

Management Of Takaful Surplus Funds to Support Microtakaful Schemes: An Exploratory Study in Malaysia

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ABSTRACT

A key feature of takaful operations is the generation of surplus, which represents the collective entitlement of participants and can potentially be leveraged to fund microtakaful, providing affordable, Shariah-compliant protection to low-income households while promoting financial inclusion and social welfare. However, the practical utilization of surplus for microtakaful remains limited due to unclear frameworks, divergent Shariah interpretations, regulatory constraints, and operational challenges. This study adopted an exploratory qualitative approach to examine the perspectives of Shariah scholars, regulators, and takaful operators on the feasibility, mechanisms, and processes for using surplus funds to finance microtakaful. The primary data were collected through semi-structured interviews and analyzed using thematic and content analysis. The study identified the regulatory and Shariah-compliant mechanisms for surplus utilization, explored operational challenges, and proposed practical solutions for sustainable implementation. Findings highlighted that effective surplus management requires balancing participant rights, operator incentives, Shariah compliance, and social objectives. Strategic allocation of surplus to microtakaful and corporate social responsibility initiatives can enhance fund sustainability, expand coverage for underserved populations, and strengthen social impact. This research contributes to academic understanding, provides practical guidance for operators and regulators, and supports the development of Shariah-compliant, socially responsible microtakaful solutions in Malaysia.

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1. INTRODUCTION

Malaysia's takaful industry is internationally recognized as one of the most mature and well-regulated markets, supported by a strong financial ecosystem, forward-looking regulatory architecture, and well-established Shariah governance structures that are frequently cited as reference points by other jurisdictions (Mansor & Noordin, 2024; Abdurasulov, 2024). The Malaysian takaful framework is grounded in the principles of *ta'awun* and *tabarru'*, providing Shariah-compliant risk protection while advancing broader socio-economic and *maqasid al-shariah* objectives, including wealth preservation, social equity, and sustainable development (Ahmad et al., 2022; Ibrahim & Markom, 2024; Alias et al., 2023).

A defining operational characteristic of takaful is the generation of underwriting surplus funds remaining after the settlement of claims and expenses, which reflects the collective interest of participants and therefore requires management in accordance with Shariah principles, contractual arrangements, and sound governance practices. Under current Malaysian practice, surplus may be shared between participants and operators, typically structured as performance-based remuneration under *wakalah* or as profit-sharing under *mudarabah*, provided that such arrangements are clearly stipulated at the outset of the contract (Khan et al., 2021; Devi, 2024).

Concurrently, recent academic and policy discourse increasingly frames Takaful surplus as a strategic component of Islamic social finance, with potential applications in supporting microtakaful, *waqf*-based arrangements, social protection schemes, and cross-subsidization mechanisms, thereby strengthening financial inclusion and advancing national development priorities and the Sustainable Development Goals (Muneeza et al., 2024; Kartina et al., 2023; Rahman et al., 2025). Within this context, microtakaful is gaining prominence in Malaysia as a key risk-mitigation tool for low-income and underserved populations, with regulatory guidance emphasizing affordability, accessibility, and product simplicity.

Nevertheless, securing sustainable funding remains a significant challenge (Fikri et al., 2022). Although *waqf*-based and surplus-funded mechanisms have been proposed to support microtakaful schemes, fragmented legal frameworks constrain their practical implementation, the decentralized nature of *waqf* governance across states, capacity limitations, and the absence of standardized operational models and clearly defined surplus utilization mechanisms (Ahmad et al., 2022; Muneeza et al., 2024). Moreover, much of the existing literature remains focused on theoretical constructs and model design, while empirical, stakeholder-oriented research examining how surplus can be operationally and prudently channeled into microtakaful without compromising fund solvency, Shariah compliance, or equity among participants remains limited (Rahman et al., 2024; Kartina et al., 2023; Rahman & Aziz, 2025).

Against this backdrop, a systematic assessment of the viability of utilizing Takaful surplus as a sustainable funding mechanism for microtakaful in Malaysia, together with an examination of the necessary Shariah, regulatory, and operational enablers, is essential to fostering a more inclusive, resilient, and *maqasid*-oriented Takaful ecosystem (Ibrahim & Markom, 2024; Fikri et al., 2022).

The existing literature increasingly highlights the potential of Takaful surplus as an Islamic social finance resource for microtakaful, social protection, corporate social responsibility (CSR), and cross-subsidization mechanisms. However, this potential is constrained by the lack of clear operational models, regulatory

instruments, and Shariah governance frameworks to channel surplus without compromising the sustainability of risk funds or participants' rights (Alhabshi, 2021; Rahman & Aziz, 2025; Rahman et al., 2024; Ahmad et al., 2022). The lack of such an integrated, Shariah-consistent, and governance-ready framework limits the ability of Takaful, particularly microtakaful, to effectively realize the objectives of Shariah, Value-Based Intermediation, and the financial inclusion agenda (Alhabshi, 2021; Rahman et al., 2024; Harun et al., 2018; Muneeza et al., 2024).

Previous studies have largely discussed takaful surplus distribution, waqf-based microtakaful models, and Islamic social finance mechanisms. However, limited attention has been given to the systematic operationalization of takaful surplus as a sustainable funding mechanism for microtakaful within an integrated governance framework that aligns Shariah principles based on *ta'awun*, *tabarru'* and participants' rights, regulatory requirements, operational mechanisms, and stakeholder roles to support the practical implementation of surplus-funded microtakaful. This study extends existing literature beyond conceptual discussions towards a practical governance framework that supports financial inclusion, social protection, and the realization of Maqasid Shariah within the Malaysian takaful system. (Alhabshi, 2021; Ibrahim & Markom, 2024; Muneeza et al., 2024; Rahman & Aziz, 2025; Rahman et al., 2024).

Thus, this study aims to assess the feasibility of using takaful surplus to fund microtakaful schemes. It identifies the mechanisms, processes, and requirements from both Shariah and regulatory perspectives for utilizing surplus to subsidize microtakaful plans. The study also highlights challenges and proposes solutions for implementing surplus-funded microtakaful.

2. LITERATURE REVIEW

2.1 Takaful Surplus: Ownership, Distribution Models, and Governance

According to the Islamic Financial Services Act 2013 (IFSA), takaful is defined as a system of cooperation in which participants contribute to a common fund that provides financial benefits to participants or their beneficiaries upon the occurrence of specified events (Bank Negara Malaysia, 2013). Surplus in takaful funds arises when contributions exceed claims, retakaful costs, reserves, and expenses, often with investment gains included (Ibrahim et al., 2015). From a technical perspective, the Islamic Financial Services Board (IFSB, 2015) defines underwriting surplus or deficit as the financial outcome of the participants' risk fund after deducting underwriting expenses and claims from contributions and investment returns. This measure is used in solvency and risk management to evaluate the fund's financial sustainability. Similarly, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI, 2017) defines underwriting surplus as the balance of participants' contributions and reserves, together with their returns, after all paid and unpaid claims and expenses have been accounted for over the financial year. AAOIFI emphasizes that this balance is a surplus, not conventional business profit, reflecting the *tabarru'* (donation) nature of takaful contributions and the collective ownership of the surplus by participants.

