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Takaful's Medical Products among International Students in Malaysia

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Abstract: International students enrolled in Malaysian higher education institutions (HEI) incur two financial costs including the sum of tuition fees payable to receiving institutions and their study and living costs. A third and compulsory takaful or Islamic insurance contribution was recently integrated as another additional component of educational cost. Yet, majority of international students who do not have Islamic finance and banking established in their respective countries or do not have knowledge about of takaful (Islamic insurance) can hardly understand fully the concepts, operation and the benefits of the takaful. This paper is an attempt to compliment previous work by addressing the conceptual and operational differences between takaful and conventional insurance in relation to international students. Also the paper highlights some of the benefits that can be derived from group family takaful as one of the most important Islamic health insurance cover relevant to international students.

Key words: Islamic Insurance · Takaful · Islamic Banking · Finance

INTRODUCTION

The movement of cross-border students from one destination to another seeking for knowledge has been growing rapidly among education exporting countries such as United State of America (USA), United Kingdom (UK), Ireland, Australia and New Zealand [1, 2, 3, 4, 5]. For instance, the total number of international students seeking education elsewhere other than their home countries was estimated between 1.5m in 1999, 2.7m in 2005 and 4.1m in 2010 respectively [3, 4, 6]. Many factors have contributed to this rapid development including among others the emergence of competitors from Asia and Middle east [7, 8]. Singapore, China and Malaysia were considered to be the emerging contenders from Asia [9].

The government of Malaysia under the supervision of National Higher Education Strategies Plan have initiated and regulated a developmental plan that will trigger the country to excel to the rank of six (6) largest education exporting countries of the world, with a target number of 200, 000 international student's enrolment by the year 2020 [10, 11]. Surprisingly, the country has received more than 86, 000 students in 2010 and has reached 93, 000 student enrolments from about 100 countries in 2013. It is therefore anticipated that cross-border students will contribute between RM34 billion and RM61 billion to the Malaysian gross national income by the year 2020. Many factors were proposed to explain the attractiveness of Malaysia to students including the comparative and affordable lower cost of study, abundant choice of areas of specialization, use of English language as a medium of instruction, less stringent immigration procedures and above all the pleasant and stress free environment.

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However, international students enrolled in Malaysian higher education institutions (HEI) used to incur two financial costs including the sum of tuition fees payable to receiving institutions and their study and living costs. A third and compulsory *takaful* or insurance contribution was recently integrated as another additional component of educational cost [11].Yet, majority of international students who do not have Islamic finance and banking established in their respective countries or do not have knowledge about *takaful* can hardly understand the concepts, operation and the benefits of *takaful* or Islamic insurance. Coincidentally, Wahab, Lewis and Hassan [12] argued that less attention in the scholarly literature has been given to the workings of *takaful* Islamic insurance. This paper is an attempt to compliment previous work by addressing the conceptual and operational differences between *takaful a*nd conventional insurance in relation to international students. Also the paper attempts to highlight some of the benefits that can be derived from group family *takaful* as one of the most important Islamic health insurance cover relevant to international students.

International Student and *Takaful*

(Islamic Insurance): The Organization for Economic Co-operation and Development (OECD) defined international students as, "those who are not residents of their country of study or those who received their prior education in another country [5]. In this study, an international student refers to a student who crosses artificial boundaries to other countries in pursuit of his educational career. The word "international students" should therefore not be confused with "foreign students", because the latter is identified according to once nationality [5].

In the pursuit of their academic excellence, international students travelled to different geographical locations that may not be consistent with the atmospheric conditions, religious beliefs, food, clothing and housing of their home country [9]. They arrived at their intended destinations of choice full of dreams and positive expectations [1]. On the other hand, they are directly or indirectly exposed to fear or dangers of uncertainties emanating from adaptation to the new environment. In addition, death, physical disability or mental illness may overtake them in the mid of their journey.

Although to a Muslim student, he must be a firm believer of *qadar*, which means that his destiny has already being designed and regulated by Allah [*subhanahu wa ta'ala (swt)*] [1316].In this respect, he must take heart and acknowledge the occurrence of good or bad in good faith and apply the principle of patience (*sabr*) in all his undertakings. Allah (swt) enjoins Muslims in the Holy Qur'an as follow:

> *"And certainly, We shall test you with something of fear, hunger, loss of wealth, lives and fruits, but give glad tidings to the patient. Who, when afflicted with calamity, say: "Truly, to Allah we belong and truly, to Him we shall return."* (Qur'an:2:155-156)

