

# APPLICATION OF TAKĀFUL (ISLAMIC INSURANCE) SURPLUS AS AN ISLAMIC FINANCIAL INSTRUMENT FOR NEEDY STUDENTS IN MALAYSIA

**Yusuff Jelili Amuda, Prince Sultan University**  
**Raagini Sama Sundaram, Prince Sultan University**  
**Krishnaaveni Muniandy, Prince Sultan University**  
**Sharmilla Vanarajah, Prince Sultan University**  
**Kartiyani Letchumanan, Prince Sultan University**

## ABSTRACT

*Takāful has been an effective mechanism for addressing different social challenges in predominant Muslim countries, Malaysia is an example. More importantly, takāful has grown in Malaysia to address different societal challenges. Literature posits that many students in Malaysian are faced with financial problem despite the fact many forms of incentives are provided by Government. Little attention is given to exploration of Takāful surplus in helping the needy students in the country. Therefore, this paper primarily investigates the application of is takāful surplus as an Islamic financial instrument to empower the needy students in the country. Qualitative content analysis of existing literature is used as methodology of the paper. The result indicates that takāful plans can be applied to improve lifestyles of needy students in the country. It is further showed that takāful surplus as a financial instrument should enhance the conditions of needy students in Malaysia in order to fulfil the interest of needy students as an integral motive of Islamic financial institutions. In conclusion, it has been reiterated that takāful surplus is instrumental for solving financial challenges of needy students in Malaysia. It is therefore suggested that, action-oriented measures should be taken to ensure an effective application of takāful surplus to support needy students in order to make Islamic financial instrument respond to the social demands of Muslims as an integral part of making an existing takāful plan for students.*

**Keywords:** Takāful, Surplus, Islamic Financial Instrument and Needy Students.

## INTRODUCTION

Education of children is important in bringing a desired progress and development to the society. It is emphasized that the education of children is one of the key vehicles engendering the development of economies (UNESCO, 2009). Nonetheless, there are different arguments among the educationists as regard to either parents or government is responsible for the finance of higher education of children's education (Svava et al., 2009). In spite of this argument, parents

take part in the finance of children's education in different parts of the world. Indeed, parents are expected to meet up with several costs which are education-related expenditure in order to provide quality education to their children. These include school fees, school uniform, books and stationary, pocket money for meals, school trips, tuition or additional classes and other charges. This scenario is applicable to the context of Malaysia.

More importantly, in 2016, Malaysia's aggregate population is estimated at 31.7 million people, an increase of 0.5 million contrasted to 31.2 million in 2015 with an annual population growth rate of 1.5 per cent for the similar period (Bulletin, 2016). Additionally, based on National Poverty Data Bank (2016), there are 85,401 hard core poor families in the nation who are earning minimum household income. The students from the poor families are facing financial challenges in paying those expenditures. Furthermore, a current survey by the Muslim Volunteer Malaysia Association on range of 26,000 students in 6 public universities also revealed that greater part of the respondents said they could set aside only RM5 a day for meals while many were living on instant noodles or ate only plain rice with one fried egg and soy sauce (O'Malley, 2016).

There are several efforts by the government to address the financial challenges of students from poor background in the context of Malaysia. Undoubtedly, there are numerous students facing financial problems since the living expenditure is increasing. However, little effort is made to explore the utilization of Takāful surplus as a system of Islamic Insurance based on the principle of mutual cooperation (ta'awun) and donation (tabarru') in solving the problem of the needy students. In other words, The motivation for this paper is as a result of the fact that despite of government's initiatives in solving financial challenges of less privilege students in Malaysia, there is less focus in exploring Takāful surplus in the country.

Therefore, this paper primarily examines the utilization of Takāful surplus as a financial support to the needy students. Takāful surplus is known as assets minus liabilities of the Takāful risk fund. Thereby, this Takāful surplus can be utilized as an Islamic financial instrument to help the needy students in Malaysia (Simon et al., 2009). Nonetheless, multifarious financial aids for needy students are explored. However, there are challenges faced by students from poor background in Malaysia. The paper provides suggestions for effective utilization Takāful surplus as a financial support to the needy students in the country.

## **Multifarious Financial Aids for Students from Poor Background in Malaysia**

Education in Malaysia is wholly governed by the Ministry of Higher Education and as a rapidly developing country, the country is keen to expand higher education system to support an innovation led economy which resulted Malaysia as 12<sup>th</sup> most preferred education destination in the world with its establishment of 64 universities where 20 are public universities, 37 are private universities and 7 foreign universities (UNESCO, 2009). According to the Department of Statistics Malaysia, there are 1,134,134 students enrolled in Malaysian higher education by almost 100,000 are international students in year 2010 and doubled in 2017 compared to past years (Bulletin, 2015).

