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Effect of Takaful Models on Performance of Takaful Operators

Maryam Saeed[1]

Abstract

Purpose of this study is to analyze the performance in terms of profit of different takaful models being used in different countries in the world. It is both quantitative and qualitative research. In qualitative research, literatures is reviewed by using content analysis technique. Many takaful models are being used by many takaful operators i.e. Wakala, Wakal-Waqf, Mudharabah, Mudharabah-Wakla. For examining performance of different takaful models of five takaful operators, Secondary data on profit earning from 2008 to year 2017 is taken. Results and graphs represent the higher performance of Abu Dhabi National Takaful working on Mudharabah and Wakala Model which showed higher profit as compared to all takaful operators. The finding of this study is essential for Accounting and *Auditing Organization for Islamic Financial Institutions* (*AAOIFI) for ensuring the standardization of the services and structures that could be given within the frame of mutual help. Takaful operators who can also use the above model i.e. Mudharabah and Wakala Model for enhancing their performance in financial market of insurance. Governments should enact a law for operations and rulings of standardized takaful models adopted by takaful operators and liberalize the takaful market via removal of tariff.*

Keywords: mudharabah model, Participant Special Account (PSA), Participant Account (PA), wakala model, wakala-waqf model.
JEL Classifications: G1, G2

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1. Introduction

In this world, risk exists in every course of life and people are interested to mitigate it. This need of risk mitigations see the idea of insurance attractable as this insurance contract is used to reduce the risk of loss arisen from ill-timed situation. On the contrary of conventional insurance, there is idea of the Islamic insurance referred as takaful. The word takaful derived from the Arabic word Kafala which means guarantee. Takaful is the practice whereby individuals in the society mutually guarantee themselves against loss. Takaful's aim is to bring equity in all parties as it is based on brotherhood, unity and joint help, which provide mutual fiscal aid to participants in case of need. In Takaful, the elements of riba (interest), maysir (gambling) and gharar (uncertainty) are detached from the operations. The Takaful industry has vital prospective for growth and further market penetration. Muslim population is growing at faster rates than the non-Muslim population. For generations, Muslims in the world have mindset about prohibition of insurance as it breaches some of the Islamic doctrine. Life indemnity sold in conservative way was proclaimed intolerable in 1903 by some well-known Islamic scholars in the Arab countries. Since then, search of an alternative was started. In 1979, Sudan firstly introduced takaful concept. Later on, in 1985, the Grand Counsel of Islamic scholars (Majma Fiqh Al-Islami) in Makkah, Saudi Arabia, permitted takaful system as the substitute form of insurance written in conformity with Islamic Sharia. It is a concept of defense for the good of civilization.

The Grand Counsel accepted this system as a system of co-operation and joint help but the accurate manner regarding operation of takaful was not discussed as this task was delegated to Islamic scholars and insurance practitioners to resolve the execution plan. Presently, many takaful operators are working in the world but there is no sole working model for takaful companies as each country has its own ideal model. One reason behind different models (Wakala, Mudharabah, Waqf, Hybird) is different school of thoughts. Different models have own unique operating relating issues.

Rationale of this research paper is to analyze the performance of different takaful models being used by many takaful operators in the world. Recommendations are given in this study pertaining to solution of enhancing the performance of takaful operators in the world.

1.1. Background

In 1979, Concept of takaful was incorporated in Sudan and later in Saudi Arabia. Now global takaful market comprises on family and general takaful is growing especially in gulf regions and Malaysia. In Middle East, insurance contribution in GDP is 0.1% to 0.3% which shows very little amount in insurance products due to religious beliefs of Muslims. Major part of insurance is bought in non-life product. Conventional insurance is prohibited by Shariah due to involvement of gharar, maysir and riba. In uncertainty (gharar), compensation which would be paid by insurer is linked with future event. This future event is unknown at the time of signing the insurance contract.

Moreover, amount of insurance and time of payment both are not certain. In gambling (maysir), premium is paid by insurer and policyholder will compensate if event or disaster occurs in future. Otherwise policyholder will earn this premium and insurer will lose his premium. In riba, money of insuree is invested in interest based businesses. On the other hand, takaful is used as an alternative insurance system which is derived from Arabic verb Kafal called taking care of other needs. Under this concept, many participants jointly give guarantee to help each other in case of disaster. Malaysia in section 2 of takaful act 1984 defines takaful as scheme based on brotherhood, solidarity and mutual help which provides mutual fiscal assistance to participants in case of need. In Islamic insurance, takaful operator manages risk rather than risk taking. All donations by participants are managed by takaful operator. These takaful operators do help of misfortune members through these donations. Participants under this tabaruu contract are not thinking about own protection but also help others. There are many business models which are being used by different countries in the world (Abdul Wahab, Lewis, & Hassan, 2007).

1.2. Research Questions

Q1: What are types of takaful models?

Q2: What are issues of types of takaful models?

Q3: Does difference exist in performance in terms of profit earning of different types of takaful models?

2. Literature Review

The General Islamic Insurance provides many general Islamic Insurance (Takaful) schemes for protection against material damages. The General Islamic Insurance (Takaful) Fund is treated on the basis of al-Tabarru` in Participant Special Account (PSA). In al-Tabarru`, the participants have no right to claim the fund. However, the participants can claim for their rights on defined risk if occur. Following deduction are deducted from above mentioned account: re-takaful, claim reserves, technical reserves, Incurred but Not Reported (IBNR) costs and unearned contributions. The balance is called underwriting surplus. This surplus is used for investment in shariah complaint business. Profits generating from investment is distributed between the shareholder and participants who have not made any claim during the policy time period (Billah & Basodan, 2017).

A study inspects the cost efficiency of non-life Takaful insurance firms which are operating in 10 Islamic countries. Results show that cost efficiency was not improved after hiring non-executive directors and separating the Chief Executive Officer and Chairman functions whereas board size, firm size and product specialization showed the positive effects on the cost efficiency of Takaful insurers (Kader, Adams, & Hardwick, 2010).

A study inspects the determinants of financial performance of general Islamic insurance in Malaysia using panel data over the period of 2004 to 2007 via investment yield as the performance measure. Results found that size of company, re-takaful dependence and solvency margin are statistically weighty determinants of the investment performance of the general Islamic insurance companies in Malaysia (Ismail, 2013).

The efficiency level in general takaful industry is analyzed from 2011 to 2015 by using two-stage Data Envelopment Analysis (DEA) to identify the factors that influence the efficiency level of general Takaful industry. Results showed that turnover and size aspects have positive and vital effect on the efficiency of general Takaful. However, total net income represented a negative association with cost efficiency. Muslim directors in the board of directors and experienced and talented Muslim executive directors fitted with Islamic finance knowledge also showed positive effect on the cost efficiency of general Takaful operators (Lee, Cheng, Nassir, Ab Razak, & Har, 2019).

