

CASE ARTICLE

Taking a Family *Takāful* Plan: *Takāful* Agent's Perspective

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Abstract. This article is an illustration of *takāful* distribution, depicting how a *takāful* agent makes new clients and the steps it takes to complete the whole process. Initially, a *takāful* agent visits a potential customer and collects information related to his financial worth, specific needs of *takāful* coverage and cost affordability. Then, after considering the potential customer's need and affordability, the agent selects two customized *takāful* plans to propose to the potential customer who selects one of the plans that best suits his needs. After a formal process and through several stages, the *takāful* coverage for the client is approved and starts. Multiple parties have played their role in the whole process. Hence, the article discusses the role of *takāful* company, medical laboratory, actuary, doctor, bank, income tax authorities, courier, etc.

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INTRODUCTION

Takāful Coverage-An Introduction

In everyone's life, there are always some elements of risks and the repercussions that could hit them financially as well as socially. When someone crosses a road, there is always a risk of an accident which could have a financial impact in case of injuries. In such incidents, one may get disabled or, even worse, die. Emotional loss in such cases cannot be compensated, but the insurance company can compensate its client for the financial loss. Other such events may include house on fire, theft of car, theft of valuable physical stock, etc.

Objective of the Case Article

This case article is aimed to achieve the following objectives:

- Understanding *takāful* and its types

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- Understanding the process flow of taking family *takāful* coverage
- Understanding and application of principles of *takāful* including utmost good faith and insurable interest.
- Understanding the role of marketer, customer and underwriter in creating *takāful* service.

Islamic scholars oppose the conventional insurance system due to the consideration of elements such as interest, gambling and *gharar* (absolute uncertainty in exchange contracts). Therefore, they have recommended an alternative system to conventional insurance, that is, '*Takāful*' (Farooq, Chaudhry, Alam, & Ahmad, 2010). *Takāful* is a kind of mutual risk sharing by the policyholders based on brotherhood and solidarity, therefore, in compliance with Shari'ah law (Gonulal, 2012; Zainuddin & Noh, 2013). Operationally, *Takāful* does not involve risk shifting from the policy holders to the insurers. It can be defined as a system in which members contribute to a common fund (risk fund), and whenever a contributing member would have a defined loss he/she is compensated from the common fund accordingly. The defined loss could be established as a death or disability of a contributing member, accidental loss or theft of the car, and factory on fire, etc (Malik & Ullah, 2016).

Takāful as an alternative to the insurance system working in almost all parts of the world about last four decades. In year 1979, the first *takāful* company was established in Sudan (Billah, 2007; Sherif & Hussnain, 2017). Later, in 1980's several *takāful* companies established in the Middle East. In Malaysia, *Takāful* Act was passed in the year 1984 and since then several *takāful* companies commenced their operations. Presently, more than 300 *takāful* companies operating around the world and Malaysia leads the life (family) *takāful* market (Redzuan & Aidid, 2009).

***Takāful* in Pakistan and its Models**

First general *takāful* company in Pakistan was established in 2006. General *takāful* companies cover assets like vehicles, buildings, physical stock and machinery etc. They can also be called non-life *takāful* companies. Insurance and *takāful* both are such services which customers rarely take at their own initiative. Therefore, these companies keep strong marketing teams and departments which approach potential customers and offer their services. It is believed that insurance and *takāful* are latent needs of people. An informed person (*takāful* agent) helps the potential customers realise through counseling and convincing that taking coverage is their real need in today's world where uncertainty about life, business and assets is increasing. Generally, representatives of a *takāful* company approach the potential customers either through a reference or on a random basis. The reference can be a relative, friend or an existing customer satisfied with a *takāful* company's services.

Annual business target of *Takāful* Agent

On 10th December, 2016, Mr. Irfan an Agent of a Family *takāful* company was worried about achieving business target for the year. He was lagging behind his annual target of bringing fresh contribution for the company by Rs. 300,000/- approximately. If he couldn't

achieve the target, incentives given to him had to reduce in the next year which he wouldn't be able to afford. He was sitting in office, thinking how to make new clients and bring more contribution, to achieve his target.

