

MICRO TAKAFUL PROGRAMS FOR THE POOR: THE MALAYSIAN EXPERIENCE

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Article history

Received date : 8-10-2022
Revised date : 9-10-2022
Accepted date : 22-11-2022
Published date : 14-12-2022

To cite this document:

Rapi, M. Z. H., Salaudeen, A. O., Muhammad Rawi Ravi, M. I., Wongsangiam, R., & Redzuan, N. H. (2022). Micro Takaful Programs For The Poor: The Malaysian Experience. *International Journal of Accounting, Finance and Business (IJAFB)*, 7(45), 65 - 81.

Abstract: *Microtakaful is a specialised financial product that serves the financial needs of society's poor and vulnerable segments. The presence of the COVID-19 pandemic has resulted in a massive impact on all sectors of society, especially the B40 group. Therefore, the need for financial products to support the B40 group is essential. The main objective of this paper is to explore the potential roles of the microtakaful in assisting the B40 group in Malaysia in coping with the adverse health effects of the COVID-19 pandemic. The approach used in this paper is qualitative research. The method uses a library-based method that uses existing data (secondary sources) such as journals, books, articles, and other sources related to the microtakaful and COVID-19 pandemic. The study's findings show that to control the poverty rate due to the impact of COVID-19 on the B40 group in Malaysia in the post covid era, the role of all parties is urgently needed to jointly rebuild the country's economy after the devastation of the COVID-19 pandemic. Additionally, this study finds several critical roles of microtakaful in assisting the B40 group in Malaysia, such as (i) as a poverty alleviation tool, (ii) as a mechanism to provide Shariah-based protection, and (iii) as a tool to promote financial inclusion. This study positively contributes to stakeholders by ensuring they can provide more microtakaful schemes to benefit low-income earners in the post-COVID-19 pandemic. The study also adds to the literature on the concept of micro-takaful.*

Keywords: *Microtakaful, COVID-19, B40, Islamic finance, Malaysia*

Introduction

Current economic conditions during the COVID-19 pandemic create an uncertain environment at every community level, resulting in a nerve-wracking financial concern for everyone involved. Economic instability in the country's economy, which results in situations with multiple uncertain outcomes that force low-income individuals to manage their risks and seek protection from those risks, appears to have an unwavering impact on the B40 group of people. COVID-19 poses a more significant threat to the health of low-income earners than other groups because they are more vulnerable to financial hardship. This is especially true when the environment in which they live is inadequate for maintaining a high level of hygiene.

According to the Department of Statistics Malaysia (DOSM) (2021), average household income has declined due to the pandemic, with many households from higher-income groups shifting to lower-income groups due to this decline. It is estimated that an additional 12.5 per cent of households with incomes less than RM2,500 would then exist in 2020. At the same time, 20 per cent of households from the M40 group with an income between RM 4850 and RM 10959 have moved to the B40 group. Because the percentage decrease in income for B40 and M40 households was more significant than that for the T20 household group, the income distribution for B40 decreased to 15.9%. This resulted in an increasing trend in Malaysia's B40 group of people. The same risks, for example, death, illness or injury, property loss, and natural disaster, as the poor face the non-poor; however, the non-poor have access to formal insurance schemes and thus have a lower financial impact. However, most people living in poverty have only limited or no access to essential financial services, such as insurance, which is especially true for the elderly. Moreover, because most poor people lack access to formal insurance schemes, they must manage risk with their resources, often through informal mechanisms such as selling assets, making out-of-pocket payments, or borrowing. As a result, the poor may become even more vulnerable to risks in the future (Mohamad Hasim, 2014).

Specifically designed to protect the poor, micro insurance is a type of insurance developed to protect those generally excluded from public and private insurance schemes. When it comes to micro-insurance, it is the same as it is with traditional insurance: it is a risk-sharing mechanism in which all members of the insurance scheme pay premiums, and a pool of premiums is then used to reimburse those members of the scheme who suffer losses as a result of risks such as natural disasters, illness, injuries, and death. However, it is essential to note that the difference between microinsurance and traditional insurance is that microinsurance provides affordable and accessible insurance to the poor, who would otherwise be unable to obtain coverage through traditional insurance.

On the other hand, this type of conventional and microinsurance is not permitted in Islam. According to several empirical studies, such as those conducted by (Swiss Re, 2010), insurance ownership rates are meagre in countries where most of the population is Muslim. The absence of shariah-compliant insurance products is cited as one of the primary reasons for this situation. As Islamic insurance, also known as *takaful*, becomes more widely available, the demand for insurance in Muslim countries may increase due to its strict adherence to Islamic law.

Therefore, considering the significant impact of the COVID-19 pandemic on the B40 group in Malaysia and the vulnerability of the B40 group to various risks, the need for financial products to support the B40 group is essential. As a result, this study aims to examine the concept of *microtakaful* from multiple perspectives with an in-depth discussion of the current *microtakaful* scheme available in Malaysia. This research is being done to understand better the potential

ability of the microtakaful to assist the B40 group in Malaysia in coping with the adverse health effects of the COVID-19 pandemic. Additionally, this paper explores the prospects and success of microtakaful in the face of current pandemic uncertainty and examines how an Islamic product can genuinely help and improve the situation the majority of Malaysia's B40 population is currently experiencing.

