

Takaful
What's it all about?
By Azeem Pirani

A car accident, an illness requiring time-off from work, a death in the family, a fire in your home or not being able to afford getting your child married; these all are issues that can be very difficult for any family. Prudent planning would require that we do our best to protect ourselves from any of these events; cautious driving, living a healthy lifestyle, protecting the home from possible fire hazards, making a greater effort to save. Granted that reducing the risk factor to zero is a rare occurrence that does not mean we won't try to bring it down as low as possible.

Risk, more often than not, also has a financial element. How does one protect ones family and self from that? What can you do to reduce that aspect of your risk? This is where Takaful enters the picture.

The word "Takaful" comes from the Arabic root word Kafala, meaning "to guarantee" or taking care of one's needs. Takaful is a Shariah compliant arrangement whereby individuals in the community jointly guarantee themselves against future losses or damages. This method of Risk Mitigation has been used for centuries, albeit under different names. Prior to the advent of Takaful, as we know it today, the most common has been 'Mutual Insurance' which, although similar, is not identical. Takaful is based on the principle of solidarity, mutual help, brotherhood and cooperation among members of the community.

The key elements of any Takaful arrangement are the participants, the Takaful Pool, and the Takaful Operator (Company). The Takaful Pool is managed in the shape of Waqf (Endowment) by the Takaful Operator which is actually just an operator and carries out its role in the form of a Wakeel (agent). Participants pool their contribution, which are given in the form of donations, into the Waqf from which they may benefit in the event that they suffer a loss. All claims are paid out by the Waqf and not the Takaful Operator.

You're probably thinking that this is insurance but in reality it's not. Insurance is a tool for risk mitigation and financial protection; Takaful is also a tool for risk mitigation and financial protection. They serve a similar purpose but that does not mean that they are the same.

A good way to exemplify this is the relationship between frozen yogurt and ice cream. When eaten frozen yogurt looks and tastes just like ice cream, yet it is definitely not ice cream. It generally serves as an alternative to ice cream, one which is usually lower in fat and calories. Its price may be the same, or a little higher or lower. What is most important is that although it is a perfect alternative it is one which is healthier.

Risk mitigation and financial protection are things which everybody needs to be concerned about. In order to effectively carry this out they need a tool which is not only effective in mitigating risk but also immaculately serviced, competitively priced, is in compliance with our ethical and religious beliefs and, most importantly, better for the individual and the community. That tool is Takaful.

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