

# Takaful Surplus Management and Allocation for Various Sustainable Modes: Shari`Ah and Regulatory Requirements

**Md. Habibur Rahman\***, Md. Faruk Abdullah,  
Hartini Binti Ab Ghani and Salman Bin Lambak

Faculty of Business and Management, Universiti Sultan Zainal Abidin (UniSZA), Kuala Terengganu, Malaysia

## ABSTRACT

The surplus refers to the balance remaining in the takaful fund after paying all claims and other obligations. This study aimed to explore surplus management and allocation in various sustainable scopes and discuss relevant Shari`ah and regulatory requirements. Data was collected primarily through qualitative interviews with market leaders comprising Shari`ah and operational experts in takaful. A thematic analysis was carried out to explore qualitative data. The study found that sharing with participants and operators, managing deficits of takaful funds, supporting takaful funds of other operators, financial assistance to micro-takaful, donating in waqf and other charity works, etc., are some notable scopes for surplus allocation. It identified some critical Shari`ah and regulatory requirements for surplus utilization, including consent of the participants, fairness and effective communication with them, viability and solvency of takaful funds, and overseeing surplus sharing practices. The study concluded that utilizing surplus in various sustainable modes promotes equitable wealth distribution, financial inclusion, and social well-being and helps to realize Maqasid al-Shari`ah. It posits a regulatory update to facilitate surplus allocation for various charitable scopes as the current regulation restricts it between participants and operators.

**Keywords:** Takaful, Surplus, Management, Sustainable Development, Islamic Finance.

---

## ARTICLE INFO

### **Article History:**

*Received:* 10 June 2024

*Accepted:* 01 July 2024

*Available online:* 01 August 2024

---

\* Corresponding author: Md. Habibur Rahman; Faculty of Business and Management, Universiti Sultan Zainal Abidin (UniSZA), Gong Badak Campus, Kuala Nerus, 21300, Kuala Terengganu, Malaysia; E-mail: hrnizamee10@gmail.com

## INTRODUCTION

As a derivative of *kafalah*, takaful refers to mutual guarantee, protection, solidarity, and indemnity. Takaful is the Islamic version of insurance that provides mutual protection and indemnity to the participants against specific risks and injuries agreed upon earlier. As an Islamic insurance mechanism, all transactions related to takaful business shall avoid usurious and illegal engagements. Gambling and gaming are also prohibited in the takaful business (ISRA, 2023; Hamzeh & Ghanbarzadeh, 2023). Though takaful is practiced in business forms, the inherent nature remains benevolent and cooperative. Due to the caring nature of takaful, the uncertainty (*gharar*) over the risk and claim occurrence is excused in takaful business (Hasan & Rahman, 2023; Alkhan & Hassan, 2020; Che Mohd Salleh *et al.*, 2020). Since takaful provides mutual protection and cooperative risk management, it contributes to financial resilience and sustainable economic development (Alhammadi, 2023; Nugraheni & Muhammad, 2020).

The global takaful assets have reached over \$3.25 trillion, with an average of more than 16% annual growth (IFSB, 2023). Unlike insurance, two funds are maintained separately in takaful business; one is the shareholders' fund, and the other is the takaful fund. Participants own the takaful fund while the operator manages it as their remunerated agent (*wakil*). Thus, participants' contributions are accumulated in the takaful fund after deducting a *wakalah* fee for the operator. Accordingly, claims and other expenses related to takaful business are made from the takaful fund. So, whatever remains in the takaful fund after paying the *wakalah* fee, claims, and other related costs is called the takaful surplus. Takaful participants are the rightful owners of this surplus. Thus, some jurisdictions allow sharing of this surplus between participants and the operator, while others allow it only to be shared with the participants (AAOIFI, 2022; IFSB, 2022; BNM, 2019; BNM, 2013; BNM, 2010).

Takaful surplus has considerable prospects to contribute to financial inclusion, socioeconomic development, stability, and sustainability in the economic system. Being grounded on mutual assistance (*ta'awun*), in principle, the takaful surplus can be spent on charitable and benevolent causes (Rahman, *et al.*, 2024; Alhabshi, 2021). The current practice of *ta'awun* in takaful, however, is confined to providing mutual protection to the participants and to the takaful funds to cover the deficit if it occurs. The Bank Negara Malaysia published (2022) a discussion paper exploring the prospects of takaful surplus utilization for cross-subsidizing other takaful funds and charitable initiatives for socioeconomic development and social cohesion. In 2024, BNM published an exposure draft providing required Shari'ah and regulatory requirements for various sustainable allocations of takaful surplus. BNM also sought feedback from the Shari'ah scholars, industry experts, and other stakeholders on employing surplus for various socioeconomic welfare as a broader application of *ta'awun*. Thus, this study explores the prospect of surplus utilization for charitable purposes and discusses the required parameters and guidelines from Shari'ah and legal perspectives.

## LITERATURE REVIEW

### Surplus Sharing Practices in Takaful

Surplus refers to the balance remaining in the takaful fund after paying the claims and other obligations. All contributions and other takaful-related incomes, such as benefits from re-takaful, investment income, *qard al-hasan*, salvages, and recoveries, etc., are accumulated in the takaful fund. On the other hand, all liabilities such as underwriting cost, claims, re-takaful contributions, *wakalah* fees of the operator, operator's share from the investment income, surplus distributed, repayment of *qard al-hasan*, etc., are paid out from the takaful fund (Takaful Rules, Pakistan 2012). Thus, if any balance remains in the takaful fund after all liabilities are settled, that is called a surplus in the takaful fund or an underwriting surplus.