A central debate concerns who owns the underwriting surplus and how it may be shared. The research identifies two main jurisprudential positions. First, the approaches of AAOIFI, IFSB, and some fatwa bodies maintain that underwriting surplus must be fully distributed to participants, with operators not entitled to any share (Devi, 2024; Khan et al., 2021; Soualhi, 2010). AAOIFI explicitly frames surplus

disposal as serving participants' common interest (reserves, contribution reduction, charity, or distribution to participants), while denying operators any surplus share (Khan et al., 2021). The second position, adopted by Shariah Advisory Council (SAC) BNM, Majelis Ulama Indonesia, and many contemporary scholars, allows surplus sharing between participants and operators, provided this is contractually stipulated (e.g., wakalah with ju'alah or mudarabah-based arrangements) and justified as performance incentives (Devi, 2024; Khan et al., 2021; Alhabshi, 2021; Soualhi, 2010). The governance of takaful surplus needs to be balanced among participant entitlement, fund sustainability, operator incentives, and Shariah requirements. Alhabshi (2021) highlights surplus and risk fund governance as a question of social equity among shareholders, operators, and policyholders, stressing transparency and Shariah-aligned surplus analytics.

Beyond bilateral sharing, recent research proposes broader, socially oriented uses of surplus. Sustainable approaches such as mechanisms to support fund solvency, cross-subsidization between operators, engagement with waqf and charitable institutions, the development of microtakaful, and the establishment of industry-wide contingency funds, while also emphasizing existing regulatory limitations and governance-related challenges (Rahman et al., 2024; Rahman & Aziz, 2025). Waqf-based models handle surplus differently. In a pure waqf structure, any surplus stays within the waqf fund and cannot be shared. Only the profits may be used to improve participants' benefits, which requires careful legal structuring and clear communication with participants (Muneeza et al., 2024).

2.2 *Ta'awun* versus *Tabarru'* as the Conceptual Basis

The principle of *tabarru'* is the conceptual basis of takaful, whereby participants voluntarily contribute to a common fund for the mutual benefit of members. Several studies criticize the dominance of *tabarru'*-based models, arguing that pure donation constructs are conceptually strained when coupled with surplus refunds and participant-linked benefits. They suggest that the *tabarru'* principle contradicts the fundamental spirit of Takaful when contributions made as donations are indirectly associated with reciprocal financial returns. The studies also emphasize that surplus distribution under a strictly *tabarru'*-based framework creates both conceptual inconsistencies and concerns about Shariah compliance. In practice, participants pool their contributions to provide financial assistance when members experience specified losses. They propose *ta'awun* (mutual help) as the underlying notion of Takaful, which better accommodates benefit and surplus sharing with participants and third parties (including cross operator support and charitable causes) and aligns with financial inclusion and solidarity objectives (Rahman et al., 2025; Rahman & Aziz, 2025; Harun et al., 2018).

This reconceptualization supports emerging regulatory initiatives (e.g., the broader application of *ta'awun* in surplus use) and creates doctrinal space for surplus-funded social protection. *Ta'awun* emphasizes mutual assistance and cooperation among participants for beneficial purposes and provides financial support when a member suffers a loss or misfortune. This approach is fully aligned with Shariah, as it is free from *riba* (interest), avoids *gharar* (excessive uncertainty), and is grounded in fairness and solidarity. Bank Negara Malaysia (2025) describes *ta'awun* as an Islamic principle that encourages mutual support for beneficial purposes while prohibiting cooperation in activities with harmful or unethical objectives. Bank Negara Malaysia emphasizes that *ta'awun* (mutual help) is a core principle in takaful, guiding surplus management and social protection initiatives. The principle of *ta'awun*, therefore, provides an important foundation for considering surplus as a distributable financial outcome and as a potential instrument for strengthening mutual assistance and social protection.

2.3 Surplus Practices and Regulatory Diversity

A surplus arises in takaful when the fund's overall performance exceeds expectations, driven by effective underwriting, investment, and expense management. Specifically, the surplus represents the remaining contributions after accounting for claims paid, retakaful obligations, allocated reserves, operator fees, and investment returns. According to Bank Negara Malaysia (2016), takaful surplus occurs when fund operations outperform expectations, resulting in a positive balance that can be shared with participants.

The management of surplus funds in takaful varies between countries, depending on regulatory frameworks and guidelines. In Malaysia, the Islamic Financial Services Act (IFSA) 2013 permits takaful operators to receive a portion of the surplus as an incentive, provided they comply with Bank Negara Malaysia (BNM) requirements and ensure that the fund's viability and the fair treatment of participants are not compromised. In the event of a deficit, operators must provide interest-free financial assistance from shareholders' funds. The Takaful Operational Framework (TOF) 2019 provides comprehensive guidance on the management of both Takaful and shareholders' funds, ensuring fund solvency and optimizing benefits for participants. TOF stipulates that the takaful fund belongs to the participants, with surplus permitted for use to maintain the fund's solvency, enhance participants' investment returns, or, with subscribers' consent, contribute to charitable initiatives, without cross-subsidization between funds (Bank Negara Malaysia, 2013, 2019).

Comparative regulatory analysis shows significant divergence in surplus treatment. Malaysia, through the TOF and related policies, permits operators to share in surplus under wakalah or muḍarabah models as performance fees or profit sharing, provided participants' interests, fund solvency, and Shariah conditions are preserved (Ibrahim et al., 2015; Khan et al., 2021; Alhabshi, 2021; Harun et al., 2018; Khan, 2019).

In contrast, AAOIFI-influenced jurisdictions, including Bahrain and Saudi practice, adopt a more stringent approach to surplus distribution, either prohibiting operator participation in surplus or limiting incentives to specific schemes, sometimes banning wakalah–surplus hybrids (Devi, 2024; Khan et al., 2021; Khan, 2019). In Bahrain, for instance, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) reserves the surplus entirely for the benefit of participants, allowing it to be utilized for contribution reductions, retained as reserves, or donated to charitable initiatives (AAOIFI, 2017). Soualhi and others argue that while allocating surplus only to participants is strongly preferable, there is scope under Shariah for limited sharing with the operator, provided it is justified and transparently structured (Khan et al., 2021; Soualhi, 2010).

