

RESEARCH ARTICLE | OCTOBER 05 2023

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AIP Conf. Proc. 2881, 040006 (2023)

<https://doi.org/10.1063/5.0167657>



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Protection of Housing and Home Contents: The Understanding and Application of *Microtakaful* Scheme in Malaysia

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Abstract. Exclusively, for the needy and poor, *microtakaful* offers a Shariah compliance protection scheme designated for low-income groups with financial constraints and incapability. It is significant especially for the low-income groups to acquire appropriate protection against risks. This is due to the fact that their household income is below the poverty line and in general hardly capable to provide protection for their well-being. Without adequate protection could mean that they will suffer from a bigger loss and poverty. In the event of a calamity, the low-income groups especially will lose their properties and given that they are already poor their standard of living would decline. Existing literature reviews include the understanding of *microtakaful*, its working concept as well as application merely within the family and life protection schemes in Malaysia. However, scarce literature is available on *microtakaful* properties focusing on the protection of housing and home contents. As such little is known about the understanding, working concept of *microtakaful* and its application specifically to protect housing and home contents in Malaysia. This study endeavours to unveil the concepts and application of *microtakaful* among the low-income groups for the protection of houses and home contents in Malaysia. The study combines reviews of literature and interviews with 40 respondents from the low-income groups identified in Malaysia. Findings from the study suggested that i) the majority of the low-income groups do not procure any protection plan be it conventional or *microtakaful* in protecting their houses and home contents; ii) the reasons include a lack of input and knowledge on *microtakaful* in which they have limited awareness on the availability of the protection scheme with reasonable contribution amount, iii) majority of the low-income groups are interested to use *microtakaful* to be applied widely and will consider procuring *microtakaful* for their protection of houses and home contents. The outcome of the study suggests that more inputs and further marketing of *microtakaful* specifically for the protection of housing and home contents among the low-income groups are required to educate and promote *microtakaful* to be applied in Malaysia.

INTRODUCTION

Microtakaful is one of the products available and offered by the *takaful* provider aimed at providing protection for the low-income population or people with limited financial capabilities. The term ‘micro’ literally signifies ‘small’, which is referred to the small group and level of society [1]. In contrast, the term ‘*takaful*’ derives from the Arabic root word ‘*kafala*’, which means mutual guarantee [2]. The term ‘*microtakaful*’ refers to reassuring, safeguarding, and guaranteeing through indemnity losses to cater for the protection of low-income groups against specified risks. *Microtakaful* is not a novel concept; rather, it is a new name for a very old technique designed to protect the poor against risks. In the past, impoverished societies created improvised insurance systems to deal with risks brought on by selling assets, transferring funds, and diversifying their agricultural production [3].

The Fatwa Committee of the National Council for Islamic Religious Affairs Malaysia, at its meeting on 15th June 1972, issued a decree that conventional insurance is prohibited or *haram* under Islamic law or *Shariah*. In 1979, a further decree was issued by the Fatwa Committee of the National Council for Islamic Religious Affairs Malaysia [4], providing justification that conventional insurance is prohibited as it contradicts the *Shariah* principles and concepts

due to the existence of uncertainty (*gharar*) that influences the activity of gambling (*maysir*) and involvement of interest/usury (*riba'*) [5]. Following the decrees, the Fatwa Committee of the National Council for Islamic Religious Affairs of Malaysia (MKI Muzakarah Committee) of the 80th meeting on 1-3 February 2008 discussed the Law of *Takaful* Implementation in Malaysia and decided that the concept and implementation of *takaful* in Malaysia are in accordance with Islamic law or *Shariah* [6].

