CHAPTER 13

Investing *Takaful* Funds

13.1 **Introduction**

Investment policies for *Takaful* funds strictly adhere to Shari’ah principles. They will, however, be conducted using profitable avenues. As long as Shari’ah principles are practised, Muslims do not mind if returns are marginally lower. The objective of *Takaful* funds, as with all investments, is to raise the value of the investment consistently over time. However, the rate may differ in accordance with some changeable factors, which include: (Billah 2003)

- the nature and amounts of the various *Takaful* funds;
- the local economic environment, such as the country’s GDP growth, sectorial growth and monetary policy;
- various regulatory requirements;
- availability and diversity of financial instruments in the banking system capital market.

If we see in any country, Malaysia for example, potential growth in gross domestic product, the concomitant rise in values may be beneficial. On the other hand, large numbers of people in the Muslim community may also encourage the growth of *Takaful* investment development. However, *Takaful* companies will always compete with the various insurance companies that are now increasing rapidly in num-
bers. In this chapter, we will discuss the brief layout of investment policies of Takaful funds whilst among them are the Islamic guidelines of the investment policies, the classifications of the investment policies, its products and also the avenues that enable the investment to takes place according to Shari’ah. Anyhow, there are some aspects of these classifications that are unable to be brought forward because they may be linked to other bodies, such as financial institutions and also security bodies.

13.2 **SHARI’AH GUIDELINES**

There are three rules that guide investment policies:

- investment should be free from interest;
- there should be no unethical and immoral practices; and
- the economic rewards should be profit of fee based.

As Allah (swt) has enshrined in the Qur’an:

Those who devour usury will not stand except as stands one whom the Evil One by his touch hath driven to madness. That is because they say: ‘Trade is like usury’, but Allah hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge); But those who repeat (the offence) are Companions of the Fire; they will abide therein (forever). Allah will deprive usury of all blessing but will give increase for deeds of charity; for He loveth not Creatures ungrateful and wicked. (Qur’an 2:275–276)

O ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye are indeed believers. If ye do it not, take notice of war from Allah and His Messenger: But if ye turn back, ye shall have your capital sums; deal not unjustly, and ye shall not be dealt with unjustly. If the debtor is in a difficulty, grant him time till it is easy for him to repay. But if ye remit it by way of charity, that is best for you if ye only knew. (Qur’an 2:278–280)

The investment policies of a Takaful company are determined by the Board of Directors. This Board of Directors will select the Shari’ah Committee who will determine all of the investment funds in line with Shari’ah principles.
13.3 **Classifications of Investment Policies of a *Takaful* Fund**

There is also some identification that makes out the policies that are:

- financing
- miscellaneous income
- owned and leased properties
- foreign investment
- lending and securities
- stock market (shares)
- investment accounts
- unit trusts
- financial instrument
- royalties from franchising
- rental income
- asset leading profit.

Next there are a few examples to briefly explain those avenues.

### 13.3.1 Financing

An example of a financing product is *Bai’ Bithaman Ajil*. This product uses the concept of deferred instalment sale. The underlying steps to using this concept are, firstly, the bank purchase the asset and sell it to customer at an agreed price. The customer can repay by installment within the period and by earlier consent of both parties. Allah (swt) says:

> Help ye one another in righteousness and piety, but help ye not one another in sin and rancor. (Qur’an 5:2)

### 13.3.2 Financial Instruments

There are another three categories that fall under financial instruments. The financial instruments are *Mudharabah* Bonds, IAB and securities. *Mudharabah*, as we know, is an Islamic concept that takes care of profit-sharing practice. As for *Mudharabah* Bonds, it lies under debt-financing instruments. For instance, Cagamas will issue this debt-financing to be shared with the bondholders. Then, it uses the concept of *Bai’ Bithaman*
Ajil, (deferred installment sale), for the purpose of the Islamic bank’s financing debt of the purchased asset by their customers.

### 13.3.3 Government Investment Certificates (GIC)

GIC holders have the opportunity to hold the certificate until its maturity. As a temporary measure and until new GICs are issued, Takaful operators have been allowed to invest in government-guaranteed bonds.

### 13.3.4 Investment Accounts

A Takaful company has investment accounts that operate with Islamic banks and other Islamic banking divisions of financial institutions. For example, Takaful Malaysia has investment accounts with BIMB and a special investment account with BIMB. A special investment account is on a short-term/medium-term basis. However, an investment account can be divided into short-/medium-term and medium-/long-term periods.

