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Micro-Takaful by Takaful Operators in Pakistan: Problems and their Solutions from the Practitioners' Perspective

Abstract

This study investigates the underlying reasons behind the limited offering of micro-takaful (insurance) products by takaful operators in Pakistan and suggests solutions to enhance the growth of micro-takaful products in the country. The study is qualitative in nature. The researchers conducted a total of twenty (20) semi-structured interviews of relevant Islamic finance practitioners (5 sales heads, 5 business heads, 5 product development heads, and 5 sales agents) working at all five takaful operators (Dawood Family Takaful Ltd., Pak-Qatar General Takaful, Pak-Qatar Family Takaful, Pak Kuwait Takaful, Takaful Pakistan Limited) operating in Pakistan. NVIVO 12 software was used for generating items, codes, word clouds and text search queries. According to the findings of this study, the issues faced by practitioners include the poor financial condition of the public, lack of sufficient funds with takaful operators, lack of cooperation among takaful operators, lack of customer awareness and interest, lack of takaful experts and diversified takaful products, absence of a culture of takaful practices, and lack of research and product development in the field of micro-takaful. Academicians should develop suitable micro-takaful products according to the needs of the public, and the regulator can require takaful operators to offer micro-takaful products.

Key Words: Challenges, Micro-Takaful, Pakistan, Solutions, Takaful Operators

Gel Classification: G2, G22

Introduction

Micro-takaful (insurance) is a tool intended to fulfil the future needs of people having low incomes by offering affordable protection (Swartz and Coetzer, 2010). It comprises a contract where the operator (insurer) is assumed as an agent of the participants (insured / policyholders) and who pays the participants (insured) a given amount against the contribution/premium paid by them in case of the occurrence of the insured risk. Micro-takaful fills the gap in microfinance since poor people have no collateral needed for obtaining finance. Micro-level insurance helps in eradicating poverty by encouraging financial institutions to finance poor people who face many risks such as illness, natural disaster, fire, loss of job etc. Accordingly, life insurance, medical insurance, agriculture insurance, and property insurance can be provided to the poor segment of the population (Ahmed 2016). Takaful operators, in spite of increased growth in family takaful (USD 1.35 billion in 2010) and general takaful products (USD 48 million), still have the ignored area called micro-takaful (Nu, et al., 2015). In Pakistan, very few micro-takaful products are offered through 60% of the population of the country lives below the poverty line (Ayaz et al., 2019).

A number of attempts were made to set up *Shari'ah* complaint microinsurance in Pakistan, but they remained unsuccessful (Kazim and Haider, 2012). Currently, only health-related micro-takaful products are offered by takaful operators in Pakistan to the employees of corporate clients, while the most significant segment of the poor population is ignored. Therefore, a study is needed to probe the root causes behind the limited offering of micro-takaful products, followed by solutions for enhancing their penetration level in the country.

Many studies have been conducted to find out the issues faced by takaful operators all over the world (Nu et al., 2015; Puad, 2017; Chaudhry and Nabeel, 2013; Rom and Rahman, 2012). However,

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peculiar problems from the perspective of the Pakistani *takaful* operators have not been investigated so far, to the best of the researchers' knowledge. Practitioners' insight is necessary to explore the underlying reasons behind the limited penetration and further enhancement of the industry (Ayaz et al., 2019).

Background

Insurance started in the Roman era (1635) where people paid premiums for covering the loss of property (Haron and Wan-Azmi, 2009). Chinese merchants mitigated the risk of loss with the help of the risk transfer technique. Using this technique, they transported their goods while distributing them in different ships (Vaughan, 1992). Insurance as a concept originated from marine insurance issued by individuals, which started in the 13th century in Italy and other European countries (Vaughan, 1992). The concept of fire insurance came from London after the 'Great Fire of London' in the 17th century (Haron and Wan-Azmi, 2009). *Takaful* is an alternative to conventional insurance, where protection is provided against disaster (Haron and Wan-Azmi, 2009). In a pre-Islamic era, tribes in Arabia paid blood money (*diyaf*), which was paid by the murderer to the family of the murdered person. This practice continued during the era of the Prophet (PBUH). *Takaful* is based on the concept of *tabarru'* (donation), where participants agree to donate a certain amount of money into a fund for providing monetary assistance to any member of the group who suffers loss. It is free from *riba* (usury), uncertainty, and gambling. In Malaysia, *takaful* is based on the *wakalah* (agency) business model, while *tabarru'* and *wakalah* both are utilized for governing *takaful* companies. Family and general *takaful* are the two types of *takaful* in Malaysia (Ismail, 2008). Many countries offer microinsurance using the partner-agent model, where the microinsurance provider becomes an agent for a recognized insurance company in order to obtain technical knowledge. Microfinance institutions play the role of agent and sell policies to their clients on behalf of the insurer in exchange for a commission. Moreover, microfinance institutions are also responsible for product examining, verifying claims, and submitting claim requests. Microinsurance can be provided by microfinance institutions, Non-Government Organizations (NGOs), healthcare providers, *zakat* institutions, and other private institutions. Life insurance has a high demand among microinsurance products, especially in developing countries, and health insurance is mostly demanded by lower-income people (Zenklusen and McCord, 2009). Microinsurance is provided for sickness, death, and property loss, and it can also be used for poverty alleviation (Cohen and Sebstad, 2005). The *takaful* industry is still lagged far behind in offering micro-*takaful* products as compared to mainstream insurance. Although many low-income groups are found in Muslim countries, the efforts in Islamic finance to provide micro-*takaful* solutions for their problems are very rare (Bhatty, 2010). According to ICMIF *Takaful* (2012), the countries offering micro-*takaful* products include Bangladesh (funeral costs), Sudan (material damage, livestock, fire and burglary, agriculture), Indonesia (credit insurance product, death insurance), and Malaysia (accidents, children's education, family protection). According to Hamid et al. (2011), micro health insurance is provided in countries such as Bangladesh (Grameen Bank offered a micro health insurance scheme in the late 1990s to protect its clients from health risks (Micro-care, 2008)), Uganda (NGO provided micro-care coverage for malaria and HIV treatments (Patel, 2004)), Lebanon (Agricultural Mutual Fund as a micro-*takaful* product for health insurance), and Sri Lanka (Amana *Takaful* Insurance provided for death and disability via NGOs, MFIs).