For a certain group of householders with financial constraints and limitations, *microtakaful* protection offers the chance to reduce poverty and achieve fundamental financial security [7]. In contrast to the *takaful* aims, which primarily focus on preserving the standard groups with strong financial support, the *microtakaful* aims to facilitate the low-income earners to protect their belongings considering their affordability and therefore could continue living decently in the future should any risks occur [8]. The exclusivity nature of *takaful* products has caused the regulation of *microtakaful* to be unacquainted by the Regulatory and Supervisory Authorities despite the recent advancement in fostering inclusive finance [9]. Due to the lack of awareness and knowledge of *microtakaful* protection in the Malaysian market, it has objected to *microtakaful* not being extensively purchased by targeted individuals. However, Figure 1 shows the *microtakaful* sentiment analysis conducted by Rusyidina et al. [10], which has demonstrated the individuals' views on the existence of the *microtakaful* scheme in Malaysia.

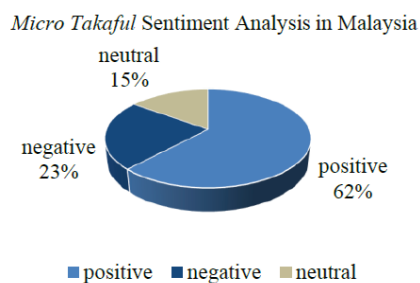


FIGURE 1: Micro *Takaful* sentiment analysis in Malaysia

The reviews of existing studies show the understanding of *microtakaful*, its working concept as well as applications merely within the family and life protection schemes in Malaysia. However, scarce literature is available on *microtakaful* properties, specifically focusing on the protection of housing and home contents in Malaysia. As such little is known about the understanding and application of *microtakaful* specifically to protect householders and home contents designated for the low-income groups in Malaysia. Consequently, this study is conducted to unveil the concepts and application of *microtakaful* among low-income groups to protect housing and home contents in Malaysia. Accordingly, the paper is structured into five sections as follows: i) reviews of the microinsurance and *microtakaful*, ii) comparison of the two micro protection plans and iii) application of house and home contents protection in Malaysia. Next, the iv) methodology of how the study is being conducted, data analysis and results are provided herein. v) Discussion and conclusion are included in the last section.

LITERATURE REVIEW

Microinsurance

Insurance is the act of transferring risk from a person or an organization to the insurance provider. The risk- pooling mechanism for microinsurance is specifically designed to safeguard the poor; it is priced affordably to ensure that insurance or protection plans are comfortable for low-income groups to acquire; the majority of the targeted groups are at the bottom of the heap without insurance coverage [11]. In Malaysia, the contract of microinsurance is governed under Insurance Act 2005; Section 118. In a microinsurance contract, there are two (2) contracting parties involved in a financial agreement which are the micro insurer and micro insured. An insurer is a party that agrees to pay compensation to people, corporations, or other organizations for specific losses and damages under the contractual agreement [12]. A party who is protected from risk by the insurance policy is referred to as an insured. This party is entitled to a monetary award or compensation for losses and damages to property resulting from specific events.

In 1950, the first homeowner's insurance plan was launched to replace the earlier plan's basic fire insurance [13]. Unlike typical fire insurance, which only covers damage to property brought on by a fire, the homeowner's insurance plan introduced covers all risks associated with house building destruction, including fire, theft, natural disasters, and

other unforeseen catastrophes. In Malaysia, although the standard insurance industry has shown positive performance, the microinsurance market is relatively new and records little growth [14]. This is due to the fact that microinsurance is not commonly known or understood by people. As a result, the Central Bank of Malaysia continually supports the industry through the development of regulatory frameworks and guidelines in an effort to flourish the microinsurance market's growth [15].

Microtakaful

Microtakaful is non-profit Shariah-compliant insurance that helps reduce poverty by offering cost-effective protection plans to assist low-income households or groups with financial constraints and incapacity. Rom and Rahman [16] state that:

“Islamic Insurance is modelled on several noble concepts complied in Shariah, for instance, the policy of mutual protection, assistance, solidarity and brotherhood against any unpredicted risks or catastrophe, in which participants may contribute through donation in order to help others in times of hardship.”

