



Takaful Insurance (Islamic Insurance)

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Date : 23 Dec, 2010

WHAT IS TAKAFUL INSURANCE



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- The word “takaful” originates from the Arabic word “Kaflun” meaning “joint guarantee” and “shared responsibility”
- It is a guarantee by insurance company to the insured to pay a certain sum of compensation (sum insured) in the event of happening the insured perils
- The concept of takaful is sharing the suffering of anyone of a group by other members of the group on voluntary basis
- “The distinct character of takaful is that the contract is based on the **virtues of co-operation, mutual help, shared responsibility and benefit**, while all aspects of the contract must be transparent to all involved”

THE PRINCIPLES OF TAKAFUL INSURANCE

- Policyholders cooperate among themselves for their common good
- Every policyholder pays his subscription to help those that need assistance
- Losses are divided and liabilities spread according to the community pooling system
- Uncertainty is eliminated in respect of subscription and compensation
- It does not derive advantage at the cost of others

TYPES OF TAKAFUL INSURANCE

- TAKAFUL LIFE INSURANCE
- TAKAFUL NON LIFE INSURANCE
 - FIRE
 - MARINE
 - MOTOR
 - ENGINEERING
 - ACCIDENT/ MISCELLANEOUS

- All the premium amount are pooled into a takaful fund managed by each insurer
- The insurer acts as trustee, invests the fund in Islamic ways and channels the investment income, less investment expenses, back to the fund
- The insurer then settles all outstanding claims, deducts its operating expenses and transfers part of the fund to relevant reserves. If there is any balance in the fund after all these adjustments, the balance will be shared by the insurer and its policy holder in accordance with an agreed ratio basis, e.g., 50 percent each
- This surplus is normally distributed on expiry of each policy holders' account. If, however, the sum of the premiums and investment income is insufficient to meet these adjustments, those affected policy holder could be assessed for additional contributions
- It used for, including generating a fund for children's education, securing a fund in case of mortgagor's premature death and protecting business interest against key-employee's death
- **Death claim benefits** - only proof of death needs to be submitted to the insurer
 - The cause of death, whether natural, accidental or unlawful, matters little in takaful insurance as the death is deemed to be the will of Allah
 - In the event of suicide, the rights and claims of the surviving family members may not be ignored
 - Takaful insurers do not include a suicide clause in the contract or shorten the probationary period to one year instead of the two-year period that other non-takaful insurers frequently impose

- It offer coverages, commonly on an annual renewal basis, for fire insurance and allied lines, automobile insurance, liability insurance, marine insurance, workers' compensation, fidelity and even crop insurance
- Takaful and conventional non-life insurance is also similar in that they both adopt several key legal principles in insurance. Particularly, both types of insurance employ the principle of insurable interest to minimize the problems of moral hazard, i.e., to separate insurance from gambling
- Takaful insurers are thus willing to extend coverage only after having proper valuation of the property to be insured

SPECIAL FEATURES OF TAKAFUL

- Profit Sharing:
 - Takaful companies are run on the basis of Mudaraba concept. In Islamic Insurance, the entrepreneur i.e. those who float the company called Takaful Operator, agree voluntarily to part with a portion of profit and disburse the same amongst the Policy Holders, who are called “Participants”
- Investment of Fund:
 - Takaful is to invest its fund in interest free sectors according to shariah principals. Investment of fund of an insurance company should be done having regard to security, liquidity and maximum return etc.
- Shariah Council /Committee:
 - In an Islamic Insurance Company, there must be a shariah council / committee, generally composed of renowned Ulemas, Shariah Law expertise and insurance expertise.

SPECIAL FEATURES OF TAKAFUL

CONTINUED...

- **Ethical Standard:**

- Islam teaches us righteousness, fair play and justice in all sorts of dealings. Be it Economic, Social and Individual. Holy Quran teaches us:
 - “.....Help one another in righteousness and piety, But help not one another in Sin and Rancour...”

- **Maintenance of Distinct Accounts**

The Takaful Company maintains two accounts clearly separate.

- Participants' Account
- Shareholders' Accounts

SPECIAL FEATURES OF TAKAFUL

CONTINUED...