Problem Statement

In Pakistan, 60% of the population lives below the global poverty rate, and Islamic micro-*takaful* has the ability to play a dynamic role in alleviating poverty. Regrettably, *takaful* operators in Pakistan are reluctant to contribute to Islamic micro-*takaful*. The global *takaful* industry has witnessed impressive growth, particularly during the last five years. However, the performance of the *takaful* industry and especially micro-*takaful* still lags far behind in terms of total insurance, market penetration and share. In these circumstances, the *takaful* industry can incorporate Islamic insurance products at the micro level for catering for the target market. There is a large untapped potential market in Pakistan for the *takaful* industry. Therefore, it is significant to highlight the underlying reasons behind low

takaful penetration especially at the micro level and to enhance the offering of and the demand for micro-*takaful* products in Pakistan by suggesting improvements in the performance of the five *takaful* operators in the country.

Research Questions

- Q1:** What are the underlying reasons behind the less offering of micro-*takaful* products by *takaful* operators in Pakistan?
- Q2:** How can we increase the offering of micro-*takaful* products by these *takaful* operators?

By investigating answers to these questions, the underlying reasons behind such limited penetration of Islamic micro-*takaful* products are highlighted for practitioners, regulators and poor citizens. Different solutions are suggested to the State Bank of Pakistan, as well as *takaful* and insurance operators, to further enhance the offering of and the demand for micro-*takaful* products in the country.

Literature Review

According to [Ahmed \(2016\)](#), micro-*takaful* is a vital tool available for the protection of poor people having low income and for investing their savings in a manner to support their social security network. *Takaful* operators actually fulfil their social responsibility towards society by offering micro-*takaful*. There are many successful examples in the field of microinsurance in different countries of the world, such as the Philippines, Lebanon, Indonesia, Malaysia, Pakistan, Jordan, Morocco, India, China, South Africa, Malawi, Trinidad and Tobago, Sri Lanka, Bangladesh, Sudan, Ethiopia, and Haiti (Table 1)

Table 1. Micro-*takaful* Products in Different Countries

Types of Insurance	States
Life/Endowment	-India. Bangladesh, Sri Lanka. Nepal. Vietnam, Pakistan. Indonesia. Laos - East Africa, South Africa. West Africa -Colombia, Guatemala, Mexico, Nicaragua
Health/Critical Illness	-India, Bangladesh, Philippines, Cambodia, China -East Africa, South Africa, West Africa -Colombia. Mexico -Georgia, Russia
Crop/Weather	-India -East Africa, North Africa -Mexico, Nicaragua
Props rty/Asset/Llv/estock	-India. Nepal. Bangladesh -East Africa -Albania
Funeral	-East Africa, South Africa, West Africa -Colombia, Mexico
integrated package	India
Rural insurance schemes	India
Group Personal Accident	West Africa
Unemployment	East Africa
Flood	China

Source: ([Ahmed, 2016](#))

McGuinness and Tounytsky (2006) found that microcredit customers adopt many methods to cope with the shock of death and serious illness, which include savings, informal loans from friends, family, and/or moneylenders, MFI loans, decreasing household consumption, working extra hours and selling assets. As per the report of [World Bank \(2007\)](#) on Pakistan's safety net survey, poor people cope with economic shocks by reducing food consumption and/or by taking out their children from school for doing work in fields. [Dercon and Kirchberger \(2008\)](#) found that without insurance, poor people cope with the shock of illness or death through savings, receiving gifts from friends/relatives / neighbors, selling assets, land and/or jewellery and producing pest-resistant crops varieties.

According to [Bakhtiari \(2013\)](#), microinsurance is a means for providing sustainable development and mitigating risk experienced by low-income households. It has the potential to become popular in Middle East and North Africa regions due to their Muslim majority population. This type of insurance empowers the poor by allowing them to escape poverty and to become self-sufficient. Sustainable development is not possible without microinsurance and *takaful* since the majority of the population in Pakistan lives below the poverty line.

[Hasim \(2014\)](#) proposed two business models namely *takaful tijari* (insurance business model) and *takaful ta'awuni* (insurance model based on cooperation). According to him, *takaful* operators can take micro-*takaful* as a part of their Corporate Social Responsibility (CSR). *Zakat*, donations, *waqf*, and government subsidies can be used for paying the premium. This money can be managed by *takaful* operators but the benefit would be given to the poor people, for which purpose these institutions (in Figure 2) may donate various amounts. The regulatory framework, actuarial capability, technical proficiency in designing and developing micro-*takaful* schemes, product expansion, risk managing, claim administration, and supply channel play major roles in the success of micro-*takaful*. This conceptual framework about the working of micro-*takaful* is shown in Figure 1.