Microtakaful is a joint-guarantee scheme in which members are committed to supporting one another in the event of losses resulting from the occurrence of specific risks under the main concepts of contribution (*tabarru'*) and mutual aid (*ta'awun*) [9]. These main principles are based on the concepts of solidarity and brotherhood in Islam as enshrined in the Qur'an [17], Surah Al-Maidah; verse 2: "...and cooperate in righteousness and piety, but do not cooperate in sin and aggression. And fear Allah; indeed, Allah is severe in penalty." In takaful, a group of people, i.e., *takaful* participants, mutually agreed to contribute a sum of money into a fund that will be managed by a *takaful* operator to help in the event of a defined loss and/or damage. Upon the occurrence of the defined loss and/or damage, the money therefrom could be utilized for compensation to the suffered participant. Essentially, through *tabarru'*, the element of *gharar* (uncertainties) and *maysir* (gambling) are eliminated [15]. Specified risks are shared between *takaful* participants and the operator. The *takaful* operator will not solely bear the risks but share equally with participants. It is prohibited under the Shariah for *takaful* participants to demand consideration or benefits upon providing *tabarru'*. *Takaful* participants are not expected to gain profit through the contributions or *tabarru'* made but rather aimed at fulfilling obligations of mutual assistance to protect each other upon the occurrence of any specified risks. In the practices of *microtakaful*, the premium must adhere to these three criteria; i) shariah-compliant, ii) specifically for people who cannot afford the standard *Takaful* product, and iii) the price must be affordable and reasonable in order to be presumed as a *microtakaful* scheme [2]. Similar to the operation of a regular *takaful* scheme, there are four main parties involved in a typical *microtakaful* scheme, i.e., the participant, operator, insured and beneficiary. Figure 2 shows the relationship of the four main parties in a *microtakaful* scheme.

Essentially, ineligibility, as well as a lack of awareness and comprehension of the need and benefits of obtaining *takaful*, are among the issues contributing to the lack of acceptable protection schemes that meet the needs of the low-income groups. Furthermore, *takaful* operators' lack of competence and social obligations in investing and delivering products in these sectors contributes to the lack of awareness of the availability of protection schemes for such groups [9]. In line with the Central Bank of Malaysia Financial Sector Blueprint 2011-2020 [18], recommendations and actions toward an equitable and balanced financial system are encouraged, and *microtakaful* is urged to be commercially and sustainably expanded to ensure protection, particularly for low-income groups. Concerning the low-income groups being more vulnerable to financial and property losses, it is critical that they be safeguarded against specific risks in order to decrease the possibility of further devastation and break the cycle of poverty.

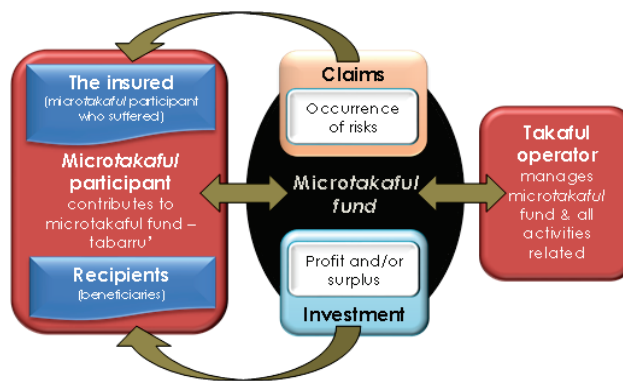


FIGURE 2: Relationship of four main parties in a *microtakaful* scheme

Comparison between microinsurance and *microtakaful*

Microinsurance began in the 1970s, but it received little market attention for the next three decades [19]. In 2006, Bangladeshi Nobel Prize-winning banker and economist Muhammad Yunus' microfinancing schemes enabled millions of low-income people in Asia and Africa to start businesses and buy homes [20]. Microinsurance is introduced in order to reduce poverty by providing essential financial services to poor communities against loss [21]. Microinsurance is now more common in developing countries and has gained significant popularity in Asia, Africa, and Latin America, rather than traditional insurance with a variety of products [22]. The low-income groups are critical to this protection plan, particularly one that protects their home from damage or loss. The first package of homeowner's insurance policies was introduced in 1950 [20].

