



Islamic Insurance (Takaful)

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The Term Takaful

Takaful comes from the Arabic root-word “Kafala” means guarantee.

Takaful is a practical manifestation of the Quranic injunction for mutual co-operation and assistance for the common benefits.

Operationally Takaful refers to participants mutually contribute to a common fund with the purpose of having mutual indemnity in case of loss.

There are a number of judicial opinions and Fatwas confirming validity of Takaful is one of the OIC in 1985.

Objections to Conventional Insurance

- ◆ Uncertainty (Gharrar)
- ◆ Gambling (Maisir)
- ◆ Interest (Riba)
- ◆ UW + Investment profit belongs to be company

Uncertainty (Gharrar)

Conventional Insurance contract is basically a contract of exchange (mu’awadat).

Gharar in insurance contract pertains to “deliverability” of subject matter. i.e. Uncertainty as to:

- ◆ Whether the insured will get the compensation promised?
- ◆ How much the insured will get?
- ◆ When will the compensation be paid?

Thus, it involves an element of uncertainty in the subject matter of the insurance sales contract, which renders its void under the Islamic law.

Gambling (Maisir)

- * The insured loses the money paid for the premium when the insured event does not occur.
- * The company will be in deficit if claims are higher than premium.

Interest (Riba)

- * “Allah has permitted trading and forbidden Riba” (Al-Baqarah2:275)
- * Insurance funds are invested in financial instrument which contain the element of Riba.

Takaful Model

There are three (3) models of Takaful which are used in all over the world.

Mudarba Model

Wakala Model

Wakala + Waqf Model

Takaful Model

There are three (3) models of Takaful which are used in all over the world.

- ◆ Mudarba Model
- ◆ Wakala Model
- ◆ Wakala + Waqf Model

In our country (Pakistan) Wakala + Waqf Model is used.

- * The relationship of the participants and the operator is directly with the WAQF fund. The Operator is the “Wakeel” of the fund and the participants pay contribution to the WAQF fund by way of Tabarru.
- * The contributions received would also be a of this fund and he combined amount will be used for investment and the profits earned would again be deposited in the same fund which also eliminates the issue of Gharar.
- * Losses to the participant are paid by the company from the same fund.
- * Operational expenses that the incurred for providing Takaful services are also met from the same fund.

General Takaful Type

General Takaful offers all kind of non-life risk coverage. It is normally divided into following classes:

- ◆ Property Takaful
- ◆ Marine Takaful
- ◆ Motor Takaful
- ◆ Miscellaneous Takaful

General Takaful Type

- ◆ Term Life Takaful
- ◆ Whole Life Takaful
- ◆ Endowment Takaful
- ◆ Marriage Plan
- ◆ Educational Plan

Takaful Legal Framework in Pakistan

- ◆ Companies Ordinance - 1984
- ◆ Insurance Ordinance - 2000
- ◆ Insurance Rule - 2002
- ◆ Takaful Rules - 2005

Takaful Rules - 2005

Composite Takaful companies are not allowed.

Window products and Takaful operations by conventional insurers not allowed.

Takaful operational model prescribed.

PTF and STF

Investments

Re-Takaful

Shariah compliance audit

Central Shariah Board