MEDICAL INTEGRATION MODEL OF FAMILY TAKAFUL FOR BLUE COLLAR

Puspa Liza Binti Ghazali¹, Mustafa Mamat², Lazim Bin Omar³, Nik Hazimi Mohammed Foziah⁴, Dede Ansyari Guci⁵, Yusuf Bin Abdullah⁶ and Noor Emmiey Shafieza Binti Sazali⁷

¹,⁴,⁵,⁷ Faculty of Economic and Management Sciences
Universiti Sultan Zainal Abidin
21300 Kuala Nerus, Terengganu, Malaysia

²Faculty of Informatics and Computing
Universiti Sultan Zainal Abidin
22200 Besut, Terengganu, Malaysia

³Faculty of Islamic Contemporary Studies
Universiti Sultan Zainal Abidin
21300 Kuala Nerus, Terengganu, Malaysia

⁶Department of Management
University of Siliwangi Tasikmalaya
West Java, Indonesia

Abstract

Everyone knows that there are various names used in the takaful or insurance business, yet people are unaware of inner working related to the calculation of premium. With rising medical cost, medical takaful

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plan or insurance plays an important role to help the society. This is important for customers to make the right selection when buying insurance or takaful products. Therefore, a new design of premium life tables for blue collar medical family integration takaful model is constructed for this group. As they do not have much income to buy the family takaful product, this new plan is created is affordable providing all required benefits. The medical integration family takaful model is of two types: Mudharabah model and Wakala model. This product also can help them in buying family takaful product. By using this product of medical family integration takaful model for blue collar workers can help the government to give a better service.

1. Introduction

The widely differing attitudes of scholars on the validity of insurance can be grouped under three broad categories taken from Siddiqi [14]:

(1) Those who see nothing wrong in the basic principles underlying modern insurance, notwithstanding ignorance and uncertainty provided it is free from riba (usury, interest) by Amin [2].

(2) Those who find an element of gambling in all kinds of insurance, coupled with interest and uncertainty.

(3) Those who approve general insurance but disapprove life-insurance as it involves gambling, uncertainty and pre-destination.

Bank Negara Malaysia (BNM) is a regulator of insurance and takaful in Malaysia. A guideline provided by BNM has stated that its aim as regulator is to improve the time-to-market for insurance companies and takaful operators to introduce new products; to promote sound risk management practices in managing and controlling product risk; and to further strengthen the duty of care owed to consumers in ensuring products developed and marketed to the needs, resources and financial capability of targeted consumer segments (Bank Negara Malaysia [3]). To manage risks effectively, risk-mitigation strategy shall be formulated to take into
consideration among others, the takaful operator’s capital position, and surplus or deficit position of the takaful funds, liquidity requirements and volatilities of asset classes. At all times, takaful operators are responsible for the interest and well-being of takaful fund. Before a new takaful or insurance product is introduced in the market, the product must be endorsed by BNM (Bank Negara Malaysia [3]). A takaful plan has been launched to blue collar workers in UAE in 2012. This plan covers risks of illness and injury. It also protects the workers if certain unforeseen circumstances occur (“takaful for blue collar workers”, 2012). As one of the takaful operators in the area, Takaful Emarat’s Sehat Plan has been created based on their in-depth market research.

2. Literature Review

Medical takaful plan is a takaful product listed under family takaful (Insuranceinfo.com [12]). The participants of this plan do not have to spend money to pay the medical bill, since the takaful operator will pay for it, if he or she is diagnosed with certain illness or are involved in an accident (Insuranceinfo.com [12]). Basically, medical takaful plan offers coverage for hospital services and professional fees, hospitalization benefits and critical illness. Certain takaful operators offer to cover up to 36 critical illnesses and the list of illnesses covered can be read in the brochure provided by takaful operators, such as HSBC Life Select Single plan [11]. Additional basic coverage is death cover and total permanent disability (TPD) cover. If a participant wants to get more benefits, he or she has to add ons any rider(s) offered under the medical takaful plan he or she chooses (Insuranceinfo.com [12]).