These differences illustrate two primary approaches to surplus management in Takaful: Malaysia provides incentives to operators while safeguarding participants' interests, whereas AAOIFI emphasizes fairness and the exclusive benefit to participants. The BNM approach offers flexibility in surplus management, potentially encouraging innovation and financial stability for operators, while the AAOIFI framework prioritizes participant protection. Both frameworks are particularly relevant in the context of microtakaful, where fund sustainability and participant accessibility are critical to ensuring continued participation and maximizing benefits.

Recent normative work links surplus policy to the maqāṣid al-shariah and the SDGs, emphasizing justice, wealth protection, and redistribution. Integrating maqāṣid into regulatory design can support the deployment of surplus for broader social objectives while maintaining legal certainty and Shariah governance (Alhabshi, 2021; Ibrahim & Markom, 2024; Harun et al., 2018; Ossofo et al., 2025). Both

frameworks are relevant to microtakaful, where surplus governance may affect fund sustainability, participant accessibility, and the ability to maximize benefits for low-income participants.

2.4 Microtakaful, Islamic Social Finance, and Surplus as a Social Protection Tool

Participation in insurance and takaful schemes is influenced by socioeconomic, behavioral, and religious factors. Empirical studies suggest that income, education, and employment stability are key determinants of engagement, with low-income households, particularly those in Malaysia's B40 segment, facing substantial financial constraints (Mansor & Abu Bakar, 2018). For these households, spending on essentials such as food, housing, and education takes priority, and takaful contributions are often perceived as an additional financial burden that may be deferred or foregone during periods of economic difficulty. The distribution of insurance surplus in Islamic insurance is governed by Shariah principles that recognize the surplus as the collective right of policyholders rather than profit for the operator. Surplus may be distributed wholly or partially to participants, retained as technical reserves, or allocated for charitable purposes, provided the method is approved by the Shariah Supervisory Board. AAOIFI outlines several recognized distribution approaches, including proportional distribution to all participants, exclusion or differentiation of claim recipients, fixed-percentage allocation, or other Shariah-approved methods. These mechanisms aim to ensure fairness, transparency, and alignment with Takaful's cooperative nature.

Microtakaful is positioned as a key vehicle for the financial inclusion of low-income and vulnerable groups, yet often faces sustainability challenges due to low contributions and high claim ratios (Shahar et al., 2022; Mohamad et al., 2024). System dynamics modeling shows that microtakaful fund viability is highly sensitive to contribution rates, mortality, and participant growth, and underscores the benefits of non-profit structures for affordability (Mohamad et al., 2024). Parallel work on zakat and waqf highlights their roles in poverty alleviation and wealth redistribution, as well as their increasing integration with takaful and microtakaful through cash waqf and zakat-supported schemes (Shahar et al., 2022; Muneeza et al., 2024).

Bank Negara Malaysia advocates that Islamic financial institutions operate under the principles of Value-Based Intermediation (VBI), which emphasizes creating value beyond mere profit. VBI encourages these institutions to actively contribute to economic growth, social welfare, and environmental sustainability (Thaidi et al., 2021). Within this framework, microtakaful emerges as a vital tool, providing affordable, accessible financial protection to low-income households while also supporting broader socio-economic and environmental objectives. By aligning with VBI, microtakaful not only safeguards vulnerable populations but also advances ethical, socially responsible, and sustainable financial practices (Bank Negara Malaysia, 2016).

The development of microtakaful represents a strategic effort to enhance financial inclusion by extending accessible and affordable protection to underserved populations. By safeguarding households from unexpected financial shocks, microtakaful supports social stability, poverty alleviation, and resilience, aligning with broader policy objectives of inclusive economic growth (Bank Negara Malaysia, 2016). Malaysia's Financial Sector Blueprint 2011–2020 emphasizes financial inclusion by developing microinsurance and microtakaful products, particularly for low-income communities. Initiatives such as Perlindungan Tenang, launched in 2017, provide affordable, simple, and easily accessible products with streamlined claims processes tailored for the B40 group. According to Bank Negara Malaysia (2016), microtakaful differs from conventional takaful in several key aspects. Products are designed using

straightforward language to accommodate participants with limited financial literacy, thereby fostering trust and encouraging uptake. The primary focus is on providing social protection to low-income and vulnerable groups rather than prioritizing profitability, offering a safety net against unexpected financial shocks. Microtakaful schemes are also highly accessible, featuring affordable contributions, convenient payment methods, and simplified claims procedures to accommodate both urban and rural communities. Additionally, these products maintain Shariah compliance and robust governance, instilling confidence among participants despite challenges associated with advisory panel costs and regulatory constraints. Collectively, these features strike a careful balance between social objectives, operational feasibility, and adherence to Islamic principles, ensuring meaningful protection while promoting the sustainability of the microtakaful system.

Against these sustainability and accessibility challenges, several authors propose using takaful surplus as an additional Islamic social finance resource. Rahman, in his research, identifies microtakaful as a priority avenue for sustainable surplus allocation, arguing that channeling surplus toward low-income protection can advance financial inclusion and national welfare when supported by appropriate policy reforms and stakeholder integrity (Rahman et al., 2024; Rahman & Aziz, 2025). Rahman et al. (2025) highlight that the ownership and allocation of takaful surplus are widely debated issues, with three main perspectives (COMCEC, 2019; Mokhtar et al., 2015). The first perspective suggests that the surplus should be directed entirely towards charitable purposes, such as waqf, since participants have effectively donated their contributions and operators are remunerated through wakalah fees. This approach is seen to promote social welfare and corporate social responsibility (Billah, 2007; Naim et al., 2018; Alhabshi, 2021). The second perspective maintains that only participants have a rightful claim to the surplus, as operators do not contribute to the fund. Sharing the surplus with operators could create conflicts of interest and may be unfair, particularly because they do not bear any losses (IFSB, 2022; AAOIFI, 2017; Shabbir, 2012; Odierno, 2008). The third perspective allows both participants and operators to share in the surplus, with the operators' portion serving as an incentive for effective management. This arrangement is commonly implemented through a *ju'alah* contract, as practiced in Malaysia (Bank Negara Malaysia, 2013 & 2019; Naim, Isa, & Rahim, 2018). By utilizing surplus funds from takaful operations, providers can support microtakaful schemes, offering affordable coverage to low-income families. At the same time, a portion of the surplus can be allocated to corporate social responsibility (CSR) initiatives, thereby reinforcing social welfare and community development while reducing the financial strain on vulnerable households.

