
Shariah Disclosure Attributes In Takaful Institutions: An Overview Of Takaful Managers' Experiences

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Abstract

Purpose – The fundamental purpose of this paper is to elaborate the importance of Shariah related disclosure and transparency in takaful institutions. The general approach of this study is qualitative in nature while Phenomenology is adopted as a research strategy. Data collected through five experiential in-depth interviews from takaful managers working in Khyber Pakhtunkhwa. Interpretive phenomenological analysis and Shariah analysis technique were for analysis purpose. The study extended the general approach and understanding toward Shariah disclosure in takaful institutions by exploring Shariah disclosure attributes in which both the existing and potential customers are equally interested and that need to be disclosed. These Shariah disclosure attributes are: disclosure of waqf arrangement in takaful institutions, disclosure of about standardized fatwa, disclosure of Wakala fee, disclosure of Shariah advisors' public status, and disclosure of the Shariah appraisal of profit sharing mechanism. The conceptual scope of the study is limited to the disclosure of information related to only Shariah compliance and Shariah governance in takaful institutions. It excluded all other kind of information related to financial disclosure, corporate statements disclosure, and social reporting. Takaful institutions may adopt the disclosure attributes explained in this paper to increase confidence of both the existing contributors and the potential contributors in takaful.

Keyword: Disclosure, Phenomenology, Shariah governance, Shariah information, Takaful.

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1. Introduction:

Shariah governance is an additional mandatory arrangement within the existing the corporate governance structure of an IFI (Ginena & Hamid, 2015). The primary purpose of the Shariah governance is to ensure Islamicity in the entire IFI's products, services, and operations. Furthermore, the involvement of Islamicity in the corporate governance of IFI gives rise to five important issues which are competency, confidentiality, consistency, independency, and disclosure (Hasan, 2012; Ismail, Jan, & Ullah, 2018). The current paper will further explore the disclosure issue in the context of Shariah information in takaful institutions. Therefore, the fundamental objective of the paper is to elaborate the importance of Shariah related disclosure and transparency in takaful institutions through making a comprehensive Shariah disclosure framework from both mandatory and voluntary requirements.

The paper organized in such a way that the second section deals with the review of prior literature established in the Shariah disclosure arrangement in the context of IFIs, especially in takaful institutions. In the same section all the reviewed Shariah disclosure information categorized in mandatory Shariah disclosure information and voluntary Shariah disclosure information. Research method adopted for the present inquiry discussed in section three. Section four emphasized on the main findings along with its interpretation. The last section concluded the paper and discusses its positioning in the established literature, its comparison with prior relevant studies, scope of the study, suggestion for future studies, and policy recommendations.

2. Literature Review:

Conventional insurance is comparatively strong in all respect while Takaful is a new born baby in the existing insurance industry. Conventional insurance products are well-established and well-accepted in the market. However, in a religious country like Pakistan sufficient portion of the population not accepting conventional insurance products. The fundamental reason of such non-acceptable behavior against is due its prohibition in the eyes of Shariah. They

think that conventional insurance products include some non-permissible elements especially interest which is prohibited in Islam. Therefore, to secure their religious belief, they mostly avoid dealing in insurance. This religious conscious behavior of Muslims customers also affirmed by Husain, (2018) in a way that *“there are believers in the Islamic faith who do not use the conventional banking system because of their strongly held views against riba”*(p. 337). It is cleared from the established literature that acceptability of Takaful products and services primarily based on the Islamicity of it. Therefore, the fundamental reason behind the individuals’ choice toward Takaful is it’s compatibility with Shariah. In addition to the Shariah permissibility of Takaful products, majority of the investment and deposit making customers make their decisions toward Takaful institutions based on their Shariah related disclosure (Al-Mehmadi, 2004). Affirming Al-Mehmadi view on Shariah disclosure, Kasim (2012) outlined that takaful institutions need to disseminate information concerning compliance of their products and services with Shariah.