The Malaysian government invests millions in education as aids. Firstly, the National Higher Education Fund (PTPTN) provides generous study loans, with further upside for high performers. (National Higher Education Fund, 2016) Besides PTPTN, Malaysian students likewise advantage from a wide range of scholarships from foundations and government agencies, as well as eligibility for MyBrain 15 scholarships for all post-graduate students (Ministry of Higher Education Malaysia, 2016). Moreover, the Department of Social Welfare offers students from low income families funds for a variety of expenditures including uniforms and bus fares under the Schooling Assistance (Bantuan Sekolah) programme (National Poverty Data Bank, 2016).

In addition, the Ministry of Education also disburses various forms of aid for students (Ministry of Education, 2016). In 2005, a standout amongst the most well-known is the Poor Students' Trust Fund (PSTF), benefitted 857,000 with a total disbursement of USD 29.5 million (approximately RM 96.3 million). A treasury report expresses that RM 200 million was set aside under the similar scheme in 2010, indicating that the amount of education aid being disbursed is on the rise. In spite of this effort, there are still financial challenges being faced by students of tertiary institutions in Malaysia.

### **Financial Challenges faced by Malaysian Students in Higher Institutions**

As way of encouraging citizens to further higher education participation for the qualified students, Malaysian government has introduced two forms of students support mechanisms namely: student loans and scholarships (National Higher Education Fund, 2016). The motive of the two is to help the poor students subsidize their studies. In this regard, the government allocated 8% (i.e. RM 11.3 billion) of total governmental expenditure to support the students and between 1997 and 2005, 800, 000 students and increase rapidly each year about 25% (World Bank, 2017). There are 24.2 % of Malaysian students received scholarships by year 2013 from various organisations such as Jabatan Perkhid matan Awam, MARA and Shell Malaysia. In addition, the mechanism also includes the RM 250 voucher to buy books and accessories given to all the students. The availability of such mechanism provided by the Malaysian Government ensures each citizen in the country obtains education and enables him/her to focus and perform well academically. There are also some students who did not receive any scholarship or loan and they must depend on their parents (NorasikinSalikin et al., 2014). Also, because of high proliferation needy students in various institutions of higher learning, there is an increase of part-time work among the needy students (Leone, 2013).

Despite the initiatives taken by government, financial aspect is considered as a persistent and major challenge to some Malaysian students. Based on the statistics, more than 662,000 students are facing financial problems since 2005 until December 2016 and 97% of students said the economic was a burden and need more assistance (Department of Statistics, 2015). On face value, this is unsurprising, students have always been short of money and students are feeling the pinch. In view of this, today there are many financial problems facing by students. Indeed, there are a number of challenges faced by students from poor family such as: accommodation, quality

of food, school fees, and students' financial behaviour. Each of these challenges is explained in the subsequent paragraphs.

First, there are higher percentages of students who are living off campus. The survey done by Muslim Volunteer Malaysia, approximately 50.7% students did not have sufficient money to survive till the end of semester compared to the students who are living on campus. The students staying off-campus tend to spend more money on the items and facilities than the students on campus. This is so because students on campus do not have to pay such as house rental and gasoline for commuting and it is becoming a culture of students living out of campus to borrow money from their friends and pay off their debt when they get the money (Geoffrey, 2016).

Second, almost all the higher education students are eating outside such as fast food and restaurants. This is because food in their cafeteria does not have quality taste. In this regard, the students tend to spend more money on food by buying it from outside off campus which is expensive than the cafeteria food. As consequences, at the end of the semester, higher percentage of students tended to eat instant noodles and some of the students reported to skip meals to save money. Besides that, the students are also not allowed to cook in their hostel, thus, they choose to buy food from outside though it cost more money.

Third, another common problem is that high fees especially in private universities which includes tuition fees and other service charges. Moreover, the students are also spending more money to buy books, notes and other materials needed for studies. Adding to this, the RM 250.00 book voucher given by Malaysian Government is not sufficient to cater for students from poor background. Instead, some of the students are not qualified to get scholarship or loan and most probably rely on their parents while some students working part time to bear their expenses. Based on a latest survey, about two-third of students are in need to look for a part time job in order not to live from hand to mouth and almost 50% of part-time working students spend their money to cover various expenses (Leone, 2013). The survey further shows that the number of students working part-time is equal to full-time employees (Leone, 2013). Moreover, if the students unable to balance between work and academic, it will affect their studies (Sabri et al., 2008).