Mr. Irfan opened his business diary and gone through the list of his existing clients. He was looking to contact any existing satisfied client for suggesting other potential client(s). He identified few suitable existing clients and decided to approach them asking for suggesting any client for taking family *takāful* plans. He called them, but none of them provided any reference for a client instantly. Feeling disappointed, Irfan started thinking about the people around him that might be in need of a *takāful* plan.

Suddenly, a local super store owner Mr. Ali came to his mind who was a young man with two kids. Irfan used to shop at his store and had good terms with him. Irfan knew that Ali was a good business man with a sound disposable income. He also noticed that Ali used to take and bring his kids from schools himself showing his love and caring attitude towards his family. Therefore, Irfan decided to approach Ali and offer him family *takāful* plans.

Interaction of *Takāful* Agent with a Potential Customer

Convincing the customers about the need for taking *takāful* plan normally takes time, particularly in a Muslim society where people abhor interest and the conventional insurance system for religious reasons. Mr. Irfan went to Mr. Ali's shop and asked for some time for a meeting and conveyed that he wanted to share *takāful* plans for his family. Mr. Ali thought for a while and then asked him to meet in the evening.

On the given time, Mr. Irfan along with his company's profile, service brochures and his business card visited Mr. Ali. He welcomed Irfan and started questioning about *takāful*, its benefits, Shari'ah compliance, company's history, sponsors, existing clients, total amount paid by the company to the families of their deceased customers, etc. Mr. Irfan, well prepared for such questions, replied them up to the satisfaction of the client. To increase the comfort level of his new potential customer, he gave him names of other customers living in the same area who were also covered by their company (Mr. Irfan disclosed the names of only those *takāful* covered customers who had permitted him to do so).

Desired Life Coverage

When the Irfan (*takāful* agent) noted that Mr. Ali was satisfied with his company's detail, he asked him questions related to financial worth, need of a suitable coverage and affordability level, etc. For this purpose, the agent asked for the details of his monthly and yearly income, expenses, number of dependents, other sources of income, details of existing insurance or *takāful* coverage, existing liabilities like any loan taken from the bank previously and its installment. Irfan noted these details in company's "Need Assessment Form" along with the dates of birth of Mr. Ali, his wife and children. Then the agent asked him about his priorities that might be included in the *takāful* coverage. Mr. Ali only passed primary education level, therefore, he was not good in understanding the financial contracts, although, he was well in his own business area. So, he asked about the specific benefits that the company could offer to him. Irfan briefed him that a family *takāful* company takes contributions

from its member (covered client, Participant) for a decided number of years and during this period, if the client dies, company pays an agreed lump sum amount (Sum Assured) to the person designated as nominee or beneficiary by the client. If cause of death is accidental, an additional amount equal to sum assured is also payable. The agent conveyed that for all such benefits, a client had to pay a specified amount to the company called premium in insurance and contribution in *takāful*. The amount of premium or contribution depends on the age of the customer, the amount of coverage and its duration. The agent also informed that a part of the participants contributions is also earmarked for investment, which the company invests in Shari'ah compliant business and a share in profit of which is credited to investment account of the policy holders/its nominees.

Further, the client can take an annuity which is also called "Family Income Benefit" which provides continuous yearly income to be paid to the nominee by the company for defined number of years which could be consumed against the annual education expenses of one's children. If the participant survived the policy term, a handsome amount in the investment account of *takāful* plan would be payable to him. He could take the amount in full or partial, in case of partial, remaining amount would be payable in installments.

