks and vulnerabilities, definition and limitations of Microinsurance as well as reasons for refusal of Conventional Insurance. Various conceptual and theoretical frameworks of *Micro-Takāful* scheme are presented. It furthermore explains benefits of *Micro-Takāful* and challenges for providing *Micro-Takāful*. An overview of selected *Micro-Takāful* schemes in Asia is also discussed. Finally, this chapter explains the previous researches related to this thesis.

Chapter 3 explains the research design that guides each stage of the study. It provided an overview of Brunei Darussalam, the rationale behind the choice of research design, the methodology and method for this thesis are clarified. The interview, transcription and data coding processes used are described. The questionnaire: structure, language and survey process, data analysis methods are also described. This chapter concludes with a presentation of importance of ethical conduct, and how this was employed throughout the study.

Chapter 4 presents and discusses the research findings. Eight main topics have emerged from the research field and these are explained; they encompass the approaches to rate of response and low income households' bio data. In terms of approaches to general

findings, Micro-*Takāful* products, fund mobilization and Micro-*Takāful* Provider are described. In addition, types of Micro-*Takāful* contracts and *Sharī'ah* compliance mechanisms are also explained. Finally, the chapter highlights the role played by the Government and *Takāful* operators on Micro-*Takāful* scheme.

Chapter 5 provides the conclusions and recommendations of the study. Next, directions for further study on Micro-*Takāful* Scheme within the Brunei Darussalam context are also presented to conclude the thesis.

1.8 Conclusion

This chapter has introduced and presented the rationale for the research. It provided an introduction to and overview of the thesis, research problem, research questions, research objectives, significance of the study, scope of the study and an overview of the thesis structure. The next chapter explores the literature in relation to the Microinsurance and Micro-*Takāful*.

CHAPTER II: LITERATURE REVIEW

2.0 Introduction

This chapter discusses the literature related to Microinsurance and Micro-*Takāful* and starts with risks and vulnerabilities, definition and limitations of Microinsurance as well as reasons for refusal of Conventional Insurance. It also presents various conceptual and theoretical frameworks of Micro-*Takāful* concerning Micro-*Takāful* product, funds mobilization, insurance providers, business contracts and *Sharī'ah* compliance mechanism. Furthermore, it explains the sources of Micro-*Takāful* scheme, benefits of Micro-*Takāful* as well as challenges for providing Micro-*Takāful*. In addition, it discusses an overview of selected Micro-*Takāful* schemes in Asia. Finally, this chapter explains the previous researches related to this thesis.

2.1 Microinsurance: Insurance for the Low-income People

Every human being is exposed to risks such as the death, work disability and dismissal of a main provider, illness, old age, business failure, drought, inflation, deforestation, war and so on. Without support, many households fall into poverty when these risks occur, because risks lead to a sudden decline in income and or rise in spending, thus destroying a household's capacity to meet its most basic needs. This section however, provides basic understanding of Microinsurance related issues. The section covers risks and vulnerabilities, Microinsurance profile, its limitations as well as reasons for the refusal of conventional insurance.

2.1.1 Risks and Vulnerabilities

Low income people live in risky environments, vulnerable to numerous risks, including illness, accidental death and disability, loss of property due to theft or fire, agricultural losses, and disasters of both the natural and manmade varieties.³⁶

³⁶ Churchill, C. (2006). *What is insurance for the poor?* In Churchill, C. (2006). *Protecting the poor: A Microinsurance compendium*. Vol. I. ILO, Geneva. p.12.

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