THEORETICAL AND PRACTICAL ISSUES AND PROBLEMS IN TAKAFUL FOR CONSTRUCTION WORKS

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INTRODUCTION

• Construction – involve risks; loss and damage (e.g. fire, theft, natural disaster)
• Takaful as risks transfer tool
• Construction – CAR Takaful
• CAR Takaful 15% per annum, its yet to achieve its full potential
• Issues & problems – Theoretical & Practical
TAKAFUL

- Shariah compliance insurance – Mutual agreement/joint guarantee upon agreed event based on the concept of risk-sharing between participants in a same group.
TAKAFUL INDUSTRY IN MALAYSIA

- The *takaful* industry in Malaysia & elsewhere has been expanding at phenomenal rate
- Many Muslims & non-Muslims alike are now using *takaful* as among their risks management tool
- In the context of Malaysia, the rise is reflected by having more numbers of key players entering the market as *takaful* provider\(^1\)

\(^1\) Bank Negara Malaysia (2014)
CAR TAKAFUL

COVERAGE

Scope
- Materials & Works
- Third Party

Party
- Client
- Main contractor

Perils Covered
- As per construction contract

Sum Covered
- Contract Sum

Exclusions

Contribution Rates

Maintenance Period

Deductible
- Small Losses

Extension

Car Takaful

Scope

• Materials & Works
• Third Party

Party

• Client
• Main contractor

Perils Covered

• As per construction contract

Exclusions

Contribution Rates

Maintenance Period

Deductible

• Small Losses

Sum Covered

• Contract Sum

Extension
GROWTH: TAKAFUL & CAR TAKAFUL IN MALAYSIA

Distribution Contribution (BNM, 2015)

Increment growth yearly almost 15%

Increment growth yearly almost 20%

**Growth:**
- Takaful:
  - Increment growth yearly almost 20%
- CAR Takaful:
  - Increment growth yearly almost 15%
CAR TAKAFUL ISSUES & CHALLENGES

According to BNM, 2015; Global Takaful Insight, EYGM, 2014; Deloitte, 2014, despite the positive annual rate of growth, the penetration of CAR Takaful is yet to achieve its full potentials.

Perhaps, there are issues and challenges relating to takaful in general and CAR Takaful specifically.
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| Shariah Legitimacy | ✔                     | ✔      | ✔        | IFSA, BNM Guidelines²  
  • Issues remained (fragmentation in the interpretations of the Shariah) |
| Governance      | ✔                     | ✔      |          | BNM Guidelines³  
  • Issues remained (lacking in customer confidence) |
| Regulatory Framework | ✔                     | ✔      |          | BNM; MTA⁴  
  • Issues remained (over-regulation, adoption of conventional practice leading to inconsistencies) |
| **Practical**   |                       |        |          |                                                                             |
| Transparency & Accountability | ✔     | ✔      |          | Operators have been calling to proposed of a standard industry practice⁵ |
| Risks Management | ✔                     | ✔      |          | Standard form of contract & takaful have addressed matters related to risks, however it remains in adequate⁶ |
| Operational Models | ✔                   | ✔      |          | Choice of model (3main types of model)²,⁶  
  • Wakalah  
  • Mudharabah  
  • Hybrid |

² Deloitte (2014)  
³ Bank Negara Malaysia (2015)  
⁴ Global Takaful Insight, EYGM (2014)  
⁵ AMLA (2013)  
⁶ Jaffer, S., Farzana, Jabran, Unwin, L. (2015)
CONCLUSION

- The *takaful* and CAR *Takaful* are plagued with issues
- The industry has responded through various strategies – Issues & problems remain
- Issues & problems require urgent attention or else they may not augur well for the future of the Takaful and CAR Takaful industries
WASSALAM
THANK YOU