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The Need for Micro or Takaful in Islamic Insurance Partnerships in the Philippines

Anwar M. Radiamoda
Minandao State University
anwar.radiamoda@msumain.edu.ph

ABSTRACT
The study evaluates the feasibility of implementing affordable micro-Takaful solutions that align with Islamic finance principles to improve financial security for vulnerable groups. Findings indicate significant demand for Micro/Takaful in the Philippines, particularly among Muslim and low-income communities who face cultural and financial barriers to accessing conventional insurance. Micro-Takaful offers a Shari'ah-compliant, cost-effective alternative that fosters financial protection and mutual support. By promoting shared responsibility, it provides ethical insurance that aligns with Islamic values and has the potential to enhance social welfare, financial inclusion, and sustainability. The research highlights the importance of partnerships between Islamic financial institutions, local communities, and government entities to expand Micro/Takaful, ultimately improving financial security for underserved populations. With a growing Muslim population, the Philippines stands to benefit from this ethical model to meet the insurance needs of low-income communities.

Keywords: *Shari'ah, Islamic Finance, and Takaful*

A. INTRODUCTION

This study explores the expansion of Takaful (Islamic insurance) in the Philippines, focusing on micro-insurance to enhance financial inclusion for low-income groups, especially those without access to traditional insurance. It aims to offer Shari'ah-compliant options to Muslims and assess the feasibility of affordable micro-Takaful for vulnerable individuals. The study also seeks to

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Occupuation: Minandao State University, Philippines
E-mail: anwar.radiamoda@msumain.edu.ph1

support policymakers in overcoming market and regulatory barriers and expanding Takaful offerings in the country.

It examines the potential benefits of micro-Takaful for marginalized groups, providing financial protection in health, accidents, or disasters, while adhering to Islamic principles. The study also considers socio-economic, cultural, and legal factors and the role of Islamic financial institutions and government policies in promoting micro-Takaful.

However, the study faces limitations, such as limited data on Takaful demand, regulatory challenges, and potential mistrust or lack of awareness. Additionally, the lack of pilot programs or real-world case studies makes it difficult to assess micro-Takaful's effectiveness and sustainability.

This study explores the role of shulh (reconciliation and mediation) in Meranaw customs, as seen by Muslim religious leaders in Lanao del Sur. While shulh is culturally important for promoting social harmony and resolving conflicts, there is limited understanding of how religious leaders interpret and apply these practices.

B. THEORITICAL

Takaful is an Islamic insurance model built on mutual cooperation, where participants contribute to a shared pool to help those facing financial difficulties. Rooted in Islamic values of ta'awun (mutual aid) and tabarru' (donation), it avoids elements forbidden in Islam, such as riba (interest), gharar (uncertainty), and maysir (gambling), as highlighted by Ahmed (2007).

According to Hassan & Lewis (2007) and Zaher & Hassan (2001), Takaful operates on principles of mutual assistance, where funds are used to aid those with covered losses. The risk is shared among participants, with collective responsibility for indemnification. Investments follow Shari'ah law, excluding haram activities, and any surplus is returned or reinvested. Takaful prioritizes solidarity and shared responsibility over profit-driven motives typical in conventional insurance.

Micro-Takaful is a Shari'ah-compliant insurance model that provides affordable coverage to low-income individuals or communities. It operates on mutual cooperation and risk-sharing, where participants contribute small premiums to a collective fund for financial assistance during hardship. This model avoids interest, uncertainty, and gambling, aligning with Islamic principles and promoting ethical insurance and social welfare. Its significance lies in offering financial protection to underserved populations, ensuring access to ethical coverage while fostering solidarity and community welfare, as highlighted by Pillai and Datoo (2020).

Qualified Member and Beneficiary

Based on Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), in Takaful (Islamic insurance), a qualified member is an individual who contributes to the Takaful pool based on mutual cooperation, following Shariah principles. To become a member, one must meet eligibility criteria, contribute to the fund as a donation (tabarru'), and agree to abide by Islamic laws, avoiding prohibited activities like interest, gambling, and uncertainty.

