



# Takaful An Introduction

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# Agenda

## Section A

Life is full of Risks

- Risk & Tools for Mitigating Risks
  - Risk Mitigation in Islam
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## Section B

Conventional  
Insurance  
vs  
Takaful

- The Conventional Insurance Process & Shariah's Stance on it
  - Riba, Gharar, Qimar/Maysir
  - Fatwas on Conventional Insurance & Takaful
  - Takaful, its Process, its Birthplace, its History & Development, & Global Progress
  - Takaful Models
  - Recap
- 

## Section C

The Reality of  
Takaful

- Applied Takaful: from Customers' & Operators' Perspective
- Product Portfolio
- Investment Framework
- Takaful in Africa



Section A:  
Life is full of Risks...



Motor



Fire



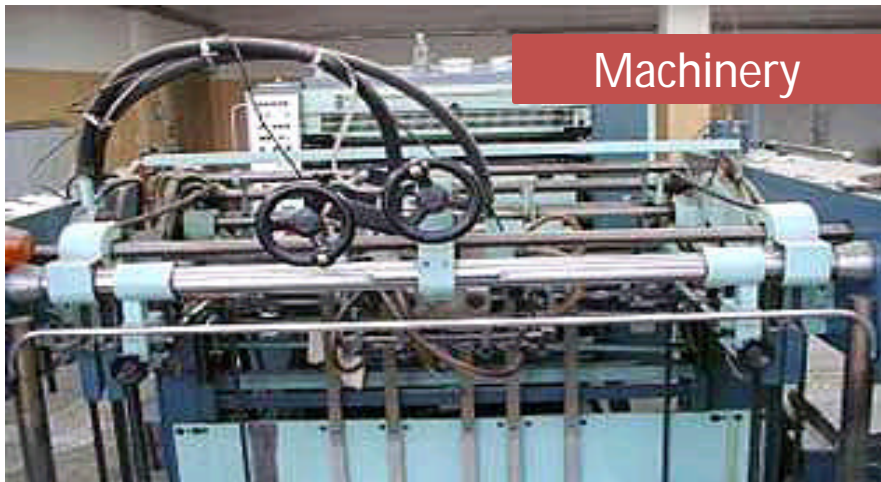
Marine



Travel



Health



Machinery



Life

# Risk Mitigation

Since the beginning, people have tried to protect themselves from risks and resulting losses

- *What is Risk?*
  - Risk is the potential danger that threatens to harm or destroy an object, an event or a person

# Risk Mitigation Tools

## Available Risk Mitigation Tools?

### – Avoid Risk Mitigation:

- a concept generally misunderstood as *Tawwakul*. ***Tawakkaul*** by definition however is employment of all Halal available means/resources and entrusting Allah SWT with the outcome

### – Self-Insurance or setting aside contingency money for the rainy day

### – Conventional Insurance:

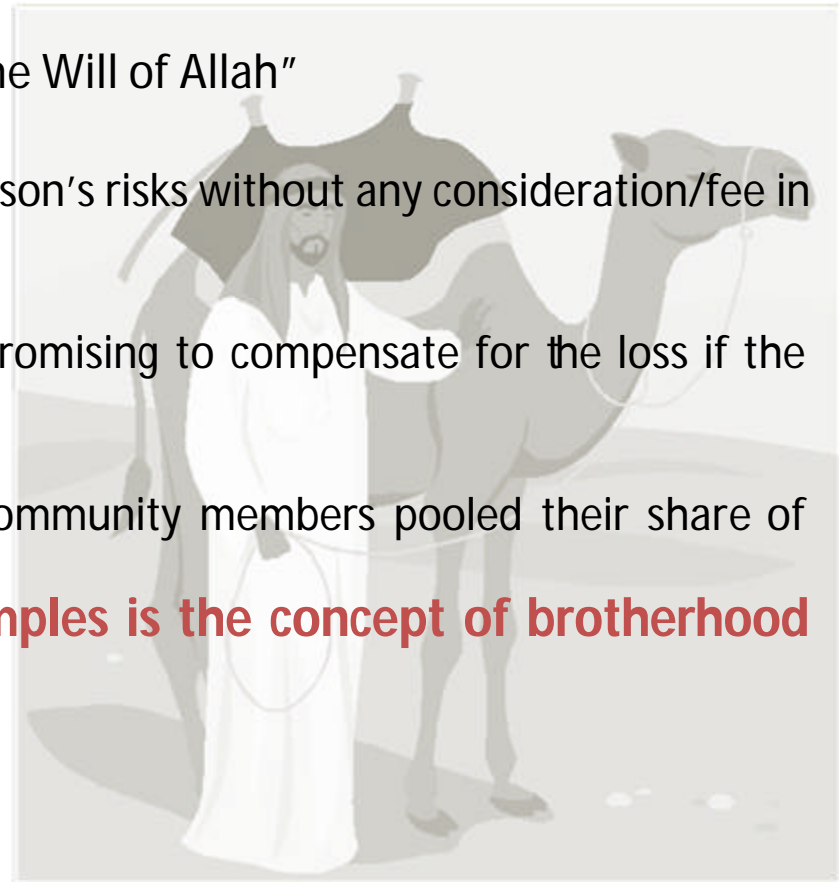
- A commercially viable system but inherently flawed with Shari'ah defined ills such as Riba, Gharar, and Qimar/Maysir