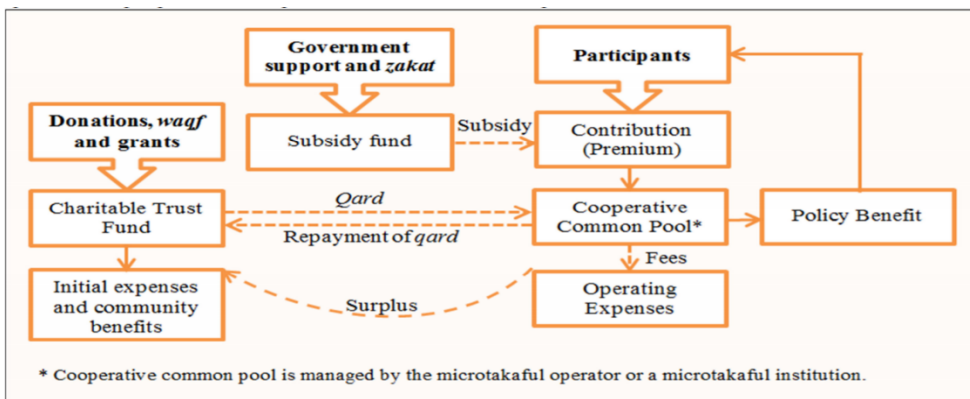


Figure 1: Proposed Conceptual Framework for Micro-*takaful* Based on the Principle of Cooperation

Nu et al. (2015) conducted a study about micro-*takaful* issues in the Malaysian context and discovered various problems such as illiquidity, claims male administration, insufficient number of participants to create a mass fund, lack of premium amount, and an ineffective marketing strategy. They suggested that *zakat* or other charitable institutions can work as administrative centres for the participants to pay their contribution and submit their claim. For keeping the cost minimum, medical practitioners can play their role in administering the patients of micro-*takaful* plans.

Rom and Rahman (2012) suggested that the government should support the people of Perak, Malaysia, in paying their micro-*takaful* premium by giving them subsidies or money from *zakat* funds because 97% of people of the area were unable to pay their premium. A study on the issues and challenges in developing micro-*takaful* in Malaysia was conducted in which Mohammad [Puad \(2017\)](#) suggested that the Islamic financial industry should work on the overall development of the community of Muslim countries via microfinance and micro-*takaful*. He further suggested that micro-*takaful* should offer small premiums so that poor person can afford and get help in case of the risks of death and illness.

Another investigative study regarding the level of awareness and understanding of small and medium enterprises about micro-*takaful* products was conducted by Salleh and Padzim in 2018. They found that there was a low level of awareness and understanding among SMEs about micro-*takaful*. The level of education of owners of SMEs showed a positive impact on the level of understanding of micro-*takaful* products.

In Malaysia, a unique study was also conducted by [Razak et al. \(2018\)](#). The findings of the study were that attitude (mental preparation to provide either positive or negative response), subjective

norms (social pressure from other members of society in shaping the attitude of a person) and perceived behavioral control (an individual's perception of the ease or difficulty involved in carrying out a certain behavior) showed a positive and vital impact on the willingness of microentrepreneurs to participate in micro-*takaful* schemes ([Razak et al., 2018](#)).

In the context of Africa and Malaysia, Bhaty and Nisar (2016) suggested that institutions like Islamic Development Bank (IDB) can become the mediator between OIC and local and global NGOs in putting together programs about micro-*takaful* in combination with microfinance. This can be advantageous for millions of poor people who are in dire need of fiscal liberation.

[Gor \(2013\)](#) found that micro-*takaful* has a huge market to cover across the globe, mainly in the African and South Asian countries. He stated that the real challenge in micro-*takaful* is designing products to cater for the needs of the poor.

[Zuliani and Rahman \(2018\)](#) conducted an interview survey of practitioners, academic experts and low-income earners selected through purposive sampling in each zone of Banda Aceh, Indonesia. They found that less public awareness, high insurance payment, inefficient role of agent and moral hazards should be overcome for the successful implementation of micro-*takaful* schemes. They suggested that proper advertisement, village head cooperation for providing micro-*takaful* products, incentives to motivate agents for promotion, incorporation of the national identification system by the government for minimizing moral hazards and mobile phone payment to reduce transaction costs can be helpful in enhancing micro-*takaful*.

[Patel \(2004\)](#) found that microinsurance providers do not possess the necessary insurance expertise to provide a wider range of products on a prudent and sustainable basis; hence he argued for outside technical support to increase insurance coverage. Public awareness can be increased via organizations such as the International Co-operative Alliance (ICA) and International Co-operative and Mutual Insurance Federation (ICMIF). Due to the high risk in micro-*takaful* schemes, there is a need to transfer this risk onto international insurance and reinsurance markets.

In the context of Pakistan, [Kazim and Haider \(2012\)](#) conducted a study on micro-*takaful* related to health because insurance companies only provide health insurance. They identified processing claims as to the chief hurdle because insurance companies are slow to accommodate the requirements of the new consumer base. The insurance plan in health comprises two parts, namely inpatient and outpatient. Inpatient cost is covered by microinsurance, but patients are required to spend 24 hours at the hospital for processing a claim which is not possible for the working class. The second hurdle is the lack of mutual trust between *takaful* operators and the community, as *takaful* operators mostly are not willing to process health insurance claims. The third hurdle is the high risk associated with health insurance as poor people live in an unhygienic environment; therefore, more claims are received by *takaful* operators. Resultantly, they are short of funds to fulfill the claims of all the customers ([Kazim and Haider, 2012](#)).