The crucial question here is who owns the underwriting takaful surplus. Neither the participants nor the operator owns the surplus; it belongs to the takaful fund instead. The takaful fund owns the contributions and surplus as an independent legal entity. Thus, the surplus should not be shared with the operator and participants; it shall be allocated to various charitable scopes instead. Moreover, since participants transferred the ownership of the contributions by donation, they shall not expect any financial gain from it. The expectation of any economic gain from the fund does not comply with the essence of the donation. On the other hand, the operator already secured his income through *wakalah* fees, and thus, he should not be entitled to any portion of the surplus. Hence, the only option left is that the takaful surplus should be spent on numerous charitable and sustainable initiatives, contributing to financial inclusion, national welfare, and betterment of the disadvantaged segment of society (COMCEC, 2019; Naim *et al.*, 2018; Billah, 2017; Mokhtar, Aziz & Hilal, 2015).

Nevertheless, two types of practice are visible in the surplus utilization in the takaful industry. One is mainly based on the Middle Eastern countries, which allow surplus sharing with the participants only, not the takaful operator. Since participants contribute to the fund and exclusively own the surplus, it shall be shared with them only. The takaful operator is an assigned and paid agent to manage the takaful fund, and thus, he shall not enjoy any portion of the surplus (AAOIFI, 2022; IFSB, 2022; Shabbir, 2012; Soualhi, 2010). The other practice is based in Malaysia, which permits surplus sharing with takaful participants and operators. Since surplus is an output of the operator's efforts and sound management, he can be incentivized with a portion of surplus for motivation and better management work (BNM 2019; BNM 2013; BNM 2010).

### Shari`ah Basis of Surplus Sharing

The idea of surplus sharing with participants resembles the concept of *nahd*. *Nahd* means a contribution to a journey's expenses equal to the costs of other companions (ISRA, 2023; Soualhi, 2010). This is the opinion of Mohammad Biltaji and Mohammad Ali al-Qurah Dhaghi (Shabbir, 2012) and adopted by AAOIFI.

The concept of *nahd* is supported by a *hadith*, Imam Bukhari reported on the authority of Abu Musa, the Prophet SW mentioned when the people of the Ash`ari tribe faced a shortage of food in war, or the food of their families ran short at their home in Medina, they collect all that they have in one store, and then distribute it equally among themselves. They are of me, and I am of them (Bukhari, 1987). In addition, while putting a chapter on *nahd*, Imam Bukhari commented that Muslims do not see any problem with *nahd*, once they eat from this store and next time they eat from another store (Bukhari, 1987).

Ibn Hajar (2013) mentioned *nahd* is an ancient practice of Muslim travelers who contribute their food equally to a common store and then consume whatever amount they need without restrictions. Upon the journey's end, they distribute whatever is left among themselves unless they agree to retain it for the next trip. Thus, it is almost like surplus management policies in Islamic insurance (AAOIFI, 2022), though there is no mention of surplus distribution in *hadith* cited above in this context (Soualhi, 2010).

Nevertheless, there is another view that surplus sharing is based on conditional *hibah* or *hibah* with exchange. Another third opinion says surplus resembles profit, which will be treated as profit sharing based on a pre-agreed arrangement (Shabbir 2012).

## **Surplus Management Policies Across Different Regulatory Frameworks**

All regulators across different jurisdictions allow surplus sharing for various sustainable and charitable scopes. The Securities and Exchange Commission of Pakistan permits surplus sharing with the participants in proportion to their takaful contributions after the settlement of all valid claims. It also allows the participants to donate any portion of the surplus for charity work and inform the operators to act accordingly (Securities and Exchange Commission of Pakistan, 2012).

Complying with AAOIFI standards, the Central Bank of Bahrain allows takaful operators to have an internal policy for surplus allocation and management, provided the respective board, actuary, and Shari`ah committee approve it. However, the surplus allocation policy shall not adversely impact the solvency of the takaful fund and operator (Central Bank of Bahrain, 2006). Besides, Qatar regulatory authority allows takaful operators to adopt any surplus-sharing policy in compliance with AAOIFI standards and approval of the related Shari`ah committee, board, and the appointed actuary (Qatar Financial Centre Regulatory Authority, 2023).

Furthermore, Malaysia's Islamic Financial Services Act 2013 allows surplus sharing with participants and operators to incentivize good management work (BNM, 2013). In addition, Malaysia's Takaful Operational Framework (TOF) permits the allocation of surplus for various scopes, including the solvency of takaful funds,

enhancing participants' investment, and donating to charitable initiatives if participants agree (BNM, 2019). The AAOIFI of Bahrain restricts surplus allocation to the participants only, not the operator. Nevertheless, it allows surplus allocation for other scopes like capital assistance, contribution reduction, charitable works, and so forth (AAOIFI, 2022).

## **Research Gap**

Previous studies on takaful surplus primarily investigated the rules, debates, and practices of surplus sharing between participants and operators. None of them explored various sustainable avenues for surplus sharing beyond the participants and operators. The Central Bank of Malaysia (BNM, 2024) recently published an exposure draft exploring various sustainable scopes for surplus utilization and providing necessary Shari`ah and legal parameters. At this point, BNM also seeks feedback from the pertinent stakeholders. Thus, this study aimed to explore potential sustainable modes for surplus allocation and discuss respective Shari`ah and legal requirements.

## **METHODOLOGY**

This study applied a qualitative research method. Qualitative research helps to deeply understand an issue from the perspective of those involved and experiencing it (Cho *et al.*, 2022). It is instrumental for exploring new problems and experiences where few previous studies have been conducted, thus permitting researchers to search for new insights (Richardson *et al.*, 2022). With a qualitative approach, this study aimed to explore various sustainable modes of surplus sharing in takaful based on the insights and experiences of Shari`ah scholars and experts in takaful operations. The study employed a qualitative interview method to collect the primary data. It used the thematic analysis approach to explore the qualitative data.