In Islamic banks, Shariah related disclosure considered a well-researched area. Concerning Shariah disclosure in Takaful institutions, very few studies have been established so far. Among those studies, Zain & Abdullah (2015) constructed Shariah compliance index for takaful institutions operating in Malaysia. Their index is based on the BNM, MASB, IFSB, and AAOIFI mandatory disclosure attributes for takaful companies. However, in takaful, Shariah disclosure is among those few those important areas that need to be improve (Annuar & Bakar, 2010). Keeping in view the importance of Shariah disclosure in Takaful institutions, Annuar & Bakar (2010) gave two fundamental importance: improving transparency and strengthening stakeholders’ confidence. To improve both transparency and stakeholders’ confidence through disclosure of Shariah information, we divided the entire disclosure attributes into two categories i.e. mandatory disclosure attributes and voluntary disclosure. Information that must be disclosed to the entire concern stakeholders called mandatory disclosure while information other than mandatory termed as voluntary (Hidayat &

Abdulrahman, 2014). In Pakistan, the regulatory authority for Takaful institutions is SECP. SECP issued different regulations, instructions, and policy guidelines in different times. We study these legal regulatory documents thoroughly for Shariah related disclosure. It is important to mention here that, disclosure information other than Shariah related is excluded from the data set. For voluntary Shariah disclosure information, we studied the Shariah disclosure studies and different Shariah indices developed in Islamic finance. We extracted the most relevant Shariah disclosure information from these studies. The detail of these two kind of disclosure attributes are given below.

2.1. Mandatory disclosure attributes

Aligning with Para 11.1 of the SECP (2012) Takaful regulations, a window takaful needs to disclose its assets, liabilities, revenues and expenses separately for each segment of its Conventional business and Takaful business. This disclosure requirement is also shown in Table 2.1, wherein all the mandatory disclosure attributes are given.

It is cleared from the prior studies concerning Shariah governance that Shariah advisor is the main figure within every Shariah compliant company who is supposed to ensure Shariah compliance in the company (Masruki, et al. 2018; Elamer, et al. 2019; El-halaby, et al. 2015; Abdullah, et al. 2013). Therefore, disclosure related to takaful company's Shariah advisor(s) is of the great concern for all the existing and potential stakeholders as well. Keeping this important in consideration, SECP introduced Shariah advisor regulation in 2017. According to Chapter VI, Para 18.1.b&c of the SECP (2017) Shariah advisor regulation, a takaful company need to disclose, in their annual report, details of remuneration paid to the members of their Shariah supervisory board against their services in the areas of Shariah advisory and employees training and education. This disclosure requirement can be seen in Table 2.1. Also, under the same regulation, Takaful companies are also required to disclose the Shariah resolution making process against a product or service, particularly in a situation wherein the member of Shariah supervisory board have different opinions and

approach toward the same issue. Therefore, Shariah pronouncements make in such event shall also need to be disclosed.

With reference to Para 28 of the SECP (2018) Shariah governance regulations and fourth schedule-VI.10 of the SECP (2017a) Companies Act, 2007, Shariah complaint companies including Takaful companies shall disclose certain attributes as part of their annual report. These disclosure items includes financial, non-financial and Shariah information. We only include that information that related to the Islamicity and Shariah complaining of the products. In Table 2.1, summary of the disclosure information are given that required under SECP's Takaful rules-2012, Shariah advisor regulation, Shariah governance regulation, and Companies Act, 2017.

Mandatory Shariah disclosure for takaful institutions

1. Disclosure of advances under Islamic modes
2. Disclosure of Shariah complaint deposits placed with other banks
3. Disclosure of profit earned from Shariah complaint deposits placed with other banks
4. Disclosure of revenue generated from Shariah compliant businesses segments
5. Disclosure of profit or loss generated from Shariah compliant investments
6. Disclosure of profit paid to the clients under various Shariah compliant products
7. Disclosure of Takaful company with other Islamic bank(s)
8. Disclosure of remuneration paid to Shariah advisor(s)
9. Disclosure of Shariah decision/ fatwa making process

Table 2.1: SECP's mandatory disclosure for takaful institutions

As the above disclosure attributes are the requirements of the most relevant regulator, therefore, we named it mandatory disclosure requirements. This means that such attributes must be disclosed to all the concern stakeholders especially those who are directly or indirectly involved in the Takaful business. The non-disclosure of any mandatory

attributes may leads to some serious financial, non-financial, or both sort of consequences (Al-baluchi, 2006; Arvidsson, 2003).