From an Islamic social finance perspective, surplus-funded microtakaful can also be situated within a broader system involving *ta'awun*, *zakat*, and *waqf*. In takaful operations, contributions are pooled to meet claims, and any resulting surplus is managed in accordance with Shariah guidelines. Such a surplus may be redistributed among participants or allocated to charitable and socially responsible initiatives, including CSR programs. By linking *ta'awun* with surplus utilization, takaful not only ensures ethical, Shariah-compliant financial management but also reinforces its social impact by supporting vulnerable communities. Microtakaful itself is grounded in the principles of *ta'awun* (mutual help) and *tabarru'* (voluntary contribution), framing participation as a moral and spiritual obligation. Structural and behavioral barriers, including high costs, eligibility restrictions, limited information, reliance on informal support, and socio-cultural factors, affect participation, particularly among low-income, rural, and elderly populations. Addressing these requires trust, transparency, authentic Shariah compliance, and targeted financial literacy programs. Some products allow contributions as low as RM5–RM10 per month, with deferred claim

settlements to reduce financial strain (Abdullah et al., 2019; Shamsuri & Thaidi, 2024). Social welfare remains the primary objective, distinguishing microtakaful from conventional insurance.

The potential for broader integration of Islamic social finance is also reflected in Waqf-based and cash waqf–takaful models, especially for the elderly and other vulnerable cohorts, who similarly rely on surplus-like flows and endowment income to subsidize contributions and enhance benefits (Rahman et al., 2023; Muneeza et al., 2024). The integration of zakat and waqf funds with microtakaful can subsidize premiums, improve accessibility, and support sustainable risk pools (Yusof, Khairuddin & Rahman, 2021). Zakat–waqf–microtakaful integrations show further potential for layered financing that cushions irregular contributions and payouts, though operational complexity and governance risks remain (Shahar et al., 2022; Mohamad et al., 2024).

In conclusion, surplus funds in Takaful can be redistributed to participants, utilized for microtakaful to support low-income households, or allocated to CSR initiatives for community development. Rahman et al. (2025) noted that regulators typically permit surplus funds to be allocated to charitable purposes. As a recent regulatory development, the Malaysian Central Bank (Bank Negara Malaysia, 2025) issued a policy document examining the use of surplus to support the takaful funds of other operators, representing a broader application of *ta'awun* (mutual help) within the takaful framework. This development is significant because takaful surplus may serve not only as a distributable financial outcome for participants but also as a mechanism for strengthening mutual support within the takaful industry.

2.5 Key Issues and Emerging Research Gaps

The literature indicates that microtakaful several recurrent challenges emerge: (i) conceptual tensions between *tabarru'*, *ta'awun* and surplus refunds; (ii) inconsistent surplus rules across jurisdictions (AAOIFI vs Malaysian practice), complicating standardisation; (iii) limited transparency and participant awareness regarding surplus rights and consent; and (iv) under developed regulatory tools for channelling surplus into microtakaful and other social protection programs while safeguarding existing participants (Devi, 2024; Rahman et al., 2025;; Ibrahim et al., 2015; Khan et al., 2021; Alhabshi, 2021; Ibrahim & Markom, 2024; Harun et al., 2018; Mohamad et al., 2024; Khan, 2019). Existing literature has examined takaful surplus ownership and social uses separately; however, limited research has investigated how takaful surplus can be structured as a sustainable funding source for microtakaful while safeguarding the rights of existing participants and maintaining fund solvency.

2.6 Conceptual Framework

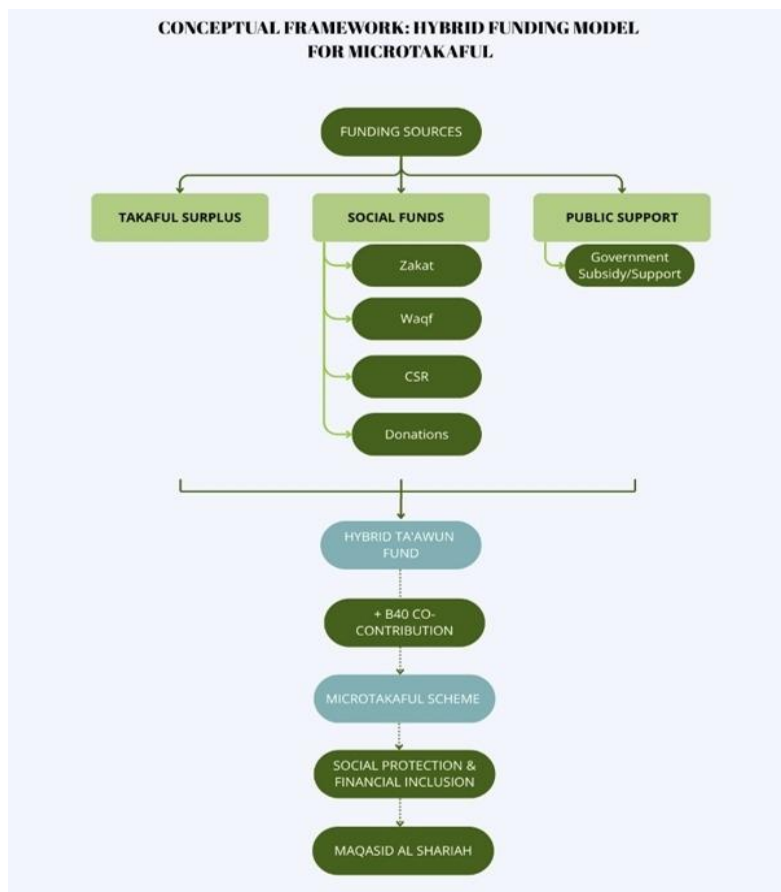


Fig 1. Proposed Hybrid Funding Framework for Microtakaful

Source: Authors.

Figure 1 shows the proposed framework for managing takaful surplus funds to support microtakaful schemes through hybrid funding and ta'awun mechanisms. Takaful surpluses are primary participant-related funding sources, subject to the participant's consent, Shariah requirements, and regulations. At the same time, zakat, waqf, CSR, donations, government, and public support provide complementary resources to strengthen the funding capacity of the microtakaful schemes. The proposed mechanisms bring takaful surplus and complementary funding sources together within a hybrid ta'awun fund, supported by contributions from B40 participants. The applicable Shariah governance, regulatory oversight, transparency, accountability, and segregation of funds are required to ensure that the allocation and utilization of surplus remain consistent with participants' rights and social protection objectives. This framework seeks to provide access to affordable microtakaful protection, strengthen social protection and financial inclusion, and achieve the noble objectives of Shariah.