### **Qualitative Interview**

This interview was conducted in a one-to-one conversation, allowing the researcher to discuss the subject in depth with the respondent. It enabled rich data to be gathered from those dealing with and experiencing the research topic. The study applied a semi-structured interview with some open-ended questions. Qualitative interviews are flexible, allowing researchers to investigate the problems in a pervasive manner (Issari & Pourkos, 2015). In this study, the researcher contacted the respondents and informed them about the research background and questions. After that, a specific time was determined, and interviews were conducted. Each interview session lasted 45-60 minutes and was recorded and transcribed accordingly.

## Sampling Technique and Reliability of Data

The current study applied a purposive sampling technique to select the appropriate respondents who can provide in-depth and accurate data to achieve the study's objectives. Purposive sampling is a beneficial way to obtain rich and precise data from more accurate informants (Polit & Beck, 2008). Though the sample size in qualitative research becomes smaller, generally, it is not a problem because the researcher does not aim to generalize the findings. In a qualitative study, the researcher plans to obtain rich information without inferring the number of people reacting to something (Kaba *et al.*, 2021; Fossey *et al.*, 2002). This study chose 13 respondents from the two categories. One was from Shariah scholars in the takaful industry, who are experts in giving Shariah solutions related to takaful business. The other category was from industry experts experienced in takaful operations (Table 1). Since takaful is a Shari'ah-compliant business, respondents were selected from Shari'ah and business expert groups in the takaful industry to obtain theoretical and practical insights.

**Table 1: details of the respondents**

Respondents ID	Position and Role	Institutions (the alphabet refers to different organizations)	Conversation Dates	Modes of Conversation
SE# 1	Shariah Committee Member; Dr., Associate Professor, University	Takaful A; University A	30-May-2023	Over the Zoom
SE# 2	Dr., Head of Shariah Committee	Takaful B	02-June-2023	Over the Zoom
SE# 3	Shariah Advisor	Takaful D	8-August-2023	Over the Zoom
SE# 4	Shariah Advisor	Takaful E	18-August-2023	Over the Zoom
SE# 5	Dr., Associate Professor of fiqh and Islamic finance; Shariah Committee Member	Institute of Islamic Banking and Finance, University B; Islamic Bank B	15-August-2023	Face to Face
SE# 6	Dr., Professor of Fiqh and Usul Fiqh; Shariah Committee Member	University B; Islamic Bank A	15-August-2023	Face to Face
SE# 7	Dr., Associate Professor of Fiqh and Usul Fiqh; Shariah Committee Member	University B; Takaful E; Islamic Bank C	16-August-2023	Face to Face
SE# 8	Dr., Associate Professor of Islamic banking and finance; Shariah Committee Chairman & Member	University C; Islamic Bank D; Securities Commission	15-Nov-2023	Face to Face
IE# 1	Marketing Executive	Takaful C	07-June-2023	Over the Zoom

IE# 2	Vice President; Group Head Support & Service	Takaful B	16-June-2023	Over the Zoom
IE# 3	Head of Group Shariah; Head of Business Advisory and Research Team	Takaful C	22-June-2023	Over the Zoom
IE# 4	Head of Business	Takaful D	1-Sept-2023	Over the Zoom
IE# 5	Senior Manager, Shariah, and Sustainable Development	Corporation for Deposit Insurance	14-Nov-2023	Face to Face

The information received from these respondents was trustworthy and reliable for the research. Respondents were assured that data would be used only for research, and after getting their consent, interviews were conducted. Data reliability relies on the respondents' expertise and experiences while they remain anonymous by names and organizations. To retain the anonymity of the respondents, the first category (Shariah Expert) is referred to as 'SE,' and the other (Industry Expert) is referred to as 'IE.' Similarly, organizations that the respondents belong to remained unnamed throughout the research and are referred to by the alphabet (Table 1).

## Thematic Analysis

The thematic analysis method is handy for investigating qualitative data and developing themes and patterns in the data. It applies through identifying, analyzing, and interpreting patterns in qualitative data. Being flexible, this method is broadly used in many research areas (Lester, Cho & Lochmiller, 2020). The study followed the essential steps for thematic analysis, including getting familiar with data, organizing, doing recurrent revisions, making necessary interpretations, developing codes, and then identifying patterns and themes (Braun *et al.* 2019) aligned with the study's objectives.

## FINDINGS

### The Basis of Surplus Sharing

All respondents stated that mutual assistance and contributions serve as the basis of all operations related to takaful, including surplus management. When participants contribute to the takaful fund, they have been equally helpful to each other. Operators also help the participants while managing the funds in a way that can provide indemnity to them when needed (SE# 2; IE# 1; IE# 4). Since delivering to the needy serves as the basis of takaful, the surplus of takaful funds can be allocated to any scope if it responds to the community's needs and achieves the primary goal of takaful. Thus, (SE# 1) mentioned:

*Receiving contributions from the participants and providing benefits to them portray mutual assistance, which is the fundamental notion for takaful operations.*

While defining takaful, the Islamic Financial Services Act 2013 highlighted that takaful is an arrangement in which all operations are based on mutual assistance. Participants contribute to a common fund to offer and receive mutual help from the fund when they are in a risk defined earlier (SE# 3; SE# 4). The respondent (SE# 4) added:

*The underlying Shariah principle for takaful operations is mutual assistance (ta'awun), where the participants agree to participate in the takaful plan with all other participants. The concept of ta'awun establishes a foundation of the risk-sharing mechanism in takaful. It enables practicing good virtues by helping others in need or hardship.*

Different contracts are being used in takaful operations. They are either *mudarabah* (profit sharing), *wakalah* (agency agreement), or a hybrid mode combining *mudarabah* and *wakalah*. The basic concept in these three takaful models is helping each other (*ta'awun*). So, all takaful operators work on the same basis. However, the operational procedures of an operator, such as surplus distributing methods and scopes, may differ from other operators, subject to the strength of the takaful business of each company (IE# 2; IE# 4). However, one respondent (IE# 3) argued that mutual help (*ta'awun*) does not apply to different business categories, such as between general and family funds, due to the diverse nature of the business.