Microtakaful was founded in Lebanon in 1997 by the Lebanon agricultural mutual fund. *Takaful Ikhlas* and the Farmers' Welfare Federation of Malaysia established *microtakaful* in Malaysia in April 2007, with funding from the Malaysian government [9]. *Microtakaful* is a *takaful* mechanism designed specifically to provide affordable Shariah-based protection to the underprivileged in order to meet their financial security needs [15]. *Microtakaful* serves the same purpose as *takaful*: to protect the entire ummah (society). However, *takaful* is designed as a scheme for the protection of standard earners and groups, as opposed to *microtakaful*, which is designed to alleviate poverty by assisting people in maintaining their financial well-being. This is because the market's *microtakaful* scheme is designed to meet the demand and needs of low-income populations [24].

In microinsurance, the insurer and insured enter into a sell-and-buy agreement. The insurer sells the contract to the insured along with an agreement to compensate policyholders for certain losses and damages that may occur as a result of the contractual agreement [23]. *Microtakaful*, on the other hand, is based on a combination of charity money or donations (*tabarru'*), in which *microtakaful* participants pay for their subscription with the intention of assisting those in need in a group. There is no risk transfer by an individual or entity in *microtakaful*, in which the burden or any misfortunes faced by any of the participants are shared within the group and, where appropriate, compensation is paid using funds contributed by the participants [24]. Table 1 compares microinsurance and *microtakaful* to highlight the key differences between the two.

TABLE 1. The comparison between microinsurance and *microtakaful*

Considerations	Microinsurance	Microtakaful
Contract arrangement	Risk transfer with an exchange contract that is based on the sale and purchase agreement	Risk sharing with an arrangement of contract based on mutual guarantee and contributions. No sale and purchase of risk transition involved
Risk	The risk borne by the policyholder is transferred to the insured company upon payment of premium	No transfer risks by an individual or entity. The burden or any misfortunes faced by any of the participants are shared within the group
Right and responsibilities	The amount of premium paid belongs to the insurer	The amount of the donation (<i>tabarru'</i>) becomes the participants' ownership
Policy	The policy only covers the insured for a fixed period (term) that covers over a certain agreement	Based on mutual guarantee, collaboration, and solidarity from the collected contribution, depending on the type of risk coverage and compliance with Shariah principles
Elements	Involves the prohibitory elements under the Shariah - interest/usury (<i>riba</i>), uncertainty (<i>gharar</i>) and gambling (<i>maysir</i>)	Free from interest/usury (<i>riba</i>), uncertainty (<i>gharar</i>) and gambling (<i>maysir</i>)

Application for Protection of Houses and Home Contents in Malaysia

A micro protection plan or scheme is particularly important for the protection of low-income households and their contents, as it is difficult for them to cover their properties against damages or losses when an unforeseeable disaster occurs. For example, in the event of a fire or natural disaster, built houses are more likely to be extensively damaged or destroyed, exposing the targeted group to difficult living conditions. As a result, the presence of a proper protection scheme will greatly simplify the affairs of low-income groups by covering property damage and loss. Homeowners' property insurance is introduced to replace the previous policy of standard fire insurance. In contrast to standard fire

insurance, which only covers damage to property caused by fire, homeowner's insurance covers all risks related to property destruction, including fire, theft, natural disasters, and other unanticipated catastrophes.