### 13.3.5 Unit Trust

Islamic funds are growing at a rapid rate nowadays. A Takaful company introduces its Islamic unit trust as an alternative to the conventional one. The principle of this Unit Trust is accordance with Shari’ah principles. Therefore, the choices of the portfolios of this unit trust must be in line with Shari’ah guidelines. Each stock is considered lawful if the activities do not involve any un-Islamic elements, such as Riba (interest), Gharar (uncertainty) and no trading and production of the prohibited products (Alhabshi n.d.). Unit trusts also concern the management of funds which are usually placed in interest-bearing deposits. The company will pay insurance bonuses as an incentive to unitholders in the Islamic nature.

### 13.3.6 Foreign Investment

Takaful has expanded its investment to the foreign countries as well. The company has invested to several countries, especially in the Middle East. The practices of foreign investment made by Takaful company will give a good return to the company itself for the long term.
13.4 Investment Process (Fig. 13.1)

13.4.1 How Does It Function?

• Contribution received

Firstly, participant will give payment to Takaful Malaysia, which is the operator. The contribution is paid in accordance with the agreed contract between both parties.

• Maintain participants’ database

Takaful Malaysia will ensure that the participants’ database being kept as to ease them as well as for the safety of the participants’ information.

• Maintenance of bonds/equities account
• Settlement of transaction
• Investment activities

Fig. 13.1 Investment process. Source: Author’s own
Cash collected, profits from investment and so forth will be credited to the fund to increase the net asset value (NAV).

- Calculation of NAV

\[ \text{NAV formula} = \text{Assets (MV)} - \text{Liabilities (including custodian and management fees).} \]

- Maintenance of balance sheet/profit and loss account

## 13.5 Products for Investment

Takaful Malaysia Berhad (TMB) has its newest product called Dana Saham, which comes under the umbrella of an investment-linked product (ILP). In ILP, all participants will enjoy investment returns and Takaful protection at the same time. Basically, all products by TMB will have some investment purpose. However, it will only conduct such business indirectly. The operation of the ILP will be done by Takaful Malaysia, but external fund manager will manage the investment activities. TMB can guarantee good returns for their participants because professional fund managers will be in charge on the investment task. Essentially, the fund manager will conduct extensive research and analysis, so as to gather massive financial and market situation information. There is only one fund manager at this point in time.

### 13.5.1 Types of ILP

There are three types of ILP:

- Growth Funds
- Stability Funds
- Balanced Funds.

#### 13.5.1.1 Growth Fund

The asset allocation for growth fund is up to 100% in equities. There will be balance allocation if any in bond and money market. It aims for high return that is expected to be 9% or more per annum under normal market conditions. However, the risk with this type of fund is high.
13.5.1.2 Stability Fund
For a stability fund, there is up to 35% of asset allocation in equities. There are between 65% and 100% to be allocated in bond and money market. Primary objective of this fund is to make a stable return over a long-term period (secured) which is at least 3% per annum. Besides, the goal is to avoid negative returns. The risk is low.

13.5.1.3 Balanced Fund
Between 30% and 70% of the allocation will be in equities. Likewise growth fund, it also will be allocating balance asset in bond and money market. The objective is to have medium return that is 7% to 9% p.a. it also have a goal to at least outperform KLSI levels. This type of fund will have medium risk.

13.6 Takaful Dana Saham: Investment-Based Product of Takaful Malaysia
As the motto of the product itself is that investment that is protected, we can know clearly that this product the participant’s contribution will be invested and apart from the risk coverage that is also serving to the participants. It is conducted under the principle of Wakalah, where the participant will entrust Takaful Malaysia as the agent to manage money contributed as well as the investment activities. This management cost for the agent is called Al-Ujrah. Takaful Dana Saham has two investment packages, the Istiqrar Fund and the Ittizan Fund.

13.7 Avenues for Investment of Takaful Funds
The investment of Takaful funds is divided into two terms that are short-/medium-term and also medium-/long-term. Those terms are subject to the rules as stated before (Billah 2003).

Short-/Medium-Term
- Special Investment Account with BIMB
- Investment Account with BIMB
- Governments Investment Certificates (GIG)
- Islamic Accepted Bills (under BNM regulators).
Medium-/Long-Term

- Investment Account With BIMB
- Financing Facilities
- Quoted Shares
- Unit/Property Trust
- Properties.

13.8 Examples of Islamic Investment Instruments

13.8.1 Short-Term

For short-term, the period will be less than 1 year only. The return is between 2% to 4% per annum.

Under short term, the instruments are:

- Bank Negara Negotiable Notes
- Islamic Banker Acceptance and Commercial Chapters
- Deposits (Murabahah placements, Negotiable Instruments of Deposits Certificates, MGIA)
- Wadiah deposits
- Shari’ah approved, etc.