Beneficiaries are individuals or parties designated to receive benefits from the Takaful fund in case of a covered loss. These can include family members in Family Takaful or individuals affected by losses in General Takaful. In essence, members share the financial risk, while beneficiaries receive the benefits when a loss occurs.

Categories of Takaful

Takaful is generally classified into two primary categories, both emphasizing shared risk, Shari'ah oversight, and ethical investments, while ensuring transparency and adherence to Islamic law, as highlighted by Pillai, R., & Datoo, F. (2020)

1) **General Takaful** (Non-Life Takaful and Short-term Takaful): This category includes insurance for risks associated with property, vehicles, health, and accidents, among other non-life risks. Examples: Car insurance, home insurance, travel insurance, and health insurance.

   To ensure the effective operation of Islamic insurance (Takaful) for car, home, travel, and health insurance as well as benefit consumers, several key principles should be followed. First, ensure Shari'ah compliance by adhering to Islamic principles like avoiding interest, uncertainty, and gambling, and involving Shari'ah scholars in the product approval process. The insurance models should focus on mutual cooperation and risk-sharing, where participants contribute to a collective pool that covers claims. Takaful providers should invest funds in ethical, Shari'ah-compliant sectors and ensure clear, transparent terms to foster trust. Products should be affordable and accessible, especially through micro-Takaful options and flexible payment plans. Consumer education and awareness campaigns are essential, alongside well-trained agents to help in explaining the benefits and differences of Takaful. Effective governance and transparent claims processes will ensure accountability, and the ethical investment strategy will offer consumers peace of mind, financial protection, and the stability of their funds, supporting community cooperation (Radiamoda, A. 2024).

2) **Family Takaful** (Life Takaful and Long-term Takaful): This category covers life-related risks, such as death, disability, and other life risks, including savings and investment-related benefits. Examples: Life insurance, endowment plans, and retirement savings plans. In this category, the takaful system is often structured to include elements of both risk protection and investment.

To ensure the effective functioning of Islamic insurance (Takaful) for life insurance, endowment plans, and retirement savings, it is crucial to follow Shari'ah principles. This includes avoiding interest, uncertainty, and gambling, while promoting mutual cooperation and risk-sharing. Plans should be based on collective funds offering ethical returns and financial protection. Regular oversight by Shari'ah scholars, transparency in terms and investments in Halal assets, and affordable, accessible plans are essential. Educating consumers and maintaining strong governance will help provide long-term financial security and ethical investment growth while adhering to Islamic principles (Radiamoda, A. 2024).

Types of Takaful Models

Takaful can also be organized under different operational models, which include:

1) Mudharabah (Profit-sharing model): This is a partnership in which the takaful operator manages the fund on behalf of the participants, and the profit is shared between the participants and the operator based on a pre-agreed ratio. The operator receives a percentage of the surplus as a fee for managing the fund, while the remaining profit is distributed among participants.
2) Wakalah (Agency model): In this model, the takaful operator acts as an agent for the participants and receives a fixed fee for managing the fund. Any surplus generated is distributed among the participants, while the operator only receives the agreed-upon fee.

3) Hybrid Model: This model combines both Mudharabah and Wakalah. The operator may be entitled to a management fee (Wakalah) and also the profits share (Mudharabah).

Consequently, the hybrid Mudharabah and Wakalah model in Takaful combines profit-sharing and agency features to ensure flexibility and adherence to Islamic principles. In the Mudharabah model, the operator and participants share profits from investments made with the pooled contributions, based on an agreed ratio. The operator manages the fund without contributing capital but receives a share of the profits. In the Wakalah model, the operator is paid a fixed fee for managing the fund and services like underwriting and claims, without a profit share. The hybrid model integrates both approaches: the operator earns a fixed fee (Wakalah) for services and shares in the profits (Mudharabah) from investments. This balance promotes mutual interest alignment and transparency, ensures ethical and Shari'ah-compliant operations.

Principles of Takaful

1. Cooperation and Mutual Assistance: Participants contribute to the takaful fund to help each other in times of need, promoting a sense of community and solidarity.
2. Shared Risk: The risk is shared among all participants, with the fund being used to cover the losses of the members.
3. Shari'ah Compliance: All transactions and contracts must adhere to Islamic principles, such as the prohibition of riba (interest), gharar (uncertainty), and maysir (gambling).