The approach used in this paper is qualitative research in nature. The method uses a library-based method that uses existing data (secondary sources) such as journals, books, articles, and other sources related to the microtakaful and COVID-19 pandemic. These secondary sources are collected and summarised to increase the overall effectiveness of the research. Furthermore, the official websites obtain recent information on the COVID-19 pandemic.

Literature Review

Concept of Takaful and Microtakaful

Takaful is derived from the Arabic word "kafala," which signifies mutual guarantee. According to Section 3 of the Islamic Financial Services Act, 2013, takaful is based on mutual assistance, in which the takaful participant agrees to contribute to a fund that offers financial advantages to the takaful participant or equivalent beneficiaries in the event of a specified incident (Ahmad & Lukman, 2017).

The term "micro" refers to something that is "fine" or "tiny". Takaful combined with micro is defined as a takaful product explicitly designed to give financial protection to low-income households (Yusoff, Roslan, & Arifin, 2020). Micro Takaful is a viable solution that enables the impoverished to possess a takaful policy. It is a Syariah-compliant protection plan designed exclusively for the unfortunate segment of the population, namely the poor, at a low price (Yusoff, Roslan, & Arifin, 2020).

Microtakaful or Islamic microinsurance is a type of takaful product designed to respond to the financial needs of low-income households to cope with significant expenses or as a temporary or partial relief for financial difficulties. It is similar to microinsurance but differs from takaful in product features. It is simple, easy to understand, affordable for the target group, and readily accessible. Unlike takaful, micro takaful covers low-risk events and is developed to serve people at the bottom of the income and social pyramid (Ishak, 2020). Microtakaful also has great potential to explore hidden markets, including a large low-income and lower-middle-income segment characteristic of most Muslim countries. In addition, the purpose of establishing micro takaful is to accomplish numerous objectives. It aims to relieve poverty and assist low-income groups in obtaining takaful security against financial risks and future life protection for their members (Bank Negara Malaysia 2016).

Impact of the COVID-19 Pandemic on the Malaysian Economy –

The Novel Coronavirus (Covid-19) acute respiratory epidemic crisis that began in December 2019 in Wuhan, China, has spread to over 200 nations worldwide, including Asia, Europe, America, and Australia. The World Health Organization has classified this outbreak as a pandemic due to the rising human-to-human transmission that resulted in over 200,000 deaths three months after the outbreak began (World Health Organization, 2020). Indeed, when compared to other coronavirus outbreaks such as MERS-CoV, SARS-CoV, and Influenza, Covid-19 had the highest infection rates and mortality (Deng & Peng, 2020).

For the Covid-19 outbreak, several countries have imposed travel restrictions, social distances, and postponements of events for at least 14 days in their respective countries, including Southeast Asian countries, such as Indonesia, Malaysia, Thailand, Philippines and Singapore. In many countries, the emergency or quarantine orders for preventing the spread of coronavirus has not only led to psychological impact like depression, anxiety and stress (Ghani, 2020) but also affected economic activities such as the closure of retail premises and disruption of product delivery chains (Karabag, 2020). In Malaysia, for example, the 14-day movement control order (MCO), which started on March 18, 2020, and is currently in its fifth extension, has disrupted the operation of several vital sectors, including the food and beverages, agriculture, retails, transport and construction, and tourism sectors (Saari, 2020; Department of Statistics Malaysia, 2020).

The impact of the Covid-19 pandemic on the global socio-economy can be acute. Therefore, recovery must be essential to survive in a new everyday living. However, little is known about the challenges and the process in which small enterprises respond during and after the crisis. This paper suggests that micro-enterprises should be a central focus for crisis management, as the sector is the most important small and medium enterprise (SME) in the Malaysian economy. Micro-enterprise constitutes almost two-thirds of the SMEs in Malaysia, with less than five workers and an annual sales turnover of less than RM300,000 ((SME Corporation Malaysia, 2019). Moreover, it is contended in many previous studies that micro-enterprises in less developed areas are exposed to more significant challenges than enterprises in urban and developed areas due to their remoteness, especially in terms of infrastructure constraints, labour availability and limited financial reserves (Siemens, 2012; North & Smallbone, 2007).

According to (Fabeil, Pazim, & Langgat, 2020), most small businesses in rural areas cannot adopt this alternative strategy due to the constraints of business infrastructure support. In Sabah, the Ministry of Agriculture and Food Industry (MAFI) has assured proper support and assistance to SME entrepreneurs, including the agri-based and food-based sectors (Utusan Borneo, 2020). The MAFI recommendations include enabling the farmers' market to function, coordinating as a collection centre for farm products by the Federal Agricultural Marketing Authority (FAMA), and ensuring logistic flexibility during the MCO to ease the supply chain for perishable products from end-of-businesses to end-users. Thus, this study aims to investigate the feasibility of micro-takaful products and measures to reduce the effect of Covid-19 and MCO effect on low-income households (B40).

B40 Group in Malaysia

B40 is a term that refers to the bottom 40% of Malaysian household income. They have a monthly income of less than RM3,855. The COVID-19 pandemic has pushed many Malaysians into lower-income groups due to income loss and job loss. This circumstance directly impacts the livelihoods of Malaysia's B40 communities. The B40 group comprises households with an annual family income of less than RM3,855 in 2019 (Ishak, 2020). B40 is also called B1, B2, B3, and B4; this classification enables more targeted planning, tracking, and services to reduce household income disparities. (DOSM, 2021). Additionally, the B40 have low wealth and non-financial asset ownership, making them sensitive to economic shocks and highly reliant on government aid to improve their condition (UNDP, 2020).