2.2. Voluntary disclosure attributes

Cooke (1992) defined voluntary disclosure as disseminating of information other than statutory. It includes recommended information by different standard sitting agencies, information proposed in different research articles, thesis, working papers, conference proceedings, etc. In this section we include the voluntary Shariah information proposed in the established literature. The study of Haniffa & Hudaib (2007) considered among those few initial studies that established in the area of Shariah disclosure. The authors constructed an ethical identity index on the basis of different Shariah and ethical attributes and evaluate the performance of Islamic banks located in GCC region. In addition to other fundamental disclosure attributes, the authors opined that IFI need to disclose the way it serves the needs of Muslim society through its activities. Noordin, et al. (2015) argued that SSB is the backbone of an IFI's Shariah governance, therefore, disclosure related to the SSB's duties and activities are of the great importance which needs to be disclosed. In another identical study, Masruki, Kumar, & Hanefah (2018) suggested that IFIs need to share its Shariah audit and Shariah review report with the concern stakeholders. Furthermore, information related to the IFI's zakat account shall be disclosed in the annual report (El-Halaby & Hussainey, 2016).

Ismail, Jan, & Ullah (2018) established a detailed study on the Shariah attributes that should be disclosed in the annual reports of Islamic banks. Their inquiry is very comprehensive in the sense that it covers three important dimensions of the Shariah disclosure framework i.e. Shariah disclosure information, mechanisms of Shariah disclosure, and adaptability in Shariah disclosure. Regarding disclosure of Shariah information in the annual report of IFIs, the authors recommended that institutions shall disclosed about their investment avenues along with proof of Islamicity, Shariah appraisal of the developed products and services, and showing Shariah compliance through actions. Said, et al. (2018) constructed Maqasid index, based on disclosure analysis, for

evaluated the performance of Islamic banks. They access Islamic banks based on the disclosure of Islamic banks' contributions toward the objectives of Shariah. Maali, Casson, & Napier (2006) emphasized on the disclosure of IFIs' justly dealing with their employees, customers, and all other stakeholders. Sugianto & Harapan (2017) suggested that IFI shall disclose details of their charities given to the poor and needy people. Zubairu, Sakariyau, & Dauda (2012) explored an important attribute that an IFI's shall disclose in their annual report and that is the disclosure of an institution's commitment toward its debtor.

Voluntary Shariah disclosure information

1. Disclosure of serving Muslims society through Takaful activities
2. Disclosure of SSB's duties and activities
3. Disclosure of Shariah audit and Shariah review report
4. Disclosure of Zakat account
5. Disclosure of investment avenues and its proof of Islamicity
6. Disclosure of the Shariah appraisal of the developed takaful products and services
7. Disclosure of Shariah compliance through actual actions
8. Disclosure of Takaful institutions' contributions toward Maqasid al Shariah
9. Disclosure of Takaful institutions' justly dealing with its employees and customers
10. Disclosure of Takaful institutions' charity
11. Disclosure of Takaful institutions' commitment toward its debtor.

Table 2.2: Voluntary Shariah disclosure information for Takaful institutions

3. Methodology:

The philosophical underpinning of the present inquiry is Phenomenology. Phenomenology is a kind of belief system, established by Edmund Husserl in twentieth century, wherein individuals' lived experiences is the only reality exist (Mortari & Tarozzi, 2010). Whereas, the general approach of the present study is purely qualitative