2.1 Takaful Models

Family takaful comprises on two chief features namely protection and long-term savings. Beneficiary through this family takaful gets financial benefits in case of tragedy along with long term personal savings and investment returns (Dahnoun & Alqudwa, 2018). There are many takaful models used in family takaful models:

2.1.1 Takaful Ta’awuni (Non-Profit Model)

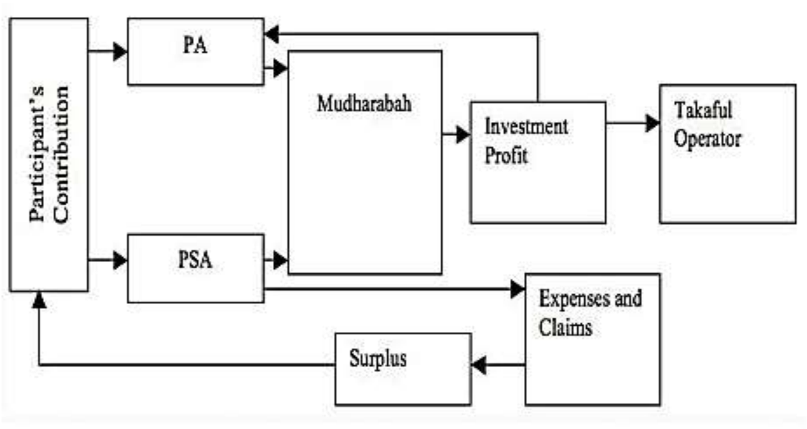
Researcher described model which based on concept of al-Tabarru` defined as brotherhood and mutual cooperation among participants for helping in need of calamity or misfortune. In this model, takaful operator acts as trustee on behalf of participants who works for wellbeing of participants rather than profit making. Thus, it is also referred as non-profit model (Billah, 2004). A Tabarru` is one way transaction in which contributors have no right to take any benefit from takaful fund except in case of difficulty (Akhter, 2010).

2.1.2. Mudharaba Model (Tijari)

It is a profit sharing contract where participants provide capital (contribution) and takaful operator as mudarib uses management expertise for generating profit from investment of said capital. Profit is shared among all on the basis of agreed ratio. In family takaful, two accounts namely participant special account (PSA) and participant account (PA) are formed. In PSA, a small portion of contribution is kept for payment of claims and underwriting expenses whereas in PA, major amount is allotted for investment. Amounts of both accounts are invested in shariah approved instruments. Profit from investment of PA is shared between participants and takaful operator. Profit from investment of PSA and amount available in PSA account are used for payment of claims and underwriting expenses. In case of deficit in amount of PSA, amount is taken from PA or shareholders who give loan or Qarz-e-Hasna. If amount is in surplus after payment of claims and expenses then surplus amount will be shared between takaful operator and participants (Akhter, 2010).

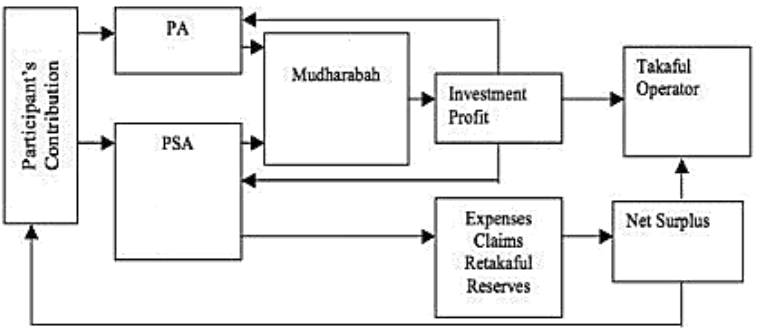
In general takaful plan, contribution of participants will directly go in PSA which is also invested. Profit from investment and amount of investment both will be used for payment of claims and expenses. Some amount from available amount in PSA will be retained as reserve for future. Any surplus after all payments will be shared between participants and takaful operator basis on agreed ratio (Akhter, 2010). This mudharabah model which is explained under general and family takaful are called modified mudharabah model wherein underwriting surplus is shared with takaful operators. In pure mudharabah, underwriting surplus is not shared (Htay & Salman, 2013a).

Figure 1: Pure Mudharabah Model



Source: (Htay & Salman, 2013a)

Figure 2: Modified Mudharabah Model



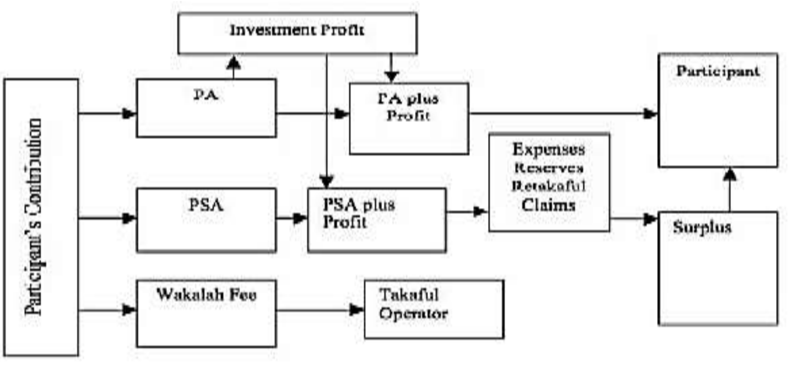
Source: (Htay & Salman, 2013a)

2.1.3 Wakalāh Model

In this model, one party provides capital and another party charges fee rather than profit for managing takaful fund. In family takaful, two accounts are formed namely individual saving account and risk account which handle loss of participants. Fixed agent commission is charged for managing two accounts. Surplus amount after payment of claims and expenses from risk account is transferred to individual saving account. Amounts of both accounts are also invested in shariah instruments and profit from instrument investment is deposited in both accounts (Akhter, 2010).