3. RESEARCH METHODOLOGY

This study adopts an exploratory qualitative methodology to examine the perspectives of Shariah scholars, regulators, and takaful operators regarding the use of surplus funds for microtakaful financing. Data were collected using multiple methods. First, semi-structured interviews were conducted with Shariah scholars, takaful managers, and regulatory officers, focusing on the feasibility of using surplus funds for microtakaful, operational challenges, and Shariah compliance requirements. Second, document analysis was conducted on fatwas, Shariah standards from Bank Negara Malaysia (BNM) and AAOIFI, the Takaful Operational Framework (TOF) 2019, annual reports of selected takaful companies, and BNM policies to assess the alignment of surplus mechanisms with regulatory and Shariah principles.

Data were analyzed using thematic analysis to identify key codes, including Shariah compliance, regulatory framework, operational challenges, and solutions, and using document content analysis to evaluate the conformity of surplus management mechanisms with Shariah and regulatory requirements. The interview data were analyzed using thematic analysis following the approach of Braun and Clarke (2006). The coding strategy was conducted in a hybrid inductive-deductive manner, in which research objectives and relevant literature informed the initial codes. In contrast, additional codes and themes were allowed to emerge from the interview data. Coding and theme development were conducted manually, without using qualitative data analysis software, due to the study's exploratory nature and relatively small sample size.

To enhance the trustworthiness and credibility of the findings, data triangulation was conducted by integrating interview findings with documentary evidence. At the same time, an audit trail was maintained to document the coding process, theme development, and analytical decisions. This approach enables the study to gain an in-depth understanding of critical issues in managing takaful surplus to finance microtakaful in Malaysia.

3.1 Sampling and Participants

This study employs a purposive sampling approach to identify participants (Table 1) with substantial expertise and direct experience in the Takaful industry. It focuses on two main stakeholder groups. Shariah scholars (S) are selected to contribute expert views on Shariah principles, including ta'awun, surplus ownership, and compliance within Takaful operations. In addition, Takaful managers and operational specialists (TO) provide practical perspectives on surplus fund management, product development, and the execution of microtakaful and corporate social responsibility initiatives.

This study involved 8 respondents. The adequacy of the sample size was determined by the depth, richness, and relevance of the information generated by the interview. Across the eight interviews, recurring themes emerged regarding Shariah compliance, surplus governance, regulatory considerations, operational challenges, and microtakaful financing. No significant new themes emerged during the analysis, suggesting that data saturation was achieved for the exploratory study.

Involving these stakeholder groups enables a well-rounded examination of Takaful surplus governance from Shariah, regulatory, and operational perspectives, thereby enhancing the robustness and credibility of the qualitative findings.

Table 1: Respondents of the interviews

ID	Position	Institutions
TO #1	Agency Growth Manager	Takaful A
TO #2	Executive, Operations Support	Takaful B
TO #3	Head of General Operation	Takaful C
TO #4	Vice President, Product Development	Takaful D
S #1	Associate Professor, Shariah Committee Member at Islamic Bank & Investment Corporation A., Director of the <i>Waqf</i> and Endowment Office.	University A; Islamic bank & Investment Corporation A;
S #2	Shariah Department, Unit Head	Takaful D
S #3	Head of Shariah Committee	Takaful E
S #4	Shariah Committee Member	Takaful F

Source: Authors

4. FINDINGS AND DISCUSSIONS

The findings of this research are presented based on the following themes.

4.1 Utilizing Surplus for Microtakaful Funding is Feasible

Findings

The findings indicate that using surplus as a microtakaful funding source is considered feasible. The respondents (TO #1, TO #3, TO #4, S #1, S #3, and S #4) viewed the approach as possible provided that appropriate governance frameworks, Shariah approval, and regulatory clearance from Bank Negara Malaysia (BNM) are in place. Nevertheless, TO#2 and S#1 highlight that surplus is inherently unpredictable and volatile, making it an unreliable primary funding source.

S#2 mentioned:

“Microtakaful has been promoted by Bank Negara Malaysia (BNM) through the introduction of Perlindungan Tenang, which aims to extend takaful protection to underserved and underprivileged segments of society. The management of surplus, however, must be considered in relation to the specific characteristics of the takaful business, whether it operates under family takaful or general Takaful, as differences in business structures and operational methods necessitate distinct approaches to surplus management. In family takaful, variations in maturity periods further affect the timing and feasibility of surplus distribution. Although surplus management is generally more feasible in takaful operations, the central concern remains the long-term sustainability of surplus funds, particularly since surplus may not be generated in

certain periods.”

(S#2)

Whereas TO#2 expressed a more cautious position:

“I feel that relying on underwriting surplus for microtakaful is impractical, as surplus is unpredictable and microtakaful requires stable, fixed contributions.”

(TO#2)

Also, S#1 similarly emphasized the importance of participant consent and contractual clarity when surplus is utilized for microtakaful purposes:

“This approach is appropriate. In Malaysia, takaful companies are allowed to utilize underwriting surplus, but it is important to clarify whether Bank Negara Malaysia permits this under hibah (gift) or sale. Participants should also be consulted to avoid issues of assumed consent. One recommendation is to explicitly include this in the contract to ensure participants' agreement is clearly documented”

(S#1)

Moreover, S#2 views surplus-funded microtakaful as policy-aligned with BNM's financial inclusion agenda under Perlindungan Tenang but structurally constrained in practice.

Consequently, S#2, S#3, and S#4 consider surplus as a complementary rather than core funding mechanism, best combined with other Islamic social finance sources such as zakat, *waqf*, donations, and subsidies to support B40 protection.

Discussions

The findings suggest that the feasibility of surplus-funded microtakaful is conditional and depends on the type of takaful business, with surplus management more operationally viable in general Takaful than in family takaful due to shorter underwriting cycles. Other differences, arising from varying fund structures and surplus-generation periods, may affect the practicality of mobilizing surplus. However, surplus volatility and unpredictability limit its suitability as a stable funding source for microtakaful.

This finding aligns with existing studies, indicating that microtakaful requires stable and affordable funding, often sourced from waqf, zakat, corporate social responsibility (CSR), or government support (subsidies), donations, rather than relying solely on surplus (Kartina et al., 2023; Sha'Aban & Salleh, 2021; Malik & Sulaiman, 2024; Jaenudin et al., 2019; Zakaria et al., 2019). The findings suggest that a blended approach, in which takaful surplus serves as a supplementary source of financing, can strengthen social protection mechanisms.