The agent informed Ali that selection of nominee was a sensitive decision and has been taken very carefully. Nomination of nominee is governed by the principle of Insurable interest which says that nominee should be a person financially dependent on the covered client and who suffers a financial loss in case the covered client dies. Normally people nominate wife, parents and children in family *takāful* plans. Mr. Ali, partially convinced with the briefing, told *takāful* agent to give him a couple of days for thinking and that he would contact him once he reached a decision. Irfan happy and hopeful with the discussion, thanked Ali for his time and listening to the details. Next morning, Ali called one of his friends, working in a bank and told him the meeting details with the *takāful* distribution agent and asked for his opinion. His friend encouraged him to take the coverage only up to the level of his affordability. Ali also went to a senior teacher of a local religious school and asked about the Shari'ah compliance of *takāful*. The teacher had recently attended an awareness seminar conducted by a *takāful* company and was well aware about the mechanism of *takāful*. He confirmed that the services offered by registered *takāful* companies in Pakistan were Shari'ah compliant and that their products could be availed.

Later on, after closing the store and reaching home, he discussed the matter with his wife Mrs. Khalida Ali and she also encouraged him to take the plan. Ali also informed his wife that he would mention her name as a nominee in the *takāful* plan so that the company would pay her as per the policy. Ali called Irfan, the *takāful* agent and conveyed his willingness to take a suitable *takāful* plan and asked him to proceed further in the matter. Irfan informed that he would develop few plans based on his needs and affordability.

Developing *Takāful* Plans

Irfan (*takāful* agent) went to his office the very next day and developed two *takāful* plans which could provide all those priorities and services needed by Mr. Ali. He called Ali for another meeting which fixed in next evening. Following is the information received from the

customer, required for developing a *takāful* plan (Table 1):-

TABLE 1
Information received from Mr. Ali for the development of *Takāful* plan

Sr. No.	Category	Information (Amounts (PKR))
1	Name of the Customer	Mr. Ali
2	National Identity card Number	1234-56789-7
3	Date of Birth	01-01-1976
4	Yearly income	3600,000/-
6	Number of dependents	Wife and two children
7	Age of Children	10 and 7 years old
8	Required Annual Coverage	9 Million
9	Yearly income for children education expenses	450,000/-
10	Nominee (beneficiary)	Mrs. Khalida Ali (W/O)

It is not an easy task to develop and customize a *takāful* plan which suits to a customer needs, remains in the affordability range and is a Shari'ah compliant. Life coverage products of insurance and *takāful* are developed by professionals called "Actuaries" who can also be called mathematicians of *takāful* or insurance. They forecast the amount of claims to be paid by the company in different intervals, the amount which a company pays to its customer or his family if the defined loss occurs. The defined losses could be death or disability of a customer or theft of a covered car etc. An actuary can work out the premium which a person has to pay for a specified coverage. They develop standard rates for different age groups based on mortality rates of their family and history of ailments. Agents also keep these rates in hard form and can also be worked through software. Underwriters can increase or decrease the rates on case to case basis in light of the risk profile of a particular client. *Takāful* companies collect contribution from the customers and invest it. A company should have sufficient amount so that it may pay all the incurred claims.

Determining the affordability level of a customer is also a technical job. After paying all the expenses and liabilities, if there is a left-over amount, then a portion of it, say 15% to 30% of his/her total savings can be considered for calculating the *takāful* coverage. It's a rule of thumb that annual contribution of a *takāful* coverage should not be more than the monthly income of a person. Mr. Irfan being an experienced *takāful* agent knew these technicalities; he picked a product, namely XYZ plan from the company's product line which could provide a handsome amount to the family members if the customer dies along with a yearly income for a specified period. Moreover, a customer receives a lump-sum or partial amount if he survives the duration of coverage. He developed the following two *takāful* plans for Mr. Ali:-

Plan I

TABLE 2
Takāful plan 1 for Mr. Ali

Sr. No	Sum Covered (The Coverage amount)	10 Million
1	Duration	20 years
2	Yearly family income 5% of the sum assured through "Family Income Benefit (FIB/Annuity)" rider	500,000/- each year up to the completion of 20 years of coverage
3	*Indexation clause	A 10% increase in sum assured each year
4	**Accidental death benefit (ADB) rider	An additional sum assured to be paid if death is accidental
5	Annual Contribution	350,000/-

*Indexation clause prevents the effect of inflation on the coverage by increasing the coverage amount (in this plan is 10 Million) @10% (which can be more or less than 10%) annually. There is also a corresponding increase in the annual contribution

** Riders are supplementary contracts within life coverage that add or supplement to the basic contract of coverage. By adding ADB rider to the basic contract, if the client dies due to an accident, then an additional sum covered (in this case 10 Million) will also be payable to the deceased family.