### – Takaful:

- A Halal and Ethical alternate to conventional insurance

# Risk Mitigation in Islam

- **Is the concept of risk mitigation permissible in Islam?**
  - This very concept is not only lawful/permissible in Islam but is in fact encouraged
- **Islamic history is replete with examples featuring activities involving risk mitigation:**
  - **Hadith:**
    - “Tie the Camel and then Submit to the Will of Allah”
  - **Dhaman Khatr al-Tareeq:**
    - A person would undertake another person’s risks without any consideration/fee in return
  - **Dhaman Al-d’ark:**
    - A person would influence a sale by promising to compensate for the loss if the subject-matter proved faulty
  - **Aqila:**
    - A risk sharing mechanism in which community members pooled their share of Diyat (blood money)
- **The underlying theme in all these examples is the concept of brotherhood and mutual solidarity**





CONVENTIONAL INSURANCE

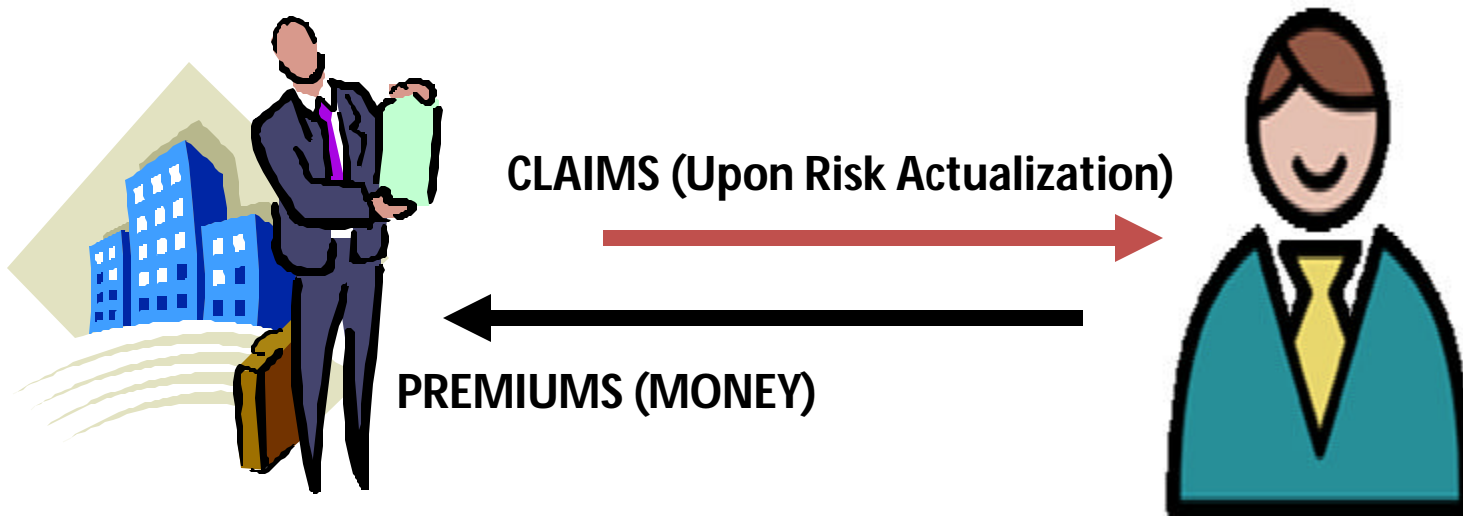
TAKAFUL



## Section B: Conventional Insurance vs Takaful

# The Conventional Insurance Process

- The customer regularly pay premiums in exchange of claim (at the time of risk actualization) from the Insurer



# Shariah's Stance on Conventional Insurance

concept of  
Insurance?



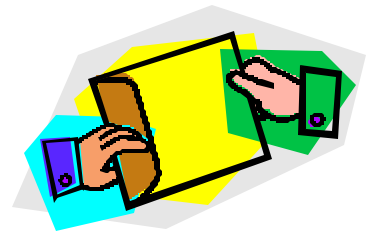
practice of  
Insurance?