Under integration model, as developed by Ghazali [6], a takaful plan can have complete benefits and participants do not have to worry to add ons any rider(s). The new plan developed from integration model will have an affordable amount of monthly contribution. How the integration model works will be explained more in methodology section.
The existing model of takaful or insurance business has many disadvantages and should be changed to be more flexible model. Everybody needs a new model of Islamic insurance (Integration Model) which can cover mostly of their risks and the premium life table must give the transparency data of client quotation without elements of riba, gharar and maisir (Ghazali et al. [10]). In this method, clients proposal needs to add more riders as shown in Table 1.

### Table 1. Client proposal of medical family takaful

<table>
<thead>
<tr>
<th>Numbers</th>
<th>Items</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Monthly payment</td>
<td>RMY</td>
</tr>
<tr>
<td>2</td>
<td>Female non-smoker</td>
<td>K year old</td>
</tr>
<tr>
<td>3</td>
<td>Period term</td>
<td>N year</td>
</tr>
<tr>
<td>4</td>
<td>Interest rate</td>
<td>R per year</td>
</tr>
<tr>
<td>8</td>
<td>Death coverage</td>
<td>RM10x</td>
</tr>
<tr>
<td>9</td>
<td>Khairat</td>
<td>RM2x</td>
</tr>
<tr>
<td>10</td>
<td>Loss in effort to work/40 critical illnesses</td>
<td>RM10x</td>
</tr>
<tr>
<td>11</td>
<td>Hospital bills</td>
<td>RM5x</td>
</tr>
<tr>
<td>12</td>
<td>Family members</td>
<td>Maximum 10 members</td>
</tr>
</tbody>
</table>

From Table 1, the client proposal needs many riders such as death coverage, death benefit, Khairat, loss in effort to work or 40 critical illnesses, hospital bills and pension. After a discussion with many Muslims, the researchers realize that they need a detailed client premium life table to avoid uncertainty in their business as shown in Table 2 (Ghazali [5]). Let $Q_1$ be the year, $Q_2$ be the age, $Q_3$ be the layout payment, $Q_4$ be the tabarru account, $Q_5$ be the personal account, $Q_6$ be the surrender value, $Q_7$ be the Khairat, $Q_8$ be the loss in effort to work or 40 critical illnesses, $Q_9$ be the death coverage and $Q_{10}$ be the hospital bills (Ghazali [6]).
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Table 2. Client quotation for \( i = 1, 2, 3, \ldots, 17 \) (Mudharabah model)

<table>
<thead>
<tr>
<th>( Q_1 )</th>
<th>( Q_2 )</th>
<th>( Q_3 )</th>
<th>( Q_4 )</th>
<th>( Q_5 )</th>
<th>( Q_6 )</th>
<th>( Q_7 )</th>
<th>( Q_8 )</th>
<th>( Q_9 )</th>
<th>( Q_{10} )</th>
</tr>
</thead>
<tbody>
<tr>
<td>( n_i )</td>
<td>( k_i )</td>
<td>( 12i^y )</td>
<td>( i(12^y - w) )</td>
<td>( p_i )</td>
<td>( t_i )</td>
<td>2x</td>
<td>10x</td>
<td>10x</td>
<td>5x</td>
</tr>
</tbody>
</table>

Table 2 is used for Mudharabah model because the Wakala fee is not included in the above table.

Table 3. Client quotation for \( i = 1, 2, 3, \ldots, 17 \) (Wakala model)

<table>
<thead>
<tr>
<th>( Q_1 )</th>
<th>( Q_2 )</th>
<th>( Q_3 )</th>
<th>( Q_4 )</th>
<th>( Q_5 )</th>
<th>( Q_6 )</th>
<th>( Q_7 )</th>
<th>( Q_8 )</th>
<th>( Q_9 )</th>
<th>( Q_{10} )</th>
<th>( Q_{11} )</th>
</tr>
</thead>
<tbody>
<tr>
<td>( n_i )</td>
<td>( k_i )</td>
<td>( 12i^y )</td>
<td>( i(12^y - w) )</td>
<td>( p_i )</td>
<td>( t_i )</td>
<td>2x</td>
<td>10x</td>
<td>10x</td>
<td>5x</td>
<td></td>
</tr>
</tbody>
</table>

Table 3 is used for Wakala model because it has the Wakala fee as shown in \( Q_{11} \). From Table 2 and Table 3, the value in segment tables of \( Q_7 \) to \( Q_{11} \) is in ratio items. If the value of \( x \) is RM1000, then the value of Khairat is RM2000 (Ghazali et al. [7]).