4.2 Shariah Principles and Contracts

Findings

The findings emphasize that respondents preferred *ta'awun* as a key Shariah principle for extending the use of surplus beyond the original participant pool. S#2 situate surplus-funded microtakaful within a Policy Document *ta'awun* framework (Bank Negara Malaysia, 2025), where *ta'awun* (mutual assistance) serves

as the foundational principle and *tabarru`* facilitates risk-sharing among participants. *Wakalah* governs fee-based management of the fund, while *mudharabah* is used to invest pooled resources, consistent with Malaysian takaful practice (Devi, 2024; Ibrahim et al., 2015; L. Man, 2018). Under BNM guidelines, surplus is channeled into a dedicated fund managed by the financially strongest operator, enabling centralized *ta'awun* and potential cross-subsidization to support weaker operators or social objectives, subject to Shariah compliance and regulatory approval (Rahman & Aziz, 2025; Rahman et al., 2024; Devi, 2024; Noordin, 2014).

S#2 replied:

“The PD ta'awun framework is grounded in the Shariah principle of ta'awun, implemented through the tabarru` contract to facilitate mutual cooperation and shared responsibility among participants. Bank Negara Malaysia requires takaful operators to channel their surpluses into a dedicated fund managed by the strongest financial operator to enhance industry stability. The framework also incorporates wakalah for fee-based management and mudharabah for investment activities, ensuring ethical, Shariah-compliant management.”

(S#2)

The respondents (S#2, S#3, S#4, TO#3, and TO#4) emphasize that the surplus rightfully belongs to the participants and that any external use requires explicit prior consent, which should be documented in the certificate through a ta'awun clause.

TO#3 mentioned:

“The relevant contract to allow sharing beyond the pool is agreed upon by the participants and included in the takaful contract.”

(TO#3)

TO#4 emphasized:

“Tabarru': risk sharing basis (but must align with the original tabarru' intention, which is mutual help and to ensure not conflict with participants' rights). Wakalah: appoint a Takaful operator as an agent. The Takaful operator, however, must ensure that the policy for surplus distribution is clearly defined, disclosed, and approved by Shariah. Ta'awun: supplementary agreement where required consent from the Takaful participant is required to use the surplus arising in the risk fund.”

(TO#4)

S#1 further stresses the importance of clearly specifying the type of transfer, whether it should be structured as a *hibah* or another permissible form within the contract.

S#1 mentioned:

“Takaful is classified as tabarru` and represents a type of charitable contract. Charity can take various forms, including unconditional or conditional donations. Microtakaful should likewise follow the tabarru` principle, but it is necessary to clarify whether it is considered a hibah (gift) or another type of donation.”

(S#1)

Discussions

These findings suggest that the most important Shariah issue concerns how the transfer of surplus funds is structured legally and contractually, rather than merely whether the surplus can be used for microtakaful. The emphasis on *ta'awun* provides a basis for extending mutual assistance beyond individual participants, while *tabarru`* continues to underpin the risk-sharing relationship within the takaful fund. The findings are consistent with existing research suggesting that *ta'awun* provides the most appropriate framework for sharing surplus with others or allocating it to charitable purposes, while *wakalah* and *mudharabah* ensure ethical, Shariah-compliant management and investment of pooled resources (Rahman & Aziz, 2025; Rahman et al., 2024).

4.3 Regulatory, Supervisory, and Governance

Findings

The findings revealed a strong consensus among respondents on the need for clear, well-defined regulatory and governance frameworks for the use of takaful surplus funds. The respondents (S#1, S#2, S#4, TO#1, TO#3, and TO#4) emphasize the need for clear guidance from Bank Negara Malaysia (BNM) or other regulators regarding allowable uses of surplus, limits, and safeguards to ensure fund solvency (Fikri et al., 2022; Rahman & Aziz, 2025; Devi, 2024; Malik & Sulaiman, 2024; Ibrahim et al., 2015).

TO#1 replied:

“My view is that underwriting surplus belongs to the takaful company and that, if it is to be channeled to microtakaful, it should qualify for tax refunds or tax relief. With such incentives in place, the company would be more inclined to contribute to microtakaful initiatives.”

(TO#1)

Additionally, TO#3 emphasized:

“Regulatory clarity on permissible uses of surplus, including limits and safeguards. Strong governance frameworks, including the availability of policies. Disclosures to participants and regulators on how surplus is allocated and its social outcomes. For sustainability, the recipient of the microtakaful should also contribute to the fund to promote awareness and avoid taking it for granted.”

(TO#3)

Moreover, TO#4 proposed:

“In my opinion, for regulatory requirements, a written surplus policy must be developed and approved by the regulator (BNM) before implementation. For supervisory purposes, proper approval from the Appointed Actuary is required. For governance, seek approval from the Shariah committee and explicit consent from the takaful participants. The tabarru' fund may need to be ring-fenced for sustainability purposes.”

(TO#4)

Ensuring the sustainability of the fund, S#1 emphasized:

“Relying on surplus alone is insufficient; additional funding sources are needed to make the program more sustainable. This could include pooling funds from CSR, donations, zakat, or waqf, as depending solely on surplus is not enough.”

(S#1)

Besides, S#2 and S#3 highlighted that ensuring the sustainability of microtakaful schemes is particularly important, as the B40 population faces significant financial and health vulnerabilities, making them a high-risk group. To make these schemes viable, government intervention is essential, providing guidance, support, and oversight. This effort should extend beyond the federal level to include state authorities, such as State Islamic Religious Councils (MAIN), zakat collection agencies, and waqf institutions. The respondent also noted that support can be obtained from corporate sponsors and government-linked companies, thereby contributing to the programs' financial stability. In addition, community-based crowdfunding can supplement these funds, especially if contributors are incentivized with tax relief, thereby encouraging broader public participation and helping maintain the program's long-term sustainability.

Moreover, S#1 and S#2 further stress the potential establishment of dedicated social or *ta'awun* funds, managed either by the most financially robust operator or by a dedicated social entity, supported by regulatory frameworks specifically designed for microtakaful (Fikri et al., 2022; Malik & Sulaiman, 2024; Rahman et al., 2024). The government at both federal and state levels, including MAIN, zakat institutions, *waqf*, and GLCs, is envisioned as the primary coordinator, ensuring sustainability, effectiveness, and Shariah compliance in fund management and participant protection (Malik & Sulaiman, 2024; Sha'Aban & Salleh, 2021). Some stakeholders also support the development of industry-wide frameworks and standardized Shariah policies on *ta'awun* and surplus management to promote consistency, transparency, and trust in microtakaful operations (Rahman et al., 2024). The respondents highlight the importance of strong internal controls, including Shariah committee approval, actuarial verification, participant disclosure, and the potential ring-fencing of funds to protect participants' interests.