A micro protection plan or scheme is a product developed under an insurance company or *takaful* operator that mainly aims to provide coverage for low-income groups. The micro protection products in the market are usually sold as combined products through microfinance institutions [3]. Although Malaysia has the highest performing *takaful* and conventional insurance industries, the *microtakaful* and microinsurance market is still relatively new in Malaysia. As part of its efforts to promote financial inclusion, the Bank is developing a regulatory framework to help the micro-protection plan's market thrive [15]. This proves that *microtakaful* and microinsurance are not widely recognized or understood by individuals. Aside from health and life protection, it is argued that protecting low-income housing in Malaysia is also important. Without adequate protection, people face significant difficulties in restoring and repairing their damaged homes after a loss. House protection is especially important for low-income groups in order to help them recover from additional losses in the event of a disaster. This would contribute to poverty reduction and economic and social well-being deprivation. In the absence of micro-protection plans or schemes, low-income groups are often forced to rely on charity from individuals as well as financial assistance from the government and non-governmental organizations for the restoration and repair of their damaged homes.

Between 2019 and 2020, Malaysia's total poverty rate increased by 2.8%. Kelantan had the highest percentage change of 8.8 per cent in 2020. According to the DMR Handbook, Malaysia has a natural hazard and exposure risk of 3.4/10. with 67 per cent of the population vulnerable to floods between July 2012 and January 2019 [26]. Floods have occurred almost every year in Malaysia during the monsoon season, specifically in November and December. ECHO (2021) [27] issued a news and press release on the 22nd of October 2021, stating that heavy rainfall had impacted most of Peninsular Malaysia, particularly Kedah, Malacca, Negeri Sembilan, and the Selangor States, including Kuala Lumpur, since the 20th of October 2021. More than 260 houses and home contents were damaged or evacuated in Malacca, Selangor, Kedah, Negeri Sembilan, and 14 in Perak due to recent flooding [27]. The potential risks and losses from natural disasters may cause severe damage to many properties. As a result, the protection of houses and home contents is vital, especially for the low-income groups to ensure they do not have to dig out their own pocket money or rely on other financial assistance should any risks and losses occur.

METHODOLOGY

The primary data collection method used for this study is a semi-structured survey with a questionnaire that focuses on respondents' understanding, level of awareness, acceptance, and application of *microtakaful* for the protection of housing and home contents occupied by/belonging to low-income groups in Malaysia. The questionnaire survey is only available in Shah Alam, Selangor, as the study's target respondents. The B40 groups are the intended respondents of the questionnaire surveys. The researcher obtains and uses information from respondents, such as basic personal information, which is critical for validating the data and information obtained. To standardize data collection and generalize findings, the quantitative research method is used.

The targeted group of B40 in Shah Alam is identified using a simple random sampling method. This method selected 60 targeted lists of respondents as the respondents for this study, and 40 responses were received out of 60. Table 2 shows the targeted respondents' and respondents' participation summaries, respectively.

TABLE 2. Summary of respondents' participation

Respondents	Quantity	Percentage
Target list	60	100%
Received list	40	66.67%

This study is limited to 40 B40 individuals, with respondents chosen randomly from the Shah Alam, Selangor area. As a result, the findings of this study will not be able to represent the views of the B40 groups as a whole. As a result, a larger sample of respondents from East Malaysia, specifically Sabah and Sarawak, is recommended for presenting the B40 groups entirely.

ANALYSIS OF DATA, RESULTS, AND FINDINGS

There are three sections of questionnaire surveys on the understanding of respondents (B40 groups) on *microtakaful* for the protection of house and home content occupied by/belonging to the low-income groups in

Malaysia. Table 3 shows the respondents' level of understanding of the definition of Shariah. According to the result, 23 out of 40 respondents understand to fully understand the definition of Shariah. Thus, all respondents were asked to select the most relevant definition of Shariah from the following possibilities provided.