[Chaudhry and Nabeel \(2013\)](#) reviewed the existing literature regarding the progress, problems and prospects of microinsurance products in the context of Pakistan. It was found that microinsurance is in an emerging stage in Pakistan. More than half of the current microinsurance policies (life and health) are offered by Benazir Income Support Program. Microfinance organizations, including banks (NRSP, Tameer Microfinance Bank, Khushhali Bank), non-government organizations (Waseelah-e-Sehat, Jinnah Welfare Society, Kashf's, Naya Jeevan), insurance companies (Jubilee Life Insurance) and rural support programs are offering few microinsurance products related to health apart from chronic illness, outpatient medication, maternity services, and outpatient visits. Credit life microinsurance policies are offered in the event of the borrower's death. This study suggested the following prospects. Mobile microinsurance should be introduced in partnership with mobile phone operators for automated and digital payments, which can significantly enlarge potential customer volume

and reduce transaction costs. Moreover, provinces can also utilize the existing database of poverty scorecards implemented by BISP to channel partially government-subsidized microinsurance policies towards poor households.

In the above study, the challenges and prospects of micro-*takaful* were discussed by reviewing the existing literature. [Ayaz et al., 2019](#) conducted the most recent study to investigate the underlying reasons behind the low penetration of Islamic microfinance products, where they

discussed the perspective of the banking sector's practitioners through semi-structured interviews. The same methodology is followed in the current study to find out the *takaful* operators' perspective regarding the growth of micro-*takaful* products in Pakistan.

Conceptual Framework

Based on the review of the available literature, the following are the known challenges in the growth of micro-*takaful* products all over the world.

Table 1. Barriers in Micro-*takaful* / Insurance in Different Countries

1	1. Lack of mutual trust between <i>takaful</i> operators and the community <i>Takaful</i> operators do not show their willingness to process health insurance claims.	(Kazim & Haider, 2012).
	2. Late Claim Processing Patients have to spend 24 hours at a hospital to become eligible for a medical claim.	
	3. High Risk in Health Insurance Poor people live in an unhygienic environment, so the number of claims is more	
	4. Lack of Funds	
	5. Lack of Awareness (this issue is also found in Malaysia and Indonesia) No knowledge and understanding among people about the concept and products of micro-takaful.	(Chaudhry & Nabeel, 2013)
	6. Client Dissatisfaction Limited health coverage is provided, so clients have to bear half of the expense on their own.	
	7. Outreach in Limited Vicinity Rural areas, Punjab, Sindh and some districts of Baluchistan are covered by micro-takaful schemes.	
2	Malaysia (micro health insurance)	
	8. Exploratory Stage Micro-takaful is in infancy.	(Nu, Sadzali, & Amin, 2015)
	9. Lack of Interest shown by Takaful Operators They are less interested in offering micro health products.	
	10. Sufficient Number of Participants For creating mass funds, more participants are required.	
	11. Low Premium Amount Premium paid by the participants is also not feasible for the micro health takaful scheme.	
	12. Claims Administration	
	13. Promotion An effective marketing strategy is required.	
	14. Affordability of Premium Payment The poor are unable to pay the amount of the protection policy.	(Mohd Rom & Abdul Rahman,

15.	Low Level of Awareness	2012 (Mohd Salleh & Padzim, 2018)
16.	Willingness of Microentrepreneurs To participate in the micro-takaful schemes, positive attitude, subjective norms, and perceived behavioral control are required.	(Razak et al., 2018)
17.	Technical Expertise Microinsurance providers do not possess the necessary expertise to provide a wider range of products on a prudent and sustainable basis.	(Sabbir Patel, 2004)
18.	In-efficient Documentation	(BNM, 2016)
19.	Lack of Training	
20.	Business Model	
21.	Sharīah Compliance of the Micro-takāful products If a monitoring mechanism is not in place, the sanctity of micro-takāful products becomes questionable for the public.	(IFSB, 2015)
22.	Shortage of expertise and human resource	(Mohamad Puad, 2017)
3	India (micro-takaful schemes)	
23.	Products diversification To realize the existing needs, different products should be designed.	(Gor, 2013)
24.	Well-organized Delivery Channels To cover the bulk of the population, a particular delivery channel is required.	
4	Indonesia (micro-takaful schemes)	
25.	Moral Hazards Clients are not honest during the processing of their claims.	(Zuliani & Ab Rahman, 2018).
26.	Agent Role Agent Role, who has less interest due to less commission, is vital for promoting micro- takaful products	
27.	Less Public Awareness	
28.	Cooperation of the Government, Companies and Educators Government can provide support through subsidies and by incorporating a national identification system for minimizing moral hazards.	
29.	Transaction Cost Mobile phone payment methods can reduce transaction costs.	

Source: Self-constructed, based on available literature

Research Methodology

The study is qualitative in nature. The researcher conducted a total of twenty (20) semi-structured interviews of relevant *takaful* practitioners (5 sales heads, 5 business heads, 5 product development heads, and 5 sales agents) working at the five *takaful* operators (Dawood Family Takaful Ltd., Pak-Qatar General Takaful, Pak-Qatar Family Takaful, Pak Kuwait Takaful, Takaful Pakistan Limited) in Pakistan. The focus of the discussion remained on the underlying reasons behind the low penetration of micro-*takaful* products in the *takaful* industry of Pakistan and their solutions. NVIVO 12 software was applied to the data gathered through interviews for generating items, codes, word clouds and text search queries (Figure 3, 4, 5, 6).

The respondents shared their opinions about the underlying reasons behind the low penetration of micro-*takaful* products of *takaful* operators in the country and also discussed their solutions. They admitted that micro-*takaful* is important for poverty alleviation. However, proper attention is not given by *takaful* operators in this regard due to less profit in offering micro-*takaful* products to the poor and to micro-level enterprises for the protection of their assets, families, health, and against any adverse incident. Most repeated responses were about the unaffordability of the premium amount by the poor, which ought to be paid by the government and *zakat* institutions.