The Ruling and Requisites of Takaful

Takaful is built on several key principles that ensure it aligns with Islamic values. Participants engage in mutual cooperation (Ta'awun), contributing to a shared fund that helps each other during times of financial hardship. These contributions are made as donations (Tabarru') rather than investments, focusing on mutual assistance rather than generating profit. The system operates on the concept of shared responsibility, where financial risks are collectively borne by the participants to prevent any individual from shouldering the entire burden. Takaful also ensures Shari'ah compliance by avoiding prohibited practices such as interest (riba), uncertainty (gharar), and gambling (maysir), while investments must adhere to ethical and Shari'ah-compliant industries. Any surplus generated is either reinvested or fairly distributed among the participants. Additionally, the operations of Takaful are overseen by an independent Shari'ah board, ensuring that all activities remain in compliance with Islamic law and maintain high ethical standards as explained by Hassan & Lewis (2007) and Zaher & Hassan (2001).

These principles support Takaful as a Halal insurance model based on mutual assistance, fairness, and ethical investment practices. Contributions are viewed as donations, and profits are reinvested or shared, with the focus on collective responsibility and compliance with Islamic teachings (Ahmed, 2007; Al-Suwailem, 2004).

Hence, In Takaful, charging a service fee is permissible as long as it complies with Shari'ah principles. The fee is typically for managing the Takaful fund and can be structured through models like Wakalah (agency) or Mudharabah (profit-sharing). In the Wakalah model, the operator charges a fixed fee for managing the fund, ensuring the terms are clear and free from uncertainty or exploitation. In the Mudharabah model, the operator shares profits with participants based on a pre-agreed ratio, without a fixed service fee. In both models, the fee must avoid riba (interest), gharar (uncertainty), and maysir (gambling).

Risk Management in Takaful

Takaful, an Islamic alternative to traditional insurance is based on mutual cooperation and shared responsibility. Participants contribute to a common pool to support each other in times of loss. Effective risk management in Takaful ensures financial stability, protects participants' interests, and complies with Shari'ah principles. Key components of risk management include adherence to Shari'ah law, careful underwriting, retakaful (reinsurance), and surplus management, transparency in claims, ethical investments, and maintaining liquidity to safeguard the fund's solvency. By managing these risks carefully, Takaful provides secure coverage grounded in mutual cooperation and Islamic values (Pillai & Datoo, 2020; Philippine Department of Finance, 2021).

In terms of the study, risk assessment suggests that if the research relies on existing literature and publicly available data, data collection risks are low. However, participant bias and religious sensitivities could present medium-level risks, affect the neutrality of responses. Geographic and logistical challenges, especially in rural areas, pose high-level risks, potentially delay the data collection process (Ismail, 2017).

Risk mitigation strategies for the study include data triangulation, use multiple data sources like interviews, surveys, and literature reviews to ensure reliability. Anonymous data collection can reduce bias and promote honest responses, while involving local cultural and religious experts ensures sensitivity to Islamic insurance principles. Collaborating with local authorities and organizations can help address logistical challenges, particularly in rural regions. Furthermore, staying updated on legal and regulatory changes in the Islamic insurance sector is crucial (Abdullah & Alam, 2015; Omar & Azman, 2018).

Effective risk monitoring involves regularly reviewing the study's progress and ensures data collection remains on track. Gathering feedback from participants and stakeholders helps identify concerns or misunderstandings that could affect the results, enable timely adjustments to the study (Yusoff & Salleh, 2019).

Shari'ah Advisory Board

The Shari'ah Advisory Board (SAB) plays a vital role in ensuring Takaful operations align with Islamic principles. It oversees the compliance of Takaful products, contracts, and investments with Shari'ah law, promotes ethical practices while prohibits interest, uncertainty, and gambling. The board ensures proper application of business models like Mudharabah and Wakalah and provides guidance on risk management for fairness and sustainability. Additionally, the SAB educates operators and the public on Islamic finance and resolves issues related to Shari'ah compliance. By fostering trust, upholding ethical standards, and adapting to modern financial challenges, the SAB ensures Takaful remains a legitimate, transparent, and reliable alternative to traditional insurance. Board members are required to have expertise in the Arabic, Qur'an, Sunnah, Islamic law, finance, and risk management, as well as practical experience in Islamic finance. For the board's credibility, it must maintain independence, continuous education, and effective communication. Ethical leadership and cooperation with regulators are also essential for ensuring that Takaful products meet Islamic values and are socially responsible.