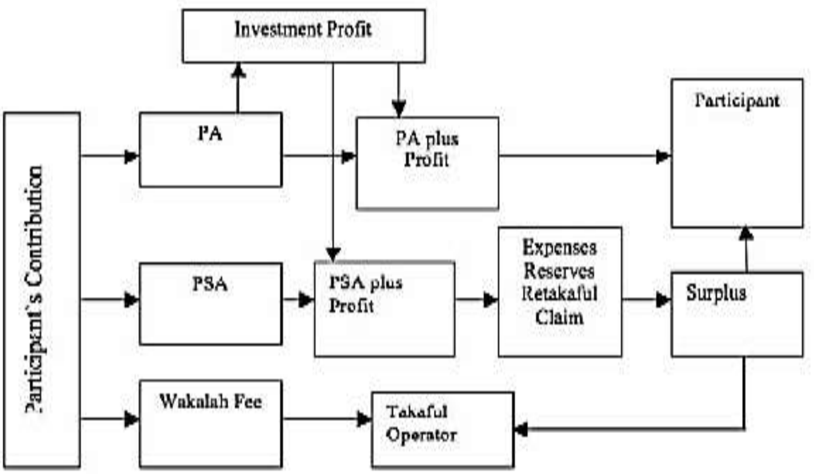
In general takaful, a fixed fee is deducted from contributions of participants in takaful fund. After deduction, amount goes in risk account which is also invested in shariah instrument. Profit is added in account. Then, amount of claim and other expenses is deducted. If any surplus arises, the takaful operator charges wakala fee on it then remaining amount is deposited into participant account (Akhter, 2010). According to another researcher, surplus amount from participant special account after deduction of all claims and other expenses is deposited in this account. Profit from investment of participant account is also deposited in this account. Wakala fee is charged from both accounts. This model is called pure wakala model. In modified wakala model, surplus amount is shared with takaful operators (Htay & Salman, 2013b).

Figure 3: Pure Wakalah Model



Source: (Htay & Salman, 2013b)

Figure 4: Modified Wakalah Model

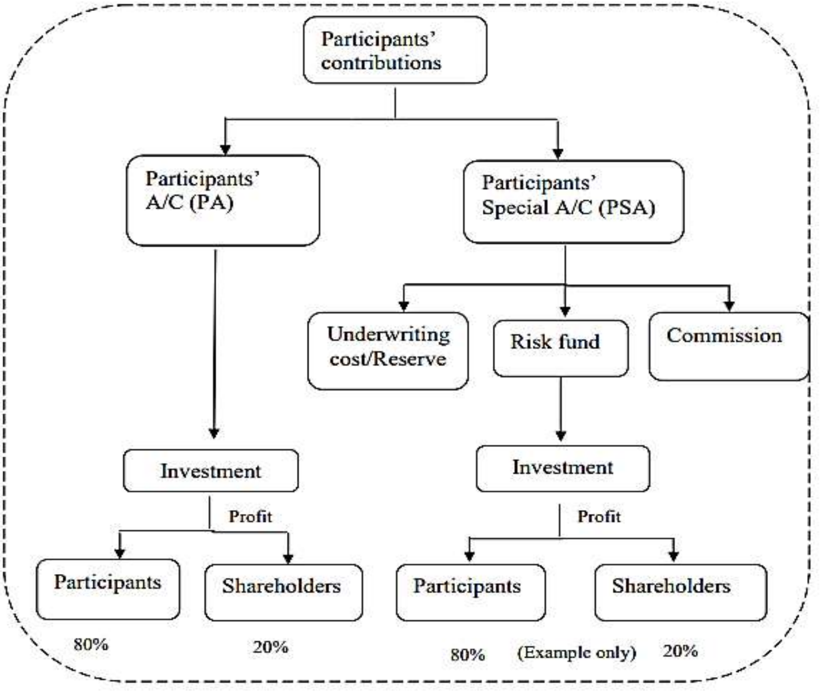


Source: (Htay & Salman, 2013b)

2.1.4 Mixed Model (Mudharabah and Wakalah)

In this model, two concepts of mudharabah and wakalah are applied in two different accounts namely participant account (PA) and participant special account (PSA) sequentially (Akhter, 2010). For underwriting procedure, wakala model is used but for investment procedure mudharabah model is used. The mixed model of Al-Wakalah and Al-Mudharabah is the leading model in the Middle East market and it is broadly practiced by Takāful companies globally (Tolefat, 2006)

Figure 5: Mixed Model (Mudarabah and Wakalah)

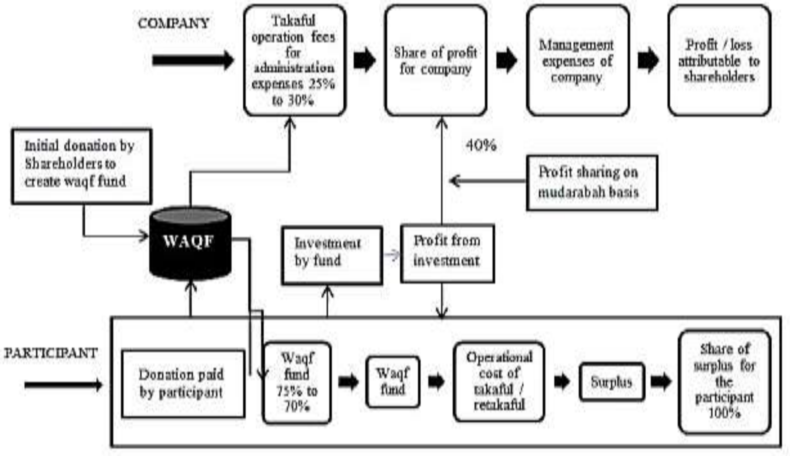


Source: (Akhter, 2010)

2.1.5 Waqf Model

Donation or tabarru contributed by participants are linked with waqf fund. This waqf fund is built by Islamic insurance operators who cede some portion of participants' equity. All invested amount from both participants and shareholder will be invested in shariah compliant businesses. Islamic takaful operator will have two roles namely manager and trustee (Olorogun, 2018). The aim of Waqf fund is to provide relief to participants against defined losses. The shareholders with some donation amount establish the Waqf Fund. Afterward, the shareholders would lose their proprietorship rights on the Waqf fund but will have the right to administer and develop rules and regulations of the fund. Participants also donate amount in the waqf fund for becoming member of this waqf fund. Takaful operator as administrator will invest waqf fund in a very safe shariah compliant investment and its returns would be used for the benefit of the participants (Abul Wahab, 2006).