Nevertheless, one respondent mentioned that takaful operations should be based on *nahd* or *tanahud*, which refers to keeping all provisions in one fund by a particular group and then distributing among them equitably. Besides, the noble objectives of Shari'ah (*Maqasid al-Shari'ah*) shall be observed in takaful business and operations (SE# 7). Thus, being a donation in nature, the underwriting surplus of takaful can be distributed to any charitable and sustainable initiative if it achieves the noble objectives of Shari'ah.

## **Prospects of Surplus Allocation for Various Sustainable Modes**

The respondents of this study stated the prospects of surplus sharing with some sustainable modes as follows:

- i. *Surplus sharing with participants and operators*: As a regular practice, the surplus is shared with the participants as they own the takaful fund and its surplus, according to the prevalent view. Since respondents are Malaysia-based, they agree with the respective regulator that operators can enjoy a portion of the surplus as a performance incentive. However, the Middle Eastern scholars and AAOIFI disagree with this view.

Nevertheless, one respondent (SE# 1) argued that surplus sharing is unsuitable for all takaful products. The respondent (SE# 1) mentioned:



*Certain products are unsuitable to share the underwriting surplus where the surplus may be returned. If the general takaful products, which are short-term, have any surplus, they should be channeled back to the risk fund. In other products where the risk fund is stable and significant, having an underwriting surplus should be shared between takaful operators and participants.*

It is worth noting that surplus may not always be distributed equally among the participants, as some may need more help than others. However, all participants must be informed, and there should be mutual agreement on surplus sharing between takaful operators and participants (IE# 1).

- ii. *Surplus sharing to cover deficits of the takaful fund:* As the respondents (IE# 1; IE# 4) replied, it is possible to utilize surplus to cover the fund's deficits, but ultimately, it depends on the operators' discretion. The participants must also notified of any surplus.

However, one respondent (SE# 2) argued:

*If a deficit occurs, the shareholders should give an interest-free loan (qard hasan) as it is their responsibility to help the risk fund. It is not essential to use the surplus to cover the deficits.*

Nevertheless, another respondent (IE# 2) replied:

*If shareholders are willing or feel responsible to cover the deficits, we will consider all the necessary factors and limitations. The board and management will decide based on the recommendation of the Shari`ah committee. The actuary's view also should be considered who plays a vital role in the decision-making process.*

As per the regulatory guideline, the current practice is if a deficit occurs, the shareholders provide a caring loan (*qard hasan*), but it shall be repaid by the takaful fund from the surplus of the subsequent financial year (SE# 3; SE# 4; IE# 3). In the coming years, the surplus will be used firstly to repay the *qard hasan* according to the agreed terms, which vary depending on the takaful operators. Suppose the takaful fund cannot fully cover the loan amount; in that case, the operator shall offer a loan write-off for the fund as a manifestation of mutual assistance between takaful participants and operators (SE# 4).

- iii. *Surplus sharing for cross-subsidization:* Takaful is underpinned by two primary notions: mutual donation (*tabarru`*) and mutual assistance (*ta`awun*). Takaful is cooperative and charitable, though it works through different business models. Thus, there will be no Shari`ah objection to surplus assistance in cross-subsidizing takaful funds of other operators if it does not result in any injustice and unfair treatment of the takaful participants.

Therefore, most respondents agree with utilizing the surplus to cross-subsidize other takaful operators' funds. However, it should be done within the regulatory framework, and the participants must allow it. Since the present regulatory guidelines are silent about it, the respondents suggest a policy review and regulatory update

facilitating the practice of cross-subsidization (SE# 1; SE# 2; IE# 2; SE# 3; SE# 5; SE# 6; SE# 7; SE# 8).

The practice of cross-subsidization shall not harm the participants. Thus, to ensure justice and fairness, the regulator must set the required parameters and benchmarks for cross-subsidization (SE# 2; IE# 1). Moreover, the risk fund's benefits and solvency must be secured before applying cross-subsidization (IE# 2; IE# 3). Besides, an effective communication strategy shall be adopted to keep the participants updated about all relevant policies and practices (SE# 2; IE# 1; SE# 3). About effective communication, (IE# 3) replied:

*We use two ways to ensure effective communication with participants. One is the takaful certificate, which provides all the necessary details. We also used various social and other communication platforms for regular interaction with the participants.*

However, some respondents disagree with cross-subsidizing surplus as it belongs entirely to the participants. Moreover, the current regulatory framework does not allow its practice (SE# 4 and IE# 4). The respondent (SE# 4) mentioned:

*Malaysia's Takaful Operational Framework 2019 does not allow cross-subsidization of surplus in takaful. As per the TOF, the utilization and distribution of surplus are currently allowed between the operator and participants. The Shariah Advisory Council of BNM also opined the same view.*

Nevertheless, some other respondents are unsure about the operational application and implication of cross-subsidization of surplus in takaful and whether it can be a common practice in the market (IE# 1 and IE# 3). Respondents who allow cross-subsidization do it with regulatory approval and participants' consent. Those who disallow it do so because the existing regulatory framework does not permit it. It implies that if the regulatory framework allows it, there will be no objection to cross-subsidizing surplus in takaful.