According to the Department of Statistics Malaysia (2021), nearly half of self-employed Malaysians have been out of work since the Movement Control Order (MCO) was established in response to the Covid-19 outbreak. Meanwhile, 23.8 per cent of them lost their businesses,

28.3 per cent saw a fall in revenue, over 95 per cent saw a decline in income, and 35.5 per cent had a decrease of more than 90 per cent. Thus, this study aims to evaluate coping methods used by B40 households in Malaysia during Movement Control Orders (MCOs) imposed in response to the Covid-19 Pandemic. Numerous studies have demonstrated that during Movement Control Orders (MCOs) or lockdowns, the socioeconomic status of low-income people is impacted. For example, according to Subki et al. (2020), 25% of women in Selangor, Malaysia suffered a partial loss of income due to their work contracts being terminated, their firms being forced to close, or being placed on unpaid leave. Additionally, 43% of women reported experiencing a loss of household income due to MCO.

Selected Microtakaful Products in Malaysia

In numerous countries, including Indonesia, Lebanon, Sri Lanka, and Bangladesh, microtakaful has been introduced (Ilahi Mohd Sabri, Abdul Rahim Nik Abdul Ghani, & Alisa Ahmad, 2021). In addition, numerous takaful products have been implemented in Malaysia to assist low-income individuals, including MySalam, Tenang Protection, and several of the models described in Table 1 below.

Table 1: Selected Microtakaful Products in Malaysia

MicroTakaful Scheme	Sponsor	Beneficiaries	Price	Characteristics
1. Tenang Protection	Bank Negara Malaysia (BNM)	Bank Negara announced the Tenang Protection product on November 24 2017, to broaden the scope or role of insurance or takaful in assisting the B40 group (Ilahi Mohd Sabri et al., 2021)	Bank Negara has established a maximum monthly premium rate between RM15 – RM50	Monthly contributions or payments are very affordable, with the amount set by the customer's intended contribution or ability to pay when acquiring insurance or takaful protection. This would make owning a protection package quite affordable for the customer. However, setting the premium rate needs a thorough evaluation of various factors, including income, employment, the number of household members, emergency savings, and the social security system.
2. MySalam	Malaysian Government	MySalam is intended for eligible persons to receive the government's Sustenance	A fee of between RM50 and RM700 is charged to cover the cost	According to the MySalam portal, MySalam is a free takaful policy available to anyone receiving the Basic Subsistence

		Allowance (BSH) and is between the ages of 18 and 55. (MySalam Official Portal)	of treatment in government hospitals or other institutions designated by the government.	Allowance (BSH) and suffering from one of the 36 critical conditions specified. Among the aid granted is a monetary payment of RM8000 if a person is certified to have one of the Ministry of Health's 36 serious ailments.
3.Asnaf Takaful Scheme	Federal Territory Islamic Religious Council	This scheme is intended for members of the asnaf community who receive monthly support from the Islamic Religious Council of the Federal Territories	Contribution as low as RM100	This scheme is intended for members of the asnaf community who receive monthly support from the Islamic Religious Council of the Federal Territories. The purpose of this scheme is to ease the financial burden on asnaf who have suffered a catastrophe, such as an accident or death. The portal does not make it obvious how many or what types of benefits are available.
4. FWD Kasih	Syarikat FWD Takaful Berhad	Low income households	This product provides a protection plan that is affordable and appropriate, which is as low as RM 2.03 a month for women and RM 2.54 a month for men	Among the benefits provided are death benefits, permanent and overall disability, funeral expenses, badal Haji for Muslims, welfare donations to non-Muslims and death caused by accident (FWD Takaful Official Portal, 2021).
5. Prisma Etiqa	Takaful Etiqa Keluarga Berhad	This product offers protection for family takaful	This product offers protection for family takaful with payments as low as RM50 a month.	Among the benefits offered are protection in the case of death and overall or permanent disability (Takaful Prisma, 2021; Mustafa et al., 2019).

Finding And Discussion

Micro-Takaful Schemes in Malaysia

Malaysia is one of the countries that applied the dual banking system where the conventional financial system operates in parallel with the shariah financial system; this includes the Insurance and Takaful institutions. The dual banking system provides Malaysian customers with various alternative financial products and services, allowing them to purchase the products and services that best suit their needs (Central Bank of Malaysia, 2005). With various financial products available in the market, the insurance and takaful industry is one of the main contributors to Malaysia's financial services industry and contributes to the country's economic development (Ishak, 2020).

From its first inception in the 18th century for conventional insurance and in the early 1980s for takaful, Malaysia's Insurance and Takaful industry has experienced rapid growth and transformation. Especially for the takaful industry, according to the BNM Report (2004), the Takaful business has evolved from a minor player with restricted primary products to a sustainable industry that is now fully integrated into the financial system. This achievement is none other than the collaboration of Bank Negara Malaysia and the takaful operators to create a competitive, robust, and efficient takaful industry.