Figure 2: NVIVO Output of Underlying Reasons and Solutions for Micro- Takaful

The above diagram shows that the most important keywords used by the respondents during interviews included *takaful* operators, micro-*takaful* products, poverty, insurance/*takaful*, poor.

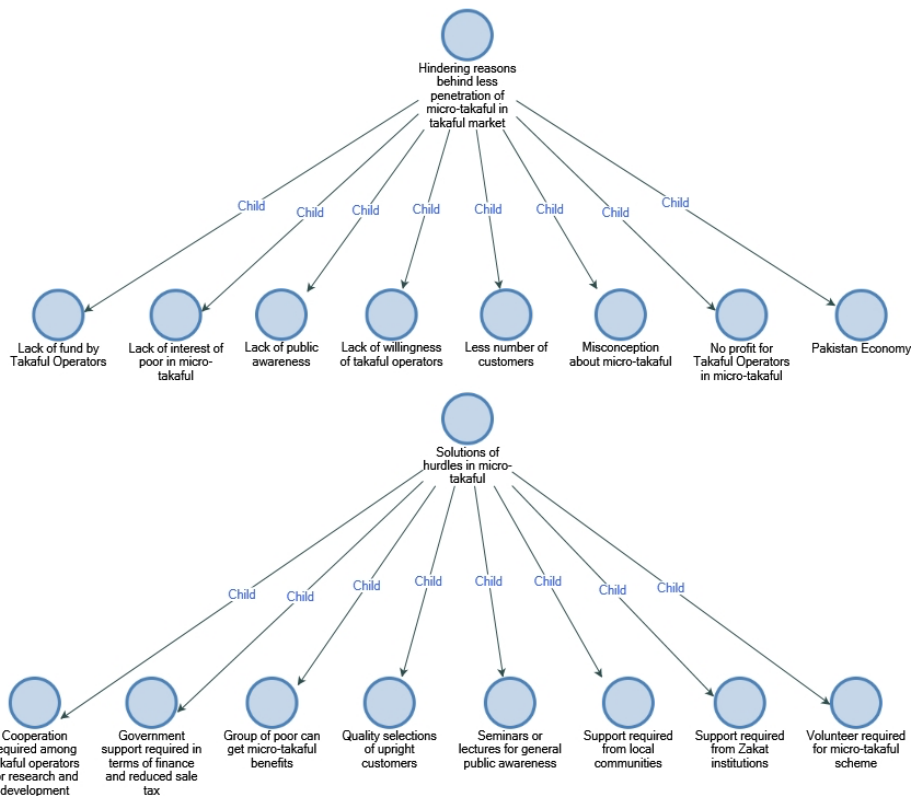


Figure 3: Keywords by Funnel Approach

Accident accommodate accounts afford age alleviation amount assets assistance atmospheric automatically awareness back basic bear cattle clients companies customer enterprises families farmer finance government growth health hindering hurdles importance incident industries institutions insurance investment Islamic loss micro motor operators participant poor poverty products profit public research role takaful zakat.

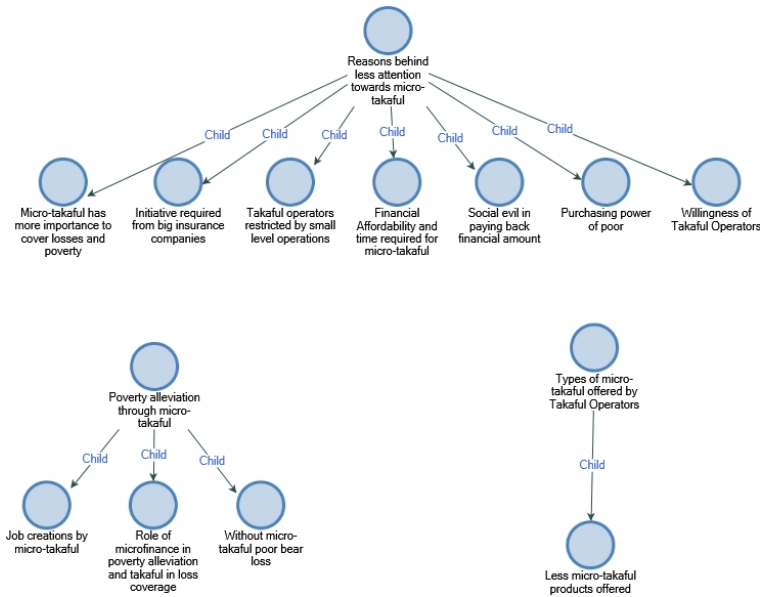


Figure 4: Concept Maps

Superordinate themes and subordinate themes are constructed using the concept maps option of NVIVO software to show the relationships between parent nodes (superordinate) and child nodes.