Fourth, the financial behaviour of the students is another challenge faced by students. In society, today, most students lack skills proper way of managing their money as they are faced with difficulty to come out from the protection of their parents to the world where they must manage their finance by themselves. In addition, most students tend to show excitement about their new university experience while some other students have cultural shock about the new experience at the university. Nonetheless, they are expected to explore the university environment beyond boundaries. It is pertinent to say that, some of the students are influenced by their friends to buy new things also another factor led to increase in student expenses and advancement of technology led students to buy various materials online. In this respect, they do not ensure that financial aid rewarded is spent in a good way. This problem is common among Malaysian students. As consequences, 74% students did not have money to eat as they did not have enough money to eat due to spending more to have a high-class life and rising cost of living for students affect their studentship life (Geoffrey, 2013). As a result of this challenge, it is

imperative to explore takāful surplus in fostering the living condition of poor and needy students in the country.

### **Application of Takāful Surplus in Fostering the Conditions of Needy Students**

Takāful has been evolving in Malaysia since few decades and the role of government on its application has been seen its annual Takāful statistics (Bank Negara Malaysia, 2006; Central Bank of Malaysia, 2011). Since then, several studies have investigated history, values and application of Takāful as an integral part of Islamic financial system in the Muslim countries (Billah, 2007; Puteri et al., 2013; Cader, 2014). Rusni (2011) posits that Islamic banking plays an important role in promoting Takāful. It is reiterated that Takāful is effective in the alleviation of poverty in the Muslim society (Sabbir, 2004). Further, literature has explored Takāful and its benefit as an integral part of Islamic insurance in promoting cooperation on financial conditions of the participants (Maysami & Kwon, 1999; Alani, 2012; Fakhri, 2016).

As part of evolvement of Islamic insurance, Takāful surplus is also introduced to address social problems in the society. Surpluses in Takāful can be defined as the excess of money after the premium have been used for the definite purposes. However, studies such as Ravindra Mohan Vijalapuram (2012) proposes alternative to Takāful surplus. This study aims to propose mechanism and methods on how Takāful surplus can be used to provide financial assistance to needy students across the nation. Surplus distribution is term introduced to replace the concept of profit sharing. Surplus distribution is an allocation which is provided to lesser their burden. Surplus distribution had simply overlapped the supreme holy concept of tabarru' or risk sharing, which should be a priority in Takāful. Takāful is about giving mutual protection for needy students who are desperately in needs of money as literature expounds (Amir, 2007).

Takāful surplus is regarded as an Islamic insurance explained as a Sharī'ah concept that is based on the tenet of mutual cooperation (ta'awun) and donation (tabarru') in order to solve multifarious social problems of Muslims. Indeed, Takāful surplus is known as asset minus liabilities of the Takāful risk fund. The main purpose of takāful is to help people those who are in need of assistance. It is a kind of voluntary act to aid people who is under desperate necessity. With this underlining motive of Takāful, it can be used to render financial support to the needy students in Malaysia (Sabri et al., 2008). In other words, by providing financial assistance to the needy students, it will make students' life easier. At the same time, this assistance can help students to pay attention to their studies rather than worrying about their financial problems. It is submitted that there are many students who needs assistance financially, thus Takāful surplus can be used to reduce students' financial challenges and difficulties. There is a huge potential which must be explored by Muslims to take the advantage of this opportunity.

More so, distribution of takāful surplus is essential to be done by responsible bodies that should be in charge of takāful surplus distribution. Similarly, adequate distribution of takāful surplus to the needy students is important in order to ensure that the eligible students are being assisted in order to improve their living conditions. This is so because, it is not doubtful to say that students are still facing some financial difficulties in handling their school fees and other

expenses which go beyond their capabilities in handling the expenses to survive in the campus where everything costs money.

There are a few applications which are adopted in surplus distribution. Of such applications are as follows: reserve application, refund application, enhanced benefit application and re-donation application. Each of these applications is explicated. First, reserve application refers to refraining the surplus for future needs and it would not be distributed but would be kept to enhance the Tabarru pool. However, this application only beneficial to participants on long term basis as it will be given in a cumulative amount. Whereas, this application is not practical for a needy student as the participants may be their parents who are not financially stable and unable to be long-term participants where they pay premium for years and gain the benefit in later years. The needy students are also in a desperate situation or under necessity to fulfill their necessity such as food, clothing, payment for books, fees etc. (O'Malley, 2016). Furthermore, once they are away from home for further studies, the expenses are beyond the expectation and quite higher and takāful surplus may be an alternative means to survive in such a situation. In addition, once they are in a situation where they need to stay outside the university, they need to plan their expenses well as they need to bear all the cost such as water bill, electricity bill, petrol cost etc. so, that, reserve application is not practical for needy students as they desperately need the money for survive in a campus that each and everything cost money.

Second, refund application is meant for repayment of money from the distribution of takāful surplus. This application is widely practiced by many industries. This application is divided into two namely: immediate distribution and deferred distribution. On one hand, immediate distribution is simply defined as cash-out method. This method is considered as an efficient one as the surplus is immediately distributed to the participants. For example, the needy students are in an emergency situation such as medical emergency, in where a person needs the takāful surplus to support an individual at the desperate moment. This method is easier and faster compared to other applications. On the other hand, deferred distribution is meant by the declared takāful surplus is vested in the name of participants. They can only use the surplus when the participants surrender or upon his death. Which is clearly not practical for needy students as cash-out method is considered as sensible where the needy students can immediately use the surplus based on their needs.