- iv. *Surplus sharing for the micro-takaful plan:* Since takaful surplus is the remaining donation balance, it can be utilized for charitable activities. Thus, the surplus can be used to subsidize micro-takaful contributions or any other way that contributes to the betterment of micro-takaful operations and its beneficiaries.

Regarding this, the respondent (SE# 2) mentioned:

*The surplus can be used for charitable activities. Therefore, we proposed to BNM for cross-subsidization and other use of surplus during COVID-19. We mentioned that since we have a good surplus, why not use it for good, like micro-takaful, which helps the society's underprivileged category (named B40 in Malaysia).*

- v. *Surplus sharing for waqf and other charity works:* The respondents agree with the regulators that surplus can be allocated for *waqf* and other charity works. *Waqf* is a perpetual endowment where the original asset or capital remains intact, and the benefit or revenue is distributed among the beneficiaries.

Thus, the respondent (IE# 1) replied:

*Though participants own the surplus, it is not necessary to share the surplus with all of them equally. Besides, the surplus can be shared to aid the non-participants through waqf or any other charity initiative.*

- vi. *Surplus sharing to form a single emergency fund at the industry level:* Surplus can be used to create a single contingency fund at the takaful industry level. The proposed fund will be established under the auspices of the country's central bank. This single fund will be managed by some takaful operators who will be selected on a rotation basis.

## **Shari`ah and Regulatory Requirements for Surplus Utilization in Various Sustainable Modes**

Based on the respondents' thoughts along with BNM's discussion paper (2022) and exposure draft (2024), the study outlined the essential requirements from Shari`ah and regulatory perspectives to allocate takaful surplus for various sustainable scopes, as follows:

- i. *Consent of the participants:* Before deciding on the takaful surplus, getting permission from the participants is mandatory as they are the primary beneficiaries of the surplus. The takaful operator shall obtain the explicit consent of the existing participants regarding the utilization of surplus in various modes. The consent shall be free from undue pressure, influence, and duress (BNM, 2024).

The respondents concurred that participants' willful agreement is mandatory before the broader utilization of takaful surplus. Participants shall be given ample opportunity to make informed decisions regarding surplus management and utilization (SE# 2; IE#1; SE# 3, and SE# 6). The respondent (SE# 6) mentioned:

*Participants shall join the takaful scheme with full consent to the extended utilization of takaful surplus in various sustainable modes. There shall be an explicit policy; all participants know and agree to it.*

However, one respondent (SE# 7) argued that the respective regulator may allow surplus allocation for various scopes. If the regulator allows it, there will be no objection from a Shari`ah perspective. Participants' consent is neither required for joining re-takaful nor for surplus utilization. This is based on a Shari`ah maxim stating, "ruling of authority removes dispute and serves public well-being."

- ii. *Fairness to the contracting parties:* Regarding surplus management, the takaful operator shall secure fairness and the best interests of the participants (BNM, 2022; BNM, 2024). The respondents affirmed that transparency and fairness to the participants are paramount in surplus management. Takaful certificates shall ensure their fairness and justice. The policy shall be clear and transparent to the participants (SE# 2 & IE# 1).

The respondent (SE# 3) mentioned:

*We shall ensure fairness and justice to the participants. Hence, we shall refer to the takaful certificate, as it has a principle of comprehensive transparency to state the obligations of the participants and operators and to establish ownership of the surplus.*

However, some respondents (IE# 2 & IE# 4) argued that sharing surplus with other operators would be unfair to the participants since they are the contributors to the fund. But, as other respondents replied, the surplus will be allocated for various scopes only after settling participants' claims and consent. No surplus will be shared with others if they object to it. Nonetheless, in the case of having an earlier agreement upon subscription, participants cannot deny it (IE# 1, SE# 5 & SE# 6).

- iii. *Effective communication with the participants:* The takaful operator shall communicate precisely and effectively with the participants regarding the allocation and utilization of takaful surplus in various scopes (BNM, 2022). Malaysia's regulatory body emphasized utilizing all possible ways to communicate with participants.

The respondent (SE# 4) mentioned:

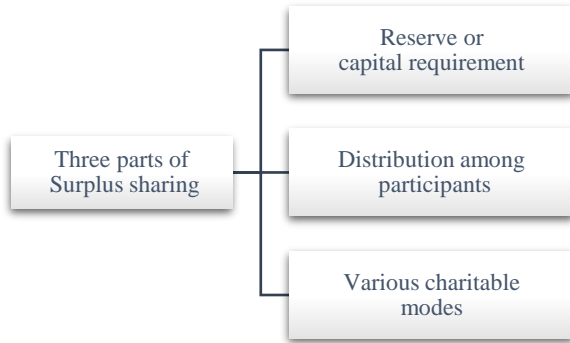
*As stated in paragraphs 18.1 and 18.2 of the Takaful Operational Framework published by the BNM in 2019, effective communication between the takaful operators and customers is being established using various methods and channels. Policy information shall be made accessible through multiple communication channels such as branches, brochures, call centers, corporate websites, etc. Customers shall be informed of each step and documentation required to alter, renew, surrender, or cancel a certificate. They shall be updated on what happens when there are changes to the certificate, notice on renewal, etc., and consequences arising from any of these actions.*

Thus, all official channels and digitalized platforms should be utilized to communicate with the participants. If they do not work, then we can communicate through the agent. Finally, if none works, the operator can communicate directly by letter or a short message to the participants (IE# 4).

- iv. *Solvency and stability of takaful fund:* Before deciding on surplus allocation for various sustainable and charitable scopes, the takaful operator shall ensure the solvency and stability of the takaful fund. Surplus sharing beyond participants and operator shall not trigger a conflict of interest for the operator as a manager of the takaful fund (BNM, 2022; BNM, 2024).