According to the Takaful Annual Report (2020), the Takaful industry grows every year. The new business total hit RM461.7 billion in the family takaful business, increasing 46.2% from 2015. Besides, the new business total for general takaful hit a new high of RM3.46 in 2020, up 66.5 per cent from 2015. In addition, the penetration of the takaful industry in 2020 increased by 16.9% from 15.9% in the previous year. This growth is expected to grow in the next few years.

However, despite the rapid development of Malaysia's insurance and takaful industry, some issues are mainly related to the availability of products and services for the medium-low-income society. According to Ahmed (2016), Bakhtiari (2013), Ahmed (2016); Hasim (2014); Rom & Rahman (2012), most of the medium-low income groups are excluded from takaful products. Rom & Rahman (2012) further mentioned that most poor have no access to essential financial services (such as savings, credit, takaful, remittance, e.t.c.) due to the inability of the poor and the high price of the product and services. In other words, today's takaful products and services are exclusive to those with the proper financial ability. BNM and Takaful operators use strategies to promote takaful products and services to all segments of society, especially for the poor with financial limitations, by providing suitable and affordable products and services that meet their needs. Several programs and initiatives for the poor to meet their demand for financial products are microtakaful.

Microtakaful is one of the best initiatives created for the lower society (Ahmed, 2016; Bakhtiari, 2013; Abdullah, 2021; Mohamad Hasim, 2014; Rom & Rahman, 2012). Mohamad Hasim (2014) stated that microtakaful is one of the best options for the poor to cover their risk since it comes at an accessible and affordable price. Besides poor people, Ahmed (2016) further stated that microtakaful for SMEs can fill the gap of microfinance regarding the need for collateral and provide adequate security to the SMEs against various risks. Abdullah (2021) & Rom & Rahman (2012) further mentioned that microtakaful is one of the tools for meeting the requirements of low-income people to provide cheaper protection to them. Moreover Abdullah (2021) stated that microtakaful is one of the essential strategies for poverty reduction, where

microtakaful instruments attempt to safeguard the poorest and most vulnerable by empowering them to discover a path out of poverty and providing them with a realistic hope of becoming financially self-sufficient.

Microtakaful Initiatives and Government Efforts

Despite the successful history of developing the takaful and insurance industries, Malaysia is still a young player in the microtakaful industry. In 2007, the birth of Malaysia's first microtakaful was reported as a success (Abdullah, 2021). Takaful Ikhlas and the Selangor Zakat Institution signed an agreement in April 2007 to establish a microtakaful plan. The microtakaful scheme is affiliated with the Farmers Welfare Federation of Malaysia. This programme will protect 100,000 Farmers Welfare Federation members from various defined risks. Farmers Welfare Federation members only have to pay a minimal premium cost of RM1.80 for immediate death expenses of RM500 under this microtakaful plan. In addition, the personal accident, death, and disability programme gives RM10,000 in capital protection.

Later in 2009, another microtakaful scheme was launched. Skim Tabarru' Koperasi is a microtakaful programme that serves all members of the cooperative (koperasi). The initiative began in March 2009 with a collaboration between Etiqa Takaful and ANGKASA (Angkatan Koperasi Kebangsaan Malaysia). Members of ANGKASA only have to pay RM5 to RM25 per year to be covered against mortality risk under this microtakaful scheme (Mokhtar, Sulaiman, & Ismail, 2012). Furthermore, the programme offers a death payment of up to RM19,000 and additional benefits such as total permanent disability, all of which are covered until the age of 80.

In September 2010, the effort came from the regulator side. Prime Minister Malaysia Dato' Sri Mohd Najib Bin Tun Abdul Razak has urged Takaful operators to design micro-takaful policies. The initiative is being done with the expectation that microtakaful products and services would be able to reach a new market, in this case, the low-income market (Rom & Rahman, 2012). Low-income and impoverished individuals, who reflect rural and urban poverty groups, are the most ignored and vulnerable in the insurance mainstream (Prime Minister's Department Putrajaya, 2010). Therefore, in 2011, the Tenth Malaysia Plan (2011-2015) was launched. The plan's mission is for everyone, without exception, to get the rights, freedom, and ability to access services and resources that will improve their well-being and for the most vulnerable to get additional support to assure their success. Accordingly, one of Malaysia's four growth principles is a needs-based concept, which aims to improve the livelihoods of the lower 40% of families (B40) and disadvantaged groups.

To support the Tenth Malaysia Plan (2011-2015), in 2011, one initiative, namely 1Malaysia Micro Protection Plan (1MMPP), was launched by insurance and Takaful operators. This program was launched with support from Bank Negara Malaysia. The program's main objective is to ensure all Malaysian are protected from various risks through insurance or takaful products at affordable prices (Abdullah, 2012). Moreover, Life insurance, general insurance, family Takaful, and general Takaful are the four choices available under this plan. In the same year, another microtakaful program was created by some takaful operators. Some programs, such as takaful coverage for Indonesian maids by Etiqa Takaful and Takaful Ikhlas, protect Indonesian maids from accident risk at a low price. Another program is Family Takaful products by Bank Rakyat and Etiqa Takaful, which provide three Takaful products at an affordable price: Takaful Murni, which offers financial benefit in the event of an accident; Takaful Didik, which protects the future of children's education, and Takaful Amanah, which protects the family.