Figure 6: Waqf Model

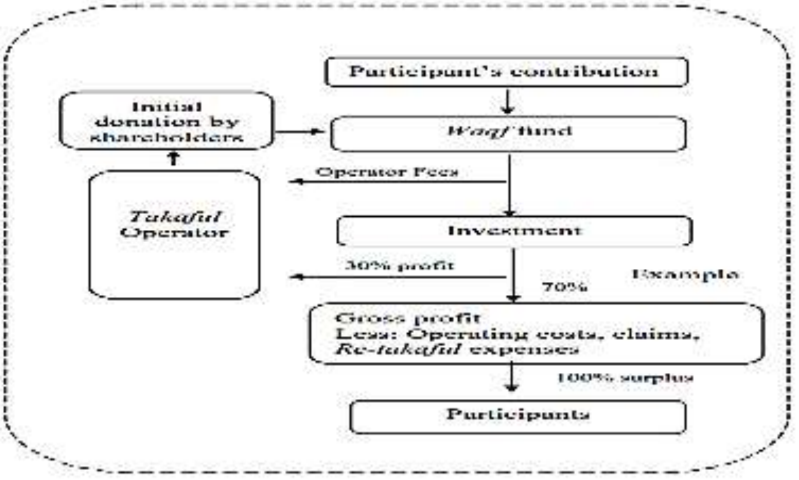


Source: (Yusof et al., 2011)

2.1.6. Wakalāh Model with Waqf Fund

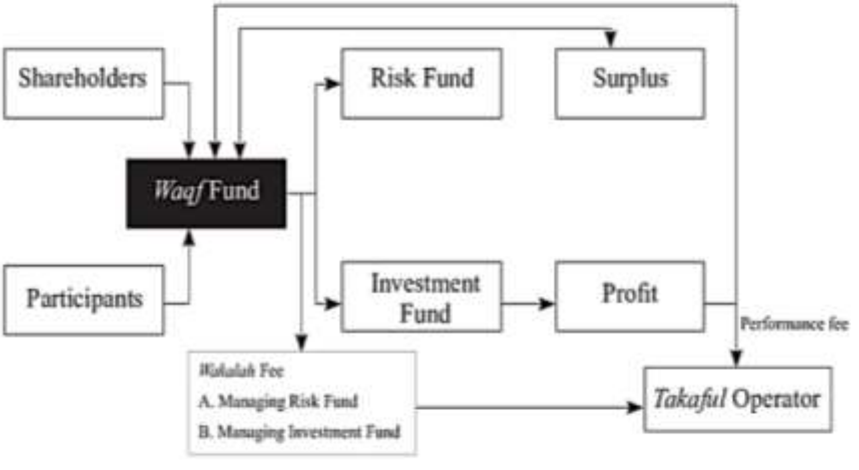
Under wakalah and waqf model, participants and operator have direct association with waqf fund. Operator as an agent of waqf fund does the related work and participant as a member of the fund contributes in donations (Abul Wahab, 2006). Due to shariah issues regarding surplus sharing in mudharabah model, wakala model is modified and waqf is incorporated in existing wakala model. In this model, amount of surplus is deposited in participant account according to their contributions proportions and takaful operator cannot take any amount from surplus. Takaful operator charges fee from waqf based fund (tabar'ru account/PSA) due to managing services and takes profit from investment of waqf fund in any shariah instrument but remaining amount after deducting all claims and expenses are directly deposited into participant/contributor accounts (Akhter, 2010).

Figure 7: Wakalah Model with Waqf Fund (General Takaful)



Source: (Akhter, 2010)

Figure 8: Wakalah Model with Waqf Fund (Family Takaful)



Source: (Ali, 2016).

In family takaful, wakala fee is charged by takaful operators on both two accounts namely PSA and PA against managing these accounts fund. The proceeds of the waqf fund are used to help any participant who encounters adversity (Ali, 2016).

2.2. Re-Takaful

Alternative of conventional re-insurance is re-takaful which is based on model of wadi'ah or safekeeping deposit contract. Re-takaful gives guarantee to another takaful company against loss. This company works as risk manager rather than risk taker (Saleh, 2016).

2.3. Issues in Takaful Models

The researcher highlighted major issues in many takaful models such as wakala model with waqf fund, mudharabah and wakala model, wakala model and mudharabah model. First issue is shariah issue in which different shariah scholars give different interpretations due to different schools of thought (Hanafi, Shafi, Humbali, and Maliki) on shariah matters. The Sharaih scholars have job in many companies which jeopardize the confidentiality of company's secret information. Second issue relates with profit sharing in which some scholar deny to take profit as according to them takaful operator works as trustee. Third issue relates to underwriting surplus sharing in which the amount cannot be taken by both takaful operator and participants but should go in charity or in participant account as gift. Fourth issue relates to corporate governance in which takaful operators have no strict regulation framework in which they keep safe rights and interests of participants. Finally, issue relates to unearned wakalah fee in which amount from participants fund is deducted at first stage, however, this amount would be earned at the end of takaful period. If any participant withdraws his amount in mid of takaful period then takaful operator should return advance commission (Akhter, 2010).

According to the researcher, there are two models of mudharabah namely pure mudharabah and modified mudharabah. Under pure mudharabah, two accounts namely PA and PSA are used for saving, investment and donation. Investments of amounts of said accounts are invested in shariah compliant businesses and profit from investments is shared on the basis of agreed ratios. PSA is used to pay claims, management fee and reserves. Moreover, underwriting surplus is returned to participants. Conversely, under modified mudharabah model, PSA account is treated according to pure mudharabah model, however, PA account is treated as per modified mudharabah model in which underwriting surplus is shared as incentive with takaful operator. Many scholars raised objection on sharing of surplus with takaful operator as it makes takaful operation similar to commercial venture. It fails the purpose of Tabarru` on which the takaful business model has its foundation. AAOIFI also confirmed that underwriting surplus purely belongs to participants. Another issue in modified mudharabah is relating to payment of interest free loan by shareholders to participant in case of deficit in PSA fund. Many scholars raised objection on it as it is unfair treatment with different generations of participants who receives less amount against higher contribution due to repayment of loan which was not taken by them at that time when it was paid. According to the researcher, interest free loan is benevolent loan so participants should not be forced for repayment. Lender should accept this type of transaction as charitable act (Htay & Salman, 2013b).

Researcher discussed many issues in mudharabah model. First issue is about concept of Tabarru` or ta'awun as takaful operators conceived themselves as custodians of common fund and participants expect returns from contributed premiums. This above said concept fails to real concept of takaful on which whole Islamic insurance has its foundation. Second issue is about donation which cannot be taken as profit sharing contract. Mudharabah model cannot be applied on donations. Third issue is about distribution of profit as in Islamic insurance no profit can be generated. Fourth issue is about underwriting surplus which is shared with takaful operators. It should not be shared as it creates similarity with conventional insurance system. However, takaful operator as risk manager should charge fee in mutual assistance contract. Fifth issue is about interest free loan as mudarib cannot be grantor in mudharabah contract. Finally, mudharabah model is not being used as risk sharing so wakala is being used for managing contributions of participants. Another researcher highlighted one issue in mudharabah model pertaining to certain/fixed amount, however, ratio of profit rather than fixed amount can be set. This fixed amount is deducted even though no profit is earned realized in modified mudharabah model (Gafoor, 2001).