4. Results

Partition in the medical integration family takaful model for blue collar workers

The researchers want to construct the integration model of premium life tables according to the basic models in family takaful (Mudharabah and Wakala).

4.1. Partition in integration model of premium life table for monthly payment according to the riders’ ratio

The premium table life shows the partition of the monthly payment which according to Table 4 is to define the ratio of the riders. Table 4 is to elaborate the partition of the monthly payment according to riders’ ratio. The overall of monthly payment is RM12. Therefore, the overall total is divided
into different portions. They are death coverage, hospital bills, Khairat and lost and effort to work or critical illnesses (Ghazali et al. [8]).

This new plan offers complete riders for two people in one product plan; participant and a child. According to the partition in Takaful Ikhlas quotation [16] is RM0.11 for per unit (RM1000 = 1 unit). The overall total of the portions mentioned is 25. Therefore, each partition out of RM6 month for 10 members is RM0.60. The partition for RM0.60 out of 25 is RM0.024 (Ghazali et al. [7]).

Table 4. Partition of riders’ of the tabarru account in integration model

<table>
<thead>
<tr>
<th>Tabarru account</th>
<th>$Q_7$ (Khairat) (2X)</th>
<th>$Q_8$ (loss in effort to work) or 40 critical illnesses (10X)</th>
<th>$Q_9$ (Death coverage) (10X)</th>
<th>$Q_{10}$ (Hospital allowance) (3X)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partition ratio of tabarru account (25X)</td>
<td>2X = 2(0.024) = RM0.048</td>
<td>10X = 10(0.024) = RM0.24</td>
<td>10X = 10(0.024) = RM0.24</td>
<td>3X = 3(0.024) = RM0.072</td>
</tr>
<tr>
<td>Partition of the premium payment (10 members)</td>
<td>RM0.048(10) = RM0.48</td>
<td>RM0.24(10) = RM2.40</td>
<td>RM0.24(10) = RM2.40</td>
<td>RM0.072(10) = RM0.72</td>
</tr>
</tbody>
</table>

Source: Ghazali et al. [7]

According to Am Assurance Pension Scheme quotation [1], the monthly payment is RM125 for 21 years. The participant will earn RM500 per month after retirement for the whole life. In the integration model, the monthly payment of medical takaful is RM6 and the whole family will have the benefits such as Khairat, loss in effort to work or 40 critical illnesses and medical bill. The head of the family has to pay once a year for RM72 and the family will get all the benefits. The meaning of the family members is father, mother and all the children under 18 years old.

A family with less than or 10 members has to pay RM72 per year for the premium, while the family with more than 10 members is required to pay the same RM72 but restricted benefits (Ghazali et al. [8]). The overall total of
annual premium payment in Mudharabah model can be shown in Table 5 and Wakala model in Table 6. Partition ratio is very important to know the correct distribution of the ratio of premiums paid by the participant.

**Table 5.** Partition of monthly premium payment in Mudharabah model

<table>
<thead>
<tr>
<th>Overall total of monthly premium payment</th>
<th>Partition of the riders scheme payment for family members</th>
<th>Partition of the riders scheme payment for family members in a year</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM72</td>
<td>RM6</td>
<td>RM6 × 12 = RM72</td>
</tr>
</tbody>
</table>

Source: Ghazali et al. [7].

**Table 6.** Partition of monthly premium payment in Wakala model

<table>
<thead>
<tr>
<th>Overall total of monthly premium payment</th>
<th>Partition of the riders scheme payment for family members</th>
<th>Partition of the riders scheme payment for family members in a year</th>
<th>Wakala fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM82</td>
<td>RM6</td>
<td>RM6 × 12 = RM72</td>
<td>RM10</td>
</tr>
</tbody>
</table>

Source: Ghazali et al. [7]

**5. Conclusion**

The necessity of insurance in modern life is fully appreciated. However, less-than-receptive attitude towards insurance is caused sometimes on the grounds of religion (Zainol [17]). A workable alternative is provided by takaful. It is suggested that the Malaysia model may provide a useful basis for further action by such people. The new concept of medical family integration takaful model is more versatile compared to present medical takaful. The present medical takaful products are expensive and also do not cover all family members in their plan.

**References**


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