

**Shariah Advisory Council (SAC) of Bank Negara Malaysia (BNM) Resolution No. 44 Dated 8 March 2004**

**Takaful Coverage for Islamic Financing**

The SAC was referred to on the issue as to whether it is mandatory for an Islamic financial institution to offer takaful coverage as the first option in covering a financing received by a customer of the Islamic financial institution.

***Resolution***

The SAC of BNM, in its 41st meeting dated 8 March 2004 and 43rd meeting dated 29 April 2004, has resolved the following:

i. For an Islamic financing package which does not include an amount of contribution for coverage, the Islamic financial institution shall offer a takaful plan as the first option to the customer who applied for the Islamic financing that requires coverage. If the customer refused the takaful plan on particular reasons, the customer may choose any conventional insurance as he wished. Such an exemption is only given in consideration of the following factors:

- a. If the insurance premium is totally borne by the customer;
- b. If there is a sector or specific class in insurance whereby takaful has no expertise; or
- c. The customer's application was rejected by takaful company on certain grounds.

ii. For an Islamic financing package that includes the amount for contribution of coverage, the Islamic financial institution shall ensure that only takaful plan is used to cover such Islamic financing. Conventional insurance premium shall not be included in Islamic financing package; and

iii. If a customer who has taken a conventional insurance coverage for an Islamic financing passes away or suffers any kind of peril that results in his inability to pay for the financing, the Islamic financial institution is entitled to receive compensation from the conventional insurance.

***Basis of the Ruling***

Ideally, all Islamic financing that require coverage shall be covered by takaful. However, for an Islamic financing package that does not include the amount of contribution for coverage, it is justified and reasonable to require the Islamic financial institution to offer takaful as first option to the customer.

The approach in allowing the customer to choose any conventional insurance as he wishes (in a case where the Islamic financing package does not include the amount for contribution for coverage) has taken into account various factors, including non-Muslim customers, takaful company's readiness in offering certain takaful products, takaful company's expertise in certain class and other factors.

This approach is in line with the following hadith of Rasulullah SAW:

“Whenever I order you something, obey it the best as you could and whenever I forbid you from something, avoid it.” (Sahih Muslim)

In addition, the Islamic financial institution is entitled to receive compensation from a conventional insurance company selected by the customer for the settlement of Islamic financing upon death of or perils on the customer. This is because the insurance coverage contract and the financing contract are two different contracts. The financing contract involves the Islamic financial institution and the customer as financing receiver. On the other hand, the insurance coverage contract involves the customer and the insurance company, whereby the Islamic financial institution is the beneficiary.

*Reference:*

*Shariah Resolutions in Islamic Finance (2<sup>nd</sup> edition), BNM,*

[https://www.bnm.gov.my/documents/20124/9198675/shariah\\_resolutions\\_2nd\\_edition\\_EN.pdf](https://www.bnm.gov.my/documents/20124/9198675/shariah_resolutions_2nd_edition_EN.pdf)