Issue also exists pertaining to management expenses. Difference in opinions of different schools of thought exists. As per Shafi School, management expenses come in un-certainty or gharar which makes mudharabah contract invalid. All management relevant expenses should be borne by takaful operator. Hanafi and Malik allow the deduction of expenses on plea of journey cost which would be borne by passenger. As per Hanbali school of thought, manager can deduct management expenses if anyone retains in his hometown. On the national level, the standardization can be done by passing a fatwa for each company to implement the same accounting policy (Annuar & Abu Bakar, 2010).

The researcher discussed issue of Qarz-e-Hasna which is benevolent loan so the borrower cannot be forced for repayment. If borrowers are unable to pay the loan then it should be treated charitable act by takaful operator (Htay & Salman, 2013a). Shareholders have to fill the deficit gap in PSA fund via Qarz but its return timing and terms are vague (Sohail, 2007). There is also issue pertaining to maintaining justice among different generations of participant regarding Qarz amount. New participants pay old generation loan through paying higher contribution or surplus amount (Onagun, 2011).

Shari'ah non-compliance risk is the main risk which takaful operators seem to be showing in the operating stage or in the investment decision making. Other factors also effect to shariah compliance risk such as lack of standardization which comes due to difference in the practices among the Takaful operators especially in the practice of Hibah and surplus division (Salman, 2018).

Underwriting surplus should not be shared with takaful operator in wakala model as it violates the principal of mutual assistance. Another issue is about interest free loan which is given by shareholders in case of deficit. It should not be covered from future generation. Issue of zakat and inheritance also comes in donation/surplus (Abdul Wahab et al., 2007).

Another issue is about re-insurance companies as many takaful companies are buying re-insurance from conventional re-insurer due to lack of adequate re-takaful provider. This thing creates doubts in shariah compliant insurance. Issues regarding laws and regulations also exist as many takaful operators have own Shariah Supervisory Board but there is no central Sharaih Board which can ensure uniformity in takaful practices in takaful companies (Rahim et al., 2007).

Many issues exist in present practices for instance wakalah fee, tabarru' issue, tenure of return and underwriting surplus. These issues are tapering the courage of support in takaful (Naim et al., 2018).

There are many issues which are being faced by takaful operators. Researcher explained it in scenario of Bangladesh which is following: lack of rules and regulation, lack of willingness in implementation of Takaful, ignorance of advice of Shariah Advisory Board, un-ethical practices in the company, and unskilled Sharaih Board (Khan, Yakub, Roslan, & Noordin, 2018).

3. Research Methodology

It is mixed methodology in which qualitative and quantitative analysis are used. In qualitative methodology, content analysis is used to discuss different models of takaful and their issues. The paper used a qualitative research method to answer the objectives stated earlier. To find the difference in performances of different takaful models, Secondary data pertaining to profit after tax is taken from annual reports published in websites of following takaful companies/operators:

- Takaful Malaysia (Wakala Model)
- Prudential BSN Malaysia (Wakala Model)
- Pakistan Takaful (Wakala-Waqf Model)
- Pak-Qatar (Wakala-Waqf Model)
- Abu Dhabi National Takaful Company (Wakala-Mudharabah)

Table 1: Performance of Takaful Operators (Profit in Dollar)

Takaful Co.	Takaful Malaysia (Wakala)	Change	Prudential BSN Malaysia (Wakala)	Change	Pakistan Takaful (Wakala-Waqf)	Change	Pak-Qatar (Wakala-Waqf)	Change	Abu Dhabi National Takaful Co. (Wakala-Mudarabah)	Change
Years	US Dollar ($)	US Dollar	US Dollar ($)	US Dollar ($)	US Dollar ($)	US Dollar ($)	US Dollar ($)	US Dollar ($)	US Dollar ($)	US Dollar ($)
2008			4046.9				-519472			
2009	8907.88		4645.12	598.22			447437	-72035	2582270303	
2010	11944.3	3036.42	3338	-1307.12			517044	69607	5717819.19	-2.577E+09
2011	17179.7	5235.4	4711	1373			67445.2	-449598.8	6652010.5	934191.31
2012	24338.4	7158.7	5143.91	432.91	60641.2		191467	124021.8	7384274.08	732263.58
2013	31851.3	7512.9	6838.19	1694.28	111463	50821.8	361364	169897	9576210.52	2191936.44
2014	34589.4	2738.1	4552.4	-2285.79	61964.9	-49498.1	211751	-149613	9734648.23	158437.71
2015	3625.73	-30963.7	2442.95	-2109.45	218417	156452.1	603309	391558	11323031	1588382.77
2016	41900.2	38274.47	12251.6	9808.65	156209	-62208	880138	276829	13178205.97	1855174.97
2017	49387.2	7487	13066.7	815.1	1082.89	-155126.11	912578	32440	16082302.69	2904096.72
Average Change	24858.234	5059.92	6103.677	1002.2	101629.7	-11911.662	367306.12	43678.4	295768756.1	-320773500

Figure 9: Takaful Malaysia (Profit in USD)

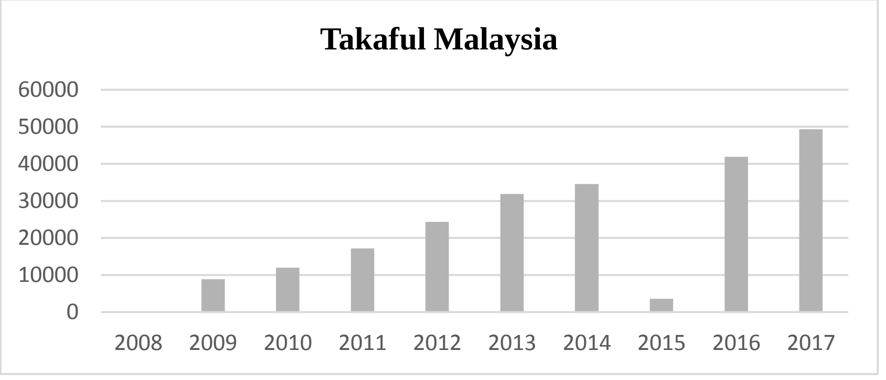


Figure 10: Takaful Malaysia (Average Change in Profit in USD)