while inductive in nature. Concerning research strategy, phenomenology also adopted as research strategy. Phenomenology is a unique kind of research strategy wherein the researcher investigate meaning and essence of individuals' lived experiences concerning a particular phenomenon (Stumpfegger, 2015). Neubauer, Witkop, & Varpio (2019) mentioned that Heidegger was the first researcher who used phenomenology as a research strategy. Husserl was the first man who introduced Phenomenology as a philosophy while Heidegger was the first foundational methodologist of Phenomenological research strategy. Rationalizing phenomenology for the present study, we gave weightage to the takaful managers lived experiences concerning Shariah disclosure attributes. Conventional sampling technique was adopted that also used by Ismail et al., (2018) in their phenomenological inquiry. Followed their sample size, we also selected five individuals because it was a popular sample size in the identical prior phenomenological based research studies i.e., Noreen & Rehan (2016). Aligning with phenomenological data collection tool, five experiential interviews were conducted with different takaful managers who are working at different takaful institutions. The data were recorded in an audio form, transcribed carefully, and then approved from the concerned individuals. The approved transcriptions analyzed through interpretive phenomenological analysis used by Smith & Osborn (2004) and Shariah analysis technique used by Falikhatun, et al. (2016).

4. Analysis and Discussion:

By following both interpretive phenomenological analysis protocol and Shariah analysis protocol we extracted the following summarized themes along with its relevant quotations. Also, a short commentary is also given in order to better explain the quotation in their original context, essence, and meaning.

4.1. Disclosure of waqf arrangement in takaful process

"...the Pakistani Takaful model is based on waqf-mudarabah model. Therefore, whenever we explained it to our potential customers [they are well aware about mudarabah] then they asked about how waqf

work in Takaful? Whenever there is a waqf created then it will shifted from individual ownership to the divine ownership. Then in what capacity you [Takaful institutions] making rules for waqf fund and take benefits from it as well...” (PQT01)

Commentary: The respondent experienced based on his hundreds of prior meeting with numbers of different existing and potential policy holders in which majority want to know about the Shariah aspects of waqf arrangement under the running takaful model in Pakistan. They want to how cash waqf created in takaful? Who are supposed to manage that waqf? Who make rules and regulation for that waqf? How fund in waqf pool invested? etc. There are too many similar questions that policy holders especially the potential ones asked so frequently. Therefore, it is suggested to disclose such kind of information to both the existing and potential policy holders.

4.2. Disclosure of a standardized fatwa:

“Majority of the people asked me about the fatwa and its validity in the eyes of others muftis [Shariah scholars] especially those who belong to other sect and other school of thoughts... therefore, I think disclosure of a standardized fatwa [a Shariah resolution that is equally acceptable to all native sect i.e. Tablighi, Barailvi, Deobandi, Ahl-i-Hadith etc.] is very necessary for making people confidence in takaful” (PT01)

Commentary: The respondent highlighted an important issue through his experiences as takaful marketer. He expressed that whenever he explaining takaful to the people so they about its Shariah certification and when he showing them its Shariah certificate/ fatwa so then they ask whether or not other muftis, who belongs to other sects, also think in the same way? Therefore, guiding them in such event becomes difficult because we don't have such fatwas upon which all the sects' muftis have consensus.

4.3. Disclosure of Wakala fee:

“[In Pakistan] here our takaful [model] is actually the combination of three important Islamic contracts which are Wakala, Waqf, and Mudarabah. Normally, we told our customers that this [amount of] portion of your first year contribution will go to the investment pool

[that created on Mudarabah basis] in which our share would be this much [in percentage] and the remaining portion of your first year contribution will go the Waqf pool. While we rarely disclosed them that 35% Wakala fee would be also deduct from your first year contribution.” (PQT02)

Commentary: Another takaful marketer, who belongs to a well-established takaful institution, experienced that it is a common behavior of the majority takaful marketer that whenever they talk to the potential takaful client/ contributor so they never disclosed the fundamental information entirely. Such behavior leads to conflict and breaching of contract in later stages. As it is the general rule of almost every Takaful institution in Pakistan that they deduct minimum 35% of the Wakala fee from the individuals’ first year contribution. The contributor should know about it and it should also be disclose to them as well.

4.4. Disclosure of Shariah advisors’ public status:

“... only having Shariah advisor is not enough [when you are going certifying your products and services] but you [as a takaful marketer/ manager] also need to show them [potential takaful contributors] how respectable and pious he [Shariah advisor] is and what is his status in public eyes...” (PQT03)

Commentary: This takaful manager experienced while dealing with different potential contributor that the people are not only that whether or not takaful institutions have Shariah advisors. But they are also interested in the Shariah advisors’ piety, public status, respect, knowledge, and experiences. Hence, having an ideal Shariah advisor is quite enough for making and boosting people confidence in takaful. Therefore, takaful institutions shall need to disclose the complete profile of their affiliated Shariah advisors to the concern stakeholders.