Bantuan Rakyat 1 Malaysia (BR1M), which was renamed Bantuan Sara Hidup (BSHR) in 2018, is one of the current microtakaful initiatives in Malaysia. The BR1M/BSHR program is one of the government's attempts to help Malaysia's lower-income groups, particularly the B40 group. In addition, the program is a collaborative program underwritten by several takaful companies under Malaysia Takaful Association (MTA). There were 10 MTA member companies in 2014. There are 8 MTA Participating Member Companies under this program (MTA, 2021)¹.

Abdullah (2021) stated that a total of RM2.6 billion was provided to nearly 80 per cent of Malaysian families, or 4.2 million households, in the first year of the program's introduction. In 2012, 2.5 billion dollars was awarded to 5.7 million Malaysian households. Furthermore, by the end of 2017, the government had spent around RM26.2 billion on BR1M to cover the rising cost of living due to the increasing economic situation. Furthermore, according to MYsumber (2019), in the BSH Budget announcement for 2020, the program will include more categories of people, such as disabled people aged 18-above and more classes to reach more vulnerable groups.

Despite the success of the BR1M/BSH scheme, Abdullah (2021) stated that it will be phased out in the coming years and replaced by a new programme called Skim Khairat Kematian, or Family Bereavement Scheme. As a result, Great Eastern Takaful took up the plan in 2019, and all BSH recipients are automatically enrolled in the MySalam Takaful protection scheme. Thus, according to MySalam (2019), all BSH beneficiaries between 18 and 55 immediately enrol in free MySalam Takaful protection. Moreover, the recipient's spouse is also included in the 3.8 million Malaysia B40 target with the effective date of January 1 2019, and the claim for disbursement began on March 1 2019 (MySalam, 2019). Furthermore, MySalam offers benefits in the form of an RM8,000 cash payout and a daily hospital allowance of RM50 per day (up to 14 days) to BSH recipients diagnosed with a severe illness. Beginning January 1, 2020, the scope of protection will encompass up to 45 critical conditions, with COVID-19 infection included in the critical illness as of April 2020. Figure 1 below shows the milestone of microtakaful initiatives in Malaysia.

¹ The participating member companies are AIA Public Takaful (AIA i-Starter Plan), Prudential BSN Takaful (Lindungi), Takaful Ikhlas (AGRO Mabru-i), Etiqa Takaful (Pos Tenang), FWD Takaful (FWD Kasih), HongLeong MSIG Takaful (HLM Takaful Tenang & HLM Takaful Tenang 50), Prudential BSN Takaful (BSN Takaful Sakinah), and Great Eastern Takaful (MikroSayang).

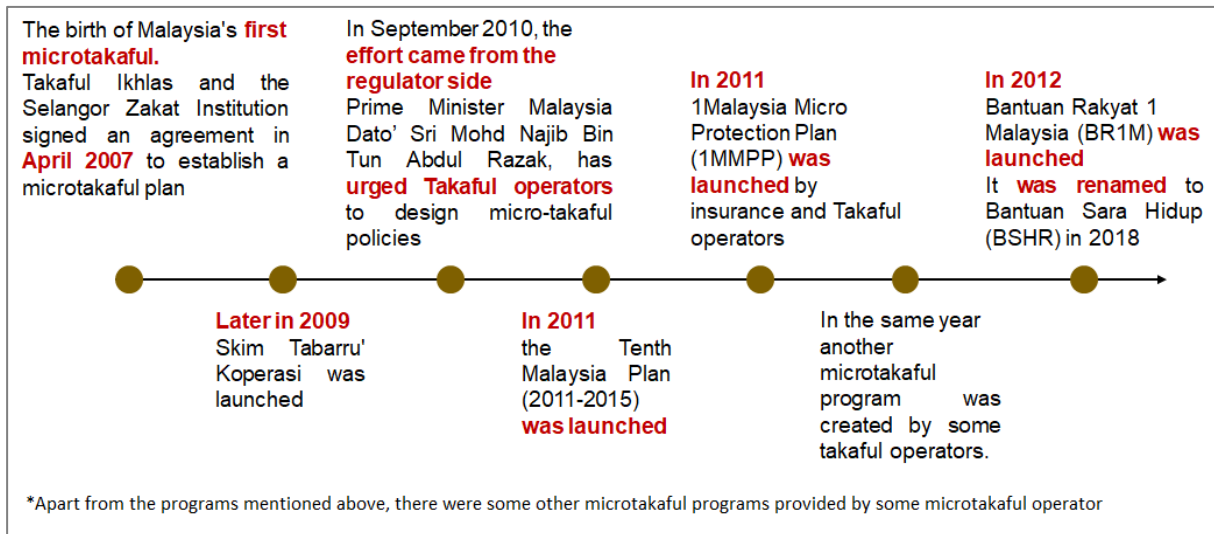


Figure 1: Milestone of Microtakaful Initiatives in Malaysia

Issues and Prospects of the Microtakaful Program

Malaysia has now emerged as a leading international hub for Islamic finance. With the world's largest Sukuk market and a top centre for Islamic equity, Islamic fund management, banking and takaful, Malaysia is home to most key international financial groups offering Islamic financial products and services (BNM, 2020). From the Takaful industry, through various microtakaful programs provided by Microtakaful operators and the support from the Bank Negara Malaysia (BNM) as a regulator, the takaful industry in Malaysia experiences significant growth every year. The effort to expand the reach of takaful products to all groups of society, especially the lower class of society, through microtakaful has succeeded in increasing the net contribution to the takaful industry. Abdullah (2021) found that the microtakaful program in Malaysia had indirectly increased the net contributions to the Takaful funds, which have grown by 9% annually. Moreover, the development of the microtakaful scheme also significantly encourages the growth of the takaful market share, where in the 1990s, the takaful market share was only 1% and reached around 15% in 2018 (Abdullah, 2021). This growth is also expected to continue to increase with the development of the takaful and microtakaful industries in the following years.