The respondents asserted that the fund's benefits and interests shall be secured before sharing the surplus. At this point, the respondent (IE# 2) mentioned:

*We must consider our needs before sharing any surplus with other takaful funds. No surplus will be shared without considering the interests and benefits of the fund. Thus, the operator shall maintain a kind of risk-based capital, and the actuary is the expert to look at all these things. In my opinion, he must look at the needs and interests of the funds before he can share without jeopardizing his fund and its benefits.*



**Figure 1: Possibly surplus management in the new regulatory era (based on respondents' opinions)**

Moreover, the respondents (SE# 3 & IE# 3) mentioned while allocating surplus for various scopes, the following actions shall be taken to ensure the safeguarding of the takaful fund, as follows:

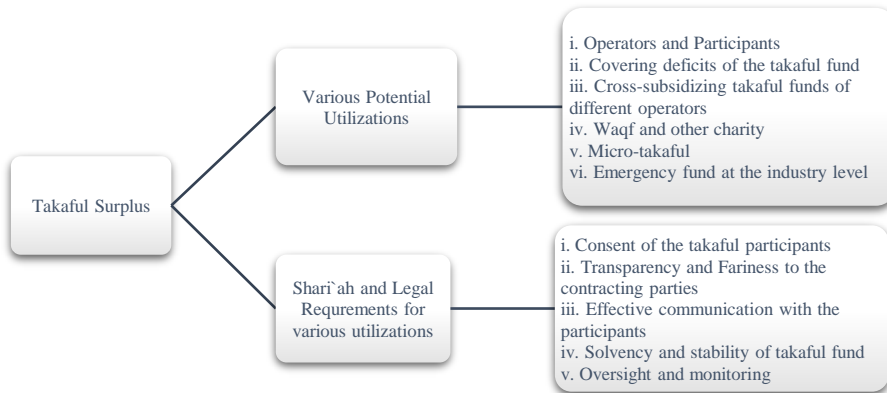
- A threshold should be determined for the utilization of surplus amounts as a parameter for risk mitigation. To help the deficit fund, the surplus fund should have adequate solvency, which can be secured by setting a threshold for broader application of surplus utilization.
  - Participants' expectations of the profit or surplus shall be considered. Notably, as a family takaful product has saving features, participants must expect to get a return on it. Thus, the threshold should also consider the participants' expectations so that they also have a portion of the surplus.
  - The surplus can be split into three portions. One part will be for reserve or capital requirement, another will be distributed among the participants, and the third will be for other charitable and sustainable scopes (Figure 1).
  - Proper investment strategy, effective product pricing, and cost-effective management shall be an internal safeguard to apply the broader application of surplus utilization.
  - Finally, joining a re-takaful program would also help manage risk effectively. An operative re-takaful scheme supports mutual help and acts as a safeguard.
- v. *Oversight and monitoring:* Any decision made on surplus sharing shall be approved by the appointed actuary, board, and respective Shari`ah committee. The board must oversee and monitor the implementation of the broader application of surplus utilization. The implementation shall comply with the Shari`ah requirements. Eligibility criteria to receive the surplus, related terms and conditions, and all pertinent legal documents shall be endorsed by the Shari`ah committee of the takaful operator. The utilization of takaful surplus in various sustainable modes shall promote financial inclusion, effective resource sharing, equitable wealth circulation, and sustainable well-being of the community (BNM, 2024).

## DISCUSSION OF FINDINGS

Takaful is based on mutual assistance (*ta`awun*) as an alternative to insurance. Under *ta`awun*, the underwriting surplus is shared with participants and operators. However, whether the surplus can be shared for non-participants and other sustainable scopes is discussed in BNM's discussion paper (2022) and exposure draft (2024), seeking feedback from Shari`ah scholars and practitioners. Hence, this study explored the prospects of surplus allocation for various sustainable scopes with essential Shari`ah and regulatory requirements.

All respondents agreed that *ta`awun* is the core spirit of takaful. Underpinned by *ta`awun*, takaful acts as a shared responsibility (Ahmad 2014), whereby the takaful fund is committed to repaying any harm to the participants due to some events. Sometimes, benefits will be given to the participants even though no injury occurs as a practice of cooperation and mutual solidarity, which is inherently encouraged by Islam (Mohd Fauzi & Laldin, 2022; Hassan, 2020). With the spirit of *ta`awun*, the respondents concurred that the underwriting surplus could be used to cover the deficit of the takaful fund. It can also be retained as capital reserve or as a buffer for future obligations. If any *qard* (interest-free loan) is injected into a takaful fund, such *qard* can be repaid by surplus. But all these cases are subject to the operators' discretion and the estimation of the appointed actuary. As the respondents mentioned, the surplus can also be allocated to assist the takaful funds of other operators, spending for *waqf* and charity, supporting micro-takaful, and creating a massive contingency fund at the industry level (Figure 2). Since the current practice of surplus sharing is limited between participants and operators, the respondents suggest a regulatory adjustment to adjust surplus management for numerous sustainable scopes.

Any decision made on surplus allocation shall be subject to the consent of the participants. The leading opinion is that participants own the takaful fund and its surplus; thus, their consent is required for surplus allocation to any purpose. Participants must be informed about any plan taken for surplus sharing. Detailing in the takaful certificate is one of the tools to update the participants and to get their consent, as the respondents mentioned. Besides, operators shall use all available communication platforms to inform participants of any update made in takaful practices.



**Figure 2: various potential utilizations of takaful surplus (developed by authors based on respondents' views)**

Nevertheless, a proper balance between retained and shared portions of surplus should be maintained to preserve the appeal of takaful practice. Thus, any surplus-sharing strategy shall be approved by the board, appointed actuary, and respective Shari`ah committee. The board shall monitor and oversee the performance of surplus-sharing practices.