Even though, the above Qur'anic verse has clearly spelt out what is expected from a Muslim when afflicted with tragedies, nevertheless, it is also part of his responsibility (the *Ibadah)*to strive hard and avoid such uncertainties before their occurrence [13-16]. This implies that the concepts of protection against unwanted calamities are consistent with Islamic principles of *Shari'ah*. To substantiate our arguments, it was reported in the Holy Qur'an that Prophet Yusuf (peace be upon him (pbuh)) advice the king of Egypt to save part of the surplus grains they harvested as a protection against future economic recession. The Holy Qur'an has this to say:

> *"You will plant for seven years consecutively; and what you harvest leave in its spikes, except a little from which you will eat. Then will come after that seven difficult (years) which will consume what you saved for them, except a little from which you will store."* (Qur'an 12:47-48)

The king accepted the advice and seven years later, the wisdom behind the accumulated savings benefited the citizens of Egypt and neighboring cities. Similarly, Prophet Muhammad (pbuh) was informed by one of his companions, *Salman* *al-Farisi* to dig a ditch otherwise known as *Khandaq* around the city of Madinah to keep away the threat and danger of invasion from the *Qurash* army. The Prophet adopted the innovation and the ditch worked perfectly well in favor of the Muslim armies. In another narration, the Prophet Muhammad (pbuh) told an Arab *Bedouine* (villager) who left his camel to the will of Allah (swt):

"*Tie the camel and then leave it to the will of Allah (swt)''*

These and many uncountable examples, clearly indicate that one should not be too shy or too loose to allow devastation to wreck on one's good fortune. Therefore, taking precautionary measures against uncertainties through pooling financial resources to cushion the consequences of risks is consistent with the fundamental objectives of *Shari'ah (Maqasid al-Shari'ah)*. Chapra [17] and Kwon [18] cited al-Ghazali's five *Maqasid al-Shari'ah* in this regard as follows:

"The very objective of the Shari'ah is to promote the well-being of the people, which lies in safeguarding their faith (dîn), their self (nafs), their intellect ('aql), their posterity (nasl) and their wealth (mâl)..."

In an attempt to achieve the above objectives within the umbrella of Islamic jurisprudence, conventional insurance practices was critically examined and declared *haram*, while *takaful* products and services received a nod of approval by the Muslim jurists at a conference held in Mecca in 1976 [13]. Before this development, conventional insurance has been used to cover uncertainties in all countries of the world with a serious discomfort from the Muslim *ummah* [13, 12].

Consequently, many Muslim countries including Sudan and Malaysia look round for alternatives to conventional insurance. To this end, the government of Sudan in 1979 granted license to Islamic Insurance Company as the first pioneering *takaful* company of this modern era [13]. Five years later, *Syarikat Takaful* Malaysia was licensed by Bank Negara Malaysia to offer *Shari'ah* insurance cover to products and services of Islamic banking and the teeming Muslim populace [13]. At the same time, the government through its 700 and above private and public higher educational institutions around the country offers international students a compulsory but a wide array of choice between *takaful* and conventional insurance.

The Concept of *Takaful*: *Takaful* is an Arabic word from the verb *kafala,* which literally means assurance or responsibility [18, 13, 14, 16]. Technically, *takaful* is a mutual financial guarantee or financial assurance based on the principles of *al-Aqd* (contract) provided by a group of individuals or parties against loss, damage or risk of individual life, health or tangible assets. Under the Malaysian *Takaful* Act 1984, section 2 page 10, *Takaful* is defined as:

"*as a scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose "and takaful business as a "business of takaful whose aims and operations do not involve any element which is not approved by the Shari'ah"* ("*Takaful* Act 1984, " 2008 [19]).

Although, this definition pin-pointed one of the sharp dividing line between *takaful* and conventional insurance. Nevertheless, there are many other differences as we shall see later in the following sub-heading.

***Takaful and* Conventional Insurance: What Is the Difference?:** The fundamental differences between *takaful* and conventional insurance has been documented by several authors [18, 20, 21, 12, 16]. However, for our own purpose, we integrate below a simplified tabular representation of the differences adopted from Yusof *et al*. [16] p.45-46) with some little or minor modifications.