C. METHODOLOGY

The research focused on key areas in the Philippines where Islamic finance was most relevant, particularly in the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM), with additional attention given to Metro Manila and other regions in Mindanao. A qualitative approach was used, involving in-depth interviews and focus group discussions with key stakeholders, such as government officials, financial regulators, and members of the Muslim community. Data was collected through semi-structured interviews and analyzed using thematic analysis to identify patterns and themes, provided detailed insights to inform future policies and practices.

D. RESULTS AND DISCUSSION

Takaful and traditional insurance both offer financial protection, but Takaful emphasizes mutual cooperation and shared responsibility, with participants contributing to a fund to help each other. Unlike traditional insurance, which involves a contract where premiums are exchanged for coverage, Takaful follows Islamic principles, treats contributions as donations and avoids interest, uncertainty, and gambling.

In terms of business models, Takaful typically operates under Mudharabah (profit-sharing agreement), Wakalah (agency), or a hybrid model, ensuring Shari'ah compliance while allowing flexibility. Key similarities between Takaful and conventional insurance include risk pooling and management, while differences arise from risk-sharing in Takaful versus risk transfer in traditional insurance, as well as Takaful's ethical compliance with Islamic law.

To ensure the success of micro/Takaful in the Philippines, partnerships with government bodies, financial institutions, Islamic scholars, NGOs, and technology providers are essential to reach underserved populations, enhance financial inclusion, and ensure the products are Shari'ah-compliant and accessible.

Establishing Takaful in the Philippines

Establishing Takaful in the Philippines involves understanding the legal, regulatory, and Islamic principles that govern its operation:

First, it is essential to familiarize oneself with the country's insurance laws and ensure compliance with Shari'ah principles, including avoiding elements like interest, uncertainty, and gambling. A Shari'ah advisory board should be formed to oversee operations, ensure adherence to Islamic guidelines. Second, the Takaful model and products must align with local needs, offer ethical and Shari'ah-compliant insurance options. Third, funding must meet regulatory requirements, and investments should be made in ethical sectors. Fourth, technology and infrastructure should support Shari'ah-compliant systems for underwriting, claims, and customer service. Fifth, effective marketing, public education, and partnerships with local institutions will build awareness, particularly within the Muslim community. Sixth, ongoing compliance checks, risk management, and staff training are vital for maintaining operations and meeting regulatory and cultural standards. Finally, collaboration with retakaful companies ensures financial stability and effective risk management.

E. CONCLUSION

Takaful is an Islamic financial system where participants contribute to a collective fund to support each other in times of loss, in line with Islamic principles that prohibit interest, uncertainty, and gambling. It includes General Takaful (for non-life risks like car, home, and health insurance) and Family Takaful (for life-related risks such as life insurance and retirement savings). Takaful operates under models like Mudharabah, Wakalah, or Hybrid. For micro-Takaful to succeed in the Philippines, partnerships with the government, financial institutions, Shari'ah-compliant advisors, and local organizations are crucial to offer affordable, ethical coverage to underserved communities. Risk management ensures stability, compliance, and transparency, fostering mutual cooperation.

To benefit consumers, Islamic insurance products must adhere to Shari'ah principles, offer affordable coverage through risk-sharing, and invest in ethical, Shari'ah-compliant assets. Clear terms, long-term security, and tailored options for various income levels, including micro-Takaful, are essential. Consumer education on the ethical benefits of Takaful and an efficient claims process further enhances trust and satisfaction.

The study on micro/Takaful partnerships in the Philippines faces risks such as data reliability, participant bias, cultural sensitivities, legal changes, and logistical challenges. To address these, it is recommended to use diverse data sources, ensure anonymity, engage local experts, stay updated on legal changes, and collaborate with local organizations. These strategies will enhance the study's reliability, cultural relevance, and legal compliance.

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