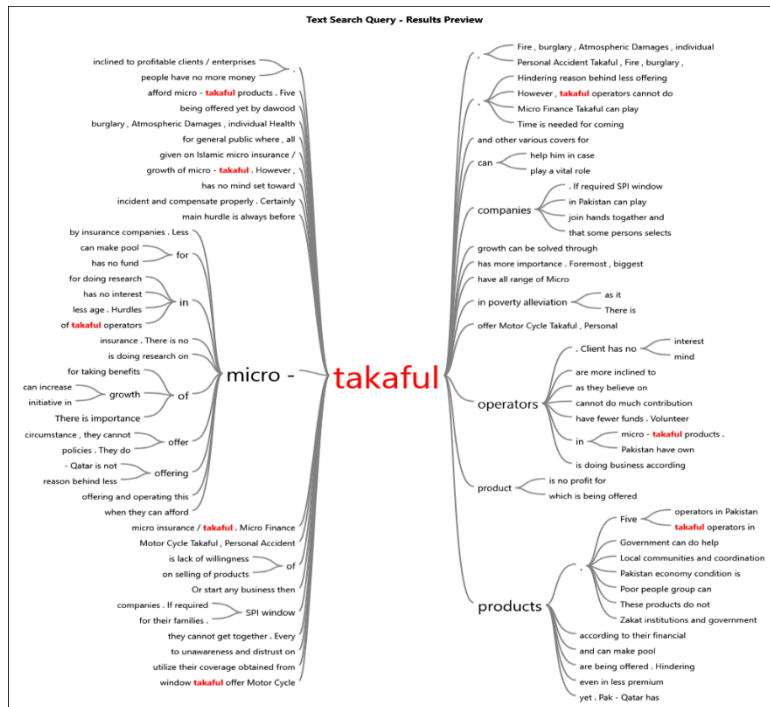


Figure 6: Text Search Query

This text search query gives an overview of the response of the respondents as to how they perceived and expressed the underlying reasons behind the low penetration of micro-*takaful* products and their suggestions for the growth of the micro-*takaful* industry.



Figure 7: Hierarchy Chart of Coding Items

This diagram shows the majority of respondents' responses in the form of size of tables reflecting their concern about the underlying reasons behind the low penetration of micro-*takaful* products and solutions thereof, in addition to their role in poverty alleviation.

Discussion

Secondary data about micro-*takaful* products were collected from the websites (verified by personal visits) of *takaful* operators, NGOs, microfinance banks, rural support programs, and microfinance institutions. It was found that very few products relevant to health and life are offered by these institutions in Pakistan. In health, the general treatment is covered but not those diseases which are very costly, such as cardiac / heart diseases and cancer. However, the poor are vulnerable to many losses which should be covered, such as SMEs, women health/family health, education, transport, property.

Except for Pakistan Takaful, no other *takaful* operator offers any micro-*takaful* products in the country. Pakistan Takaful showed the willingness to offer more micro-*takaful* products such as motorcycle, personal accident, fire, burglary, health, cottage, readymade garment industries and family *takaful* at the micro level to poor clients.

Behind such limited and non-offering of micro-*takaful* products by the *takaful* operators, the following underlying reasons were highlighted by the interviewees, for which they also suggested solutions accordingly.

Poverty

There is an important role of micro-*takaful* in poverty alleviation as it helps in job creation. However, insurance companies are not providing Islamic insurance. In the global context, micro-level insurance helps in eradicating poverty by encouraging financial institutions to finance the poor.

Micro-*takaful* fills the gap in microfinance in those situations where poor people have no collateral necessary for obtaining finance ([Ahmed, 2016](#)).

When the practitioners were asked about the role of micro-*takaful* in poverty alleviation, they said that more than 60% of the population in Pakistan is poor, and people are unable to facilitate their families even against the basic necessities. Insurance companies and Islamic insurance can only cover losses and is unable to eradicate poverty. They argued that only microfinance institutions and/or small and medium enterprises could play their role in the alleviation of poverty and not micro-*takaful*. This finding contradicts the findings of [Cohen and Sebstad \(2005\)](#), who proposed in the context of Kenya, Tanzania, and Uganda that in addition to sickness, death, and property loss, microinsurance services can also be used for poverty alleviation.

Further, they proposed that poor people can be divided into groups for receiving the benefits of micro-*takaful* products. This solution was proposed by [Dunford \(2001\)](#) in the context of Bolivia and Uganda, and it implicates that mutual support and harmony in the group provides an atmosphere of collective self-interest.

Low Purchasing Power of Micro Customers and Lack of Funds with *Takaful* Operators

According to the interviewees, micro-*takaful* can play a vital role in society, but it is subject to the purchasing power of micro customers. The same was identified by [Mohd Rom and Abdul Rahman \(2012\)](#) in the context of Malaysia that the poor are unable to pay the amount of the protection policy in Malaysia.

Furthermore, the practitioners pointed out that there are five *takaful* operators working in Pakistan, but they have limited resources available for micro-*takaful*, which cannot satisfy the needs of all Islamic micro customers. [Kazim and Haider \(2012\)](#) also found that lack of funds is a hurdle in the growth of micro-*takaful* schemes in Pakistan. However, the practitioners admitted that time is needed by *takaful* operators to reach the point where they can afford to offer micro-*takaful* products to the poor at a large scale. They suggested that the government should support these institutions financially by decreasing the sales tax of *takaful* operators. In the Malaysian context, [Mohd Rom and Abdul Rahman \(2012\)](#) proposed that the government should help the poor by paying the amount of protection policy of micro-*takaful* schemes through subsidy and *zakat* fund. Moreover, public organizations such as *zakat* institutions can also play their role in the payment of the premium amount for the sake of providing the benefit of micro-*takaful* products to the poor. A similar conclusion was reached by [Zenklusen and McCord \(2009\)](#) in the global context that microinsurance can be provided through the donated amount of microfinance institutions, non-government organizations (NGOs), healthcare providers, *zakat* institutions and other private institutions. Nu et al. (2015) proposed that the database of the government, *zakat* and charitable organizations can be utilized to facilitate the poor people in Malaysia.

The practitioners also suggested that big insurance companies such as State Life Insurance and Jubilee Insurance should take the initiative for conducive micro-*takaful*. Local communities, *ulama* (religious scholars) and the coordination between them can play a role in raising awareness and promotion of micro-*takaful* products. [Zuliani and Ab Rahman \(2018\)](#) proposed in the context of Indonesia that village head cooperation for providing micro-*takaful* products is helpful for this scheme.