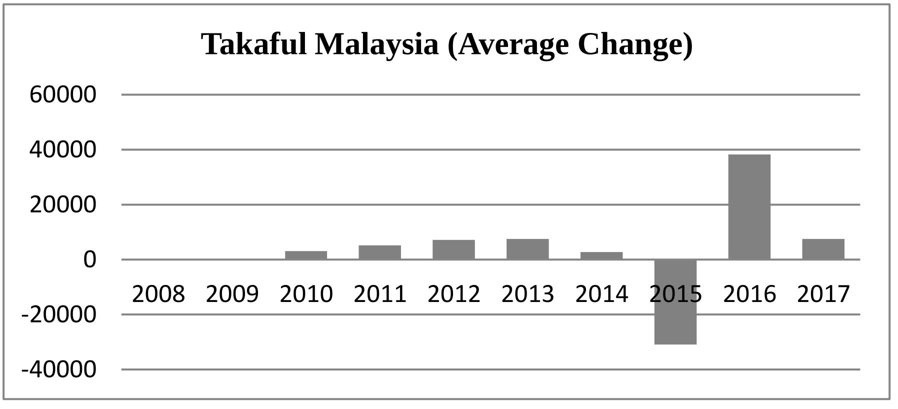


Figure 11: Pakistan Takaful (Profit in US Dollar)

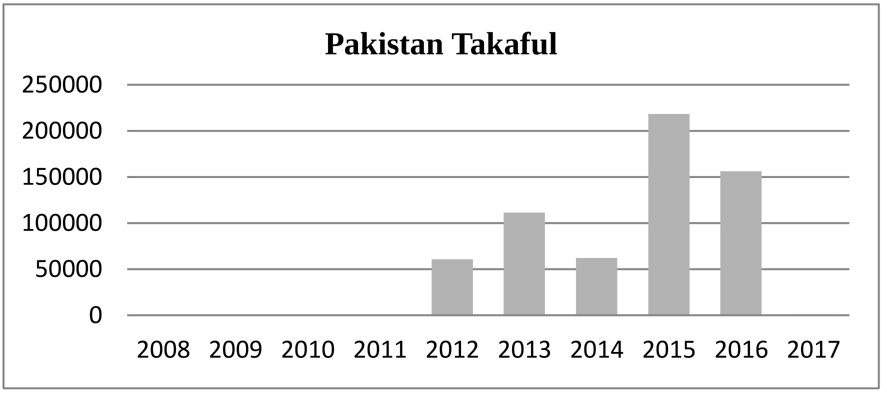


Figure 12: Pakistan Takaful (Average Change in Profit in USD)

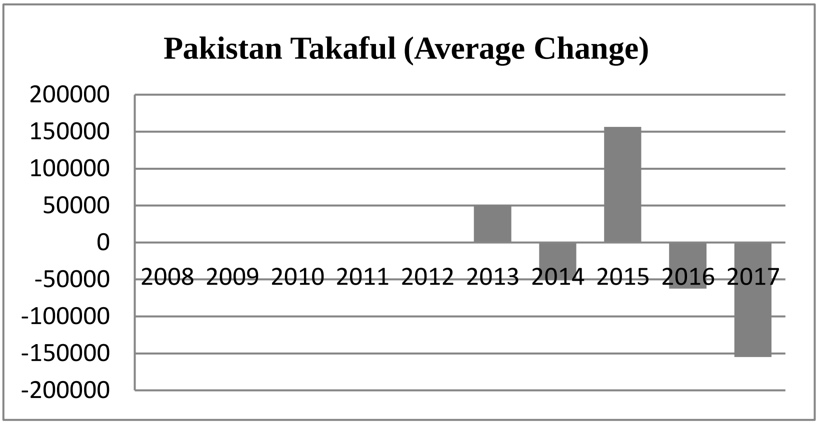


Figure 13: Prudential BSN Malaysia (Profit in US Dollar)

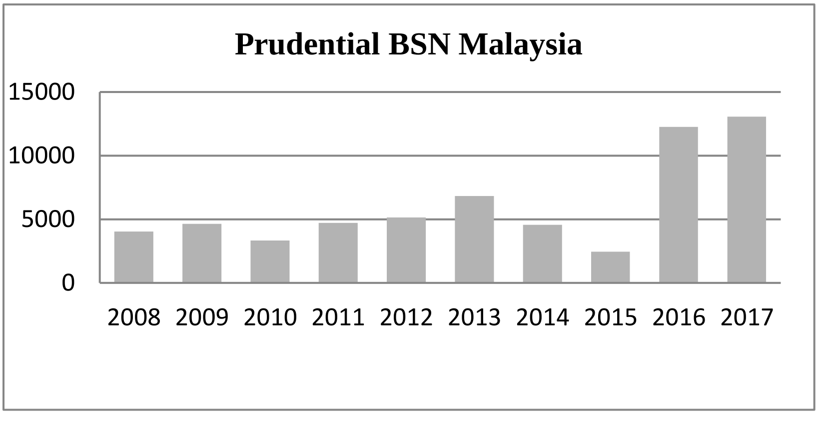


Figure 14: Prudential BSN Malaysia (Change in Profit in USD)

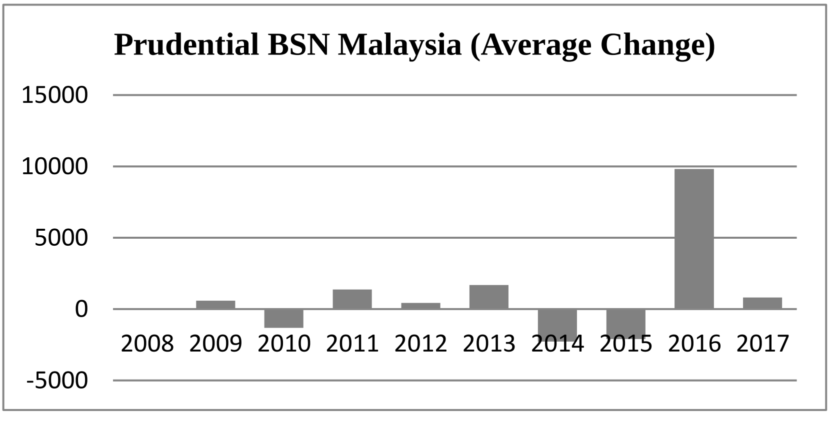


Figure 15: Pak-Qatar (Profit in USD)