Apart from the efforts of takaful operators, the role of regulatory authorities, which is BNM, has a significant impact on the growth and strengthening of the takaful industry in Malaysia. As previously stated, in the development of microtakaful in Malaysia, various microtakaful initiatives can run smoothly with direct assistance from BNM. As a result, BNM's participation in microtakaful government programmes such as 1MMPP and the present BR1M is critical. In addition, through the BR1M project, BNM has successfully gathered nearly all Takaful operators together to cooperate on a single initiative for the benefit of the public, with the same purpose and objective in mind (Abdullah, 2021). Indeed, this is represented an attitude of mutual aid (ta'awun) in the spirit of brotherhood, which is at the heart and foundation of the Takaful idea.

In addition to direct participation, regulatory support from the government is another vital factor that has significantly influenced the success of the microtakaful program in recent years. Thus, BNM should always facilitate the insurance and takaful industry to develop microinsurance and microtakaful products, which provide the underserved with adequate financial protection

against unexpected adverse events in a cost-effective, accessible and easy-to-understand manner through a facilitative regulatory environment, strengthened delivery capacity, increased market awareness and enhanced consumer literacy.

Therefore, microtakaful programs' success in helping the poor and vulnerable groups in recent years, microtakaful has excellent potential as a tool to help the poor and vulnerable groups. Microtakaful is one of the best options for the poor to cover their risk since it comes at an accessible and affordable price (Mohamad Hasim, 2014). Besides poor people, Ahmed (2016) further stated that microtakaful for SMEs can fill the gap of microfinance regarding the need for collateral and provide adequate security to the SMEs against various risks. Other than that, the COVID-19 pandemic at the end of 2019 worsened the economic situation of many countries, including Malaysia. The emergence of the COVID-19 pandemic substantially influences household income and affects the structure of household groups. According to the Department of Statistics Malaysia (2021), in 2020, an additional 20.0 per cent of households from the M40 group with incomes ranging from RM4,850 to RM10,959 transferred to the B40 group in 2020.

The Role of Islamic Microtakaful for B40 Group During a Pandemic

With the presence of the COVID-19 outbreak that happened worldwide, to prevent the spread of COVID-19, almost all affected countries enforce social distancing measures and lockdowns by locking all access in and out of certain countries or regions. This action delivers a significant impact on the social and economic conditions of the country. Poor economic and financial outcomes, demand cuts, supply chain problems and the effect of unemployment during lockdown are the biggest challenges for the economy during a pandemic (Gisip, 2020). However, small-medium enterprises (SMEs) and people in the middle to lower class with limited financial ability will be the most vulnerable group to the impact of the COVID-19 pandemic. However, these conditions cause an increase in layoffs, unemployment, and poverty in many countries, especially for the middle-lower income class and SMEs. To come up with these issues, relying solely on government policies and assistance is not enough, but other alternatives are needed to overcome the financial issue for the SMEs and middle-lower income class.

Analysis of the turmoil effect caused by the COVID-19 pandemic should first be carried out to determine the role of Microtakaful during and after the COVID-19 pandemic. Since it was first discovered in Wuhan, China, in December 2019, the current COVID-19 pandemic has spread worldwide. It has resulted in millions of people being killed and millions more suffering. The COVID-19 pandemic has a massive effect on almost all sectors of a country's economy, starting from agriculture, manufacturing industry, education, finance industry, healthcare, hospitality, tourism and aviation, real estate and housing sector, sports industry, information technology, media, research & development, food sector, and many more (Kumar et al., 2020; Nicola et al., 2020). Some researchers (Begum et al., 2020, p. 145) argue that the pandemic will generate a long-run and most probably ongoing demolition across the society and economy of the country.

From the economic perspective, the COVID-19 pandemic immediately impacts the affected country's economy until it is on the verge of crisis. Through lockdown and social distancing measures resulted in a temporary shutdown of factories and businesses in the affected country. In this condition, many countries are in lockdown mode for an unspecified amount of time. People are working at home or either not working. The travel restrictions, cancellations of athletic activities, and bans on meetings, people are not using mass transit and are avoiding

public areas. The lockdown measures affect many people, impoverished and middle-lower income societies. The daily wage earners, for example, is the most badly impacted population due to the epidemic of COVID-19, which is expected to run out of food due to a lack of livelihood. Although certain citizens profit from government programs, many may not have bank accounts. While these schemes do not hit any household, they have to go out and face the beatings of the local police in order to get their regular supplies, as the police were ordered to obey strict laws during the lockdown.

