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Application of t^{aa}wun (mutual assistance) in cross-subsidisation of surplus among different takaful operators: an exploratory study in Malaysia

(2024) *International Journal of Islamic and Middle Eastern Finance and Management*, 17 (6), pp. 1136-1154.

DOI: 10.1108/IMEFM-12-2023-0479

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Abstract

Purpose: This study aims to investigate the possibility of practicing cross-subsidisation of underwriting surplus among different takaful operators. It responds to the recent discussion paper published by Bank Negara Malaysia (BNM) on broader application of t^{aa}wun (mutual assistance), which seeks insights into cross-t^{aa}wun of underwriting surplus within takaful industry. **Design/methodology/approach:** A qualitative, semi-structured interview is used to gather primary data, featuring 13 one-to-one interviews with selected Shariah and operational experts in takaful. Open-ended questions are drafted according to BNM's discussion paper to guide the interview. A content analysis method is used to delve into the topic based on scholarly papers, books and regulatory guidelines. A thematic analysis is applied to explore the qualitative data. **Findings:** This study establishes the feasibility of cross-subsidisation of underwriting surplus in takaful. Given that participants are the rightful owners of the underwriting surplus, cross-t^{aa}wun is deemed permissible with participants' consent. With the view that underwriting surplus belongs to the fund due to outright transfer of contributions by participants, the regulators have discretion to permit cross-t^{aa}wun. The authorities can make any decision if it serves the public interest. Furthermore, the study provides Shariah and regulatory requirements to govern the practice of cross-t^{aa}wun in takaful. Respondents of the study advocate for policy reviews and regulatory adjustments to facilitate cross-subsidisation of takaful surplus. **Practical implications:** This study significantly contributes to the existing body of knowledge in Islamic insurance studies. It offers valuable insights for the regulators to formulate the required policies and guides takaful operators to develop products accordingly. Moreover, the study supports Shariah scholars in making informed decisions about cross-t^{aa}wun practices. **Originality/value:** This study fills a critical gap in the existing literature by being the first to examine cross-subsidisation of underwriting surplus in takaful. The proposed cross-subsidisation of underwriting surplus will enhance sustainability of takaful funds and contribute to stability of takaful industry. As a foundation, this study encourages future research to explore other relevant aspects of cross-subsidisation of underwriting surplus in takaful operation. © 2024, Emerald Publishing Limited.

Author Keywords

Cross-subsidisation; Cross-t^{aa}wun; Shariah; Takaful; Underwriting surplus

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Publisher: Emerald Publishing

ISSN: 17538394

Language of Original Document: English

Abbreviated Source Title: Int. J. Islam. Middle East. Financ. Manage.

2-s2.0-85201819991

Document Type: Article

Publication Stage: Final

Source: Scopus

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