Third, enhanced benefit is another application which is widely practiced also in almost all the industries and considered as a reasonable application. This application is giving priority to needy people or people at risk. The main purpose of takāful is to give protection for those who are in need. Enhanced benefit is something which is also given to a needy student as this application do cover for personal accident, critical illness and life coverage up to 5% of original sum covered. For example, if the needy students involved in an accident and they need money for a surgical operation which costs more in current situation. Offering takāful surplus can be very protective and helpful during desperate moment.

Fourth, the main objective re-donation application is to protect the needy ones as takāful always give priority to the society. For example, the re-donate funds shall be distributed to the needy students where they gain benefits to survive. By offering donation, the needy students can fulfill their necessities from the gained funds as literature expounds (Vijalapuram, 2012).

In nutshell, students are exposed to the possibility of risks and disasters. It is not doubtful to posit that, needy students in Malaysia are facing many obstacles in maintaining their survival throughout their studentship lives. Thus, Takāful is an alternative in addressing these challenges through distribution of Takāful surplus to the needy students where bodies responsible are expected to play paramount roles in fulfilling basic necessities for the needy students (Saad et al., 2006). The bodies responsible for surplus Takāful are expected to address regulatory issues relating to Islamic insurance (Simon et al., 2009) in order to provide financial assistance to the needy students. The most suitable application will enhance benefits and immediate distribution as it is sensible and practical in Malaysian context (Alani, 2012). With these enhanced steps taken, families will feel that Takāful is a caring entity. This becomes a good marketing approach to attract more participants towards Takāful at the same time helping people in need especially students (Vijalapuram, 2012).

## SUGGESTIONS

The following are various suggestions in fostering Takāful surplus among the needy students in Malaysia:

1. To help the students with regards to payment of their school fees. Even though students are studying in a government school, the students are still required to pay fees. Not only that, the Takāful surplus can be used by the students to buy relevant text books. It is a fact that the textbooks are nowadays are very costly and students who are facing financial constraints cannot afford to buy all books.
2. The Takāful surplus can be used to provide for hostel/ accommodation money especially for those who must stay away from home. The money needed for accommodation nowadays is as high as the skies especially in big cities.
3. The Takāful surplus can also be used to give money for the students for their daily expenses. It could also help the students to ease the problems faced by them. Above are some of the suggestions on how the Takāful surplus can be used to help the needy students financially. Thus, there is a need to upgrade or amend the existing ways so that the real problems faced by the people, in this case the needy students are solved.
4. It is suggested that a separate body must be institutionalised to deal with the Takāful surplus where consideration will be given to needy students. Needy students across the nation shall be categorised into different classes, where selection of students whom are really in desperate need of money are identified. It is the duty of the authorities to ensure that these selected students are under necessity for the money. After they have identified the students who are in need, then they should distribute the Takāful surplus per the need of the students individually. If a student is in a dire need, then the concerned authority should distribute more money to this student rather than to a student who is not under desperate need. By following this suggestion, the students who are in real need can be identified and the Takāful surplus money can be directly given to these students in order to relieve their financial constraints.
5. Takāful fund can extend its benefits beyond just protecting the donating participants. Takāful fund can be invested in talented students who can serve the society and enhance the economy of the nation in the future and to promote overall growth of the society.

## CONCLUSION

This chapter has explored the paramount importance of Takāful surplus in solving the needy students' financial challenges. It is highlighted that many of students across the nation are

facing financial problems due to limited resources of their families and there are different government's initiatives in solving the challenges of the needy students. It is submitted Takāful premium are paid by most of the Malaysians; nonetheless, the Takāful surplus could be used to ease the burdens faced by the students. Not only that, the concept of Takāful which is tabaru'u, which also means kindness and assistance is in line with the objective of Sharī'ah. The rich can be render assistance and kindness to needy students in Malaysia. It is also submitted that to distribute the Takāful surplus efficiently whereby the role an authoritative body could not be trivialised in order to ease the distribution process of Takāful surplus. It is a way to offer a helping hand to the needy students in the society and help them build their own future. Inferably, Takāful surplus is an investment where many successful youths can be produced whom can give back to the society huge profits in fostering the socio-economic development of the country. By developing the younger generations, Malaysia is in the right path to achieve Vision 2020 because youths are the most important asset of the nation.

### ACKNOWLEDGEMENT

Authors of this Article would like to thank the Governance and Policy Design Research Lab (GPDRL) of Prince Sultan University (PSU) for their financial and academic support to conduct this research and publish it in a reputable Journal

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