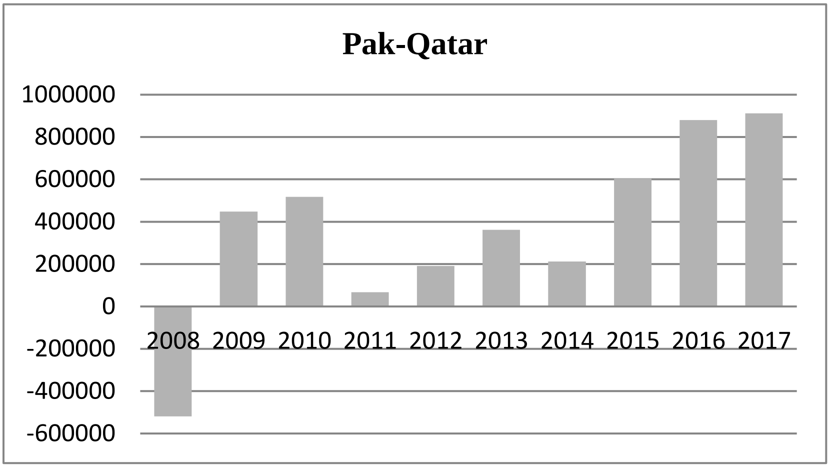


Figure 16: Pak-Qatar (Average Change in Profit in USD)

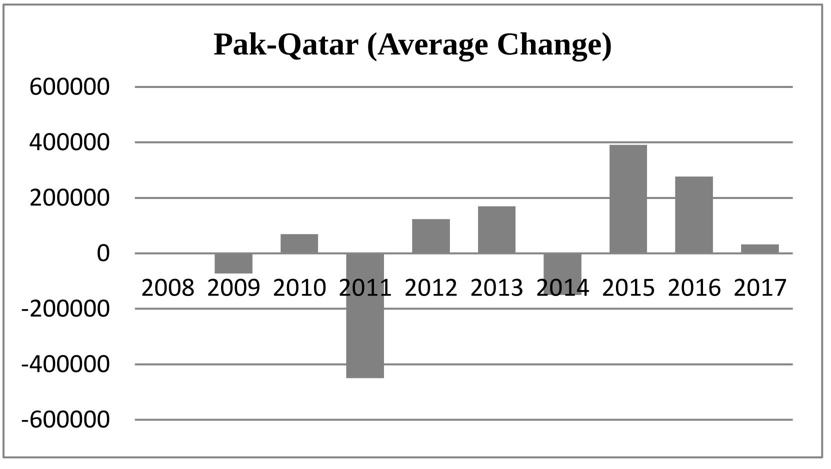


Figure 17: Abu Dhabi National Takaful Company (Profit in USD)

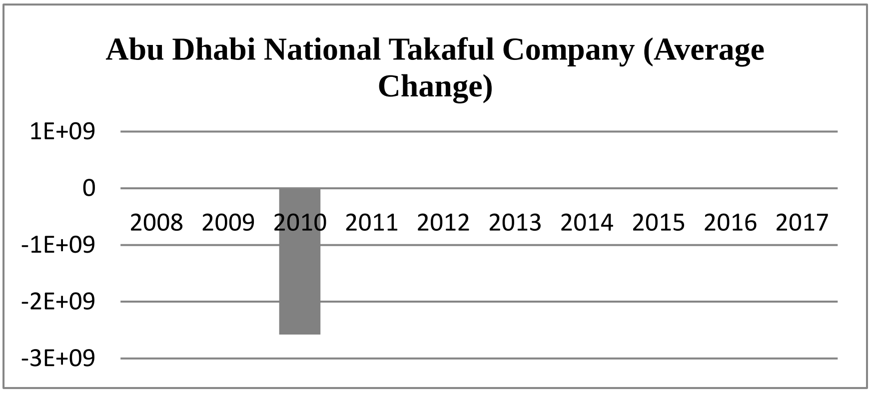
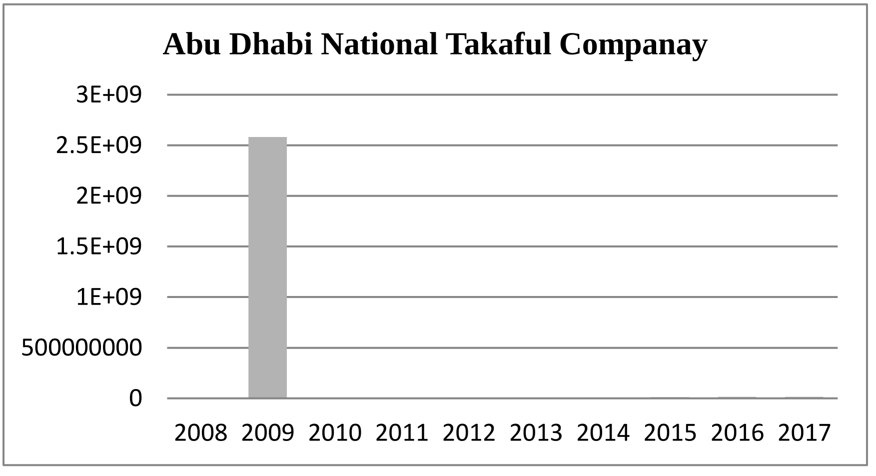


Figure 18: Abu Dhabi National Takaful Company (Average Change in Profit in US Dollar)



According to data presented in graph shapes portrays that Takaful Malaysia based on Wakala model continually showed growth in profit except in year of 2015 (US Dollar -3096.7) where growth in profit change was in negative. Prudential BSN Malaysia based on Wakal model showed continually growth except in years 2010 (US Dollar -1307.12), 2014 (US Dollar -2285.79) and 2015 (US Dollar -2109.45) where growths in profit change were in negative. Pakistan Takaful based on Wakala-Waqf model continually showed growth in profit except in year of 2014 (US

Dollar -49498.1), 2016 (US Dollar -62208) and 2017 (US Dollar -155126.11) where growths in profit change were in negative. Pak-Qatar based on Wakala-Waqf model continually showed growth in profit except in year of 2009 (US Dollar -72035), 2011 (US Dollar -449598.8), and 2014 (US Dollar -149613) where growths in profit change were in negative. Abu Dhabi National Takaful Company based Wakala-Mudarabah model continually showed growth in profit except in year of 2010 (US Dollar -2576552484). Overall, Abu Dhabi National Takaful Company and Pak-Qatar showed higher profit.

Average change in profit is greater in year 2015 of Pakistan Takaful (US Dollar 156452.1) and Pak-Qatar (US Dollar 391558). Average change in profit is greater in year 2016 of Takaful Malaysia (US Dollar 38274.47) and Prudential BSN Malaysia (US Dollar 9808.65). In year, 2017 Abu Dhabi National Takaful Company (US Dollar 2904096.72) showed higher profit in average. Overall, Pak-Qatar (US Dollar 43678.44) has higher average change as compare to other takaful operators.