Lack of Cooperation and Standardization of Products among *Takaful* Operators

The practitioners identified that *takaful* operators in Pakistan have their own individual mindset, so they cannot get together and agree with each other. Every *takaful* operator is doing business according to its own policies. They offer different micro-*takaful* products according to their financial position. The practitioners suggested that *takaful* operators should get together for the noble cause, that is, micro-*takaful* as corporate social responsibility. By joining hands, the issue of funds availability can be resolved. Also, they can offer different standardized products. They can collectively sponsor this micro-*takaful* project by merging their strategies or through joint ventures.

Moral Hazard on the Part of Customers

Due to the common social evil of moral hazard in Pakistan, people take financial assistance but do not pay it back. Resultantly, Islamic financial institutions do not properly attend the poor customers. The practitioners suggested that the institutions should follow a quality selection criterion, so that suspicious customers are identified and ignored in offering financial assistance. The problem of moral hazard is faced by *takaful* companies in Indonesia as well, for which [Zuliani and Ab Rahman \(2018\)](#) proposed that government can incorporate the national identification system for minimizing moral hazards in Indonesia. Moreover, many other solutions to reduce moral hazards were presented in the literature, such as [BNM \(2016\)](#) proposed that reliable and efficient IT and data systems can be incorporated for tracking transactions in Malaysia. [IFSB \(2015\)](#) proposed that claim administration procedures should be simplified to provide ease in transactions to participants in the Middle East and the Gulf countries.

The unwillingness of Takaful Operators

Micro-*takaful* products are not attractive for insurance companies due to a small profit margin. This is especially true for Islamic insurance companies, which are at the infancy stage in the insurance industry. *Takaful* operators are more inclined towards profitable clients/enterprises. Due to the risk-averse and profit-oriented mindset of *takaful* operators, they do not provide funds for micro-*takaful* projects. A large number of participants need micro-*takaful* schemes, but the low premium paid by them is not feasible for *takaful* operators.

In order to convince *takaful* operators to introduce micro-*takaful* schemes, they can be educated about the concept of *takaful* that is based on cooperation, so they may not expect a great deal of profit in micro-*takaful* schemes. They should initiate micro-*takaful* projects as corporate social responsibility. The practitioners also emphasized government support in this regard.

Lack of Customer Awareness and Interest

The practitioners identified that customers have no interest in micro-*takaful* products even with a small premium amount due to their faith that any incident or mishap is divine. They lack awareness about and show distrust of *takaful* operators. The poor do not perceive insurance as a need and consider it expensive.

The experts also suggested that the interest of the poor can be built by educating them about the solutions to their problems. They should be educated about the true concept of *takaful*. *Takaful* operators should campaign through conferences, public programs and guest lectures for raising customer awareness. [Patel \(2004\)](#) also suggested the same solution. *Ulama* and *imams* of mosques can play a role in educating the poor about the true concept of *takaful* and its benefits for them. Further, local government representatives should also be involved in the awareness programs about micro-*takaful* products. *Takaful* companies should coordinate and cooperate with them to educate more people. Mosques and *zakat* institutions, accessible to the poor, can play a significant role in public awareness programs ([IFSB, 2015](#)).

Less Commission for Agents

Highlighting the vital role of 'Marketing Agent' in advertising micro-*takaful* products, the practitioners admitted that low commission paid to these agents always discourages them and consequently, they are unable to attract customers. Agents can be microfinance banks, conventional banks and other institutions. In this regard, the practitioners suggested that as long as the micro-*takaful* industry is in its niche stage, the agents should be convinced (educated) that the Islamic financial system is totally different from the conventional one where the motive is to earn profit. On the contrary, in the Islamic financial system, priority is given to human welfare and afterwards to profit earning through *Shariah*-compliant businesses. Hence, the agents' mindset should be different from that of profit maximization. [Mohd Salleh et al. \(2012\)](#) also suggested that *takaful* agents should not undermine the noble objectives of *takaful* by following their personal interests. In *takaful*, the purpose of the micro-*takaful* scheme is to benefit human beings, including Muslims and non-

Muslims. This message must be echoed by all *takaful* agents. From an Islamic perspective, the role of *takaful* agents goes beyond selling *takaful* products. They must communicate the objectives of *takaful* to the public.

Small Number of *Takaful* Clients

Due to the poor financial condition of customers as well as the lack of interest and the lack of awareness among them, the number of *takaful* clients is very small in Pakistan. The number of customers can be increased by clearing misconceptions and confusions, spreading awareness using media and social networks, seminars, presentations and discussions by micro-*takaful* experts with the public. The contribution of a sufficient number of participants is required for creating a mass fund (Nu et al., 2015) which can ultimately be utilized for offering *takaful* facilities to a number of participants in addition to the timely processing of their claims.

Lack of Research and Product Development

One of the reasons behind the limited offering of micro-*takaful* products is the non-availability of products suitable to the needs of the customers. The practitioners identified that this is mainly because of the lack of research on micro-*takaful* product development. Significant research is not available in the field of micro-*takaful* in Pakistan. Although the field has great potential for economic development, unfortunately, very few micro-*takaful* products have been developed to cater for the diverse needs of the poor.

In this regard, the practitioners suggested that the researchers should develop micro-*takaful* products keeping in view the customers' needs. Market-based research can be conducted in this regard on the basis of different localities and business types. The academia and practitioners should jointly do research and develop diversified micro-*takaful* products. The researchers should do research on many products other than health at the initial level, such as education, property and injury. Health insurance is expensive, but other insurance products in terms of losses can be predicted using the existing staff of actuary, and accordingly, the premium amount can be determined for the poor.