TABLE 3
Takāful plan 2 for Mr. Ali

Sr. No	Sum Covered (The Coverage amount)	8 Million
1	Duration	30 years
2	Yearly family income 5% of the sum assured	500,000/- each year up to the completion of 30 years of coverage
3	Indexation clause	A 10% increase in sum assured each year
4	Accidental death rider	An additional sum assured to be paid if death is accidental
5	Annual contribution	250,000/-

At the agreed time, the Irfan (*takāful* agent) met with Mr. Ali and shared and explained both plans, added that both the plans are meeting Mr. Ali's needs and are within his affordable range. To further explain, he also conveyed that if the customer dies after paying 3rd annual contribution, then the following would be the payment scheme (see Table 4).

The *takāful* agent also conveyed that the client would have to suffer a loss in case of premature termination of the contract in earlier years. Such loss occurs as in the initial years the *wakālah* fee charged by the company and paid to the policy distribution team is high and the lesser part of the contribution paid by the customer goes into the investment account. The contributions received by the company are allocated into following three areas:

A contribution towards the *wakālah* fee;

Wakālah fee is meant for meeting the operational expenses of *takāful* company that includes the following:

- Salaries and commission to the company's employees
- Office rent and taxes etc.

TABLE 4

Payment scheme in case in the policy holder dies after paying 3rd annual contribution for plan 1 and plan 2

Sr. No	Plan I	Plan II
Lump-sum amount from Investment account	400,000/-	500,000/-
Lump-sum amount from <i>waqf</i> account	9,600,000/-	7,500,000/-
The yearly income to be paid up to completion of duration of coverage	500,000 (500,000 X 17) = For 17 years, it becomes 8,500,000/-	400,000 (400,000 X 17) = For 17 years, it becomes 6800,000/-
Total amount	18,500,000/-	14,800,000/-
If death is accidental, then the addition of an amount equal to sum covered will be added	10,000,000/-	8,000,000/-
Grand Total	28,500,000/-	22,800,000/-
In case of survival, value of accumulated units will be paid	20,000,000/-	22,000,000/-

B. An amount to be placed into the *waqf* account;

An amount transferred to the *waqf* account of the Company from which risk to the policy holders is mitigated - Additional contribution of the riders goes into the *waqf* account and if the participant (client) dies, corresponding amount is payable from the *waqf* account. Since, all contribution of the riders goes into *waqf* account, therefore, no cash value of this additional amount builds.

C. An amount to be placed into the participants' investment account;

The amounts placed into the participants' investment account are used to buy units for the participant (client) and that amount is invested on *muḍārabah* basis. Unit price increases with increase in investment income. Cash value of units is paid if the client dies or survives. Cash value is calculated by multiplying number of accumulated units in the investment account of the client with the unit price on that day which can either be the date of death, completion of the contract duration or premature termination of the contract by the client. In case of death, cash value of the units and amount from the *waqf* account is paid to the deceased family. If the cash value in the investment account grows higher than the sum covered then in case of death or survival, only cash value of the units would be payable.

Closing the Deal with the Customer

Mr. Ali selected plan I and asked Mr. Irfan, the agent to proceed further. Irfan helped him in filling a proposal form which contained questions that provide information of the customer to the company. Risk of every customer which he or she brings to *takāful* fund is analyzed at least from three different angles, that are, profession of the client, his financial status and medical condition. Every *takāful* company has experts who determine whether to give coverage to a customer and if yes then what should be the appropriate contribution to be paid by the customer. These experts are called underwriters. Underwriters have the job to analyze the answers of the questions related to profession, nature of work and sources of income of the customer so that the coverage amount matches with the customer's financial status.

The application form also asks about the height and weight of the customer, any early natural death among parents, sisters and brothers, so that the risk of inherited diseases may be sorted out. It also contains questions whether the customer has any fatal disease or health problem like cancer, liver cirrhosis, blood pressure and diabetes, etc.