Table 1.0: Fundamental differences between takaful and conventional insurance

S/No	Characteristics	Insurance	*Takaful*
1.	Guide	No religious consideration-solely profit motivated	*Qur'an, Hadith, Ijma, Qiyas*, Islamic ethics
2.	Principal		
	Not based on *Shari'ah*	No element of *gharar*, *Maysir and riba*	
3.	Contract	Based on buying and selling of non-*Shariah*	*Mudharabah, Wakalah, Waqf and tabarru*
4.	Company/Operator	Guarantor	*Mudharib/Wakil* (agent)/Manager (trustee)/ *Mutawalli*
5.	Guarantee	Company/Insurer	Mutual/Joint guarantee by participants
6.	Premium/Contribution	Price in return for guarantee of cover	*Tabarru* (donation) into *takaful* fund
7.	Risk	Transfer to insurer	Mutually covered by participants
8.	Indemnity	Insurer's fund	Participant fund (*tabarru*)
9.	Operating expenses	Insurance fund (premium)	Shareholders' fund (*Mudharabah* model)/ contribution as fixed up-front charges (*Wakalah* model)
10.	Investment	No restriction except imposed for prudential reasons	Shari'ah-compliant avenues only
11.	Subject matter covered	No restriction	Only permitted by *Shari'ah* recognized as *Mal* in islam
12.	Fund	No separation/segregation of insurance fund and shareholders fund	Separation of *takaful* fund and shareholders fund
13.	*Zakat*	Not applicable	Obligatory
14.	*Shari'ah* Council	Not applicable	Obligatory
15.	Operating profit	Belong to shareholders	Shared between participants and operator based on profit-sharing principles (*al-mudharabah*)
16.	Statutory requirement	Insurance Act 1996	*Takaful* Act 1984

Source: *Yusof et al. (2011 p.45-46) with some little or minor modifications*

Group Family *Takaful*: Basically, family *takaful* is an alternative to conventional life insurance [18, 21, 16]. It provides cover in the form of financial assistance to members or participants in the event of occurrence of a certain peril. Death, physical disability or mental illnesses are typical examples of perils that may strike at any moment without adequate notice and the resulting financial hardship may be worrisome to international students who are far away from home. Therefore, subscribing to individual family *takaful* or group family *takaful* in this respect is indispensable. In our own case, a group family *takaful* is provided to students under the principle of permissible *takaful* interest to pursue their studies within a giving period of time and at a particular educational institution. In short, group family *takaful* provides cover to all students in general and to international students in particular under a single master *takaful* contract.

Features of Group Family *Takaful*: Group family *takaful* has group underwriting, free cover limit and lower *takaful* contribution characteristics as articulated by Yusof *et al*. [16] pp: 427-428). These characteristics are explained below:

Group underwriting is one of the most important features of this type of cover. It is provided to the entire group of students as a whole instead of individual student. Usually, group underwriting must have a minimum number of 10 or 20 students at a time. In addition, 75% of students must join the scheme at the beginning of the semester. Also, there must be a constant enrolment of new students into the group, while graduating students are leaving. Students must accept the cover within 30 days after they are eligible. The amount of the benefit must be the same for all students based on a certain formula or any other consideration [21].

Free cover limit has to do with international student's health cover as compulsory and therefore the *takaful* scheme must be provided to all irrespective of the state of medical condition of the student.

Lower *Takaful* Contribution involves the contribution rate as much lower than what it should be in the prevailing market situation because of the advantages of large scale production, lower marketing efforts and lower administrative costs. Therefore, the participants in this policy have the advantages of lower and flat rate because of the group nature of this *takaful* policy. Thus, the relationship between the participants and *takaful* operator; among the participants and what governs these relationships is crucial to all the stakeholders.

CONCLUSION AND RECOMMENDATIONS

The cost of insurance contribution has become one of the compulsory expenses incur by international students in Malaysia. This paper focuses on *takaful* that is Islamic insurance as one of the two alternative insurance choices for international students. Lack of customer awareness has been identified as one of the major challenges of *takaful* [22]. Thus, this paper makes a comparison between conventional insurance and *takaful* and highlighted some important aspects of the *takaful* to international students.

Takaful operation falls under the general rules of Islamic contract

One of the elements of this contract is determination of subject matter. Thus, clear understanding of the subject matter in *takaful* contract is essential to the validity of contractual relationship between the international students and the insurance agent which in most cases represent the *takaful* operator. In this regard, lack of awareness and basic information required by the international students as party in this contractual relationship can affect the validity of the contract. Arbouna (n.d.) opined that the for the contractual relationship of *takaful* to be valid must reflect various subject matters must be free from ambiguity.

This paper recommends that the various universities that enroll international students in collaboration with their respective *takaful* operators or *takaful* agents should provide basic information on the operation of the *takaful* to the international students before they engage in the contract of *takaful*. The paper further recommends for the future studies to conduct empirical studies in order to determine the level of the lack of awareness or basic information required before entering the *takaful* contract.

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