Malaysia is one of the countries impacted by the COVID-19 pandemic, similar to other countries. The COVID-19 pandemic has considerably influenced household income, affecting the structure of household groups as a result. The COVID-19 pandemic, according to the current report of the Department of Statistics Malaysia (2021), resulted in a fall in gross household earnings. Furthermore, the epidemic increased the loss of jobs, underemployment, and unemployment rates. As a result, most households in the household distribution witnessed a drop in revenue, with many households from higher-income decile groups shifting to lower-income decile groups. Moreover, the Department of Statistics Malaysia (2021) recorded that 20.0 per cent of M40 families with incomes between RM4,850 and RM10,959 have migrated to the B40 category. Besides, the COVID-19 pandemic impacted households in the T20 group, including 12.8 per cent of this group shifting to the M40 group.

The roles of all parties are urgently needed to jointly rebuild the country's economy after the devastation of the COVID-19 pandemic To control the poverty rate as the impact of COVID-19 on the B40 group in Malaysia in the post covid era. All parties, including the government, Islamic financial institutions, non-governmental organisations (NGOs), Islamic social institutions, or even individuals, play a significant role in helping affected groups. One of the potential instruments in helping the B40 group in the post covid situation is Microtakaful. As is known, Microtakaful is one of the best initiatives created for the lower society (Ahmed, 2016). Mohamad Hasim (2014) stated that microtakaful is one of the best options for the poor to cover their risk since it comes at an accessible and affordable price. Furthermore, Abdullah (2021) stated that microtakaful is one of the essential strategies for poverty reduction. Therefore, there are several critical roles of Microtakaful as tolls in assisting the B40 group in Malaysia, as follows:

a. Microtakaful as a poverty alleviation tools

One of the global issues happening around the world, especially in Muslim countries, is the poverty issue which is still dangerous. Therefore, there is emergence for the initiative and program to reduce poverty. Microtakaful, which is a joint-guarantee initiative whereby a group of participants agree among themselves to support one another jointly for the losses arising from specified risks, under the core principles of Tabarru' (donation), Taawun (mutual assistance) and Prohibition of Riba (usury) (Aimi, 2017). Microtakaful is one of the initiatives that can act as a poverty alleviation mechanism (Rom & Rahman, 2012; Abdullah, 2021; AIMI, 2017). In addition, through several other functions and roles of microtakaful, such as providing shari'ah-based protection for the poor, as explained in the next point below, microtakaful can be an essential tool in alleviating the level of poverty in Muslim countries.

b. As a mechanism to provide Shariah-based protection

According to the Bank Negara Malaysia (2010), low-income and poor who represent the rural and urban poverty groups are the most neglected people in the insurance

mainstream and are unprotected. Ahmed (2016) mentioned that most the poor people and those who are below the poverty line are exposed to various risks such as sickness, death or disability of the family breadwinner, natural disaster, climatic changes (drought), fire or theft of assets, which represent the primary source of income, loss of job, and many more. Therefore, to achieve a fair and socially society where all people, with no exception, have the rights, freedom, and capacity to access services and resources to enhance their well being, the poor and another disadvantaged group should be given extra support to ensure such success.

In this scenario, another role of microtakaful is as a mechanism to provide shari'ah-based protection. Aimi (2017) mentioned that regular insurance and takaful products are not efficient in approaching this low-income environment. Other than that, the accessibility and the high price of regular takaful is another reason why regular takaful is not very suitable for the low market group. Therefore, microtakaful can fill the gaps and shortcomings of regular takaful companies. Therefore, Microtakaful is a suitable strategy to promote financial inclusion to all segments of society, especially for those currently excluded from financial products and services, by providing convenient and affordable products and services that meet their needs. According to Rom (2012), one of the main objectives of microtakaful is to allow people to be financially self-sufficient. Moreover, the availability of microtakaful products is essential as an additional or alternative coping strategy for the household, as some families may not be covered by existing social protection schemes or may need extra protection beyond the scope of such schemes (Rom & Rahman, 2012; Abdullah, 2021; Aimi, 2017).

c. As a tool to promote financial inclusion

Nevertheless, although the world has entered Industry 4.0 and the broader financial industry, efforts to equalise financial inclusion in all communities, especially the poor and vulnerable group, still encounter several challenges and issues that must be solved. Today's financial inclusion is still not equally dispersed across all communities. As is well known, many low and middle-income societies, particularly the poor, still lack access to financial products and services. Moreover, because of the high poverty levels in many countries, mainly Muslim countries, the penetration of financial inclusion for the poor remains relatively low. According to some studies, various factors, including poverty, affect the poor excluded from financial products and services (Ahmed, 2016; Bakhtiari, 2013; Mohamad Hasim, 2014; Rom & Rahman, 2012). Ahmed 2016 mentioned that most poor have no access to essential financial services (such as saving, credit, takaful, remittance, etc.) due to the inability of the poor and the high price of the product and services. Therefore, today's financial service is exclusive to those with the proper financial ability. Thus, from the financial inclusion perspective, financial inclusion has not been achieved with service and product access that has not been evenly distributed to all segments of society. There are still some issues that should be addressed either from the supply side (government, financial institutions, etc.) or the demand side (consumer, etc.), primarily how to provide decent products and services for those excluded.

Therefore, some initiative is needed to promote financial inclusion to all segments of society. One of the strategies to encourage financial inclusion in all parts of society, especially for those currently excluded from financial products and services, is by providing suitable and affordable products and services that meet their needs. Several

programs and initiatives made for the poor to meet their demand for a financial product are microtakaful. Microtakaful is one of the best initiatives created for the lower society (Ahmed, 2016; Bakhtiari, 2013; Mohamad Hasim, 2014; Rom & Rahman, 2012).