The respondents also highlighted the integrity of the takaful agents. Proper representation of the takaful operators' image, communication, and agents' expertise contribute to building the people's long-term trust in the takaful business (Shukur 2020). Several aspects of surplus management, such as disclosure patterns, degree of transparency, awareness building, and internal policy formulation, can be further enhanced at a large scale to achieve the desired goal of takaful operations (Mokhtar, Aziz & Hilal, 2015).

While allocating surplus for various sustainable scopes beyond participants and operators, the solvency and stability of takaful funds shall be ensured. The beneficiaries and eligibility criteria to receive surplus shall be carefully chosen. The broader allocation of takaful surplus shall not give rise to a conflict of interest among the operators. Before practicing a broader application of surplus sharing, all outstanding claims and liabilities of the takaful fund shall be settled (BNM, 2024).

Islamic financial institutions can play a significant role in achieving sustainability goals (BNM 2019). Islamic social finance instruments like *zakat*, *waqf*, *sadaqat*, and *qard al-hasan* can contribute to attaining the SDGs, as their core objective is to ensure public welfare. Islamic social finance would contribute to realizing 11 out of 17 goals, while the rest would be achieved by Islamic commercial

finance (Dirie, Alam & Maamor, 2023). Being charitable, sharing the underwriting surplus of takaful in various sustainable modes will significantly contribute to sustainable development, financial inclusion, and national welfare.

## CONCLUSION AND IMPLICATIONS

This study explored the prospects of various modes of surplus utilization along with related Shari`ah and regulatory requirements. Being charitable, takaful, and surplus have considerable prospects of contributing to achieving sustainable development, financial inclusion, and national welfare. Regulators across jurisdictions, in general, permit surplus sharing for charitable and sustainable scopes. Yet, the surplus is currently shared only between participants and operators. The Bank Negara Malaysia has issued a discussion paper and an exposure draft exploring the prospects of takaful surplus to allocate for various charitable modes, achieving socioeconomic well-being and equitable wealth distribution.

The research concluded that surplus can be shared in numerous scopes, contributing to the stability of the takaful fund, financial inclusion, and sustainability of the economic system. Some notable scopes for surplus sharing are achieving stability and managing the liquidity shortage in takaful funds, operators' motivation, enhancing participants' well-being, capital assistance for other operators' funds, contributing to *waqf* and charitable works, and supporting micro-takaful enterprises.

In addition, the study discussed the required Shari`ah and regulatory parameters for surplus allocation in various scopes, including obtaining participants' consent, being transparent and fair with them, ensuring the takaful fund's solvency, effective communication with the participants, and monitoring surplus sharing practices.

Besides, regulatory restrictions on surplus sharing with participants and operators and deficiency of truthfulness among the stakeholders are identified as notable obstacles to surplus sharing in various sustainable modes. Respondents of the study recommended a regulatory extension to accommodate the allocation of surplus for numerous initiatives. They also emphasized the necessity of boosting the integrity level of all stakeholders in the takaful industry.

Surplus-sharing practices for various sustainable scopes will promote equitable wealth distribution, justice, and social well-being. It further helps to achieve the noble objectives of Shari`ah (*Maqasid al-Shari`ah*). It also supports the Value-based Intermediation (VBI) initiatives, which aim to obtain the desired outcome of Shari`ah in balanced wealth circulation through financial products and offerings (BNM, 2024).

This study focused only on discovering various scopes for surplus management and allocation. Future studies may deal with further operational issues in



implementing various utilization of surplus sharing. Moreover, as it is a qualitative study that relied on interviews and purposive sampling, the selected interviewees' views may differ from those of the broader population. Thus, a quantitative study that investigates the perception of surplus sharing among a bigger population of takaful practitioners might be considered.

## ACKNOWLEDGEMENT

This study is conducted with the research grant, namely, Dana Penyelidikan Universiti- DPU (UniSZA/2022/DPU2.0/19), from the Center for Research Excellence and Incubation Management (CREIM) of Universiti Sultan Zainal Abidin (UniSZA), Malaysia. The authors are grateful and would like to thank the CREIM, UniSZA.

## REFERENCES

- AAOIFI, Accounting and Auditing Organization for Islamic Financial Institutions, (2022). *Al-Ma`ayir al-Shar`iyyah* (Shari`ah Standards). Bahrain: Manama.
- Ahmad, A.U.F. (2014). *Exploring the model of musharakah ta`awuniyyah in takaful*, ISRA Research Paper, Kuala Lumpur: International Shari`ah Research Academy for Islamic Finance (ISRA).
- Alkhan, A.M. and Hassan, M.K. (2020), "How do takaful operators choose which model to adopt? A case study from the Kingdom of Bahrain", *Journal of Islamic Accounting and Business Research*, Vol. 11 No. 9, pp. 1677-1688.
- Alhabshi, S.M., (2021). Takaful risk fund and surplus management, analytics for social equity? *Turkish Journal of Islamic Economics*, Vol. 8, Special Issue, pp. 401-421.
- Alhammadi, S. (2023), Expanding financial inclusion in Indonesia through Takaful: opportunities, challenges and sustainability, *Journal of Financial Reporting and Accounting*, Vol. ahead-of-print No. ahead-of-print.
- Billah, M.M. (2007). *Applied Takaful and Modern Insurance*. Kuala Lumpur: Petaling Jaya, Sweet & Maxwell Asia.
- BNM, Bank Negara Malaysia, (2010). *Shariah Resolutions in Islamic Finance*. Malaysia: Kuala Lumpur.
- BNM, Bank Negara Malaysia, (2019). *Takaful Operational Framework*, Malaysia, Kuala Lumpur.