TABLE 3. Respondents' level of understanding of the definition of shariah

Level of understanding	Muslim		Non-Muslim		Overall	
	Frequency	%	Frequency	%	Frequency	%
Fully understand	5	14.71	0	0.00	5	12.50
Understand	16	47.06	2	33.33	18	45.00
Somewhat understand	12	35.29	2	33.33	14	35.00
Somewhat do not understand	0	0.00	1	16.67	1	2.50
Do not understand at all	1	2.94	1	16.67	2	5.00
TOTAL	34	100.00	6	100.00	40	100.00

TABLE 4. Respondents' opinion on the appropriate definition of shariah

Level of understanding	Muslim		Non-Muslim		Overall	
	Frequency	%	Frequency	%	Frequency	%
An Islamic contract	4	12.12	0	0.00	4	10.81
Islamic law	27	81.82	4	100.00	31	83.78
A direction of life for Muslim	2	6.06	0	0.00	2	5.41
TOTAL	33	100.00	4	100.00	37	100.00

Table 5 shows how well respondents understood the definition of *microtakaful*. Out of 40 responses, the majority of 19 respondents (47.50 per cent of total respondents) understand the definition of *microtakaful*.

TABLE 5. Respondents' level of understanding of the definition of *microtakaful*

Level of understanding	Muslim		Non-Muslim		Overall	
	Frequency	%	Frequency	%	Frequency	%
Fully understand	4	11.76	0	0.00	4	10.00
Understand	7	20.59	1	16.67	8	20.00
Somewhat understand	16	47.06	3	50.00	19	47.50
Somewhat do not understand	7	20.59	2	33.33	9	22.50
Do not understand at all	0	0.00	0	0.00	0	0.00
TOTAL	34	100.00	6	100.00	40	100.00

Table 6 shows the respondents' knowledge of *microtakaful* contracts. Most respondents are aware of or have heard of, *microtakaful* contracts. According to the findings, most respondents are aware of the *microtakaful* practice of Islam concept, with 30 respondents ranking first. Following that, 25 out of 40 respondents are somewhat aware of *Micro Takaful* contracts that are free of prohibited elements, which comes in second place. The third-ranked factor is participants' awareness of the *microtakaful* concept of contribution/donation (24 respondents).

TABLE 6. Respondents' level of awareness of *microtakaful* contract

Microtakaful contract	Number of scoring/scales					Relative Important Index	%
	5	4	3	2	1		
Microtakaful is provided under shariah contract	4	13	13	5	4	0.64	7
Microtakaful is free from riba, gharar and maysir	10	15	8	3	3	0.73	2
Microtakaful is different from microinsurance	5	14	9	8	3	0.65	6
Microtakaful provide protection for house and home contents	7	14	10	5	3	0.69	4
Microtakaful practice Islam concept	11	19	5	2	2	0.78	1
Microtakaful practices the concept of contribution donation (<i>tabarru'</i>) among participants	9	15	7	5	3	0.71	3
Microtakaful is for all (Muslim and Non-Muslim)	8	11	10	6	4	0.67	5

Table 7 depicts the respondents' experiences in obtaining any micro protection plan or scheme (microinsurance or *microtakaful*) for the protection of their homes and contents in Malaysia. According to the findings, 90.00 per cent of respondents have no experience procuring protection plans for the house and home contents, accounting for 36 respondents. In contrast, only four respondents have experience procuring *microtakaful* for house and home contents, accounting for 10.00 per cent of total respondents. As a result, the 36 respondents were asked to select the best explanation for their lack of expertise in obtaining *microtakaful* for house and home contents.