13.8.2 Medium- to Long-Term

The return for this type of instrument is 4% or higher. Listed below are samples of the instruments:

- Government Investment Instrument
- Cagamas Sanadat Murabaha Bonds
- Corporate bonds (ABBA)
- Deposits (Negotiable Instruments of Deposits Certificates (NIDC), Sale and buy-back Agreements.

13.9 Functions of the Investment Department

Basically, this department is responsible for investing Takaful funds that will give profit to the Takaful company. There are various responsibilities of department of Takaful Malaysia, such as the following:
• Liaison with Fund Manager
• Manage the calculation of Net Asset Value (NAV). Fund manager will provide total Net Asset Value of the fund
• Responsible to insert the NAV per unit into the system
• Authorised personnel that approve the price
• Monitor the performance of ILPS and fund managers
• Responsible to transfer the fund from bank account maintained by Takaful Malaysia to/from bank account maintained by fund manager
• Monitor fund manager’s compliance with the Shari’ah principles and the portfolio mandate.

13.10 Future Role and Prospect of Takaful Investment

The investment of *Takaful* has its role, not only here in this world but also in the Hereafter, InsyaAllah. Rationally, this is because whatever that we contribute here, that is for the sake of our welfare, and in the path of Islam, it shall be counted as *Ibadah* and always has the reward from Allah (swt). Nowadays though, not many Muslim in Malaysia have a deeper knowledge of *Takaful* itself and the scope is always narrowed to the concept of insurance and they get confused by this conventional concept of risk coverage. However, many non-Muslims have realised the benefits of *Takaful* investment and many have also adapted to this concept instead of the conventional ones. If the concept of *Takaful* would be more widely explained, there is no doubt that the prospect will be bright. As we can see nowadays, many people, especially Muslims, are begging for helps in the news and on television to cover their medical treatment costs. This phenomenon is driven by the lack of information of this Islamic Investment concept. Therefore, as for TMB, they will broaden their business prospect to attract more Muslims as well as non-Muslims. Moreover, this investment is not only focused on life coverage (Family *Takaful*) but also on more general purposes by adding more products under these two scopes.

13.11 Conclusion

In conclusion, the investment policies of *Takaful* funds are the best way to maintain the development of *Takaful* operations. Its policy is in line with Shari’ah that emphasise many aspects, such as: security part of its returns,
the certainties of its process, plus it also eliminates all kind of forbidden
un-Islamic elements, as well as reducing risk while throughout the invest-
ment practice. A Takaful company can improve the long-term values of its
asset and products under these policies as well. Moreover, the return in the
investment of Takaful fund is competitive in comparison with other con-
ventional insurance companies. As far as Islamic ways of investment are
concerned, we can ensure the security of our investment returns because
Islam clearly stresses virtue in all dealings in our life. In Takaful, for exam-
ple, the participant can claim some portion of their money back if it is
unclaimed after a certain period—unlike in conventional practice. Besides,
Takaful Malaysia for example points towards the wellbeing of Muslim in
its operation. This is practiced under the concept of mutual cooperation
among each other. There are Qur’anic verses and Hadith which put this
fact in a nutshell.

The attitude of the believer and feeling of brotherhood to one another is
like that of the single body. When one member of the body is hurt, it will
have an effect on the whole body. (Sahih al-Bukhary and Muslim)

One is not judged as righteous until he cares for his brother as much as he
cares for himself. (Sahih al-Bukhary)

It is not righteousness that you turn your faces towards east or west but
righteousness is whoever believes in God and the Last Day and the angels
and the Book and the messengers; and spending out of his wealth for His
love towards kin, and orphans and the poor and the wayfarer and those who
ask and the freeing of slaves and those in debt; to be steadfast in prayer and
practice regular charity; to fulfil the contracts, which you have made; and to
be firm and patient in pain or suffering and adversity and throughout all
periods of panic. Such are the people of the truth, the God-fearing.
(Qur’an 2:177)

The newly introduced product of Takaful Malaysia (TMB) encom-
passes any investment in one’s life. Not many Muslims been exposed to
this kind of future planning. They maybe get confused about the Islamic
type of insurance (Takaful) because insurance (conventional approach) is
the one that has precedence, especially in Malaysia. So, we would like to
recommend that Takaful company will step forward to attract more in the
Muslim community to register for their own Takaful policy. They should
also be properly informed about the concept of Tabarru’, which is applied
in the procedures as to ensure their understanding in the concept and
make them realise that they may help themselves and others too.
REFERENCES


Sahih al-Bukhary and Muslim.

Sahih al-Bukhary.