- BNM, Bank Negara Malaysia, (2022). *Broader Application of Ta'awun in Takaful, Discussion Paper*, Malaysia, Kuala Lumpur.
- BNM, Bank Negara Malaysia, (2024). *Broader Application of Ta'awun in Takaful, Exposure Draft*, Malaysia, Kuala Lumpur.
- Braun, V., Clarke, V., Hayfield, N., & Terry, G. (2019). Thematic analysis. In P. Liamputtong (Ed.), *Handbook of research methods in health social sciences* (pp. 843–860). Sage.
- Bukhari, M.I.I. (1987). *Sahih al-Bukhari*. Beirut: Dar Ibn Kathir.
- Che Mohd Salleh, M., Razali, S.S., Megat Laksana, N.N., Che Embi, N.A. and Abdullah, N.I. (2020), "Developing a sustainable model of Waqf-based Takaful for flood victims in Malaysia", *Journal of Islamic Accounting and Business Research*, Vol. 11 No. 9, pp. 1941-1952.
- Cho, Y., Grenier, R. and Williams, P. (2022), "Introduction: innovation in qualitative research in HRD", *European Journal of Training and Development*, Vol. 46 No. 7/8, pp. 685-692.
- COMCEC- Economic and Commercial Cooperation of the OIC. (2019). *Improving the Takaful Sector in Islamic Countries*. Turkey: Ankara, COMCEC Coordination Office.
- Dirie, K.A., Alam, M.M. and Maamor, S. (2023), "Islamic social finance for achieving sustainable development goals: a systematic literature review and future research agenda", *International Journal of Ethics and Systems*, Vol. ahead-of-print No. ahead-of-print.
- Fossey, E., Harvey, C., Mcdermott, F., & Davidson, L. (2002). Understanding and evaluating qualitative research. *Australian & New Zealand Journal of Psychiatry*, Vol. 36, No. 6, pp. 717-732.
- Hasan, A.A.-T. and Rahman, M.T. (2023), "Family takāful purchase intentions in Bangladesh: the mediating role of attitude and saving motives and the moderating role of religiosity", *Islamic Economic Studies*, Vol. ahead-of-print No. ahead-of-print.
- Hassan, H.A. (2020), "Takaful models: origin, progression and future", *Journal of Islamic Marketing*, Vol. 11 No. 6, pp. 1801-1819.
- Ibn Hajar, A.I.A. (2013). *Fathul Bari*. Riyadh: Markaz al-Turath.
- IFSB, Islamic Finance Services Board, (2022). *Revised Solvency Requirements for Takaful/ Retakaful Undertakings- IFSB-28*, Malaysia, Kuala Lumpur.

- IFSB, Islamic Finance Services Board, (2023). *Islamic Financial Services Industry Stability Report 2023*. Malaysia, Kuala Lumpur.
- Issari, P. & Pourkos, M. (2015). *Qualitative Research Methods in Psychology and Education Kallipos*, Athens: Hellenic Academic Books.
- Kaba, E., Stavropoulou, A., Kelesi, M., Triantafyllou, A., Goula, A., & Fasoi, G., (2021). Ten key steps to writing a protocol for a qualitative research study: A guide for nurses and health professionals. *Global Journal of Health Sciences*, Vol. 13, No. 6, pp. 58-68.
- Lester, J. N., Cho, Y., & Lochmiller, C. R. (2020). Learning to Do Qualitative Data Analysis: A Starting Point. *Human Resource Development Review*, 19(1), 94-106.
- Mohd Fauzi, P.N.F.N. and Laldin, M.A. (2022), "Micro-takāful scheme for the protection of houses belonging to low-income groups in Malaysia", *ISRA International Journal of Islamic Finance*, Vol. 14 No. 3, pp. 303-314.
- Mokhtar, H.S.A., Aziz, I.A. & Hilal, N.M. (2015). Surplus sharing practices of takaful operators in Malaysia, *ISRA International Journal of Islamic Finance*, Vol. 7, Issue. 1, pp. 99-126.
- Naim, A.M., Isa, M.Y. & Rahim, A.K.A. (2018). Does the mutuality concept uphold in the practices of takaful industry? *Al-Shajarah, Journal of Islamic Thought and Civilization, special issue: Islamic banking and finance*, special issue, pp. 149-170.
- Nugraheni, P. and Muhammad, R. (2020), "Innovation in the takaful industry: a strategy to expand the takaful market in Indonesia", *Journal of Islamic Marketing*, Vol. 11 No. 6, pp. 1313-1326.
- Polit, D.F., & Beck, C.T., (2008). *Nursing Research: Generating and Assessing Evidence for Nursing Practice*. Philadelphia: Wolters Kluwer Health.
- Rahman, M.H., Abdullah, M.F., Osmani, N.M. and Binti Aziz, N.S.Z. (2024), "Application of tāawun (mutual assistance) in cross-subsidisation of surplus among different takaful operators: an exploratory study in Malaysia", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. ahead-of-print No. ahead-of-print. <https://doi.org/10.1108/IMEFM-12-2023-0479>.
- Richardson, J., O'Neil, D.A. and Thorn, K. (2022), "Exploring careers through a qualitative lens: an investigation and invitation", *Career Development International*, Vol. 27 No. 1, pp. 99-112.

Shabbir, M.U.T. (2012). Al-Fa'id al-Ta'mini fi Sharikat al-Ta'min. *Journal of College of Shariah and Islamic Studies*, Qatar University, Vol. 30, pp. 361-434.

Soualhi, Y. (2010). Shariah Inspection of surplus distribution in takaful operations, *IIUM Journal of Economics and Management*, Vol. 18, No. 2, pp. 197-220.