Participants' Account

- The participants' account is credited with all the contributions (or participating in General Takaful Schemes viz Fire, Marine, Motor Vehicle, Personal accidents) made by the participants and their share of profits on investment of funds.
- The amount of service charges, claims and miscellaneous charges are debited to the participant's accounts.
- A "Reserve" to offset the loss is created out of the gross surplus of this account. The net amount of this surplus is distributed among the participants according to the ratio of their contributions excepting those who received claims.
- If there is any deficit, the same should be written off against this reserve (General Reserve). If however, there is no such reserve or the amount of deficit exceeds the amount of "General Reserve", such deficit may be taken out of the shareholder's reserve and capital. Such funding of deficit may be treated Quard-E-Hasana and this is recredited from the future surpluses of these reserve accounts

Shareholders' Accounts

- The shareholders do not participate in any part of the credit to the participants accounts.
- Shareholders' account is credited with the investment income from the share capital.
- The surplus accrued after meeting the share of the shareholders' current expense etc. is distributed amongst the shareholders according to their shareholding

SPECIAL FEATURES OF TAKAFUL

CONTINUED...

Transactions Details

Participant's Account	Shareholder's Accounts
<p><u>Credits:</u></p> <ol style="list-style-type: none">1.Contributions (Tabbarru)2.Profit on Investment of Fund	<p><u>Credits:</u></p> <ol style="list-style-type: none">1.Share Capital2.Investment Income from Share Capital3. Management Fee (For Managing Participants Fund)
<p><u>Debits:</u></p> <ol style="list-style-type: none">1.Management Fee (Service Charge)2. Claims Paid	<p><u>Debits:</u></p> <ol style="list-style-type: none">1. Administrative Expenses2. Overhead Expenses3. Zakat / Sadaqa

Tabarru

- The concept of Tabarru is unique in Islamic Insurance System. “Tabarru” means to donate, to contribute.
- The participants of the Takaful contract agree to relinquish as Donations, made in accordance with the concept of “Tabarru”, certain portions of their Takaful installments in order to fulfill the obligations of mutual help and joint guarantee as embodied in the concept of Takaful.
- The purpose of “Tabarru” as stipulated in the contract is to enable the participants to perform their deeds in sincerely assisting fellow participants who might suffer a loss or damage due to occurrence of insured perils

Sadaqa Fund

- A Sadaqa fund may be created out of the balance of share capital, reserve and by charging 2.5% annually
- The fund may also be enriched by the contribution from those who are associated with the company individually or collectively or from the general public. This fund utilized for the welfare purpose



Islamic Insurance	Conventional Insurance
Profit earning should not be the main goal	Making maximum profit for its shareholders
Helping fellow participants through bad times, sharing the misfortune while sharing the profits	It often expose its funds in risky investments to secure high returns
Each and every policy holders (participants) has the right to know how their money is utilized by the company's management and how profits from various investments are earned and dividend	The Policy holders have no legal rights to know that how the insurance companies are making money or how they earn profit / surplus
In investing money, the company has to give paramount concern to the legality aspect i.e., the investment must be Islamically approved (Halal). The company certainly cannot be involved in interest based investment portfolios	In investing money the insurance company has to give paramount concern which would yield good returns in the form of interest / profit
Interest Free	With Interest

Islamic Insurance	Conventional Insurance
<p>Policyholders (Participants) have the opportunity to participate in the management of the company and thus help management</p>	<p>Policy holders have no legal right to be involved in the day to day activities and investment policies of the company</p>
<p>There is no provision to share the profit/ surplus with the policy holders</p>	<p>If no claims are made and there is surplus / profits after deducting all the operational cost of the fund, that surplus shall be shared between the participants (insured) and the operator (insurer)</p>
<p>Zakat fund is created for the welfare of the people</p>	<p>No Charitable Fund is created</p>
<p>The Takaful operators and the policy holders as business partners will share a profit / loss based on the performance of the business. The ratio of the profit sharing will determined in advance such as 50-50, 60-40 or 70-30</p>	<p>The ratio of profit / loss sharing is not determined in advance. The insurance company and policy holder are not business partners instead the insurance company basically manage the common fund</p>

Re-Insurance (Re-Takaful) System

- Spreading Risk
- Re-Takaful with another Takaful Company

Takaful In Bangladesh

- Islami Insurance Bangladesh Limited (General)
- Islamic Commercial Insurance Limited (General)
- Takaful Islami Insurance Company Limited. (General)
- Far East Life Insurance Company Limited (Life)

- There are about 50 (Fifty) Takaful operators throughout the world
- The first ever insurance company established in the world is the **Islamic Insurance Company Ltd.** – Sudan, on 22 January, 1979
- In Malaysia, however, Takaful Business has attained tremendous success
- Even Non-Muslim World viz. USA, Singapore, Belgium, Takaful is thriving



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