Discussions

The findings suggest that the sustainability of microtakaful can be addressed by ensuring the availability of takaful surplus in a manner consistent with Shariah principles and by strengthening governance structures that protect participants. In this regard, strong internal controls, including Shariah committee approval, actuarial verification, participant disclosure, and the potential ring-fencing of funds to protect participants' interests, are in place. These mechanisms are consistent with previous studies that emphasize the importance of governance, transparency, and participant protection in takaful surplus management (Fikri

et al., 2022; Malik & Sulaiman, 2024; Devi, 2024; Ibrahim et al., 2015). The establishment of *ta'awun* funds may provide a structured mechanism for channeling surplus towards microtakaful while maintaining transparency, accountability, and participant protection. It will reduce potential conflicts between takaful participants' interests and the social protection objectives of microtakaful.

The findings further indicate that the involvement of government institutions and stakeholders' institutions, including MAIN, zakat, and waqf institutions, as well as GLCs, could support microtakaful sustainability by mobilizing complementary funding and strengthening institutional support. This approach is more sustainable than just relying on a takaful operator or a surplus fund, while reinforcing the role of *ta'awun* as a social protection mechanism. Furthermore, the suggestion to develop sector-wide frameworks and standardized Shariah policies, with clear guidelines on *ta'awun* and surplus management, could enhance regulatory consistency.

4.4 Operationalization of Surplus Mobilization for Microtakaful

Findings

Respondent identified several operational instruments for implementing the microtakaful surplus fund. TO#1 suggests establishing a dedicated team to manage microtakaful accounts. Partnerships with NGOs, cooperatives, zakat or *waqf* bodies, and government agencies are recommended to improve distribution and outreach, supported by simple or parametric products and digital onboarding and claims processes (Malik & Sulaiman, 2024; Mokhtar et al., 2012; Jaenudin et al., 2019; Salleh et al., 2023).

TO#1 stated:

"For the channeling process to work efficiently, there should be a designated team, department, or individual overseeing the microtakaful program accounts. This dedicated responsibility would help streamline and manage operations effectively."

(TO#1)

It is also important to secure participant consent operationally through mechanisms such as a consent box on proposals or digital consent for existing members and to generate social-impact or *ta'awun* reports for transparency and accountability (TO#4).

S#1 and S#2 proposed the establishment of a separate social fund that combines multiple financing sources, including underwriting surplus, CSR contributions, zakat, *waqf*, and donations, with surplus forming only one component (Malik & Sulaiman, 2024; Jaenudin et al., 2019; Shahar et al., 2022; Mohamad et al., 2024; Rahman et al., 2024).

S#1 stated:

"Since surplus depends on whether there is any excess in the fund, it is unpredictable and cannot be the sole source. Hence, a separate fund should be established to pool resources for charitable purposes, while B40 participants should make a small contribution to demonstrate their commitment."

(S#1)

Moreover, S#2 stated:

“The government must play a central role in ensuring the success of such initiatives, as it possesses comprehensive data and the capacity to coordinate and engage all relevant stakeholders effectively.”

(S#2)

The fund is suggested to operate under a ta'awun, channeling surplus into a collective pool, supported by simplified underwriting, easy-to-understand products, and community- or technology-based delivery channels to reduce operational costs (Fikri et al., 2022; Jaenudin et al., 2019; Salleh et al., 2023; Mohamad et al., 2024). B40 participants are encouraged to make small co-contributions to foster commitment and ensure the program's sustainability (Kartina et al., 2023; Jaenudin et al., 2019; Mohamad et al., 2024).

Discussions

The findings suggest that surplus mobilization should be institutionalized through a ta'awun fund, supported by clearer accounting, governance, reporting, and monitoring of the social use of surplus. The findings also highlight the importance of diversifying the funding model by combining surplus funds with CSR, zakat, waqf, and donations, thereby providing greater financial stability. The proposed use of digital consent, simplified products, and digital claim processes will reinforce the operational efficiency and accessibility of takaful. Strong cooperation among the government, stakeholders, digital delivery, and participants will enhance the accessibility and long-term viability of microtakaful.

4.5 Challenges and Solutions

Findings

The respondents identified several major challenges in implementing surplus-funded microtakaful. S#1 and S#2, together with respondents (TO#1–TO#4), highlighted several key challenges in using surplus to fund microtakaful. These include surplus volatility and sustainability risks if relied upon as the sole funding source (Kartina et al., 2023; Malik & Sulaiman, 2024; Mohamad et al., 2024; Rahman et al., 2024; Mokhtar et al., 2012); issues of surplus ownership and participant consent, as conventional *tabarru'* complicates allocating surplus to external parties without a clear ta'awun framework, and participants may object to their surplus being used for non-participants (Rahman & Aziz, 2025; Rahman et al., 2024; Devi, 2024; Ibrahim et al., 2015); and operational constraints, including limited microtakaful-specific guidelines, low public trust in insurance/takaful, high operational costs, and the need for simplified, digitalized processes (Fikri et al., 2022; Malik & Sulaiman, 2024). Commercial incentives further complicate the landscape, as operators generally prefer to retain surplus profits unless encouraged by tax relief or regulatory support (TO#1).

TO#1 replied:

“Given the current challenging economic conditions, the respondent believes that underwriting funds likely have limited surplus. Even if surplus exists, the company may prefer to retain it as profit and would likely allocate it to microtakaful only if it offers a tax deduction or relief. To ensure the success of a surplus-funded microtakaful program, a special agreement should be established between Bank Negara and all takaful and insurance operators, creating a mutually

beneficial arrangement for both the companies and the microtakaful initiatives. To encourage companies to contribute, Bank Negara could offer tax waivers or other forms of relief in return.”

(TO#1)

TO#3 further mentioned:

“In my view, several considerations are critical to ensure the sustainability and acceptability of surplus-funded microtakaful. First, participants may question why their surplus is used for external purposes; therefore, explicit consent should be obtained at the point of product subscription to ensure transparency and uphold participant rights. Second, over-reliance on surplus alone may render the arrangement unsustainable, so microtakaful recipients should also make small contributions to the fund, fostering ownership and long-term viability. Finally, given the high operational costs of such programs, it is essential to design simple products, such as potentially parametric covers, and to leverage digital platforms to streamline processes and enhance efficiency. The focus should be on protecting the existing participants who contribute to the surplus. Using it externally may not meet the required objectives. The surplus may be best used to benefit existing participants through additional value-added services.”

(TO#3)

Moreover, TO#4 stated:

“In my view, the main challenges in using underwriting surplus to fund microtakaful are twofold. First, obtaining explicit participant consent is critical, as the surplus originates from participants' tabarru' and legally belongs to them. Securing retrospective consent from a large base of existing participants is operationally challenging. Second, surplus volatility creates funding instability, as microtakaful programs serving low-income beneficiaries require predictable, stable financing, whereas surplus can fluctuate significantly or even drop to zero in certain periods.”