One main reason behind increased profit is takaful model as all above takaful operators showed highest profit in years 2015, 2016, 2017 and all takaful operators operate based on Wakala model. Pak-Qatar also showed highest average change which was based on Wakala-Waqf model. Second reason is digital technology with focus on customer-centric tactic. Third reason behind Pak-Qatar success in year 2015 was that this company started to get itself audited by Independent Auditors in respect of its Compliance with Takaful Rules. Fourth reason behind the successes of Pakistan takaful was its management. Fifth reason behind the successes of Takaful Malaysia is the smooth system of internal control and risk management for protecting shareholders' funds and the Group's resources. Sixth reason behind the successes of Prudential BSN Malaysia was regulatory policies, quality of products and services, and best practices adopted to guarantee the soundness and constancy of the system. Finally, success of Abu Dhabi National Takaful Company is based on loyal customers and the support of shareholders.

4. Conclusion and Policy Implications

4.1. Implications

Theoretically, this study contributes its role in clearing concept of different models of takaful and its issues in practice. Practically, Takaful operators can understand the concept of takaful models and its different types. They can understand above said issues associated with practices of different takaful models. They can adopt wakala-waqf model on which many shariah scholars agree on compliance of sharia principals. Moreover, takaful operator can act on recommendations given below to expand takaful enterprises.

4.2. Recommendations

1. There are many models which are being used in the world. There should be one model on which all shariah scholars agree and one standard rules and regulations for operation of takaful operators. This uniformity will remove differences in opinions of shariah scholars on different models which create confusion in layman people who consider takaful/Islamic banking system similar to conventional system. Uniformity will create better image in the world which will help in switching to Islamic financial system, AAOIFI and Takaful.

2. Surplus amount should not be shared with takaful operators as this amount is calculated after paying all expenses from participants' accounts. In pure mudharabah model, PA and PSA accounts are being operated correctly, however, in modified mudharabah model, surplus amount is shared with takaful operator which should be not shared. Surplus amount purely belongs to participants who pay mudarib from profit of managing funds of two accounts namely PA and PSA then after deducting all claims if surplus amount is saved then it belongs to participants. Similarly, pure wakala model is according to shariah principals, however, modified wakala model have issues on distribution of surplus amount which should not be shared with takaful operator. Similarly, wakala-waqf model in which two account namely PA and PSA are managed by takaful operator who charges wakala fee for managing fund as per shariah rules. Surplus amount in this model is totally belonging to participants. This model is considered purely based on shariah, therefore, it is being used as business model in Pakistan and Arab countries. Malaysia was using mudharabah model at initial level but more takaful operators switched to wakala-waqf model. If we see the analysis of data of profit of takaful operator working on different models then wakala-waqf model shows largest profit amount as compare to other profit of takaful operators. Wakala-Mudharabah model can be used for operating two PA and PSA accounts. These two models are according to sharaih principal and results also show the greater profit of both models.

3. AAOIFI and takaful association at global level should formulate standards and regulations for takaful models so that all takaful operators in the world can work in the same manner. Governments and central banks of each country should give support to takaful operators in form of income tax relaxation, promotion/publicity of Islamic products, license grants, formulating separate laws for Islamic financial institution that are competing directly with conventional institutions. Conventional institutions are very old in market, therefore, they have all support regarding laws of financial matters.

4. Takaful operators with collaboration of educational institutions should work on promotion of Islamic products as people have a lot of confusion about Islamic financial system. They consider Islamic financial system akin to conventional system. Seminars should be conducted by takaful operators in public and should help in clearing concept of Islamic products. Educational institutions should offer short courses and degree programs in takaful and Islamic banking. Students especially Muslims with help of teachers should spread Islamic products in their universities so that other student of different discipline can get the know-how about Islamic products. These training and seminars at public level will increase awareness in public. This awareness will increase demand of Islamic products. This publicity of Islamic products will help in getting more market share of insurance industry.

5. Each takaful operator should recruit those candidates who have degree in Islamic banking or takaful even though they are fresh. There are two main benefits. One is knowledgeable candidates who have background in Islamic education so they know terminologies/technical concepts. Secondly, these fresh people can be molded easily in organization culture and training can change their mind concept about Islamic operation activities. This knowledgeable human resource will help in implementation of policies regarding shariah principals of Islamic products. They will also able to clear the concepts of customers pertaining to Islamic products. This clarity will help in increasing the satisfaction level of customers. When customer will have more satisfaction, he will promote the brand of Islamic product with others. This thing will also help in increasing market share of takaful operators.

6. Shariah advisors should be separate for each takaful operator. In this way, their interest will not conflict with other takaful operators.

7. Sharaih board should implement policies regarding Islamic products and shariah audit should examine takaful operations and take corrective actions if any violation is seen. This regulation will control the operations of Islamic institutions. This controlled operation will help in building accurate image of Islamic products which is still confusing or bad.

4.3. Limitations

This study is limited to few models. More models in detail can be discussed with quantitative analysis. This study consists of qualitative analysis and takes data of only ten years of profit earned by takaful operators working in three models namely wakala, wakala-waqf, and mudharabah. Secondary data of takaful operators consists only on following countries: Malaysia and Pakistan. This study reviewed literature of Muslim countries or Middle East countries.

4.4. Future Directions

Secondary data can be taken of many takaful operators working in different models in many countries i.e. Jordan, Libya, Sudan, Turkey, Iran, UK, US, Spain, Italy, Syria, Lebanon, Egypt. Comparison of profit can be calculated of twenty years. Other hybrid models can be discussed in detail. Primary data can also be collected from staff of different takaful operators through taking their response on issues faced by different business model being used in different takaful operators. Other independent variables i.e. culture, country laws, can also be considered that can effect the performance of different takaful models.

4.5. Conclusion

Takaful is an alternative of conventional insurance. Islamic insurance (Takaful) is free from interest, uncertainty and gambling. Many takaful models are being used such as mudharabah, wakala, wakala-waqf, hybrid models. These all models are criticized due to surplus sharing practices which should be belonging totally to participants. There are many issues which are discussed in detail in literature for instance mudharabah model should not be used as takaful model wherein donation is given rather than investment for earning profit. Un-earned wakalah fee should not be taken if any participant withdraws from insurance contract.

Lack of standardization in operation of takaful operators, and Shari'ah non-compliance risk also exist. In this study, literatures pertaining to different takaful models are reviewed and secondary data on profit from year 2008 to year 2017 are taken of five takaful enterprises belonging to Pakistan, Malaysia and the U.A.E. These takaful enterprises are working on following models: Wakala-Waqf Model, Wakala Model, and Wakala- Mudharabah Models. Results show the highest profit amount of Wakala-Waqf model and Wakala-Mudharabah model as compare to Wakala model. Moreover, many shariah scholars are also agreeing on Wakala-Waqf model where surplus amount is totally belonging to participants.

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