TABLE 7. Respondents' experience in procuring *microtakaful* for house and home content

Experience in procuring micro protection plans for the house and home content in Malaysia	Muslim		Non-Muslim		Overall	
	Frequency	%	Frequency	%	Frequency	%
Yes	4*	11.76	0	00.00	4	10.00
No	30	88.24	6	100.00	36	90.00
TOTAL	34	100.00	6	100.00	40	100.00

*Procured *microtakaful* scheme for the protection of house and home contents

TABLE 8. Respondents' reasons for not procuring *microtakaful* for house and home content

Reasons	Muslim		Non-Muslim		Overall	
	Frequency	%	Frequency	%	Frequency	%
Do not aware of micro takaful scheme in the market	12	40.00	2	33.33	14	38.89
Do not have any understanding or knowledge on micro takaful	16	53.33	2	33.33	18	50.00
Do not have any interest in procuring micro takaful	2	6.67	2	33.33	4	11.11
TOTAL	30	100.00	6	100.00	36	100.00

Table 9 shows respondents' views on whether *microtakaful* should be widely and properly introduced throughout Malaysia in order to gain recognition. Thirty per cent of the forty respondents strongly agree that *microtakaful* should be widely and properly introduced throughout Malaysia. *Microtakaful* should be widely and properly introduced in Malaysia, according to 29 out of 34 Muslim respondents, while five are unsure about its use. Furthermore, five non-Muslim respondents were sceptical that the *microtakaful* scheme would be widely and properly implemented in Malaysia. At the same time, one strongly agreed that the scheme should be implemented throughout the country.

TABLE 9. Respondents' opinions on *microtakaful* were widely and properly introduced across Malaysia

<i>Microtakaful</i> widely and properly introduced across Malaysia	Muslim		Non-Muslim		Overall	
	Frequency	%	Frequency	%	Frequency	%
Yes, very much	29	85.29	1	16.67	30	75.00
Not sure	5	14.71	5	83.33	10	25.00
No, not at all	0	0.00	0	0.00	0	0.00
TOTAL	34	100.00	6	100.00	40	100.00

Table 10 depicts the respondent's consideration of obtaining a micro takaful scheme for their home and personal belongings. Out of 40 responses, 31 respondents said yes to obtaining micro takaful for their home and contents, accounting for 77.50 per cent of total respondents; 9 respondents said no, accounting for 22.50 per cent of total respondents.

TABLE 10. Respondents' consideration on procuring *microtakaful* for house and home content

Consideration in procuring <i>microtakaful</i> for house and home content	Muslim		Non-Muslim		Overall	
	Frequency	%	Frequency	%	Frequency	%
Yes	31	91.18	0	0.00	31	77.50
No	3	8.82	6	100.00	9	22.50
TOTAL	34	100.00	6	100.00	40	100.00

DISCUSSION AND CONCLUSION

According to the findings, the vast majority of respondents understand the definition of Syariah. The majority of respondents have never purchased *microtakaful* as a protection plan for their houses or home contents. The majority of respondents claimed to have no knowledge of *microtakaful*, while others claimed to be unaware of *microtakaful* coverage and products on the market. However, the majority of respondents would like to obtain *microtakaful* because it would provide financial security and protect their houses in the event of loss or damage. Respondents also prefer *microtakaful* because it follows Shariah or Islamic teachings.

Findings from the study suggested that i) the majority of the low-income groups do not procure any protection plan be it conventional or *microtakaful* in protecting their houses and home contents; ii) the reasons include a lack of input and knowledge on *microtakaful* in which they have limited awareness on the availability of the protection scheme with reasonable contribution amount, iii) majority of the low-income groups are interested to see *microtakaful* to be applied widely and will consider procuring *microtakaful* for their protection of houses and home contents. The outcome of the study suggests that more inputs and further marketing of *microtakaful* specifically for the protection of housing and home contents among the low-income groups are required to educate and promote *microtakaful* to be applied in Malaysia.

ACKNOWLEDGMENTS

This research is funded by the Heriot-Watt University Malaysia (HWUM); EmPOWER Research Grant Scheme (EmRGS) 2021/2022; Project ref no. EGIS/EmRGS/2021/03 (Title: Development of a model for the protection of houses and home contents belonging to/occupied by the low-income groups via micro protection plans in Malaysia). Data of the study is extracted from a UG dissertation submitted to HWUM (2022) by Amera Irrisyia Fadzil Akhma.

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