Challenges of Microtakaful In Malaysia

- **Low Demand for Takaful among Micro Enterprises**

According to SME Corporates Malaysia, micro-enterprises have a sales turnover of less than RM300,000 or employ less than five full-time employees (SME Corp). According to the Malaysian Department of Statistics, 78% of SMEs in Malaysia are micro-enterprises. It can be categorised into services, agriculture, and manufacturing. This shows that micro-enterprises are the foundation of SMEs that support the economic growth in Malaysia. However, based on a study done by Ismail, Othman, et al. (2013), only a minority of micro-enterprises are unaware of the emergence of Takaful products for securing business operations. Moreover, two of the respondents have no idea about takaful products.

The study was done by in-depth interviewing selected micro-entrepreneurs, who are categorised as food retailers and have been in the business for more than seven years. It is apparent that the Takaful concept of risk-sharing principles and their importance for socio-economic justice and cooperation is not widely known among micro-enterprises, and they cannot differentiate between insurance companies and takaful.

- **Literacy Index**

Another challenge faced by the micro takaful industry in Malaysia is educating and changing people's mindsets about takaful, especially micro-entrepreneurs. The study shows that "purchasing Takaful" for them is likely seen as an expenditure rather than a saving. This illustrates that Takaful operators have yet to address the misperception among micro-entrepreneurs. According to Ismail, Othman et al. (2013) low demand for takaful from micro-enterprises due to a low educational background.

- **Financial Literacy and Financial Behavior among B40 Group**

According to Hung et al., 2009 financial literacy can be defined as "knowledge of basic economic and financial concepts and the ability to use that knowledge and other financial skills to manage financial resources effectively for a lifetime of financial well-being". On the other hand, Rahman et al. (2021) defined financial literacy as the capacity to understand and examine funding options, prepare for the future, and respond adequately to situations.

Rahman et al. (2021) studied the relationship between financial literacy and financial well-being and found a positive relationship between them. As a micro-Takaful operator, educating people about money and the importance of financial literacy and behaviour is essential. An increase in knowledge about finance can affect individuals' financial behaviour. When low-income people know how to save before spending all they have, know how to manage the risks, purchase assets before liabilities, and have financial discipline, by then micro takaful operators will not be struggling walking to their door by door, but instead, they will come to them at the branches. Finally, we believe that micro takaful is a powerful tool for poverty alleviation strategies to empower people to exit poverty and retain financial ground.

- **The Trust and Security Challenges**

The lack of trust and security in financial service institutions is also one of the reasons circulating among the public. This distrust and security arise partly because they do not know the company. Therefore, they feel uncomfortable and unwilling if their hard-earned money is entered or transacted into companies they do not know.

- **The Nature of Micro Market**

Another significant challenge micro institutions face, including microtakaful in Malaysia, is that the micro-market is relatively risky and has high costs. In addition, the poor are being denied access to finance because they are considered highly risky due to the absence of collateral and no steady income. Thus, from the standpoint of the takaful operator, one of the challenges confronting Islamic microtakaful institutions in mitigating risk is not charging a high-interest premium to compensate for high risk despite the absence of physical collateral as security.

Conclusion

The Microtakaful may have been dismissed as merely a populist policy rather than a severe policy aimed at meeting the needs of the general public, the direction of which is currently uncertain in the long run, targeting to aid the underprivileged B40 groups of people in Malaysia. Nevertheless, it would significantly impact society, particularly the B40 group, if the Takaful Operators joined forces to achieve a broad scope of benefits coverage for low-income earners in Malaysia through joint participation and coordination. However, the fact remains that a collective micro-Takaful arrangement has been shown to be more effective than a single operator in terms of impact.

Case study iBR1M or any similar micro-Takaful initiatives that benefit both the people and the participating Takaful Operators is one of the most effective ways to address the public needs during and after RMCO 1, 2, and their ramifications. However, there are some glitches in the programme, which may be because it is the first of its kind. Initially, some people complained that the incentive was insufficient, and there were reports of fraud cases in which recipients received multiple handouts simultaneously. Furthermore, some believe that low-income families should receive better employment opportunities rather than receiving handouts.

Even though MySalam appears to offer superior benefits, it may not be able to survive due to the extremely high cost it imposes on a single company at a time when the current economy is struggling to get back on track and in the right direction. Moreover, COVID-19 has thrown the world back into recession, and the calamity caused by health deterioration has heightened concerns about the long-term viability of the initiatives. Moreover, having only one operator may result in an unfair level playing field in the long run, as it deprives local Takaful Operators, in particular, of the opportunity to participate in such a significant national project while also impeding their business and brand expansion to the grassroots level.

Further recommendations to increase the togetherness of the microtakaful and the policyholder in combating the impact of the pandemic is by providing financial support or forbearance to policyholders, such as in the term of premium payment grace periods. In addition, the microtakaful company may provide policyholders with various flexible premium payment arrangements. The microtakaful company can further increase its role by extending its policies' terms in response to policyholders' difficulties in renewing their policies. The research

concludes with the following recommendation by providing premium refunds or discounts in lines of business where there has been a material decline in claims.

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