

# MODELLING GOLD BASED MEDICAL TAKAFUL

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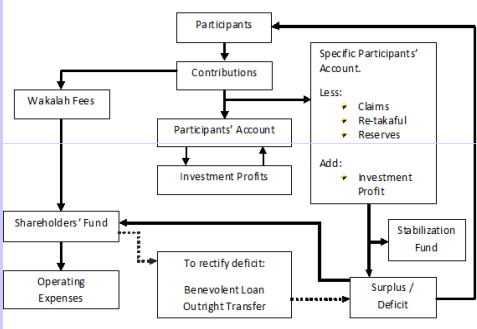
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## ISSUES IN THE CURRENT PRACTICE OF MEDICAL AND HEALTH TAKAFUL

The current model of Medical and Health Takaful requires each participant to contribute their monthly premium at a predetermined amount. The premium is quite high due to the fact that the Takaful need to cover the cost of private medical treatment, like hospitalisation, surgery and treatment, being diagnosed with certain illnesses or are involved in an accident. Given all of these benefits that would be received by participants, Takaful providers should have less problem in marketing their Takaful products as well as to maintain their participants' account. But the present situation is contrary. Many Takaful participants not paying their premiums after they have been insured for a period of time. Their reasons include:

- 1) They feel that the premium for Medical and Health Takaful is too high.
- 2) The profits they get when the policy is matured is low.
- 3) Policy holders that never or seldom claim their Takaful policy feel that the premium paid not worth the returns they get.

## CURRENT TAKAFUL WAKALAH MODEL



## INFLATION IN MEDICAL CARE

Is the current medical and health insurance policy would give you the appropriate coverage (in term of cost) when misfortune happen?

The medical cost (inflation in medical care products and services is expected to be around 15% each year) is keep rising over the years which leave participants no guarantee to pay fixed amount of premium. Takaful providers will eventually ask participants to increase their premium payment to support the rising cost of medical care.

Projection of future medical cost in 5 years, 10 years and 20 years based on 15% inflation rate:

- RM10,000 today would cost RM20,114 in 5 years
- RM10,000 today would cost RM40,456 in 10 years
- RM10,000 today would cost RM163,665 in 20 years

Now, how much is the cost to give birth in a private hospital?

- RM2,500 today would cost RM5,028 in 5 years
- RM2,500 today would cost RM10,114 in 10 years
- RM2,500 today would cost RM40,916 in 20 years

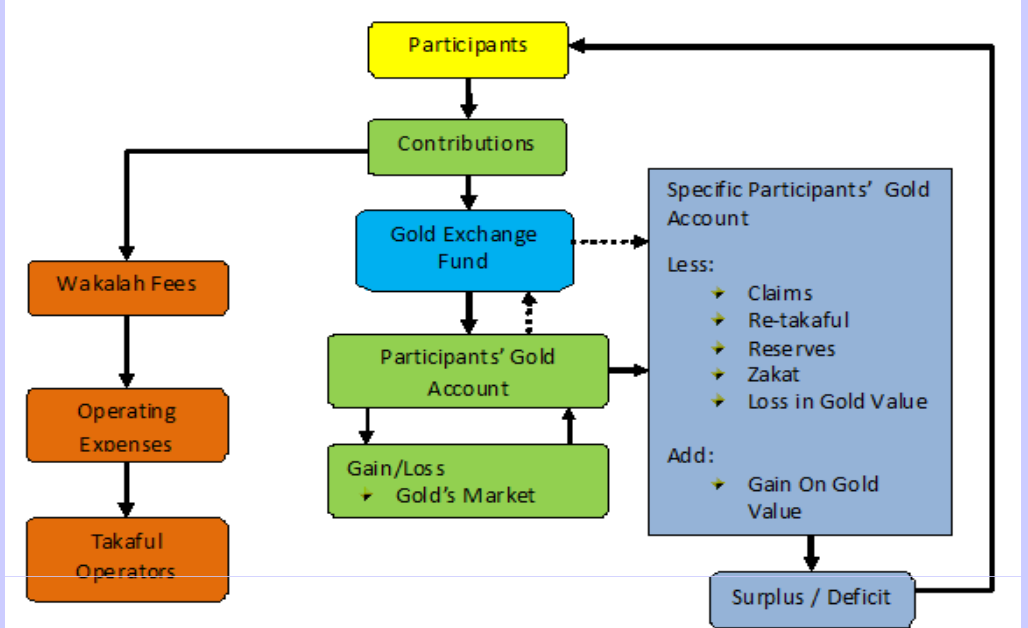
Are you surprised? or shocked? or just as you imagine that the cost of giving birth would be over RM40,000 in 20 years?

The number should not be surprised as it is based on paper money and the money itself has time value.

## GOLD BASED TAKAFUL

Given the issues relating to the present Takaful practices in using paper money to cover the cost of medical care, a new innovative product of Takaful need to be investigated, introduced and considered to be applied in the Takaful industry. One of the method is to use gold as it has a unique properties (mostly the correlation is negative with other assets) as compared to other assets. Therefore, we are proposing the Gold Based Takaful model as an alternative to the current Takaful model.

## GOLD BASED TAKAFUL MODEL



## WHY GOLD?



Gold as everyone knew is one of the valuable metals on earth and used to be in a currency system. In the Quran, gold has been mentioned by the Almighty 17 times and this show that gold is important in human life. Among them are:

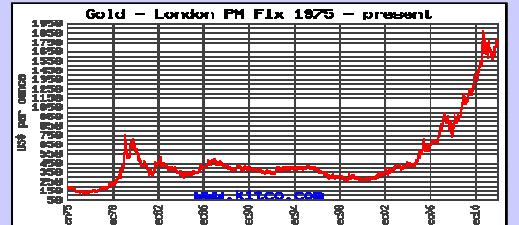
Sura' Ali Imran (verse 14):  
*Beautiful for people is the love of that which they desire - of women and sons, heaped-up sums of gold and silver, fine branded horses, and cattle and tilled land. That is the enjoyment of worldly life, but Allah has with Him the best return.*

Sura' At Taubah (verse 34):  
*O you who have believed, indeed many of the scholars and the monks devour the wealth of people unjustly and avert [them] from the way of Allah. And those who hoard gold and silver and spend it not in the way of Allah - give them tidings of a painful punishment.*

It is noted that gold is exceptionally important, but to manage it wisely (spend it in the way of Allah) is far more important.

- Advantages of gold :**
- 1) Inflation hedge ability
  - 2) Stability of its price
  - 3) Applicable for medium to long-term investment purposes (similar with the Takaful objective)

## GOLD PRICE OVER THE YEARS



- 1 Oz = 28.35 grams = USD150 (1975)
- 1 Gold Dinar = 4.25 grams = USD22.50 (1975)

Approximately, 1 Gold Dinar (4.25g) is equal to RM70 in 1975 and today the price is about RM700. The price of a goat in 1975 is RM70 and its price today is parallel to the increment of gold price which is about RM700.

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