4.5. Disclosure of the Shariah appraisal of profit sharing mechanism:

“... to us [takaful experts and academicians] takaful is not a profit generating mechanism rather is a cooperative system but majority of our policy holders joined it for earning purpose... also majority of potential policy contributor are only interested in the earning generation side of it [takaful] ... they frequently asked this question that

how profit generation in insurance is haram and it is halal in takaful...”(PQT04)

Commentary: This respondent suggested, based on his experiences, takaful institutions need to disclose how profit is generating in takaful is halal because majority of the religious conscious contributors not only select takaful mechanism because of its cooperative aspect but of its income generating aspect as well. Therefore, they want to know, through adequate disclosure, the Shariah appraisal of profit earning in takaful institutions.

The following table summarized the entire fundamental themes that explored from the interviews.

Shariah disclosure information

1. Disclosure of waqf arrangement in takaful institutions
2. Disclosure of about standardized fatwa
3. Disclosure of Wakala fee
4. Disclosure of Shariah advisors' public status
5. Disclosure of the Shariah appraisal of profit sharing mechanism

Table 4.1: Shariah disclosure information for Takaful institutions in Pakistan

5. Conclusion:

Compare to the conventional insurance system, takaful is a new born baby and its products services and other contracts are not that much strong as the conventional ones' are but still the religious conscious individuals choice it just because of the Islamicity of it. Furthermore, prior studies also concluded that majority of the individuals select takaful products based on the Shariah disclosure against it. The more disclosure of Shariah information, against takaful arrangement, will eventually lead more customers attraction toward takaful institutions and vice versa. This study explained both mandatory and voluntary Shariah disclosure information for takaful companies from the established literature. Furthermore, to extend the general approach and understanding toward Shariah disclosure in takaful institutions, this study explored that few more Shariah disclosure attributes in which

both the existing and potential customers are equally interested and that need to be disclosed. These Shariah disclosure attributes are: disclosure of waqf arrangement in takaful institutions, disclosure of about standardized fatwa, disclosure of Wakala fee, disclosure of Shariah advisors' public status, and disclosure of the Shariah appraisal of profit sharing mechanism.

To rationalize the positioning and importance of this study, so it is a novel contribution toward strengthening the Shariah disclosure practices of takaful institutions operating in Pakistan. There are very few studies available that emphasized explicitly on the Shariah disclosure practices in takaful institutions, whereas, our study broaden and extended understanding toward Shariah disclosure in takaful institutions through analyzing takaful managers' experiences. To get more robust result, novel researchers are invited to include the experiences and opinions of Shariah scholars, Takaful policy holders, and Takaful academicians. Also, in order to determine the importance of each Shariah disclosure attribute, a quantitative approach would also be an ideal research approach in the upcoming research. Furthermore, novel researchers are also inviting to make a performance index for takaful institutions based on the attributes explained and explored in this study. It would be an outstanding contribution as there is no single index that can evaluate the Shariah performance of takaful institutions. The conceptual scope of the study is limited to the disclosure of information related to Shariah compliance and Shariah governance only. It excluded all other kind of disclosure information related to financial disclosure, corporate statements disclosure, and social reporting. Concerning geographical and time-wise scope of the present, so it is conducted in KP, a province of Pakistan, in October, 2019. Furthermore, to attract more contractual individuals toward takaful and to strengthen confidence of the existing policy holders, it is recommended to disclose high Shariah related information.

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Acronyms:

BNM	Bank Negara Malaysia
AAOIFI	Accounting and auditing organization for Islamic financial institutions
MASB	Malaysian accounting standards board
IFSB	Islamic financial service board
SECP	Securities and exchange commission of Pakistan
GCC	Gulf cooperative council
SSB	Shariah supervisory board
IFI	Islamic financial institution
IBI	Islamic banking institution