Takāful agent asked Mr. Ali to answer all the questions in the application form in a true and fair manner as it sets the basis of contract between the customer and the company. As indicated earlier, the customer also has to mention the name of the person as nominee. The proposal form also has a declaration which the customer has to sign which says that the company may reject the claim if any material information in the proposal is found incorrect, which can affect the decision of the company (underwriter) of issuing the coverage to the customer. One of the fundamental principle of *takāful* "Utmost Good Faith" requires the client to disclose all material information to the insurer otherwise a claim can be rejected if the covered event occurs.

Mr. Ali filled the proposal form with due care and signed it. A copy of national identity card was attached to it. Being a case with high sum covered, Mr. Irfan asked Mr. Ali to attach his tax returns of the previous year.

Process of Issuance of *Takāful* Coverage

The *Takāful* agent submitted the proposal form along with other documents to the company for analysis by the underwriter. Underwriter studied the proposal form and asked for the following information along with documentary evidence: -

1. Bank statement for the last six months;
2. Medical examination of the customer from an approved doctor of the company;
3. Complete blood report from an approved medical laboratory

The agent again met with Mr. Ali and asked for the above. Mr. Ali provided bank statement in couple of days and his medical examination and investigations were also carried out by an approved doctor and medical laboratory of the company. Cost of medical examination and tests were borne by the company. Medical report and results of blood reports were sent to the underwriter in a sealed envelope who investigated in detail and found that Mr. Ali had affordable risk level and was eligible for the coverage.

Therefore, underwriter approved the request for the coverage and asked Mr. Ali for the payment of annual contribution. Mr. Ali paid the contribution through cheque crossed

in favor of the company and handed it over to the agent. He deposited the cheque at the company's cash counter and received a provisional receipt. After five days, when the cheque was realized, an original receipt was issued which he handed over to Mr. Ali. After realization of cheque, new business department or the New Membership Department (NMD) issued policy documents and were sent directly at Mr. Ali's mailing address and the coverage commenced. After the receipt of documents, Mr. Ali had 14 days as a free look period during which he could return the coverage. During these 14 days, a client decides whether to keep the coverage or cancel it. Moreover client also checks whether the coverage is in conformity with the briefing of *takāful* agent. During this period, company returns the contribution paid in full if client decides to cancel the coverage.

After sending the documents, NMD sends the policy file containing a proposal form, other documents and coverage details to record room, where it can be accessed by the policy holder's services department, if a customer needs a service. The service can be an address change, nomination change, increase or decrease in sum covered, etc.

Suitability of the Study

This study is suitable for:

- Undergraduate and graduate students taking courses of *takāful* /researchers
- Trainees interested in understanding how *takāful* services are created and used in practice.

Further Analysis and Research Areas

1. Why Islamic scholars declare insurance prohibited? Suggested reading: Chapter 03 of the book "Introduction to *Takāful*: Theory and Practice" How *takāful* is claimed to be Shari'ah compliant?

Suggested reading: Chapter 04 of the book "Introduction to *Takāful*: Theory and Practice"

2. Why *Takāful* coverage is considered a latent need for the people. How it is converted into a real need?
3. What if an underwriter accepts request for *Takāful* coverage of people with more than usual risks. Explain with respect to shareholder fund and *Waqf* fund.
4. Why it's important that a customer answers all the questions in the proposal form in a true and fair manner.
5. Explain the principles of utmost good faith and insurable interest.
6. What is the purpose of free look period?

SUGGESTED READINGS

For developing discussion and answering questions, the readers are expected to have knowledge of the *Takāful*. Some suggested readings are:

Malik, A., & Ullah, K. (2016). *Introduction to Takāful: Theory and practice*. Peshawar, Pakistan: CEIF IMSciences

Utmost good faith pp. 16

Process of underwriting pp. 75 & 76

Family *Takāful* pp. 51-54

Supplementary benefits including FIB pp. 172

Family *Takāful* proposal form pp. 201.

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