(TO#4)

To address these issues, TO#4 suggests the following solutions: (1) introduce an embedded *ta'awun* clause in all new certificates to secure upfront participant consent for surplus utilisation in microtakaful initiatives; (2) implement digital consent mechanisms for existing participants using mobile apps, online portals, or SMS flows to ensure scalability and efficiency; (3) require annual *ta'awun* or social-impact reporting, mandating operators to publish details of surplus utilisation, mutual assistance activities, and social impact metrics to enhance transparency and public trust; and (4) permit the use of orphan surplus, allowing operators to channel surplus not attributable to specific participants into microtakaful programs, under strict Shariah governance and solvency safeguards. The government could consider introducing a mandatory reporting requirement for takaful operators to track and disclose claims ratios and demonstrate how the protection provided has benefited eligible families. Such reporting would strengthen transparency and enhance the value proposition for participants who consent to the use of surplus for microtakaful purposes. Shariah regulators may also consider issuing a standardized Shariah policy on *ta'awun*, given the current diversity of Shariah views on surplus ownership and utilization. A unified policy framework would provide clearer guidance to operators, ensure consistency across the industry, and reinforce Shariah governance in the application of surplus for social protection initiatives.

Nevertheless, S#1 replied:

“The takaful industry is relatively small yet strongly Shariah-compliant. In Malaysia, launching a new takaful company is challenging due to financial constraints, so licenses are usually granted to existing insurance or other companies. While CSR initiatives can help engage stakeholders, there is a need to create a dedicated social takaful entity. The core principle of ta'awun (mutual assistance) should be reinforced to contribute to economic growth. Takaful is essentially a system of mutual support, and its success depends on raising awareness and having strong operational systems to engage more participants and operators. Funding through waqf and zakat is more sustainable than relying solely on surplus. ESG principles should also be incorporated, and collaboration with relevant stakeholders, including State Islamic Religious Councils and waqf institutions, should be pursued to develop a transparent and dispute-free model.”

(S#1)

S#2 further added:

“The primary challenge is determining how to ensure the program's long-term sustainability. The underwriting, investment, and operations departments are three critical functions that must be managed effectively, as their performance directly impacts the generation and sustainability of surplus funds.”

(S#2)

To mitigate these challenges, S#1 and S#2 recommend a blended funding model that combines surplus with zakat, *waqf*, CSR, and donations, with surplus constituting only one component (Kartina et al., 2023; Jaenudin et al., 2019; Shahar et al., 2022; Rosman et al., 2024; Mohamad et al., 2024; Sha'Aban & Salleh, 2021; Rahman et al., 2024). They propose introducing standard *Ta'awun* clauses in takaful certificates to allow transparent cross-subsidization for social and microtakaful purposes (Rahman & Aziz, 2025; Rahman et al., 2024; Ibrahim et al., 2015). Updating microtakaful guidelines, including affordable pricing, simplified underwriting, and community- and digital-distribution channels, is also critical to ensure programs remain sustainable, accessible, transparent, and effective (Fikri et al., 2022; Malik & Sulaiman, 2024; Salleh et al., 2023; Mohamad et al., 2024).

Discussions

The findings show that the challenges include Shariah permissibility, sustainability, participants' rights, regulatory clarity, and operational feasibility. The volatility of surplus limits the feasibility of relying on it as the sole funding source. At the same time, participant ownership creates an important ethical and governance obligation to obtain appropriate consent before allocating surplus to external beneficiaries. Respondents view surplus-funded microtakaful as Shariah-permissible when grounded in *ta'awun*, with explicit participants' consent and strong governance. Still, they caution that surplus alone is insufficient as a primary funding source. The findings support a hybrid approach in which surplus serves as a supplementary social-impact mechanism alongside *waqf*, zakat, CSR contributions, and government support, all operating under clear guidelines from Bank Negara Malaysia and Shariah (Kartina et al., 2023; Malik & Sulaiman, 2024; Sha'Aban & Salleh, 2021).

5. CONCLUSION

Surplus-funded microtakaful can be considered Shariah-compliant when built on the principle of ta'awun, with clear participant consent and robust governance. However, relying solely on surplus is unstable and insufficient because it is unpredictable. Ensuring participant ownership and consent is essential, reflecting ongoing discussions on tabarru', surplus allocation, and cross-ta'awun mechanisms. A hybrid, ecosystem-based approach is preferable, where surplus serves as a supplementary social-impact resource alongside more reliable funding from waqf, zakat, CSR, and government support, all under transparent regulatory and Shariah frameworks. Operational success can be enhanced through dedicated teams, digitized processes, collaboration with NGOs and other relevant agencies, and clear social impact reporting. Mechanisms such as ta'awun clauses in contracts, the use of orphan surplus with safeguards, and tax incentives can further support sustainability and commercial viability. In essence, surplus-funded microtakaful is practically feasible only within a well-designed, multi-stakeholder framework that upholds Shariah compliance, participant rights, financial stability, and tangible social impact.

The findings of the study indicate that strategically optimizing surplus funds for microtakaful in Malaysia can support the development and accessibility of microtakaful products while strengthening takaful operators' reputation as socially responsible entities. However, this study is subject to limitations, including limited generalizability of the findings to other countries' contexts, restricted access to senior stakeholders, and confidentiality constraints regarding data on surplus funds. Despite these challenges, the findings show that surplus-funded initiatives can play an important role in creating a socially responsible and inclusive takaful sector.

This study makes four main contributions. First, the study contributes theoretically by extending the understanding of takaful surplus as a potential Islamic social for microtakaful within a ta'awun-based framework, particularly regarding surplus, disclosure, and allocation, while also contributing to the discussion on the alignment between international standards such as AAOIFI and Malaysian takaful practice. Future research could also examine the relationship between takaful operators' reputation and their stakeholders' perceptions, social impact, and surplus governance. Second, from a practical perspective, the findings suggest that takaful operators should strengthen transparency in operations and governance mechanisms, establish clear surplus allocation practices, and develop collaborative funding arrangements to optimize surplus and enhance social impact and sustainable growth. Third, from a policy perspective, the findings provide evidence-based insights for regulators, especially Bank Negara Malaysia (BNM), to strengthen guidance on surplus governance, allocation, disclosure, and the utilization of social impact, while ensuring Shariah compliance, participant protection, and financial inclusion. Lastly, for society, the use of surplus funds can enhance microtakaful coverage, promote financial inclusion, and support community well-being, in line with the noble objectives of Shariah.

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