Economic Conditions of Pakistan

Pakistan's economic condition also affects *takaful* operators' financial position adversely; therefore, they are not able to earn a reasonable profit on their investments. As a result, they give less profit to the existing clients. In these circumstances, *takaful* operators cannot offer micro-*takaful* products. [Sukmana and Hidayat \(2014\)](#) proposed in the Indonesian context that the growth of the *takaful* sector is relatively high due to the conducive investment climate and optimism of businesses. Investors seek to invest in a country if it has the potential for economic growth.

The practitioners argued that the insurance industry has a positive impact on the GDP of any country. GDP shows the overall economic development, which leads to greater financial inclusion. Moreover, insurance helps to improve the overall efficiency of the financial sector. A number of *takaful* operators or *takaful* windows should be opened in Pakistan. The government can give relaxation in terms of taxes and should create a conducive environment by regulating the insurance and *takaful* industry. Furthermore, the registration process of *takaful* companies can be made easier so that more *takaful* companies are registered.

Lack of Culture and Practice in Society to Avail *Takaful* Products

The most important reason highlighted by some practitioners is the lack of practice and culture among the people of Pakistan to avail of *takaful* products. Due to poor economic conditions, the purchasing of *takaful* products on a micro-level has not been the priority of the poor people. Hence, micro-*takaful* has not attained a good space in the culture and practice of the people.

Micro-*takaful* should be internalized in the practices and culture of the society, which is possible only in the long term. A long term strategy by the government and the regulator is very much needed to enhance financial inclusion in a systemic manner. It is suggested here that the

government should make the policy to encourage parents to buy micro-*takaful* policies/products for their children after their birth. The startup premium should be deposited by the government until the kids reach the school-going age, after which the same shall be submitted by the parents as an amount added to their school fee. In this way, the kids can have a secure future.

Conclusion

From this study, we conclude that very few products relevant to health and life are offered currently by *takaful* operators in Pakistan. Except for Pakistan Takaful, no other micro-*takaful* products are offered currently by any *takaful* operator in Pakistan. In health, the general treatment is covered and not those diseases which are very costly, that is, cardiac/heart diseases and cancer. However, the poor are vulnerable to many losses which should be covered, like women health/family health, education, transport, property, and other uncovered areas. Pakistan Takaful showed a willingness to offer more micro-*takaful* products such as motorcycle, personal accident, fire, burglary, health, cottage, readymade garment industries and family *takaful* at the micro level to poor clients.

A number of reasons were found behind the limited / non-offering of micro *takaful* products, including the risk avert and profit-oriented mindset of the *takaful* operators, non-availability of funds with the operators, less support from the government, lack of awareness among the general public, the poor financial conditions of the public who can hardly fulfil their basic needs and do not have savings, the lack of practice and culture of the society to avail *takaful* products, less availability of products as well as the lake of research and product development in the area of micro-*takaful*, which can cater the needs of the poor.

The government should facilitate and support *takaful* operators to offer more micro-*takaful* products to the poor segment of society. The government should also support and facilitate the researchers and practitioners to do surveys and develop suitable products according to the needs of the poor.

Due to the very limited practice and culture of *takaful* generally and micro-*takaful* particularly, it is very difficult for *takaful* sales agents to convince the public to purchase micro-*takaful* products, especially in the circumstances where 60% of the population lives on less than one dollar per day with which they can hardly fulfil their basic needs.

In this scenario, the responsibility lies with the government to take necessary steps for taking out the poor from their dependent conditions to independence. The current practice of the Benazir Income Support Program can be made more active to provide training to the poor and to develop their skills free of cost. Islamic microfinance institutions such as *Akhawat*, *Niamat* and *Kashf* foundation are giving interest-free loans to the poor, but these institutions do not have sufficient funds to finance their large numbers. In this regard, the government should provide and increase funds for these institutions so that more poor people are transformed from inactive condition to active conditions by developing their skills, which ought to be followed by the provision of finance for starting new businesses or to expand the existing ones. In this way, the poor would be able to save and can use their savings to purchase micro-*takaful* products. *Zakat* institution (Pakistan Bait ul Mal) can also play a better role by giving premiums to the operators in lieu of those poor people who are unable to pay their premiums. The customers should be informed utilizing many awareness tools, especially through the proper utilization of the *imams* of mosques to persuade people towards purchasing micro-*takaful* products.

Implications

The practitioners can provide trainings to their staff to enhance their skills and polish their expertise. SECP can support and facilitate these trainings. The researchers can do research to develop micro-*takaful* products. The public can be educated to increase financial inclusion. The regulator, that is, SECP can require *takaful* operators to allocate a certain percentage of their capital to offer micro-*takaful* products.

Future Directions for Research

A similar study can be conducted by increasing the number of respondents while including respondents from conventional insurance companies as well as academicians. Further studies can be conducted on the development of micro-*takaful* products keeping in view the needs of the customers.

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Appendix

Interview Questions for Takaful Operators

- Q1. Do think insurance companies in Pakistan, especially Islamic insurance/takaful operators can play a significant role in poverty alleviation through Islamic micro-takaful?
- Q2. What type of micro-takful products does your company offer?
- Q3. Don't you think the current products' offering level by your organization is very less?
- Q4. What are the hindering reasons behind less or non-offering of micro-takaful products by your organization?
- Q5. What solution(s) do you suggest to overcome these problems so that more penetration of micro-takaful products is ensured?