Shariah has no objections as to the concept or objectives of insurance ; it *only* has reservations with the way it is being practiced...

# Shariah's Stance on Conventional Insurance

## Point # 1

- It is a sales-purchase contract. In Shari'ah terms it is called **Aqd Muawaza**



## Point # 2

- Premiums belong to the company



## Point # 3

- Insurance company pays the claims from their own pockets



## Point # 4

- Premiums are invested in all kinds of investment avenues, including Riba-based businesses



# Riba, Gharar, Qimar/Maysir

- Because this is sales-purchase contract i.e. **Aqd Muawaza**, this kind of risk mitigation involves:



RIBA



GHARAR



QIMAR/MAYSIR



## **DIRECT RIBA**

The *difference* between the premiums paid by the policyholder and the claims received

## **IN-DIRECT RIBA**

Premiums are invested in Riba-based investment avenues

# Riba, Gharar, Qimar/Maysir

- Because this is sales-purchase contract i.e. **Aqd Muawaza**, this kind of risk mitigation involves:



RIBA



GHARAR



QIMAR/MAYSIR

In Aqd Muawaza, Shariah does not allow Gharar & Qimar/Maysir.



GHARAR

Gharar is present because the Subject Matter of the contract does not exist, is not specifiable, and the time of delivery is uncertain

# Riba, Gharar, Qimar/Maysir

- Because this is sales-purchase contract i.e. **Aqd Muawaza**, this kind of risk mitigation involves:



RIBA



GHARAR



QIMAR/MAYSIR

In Aqd Muawaza, Shariah does not allow Gharar & Qimar/Maysir.



QIMAR/  
MAYSIR

Total loss of premiums paid by the participant in case the risk doesn't actualize

# Fatwas on Conventional Insurance

- Fatwa issued in Judicial Conference held in Makkah in Shaban 1398 AH.
- Verdict of Supreme Court of Egypt on Dec. 27, 1926.
- Unanimous resolutions and fatwa by Ulama in the Muslim League Conference in Cairo in 1965.
- Unanimous decision by Muslim Scholars in seminar held in Morocco on May 6, 1972.

# Fatwas on Takaful

- Fatwa issued by Higher Council of Saudi Arabia in 1397 A.H.
- Fatwa Issued by the Fiqh Council of Muslim World League in 1398 A.H.
- Fatwa issued by the Fiqh Council of the OIC in 1405 A.H. (1985).



TAKAFUL

# Definition of Takaful

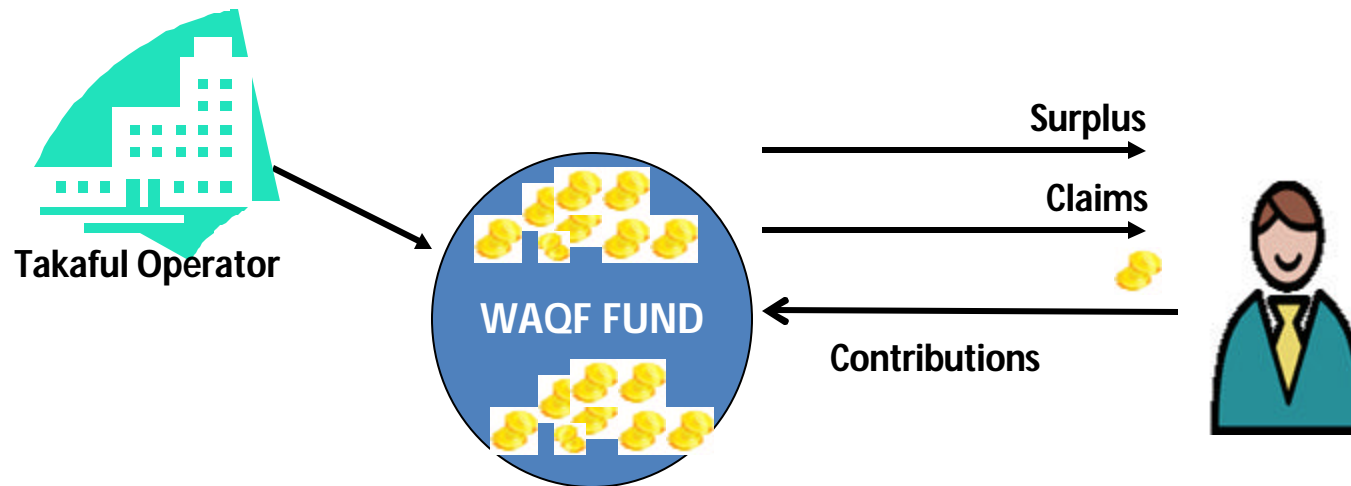
- The word "*Takaful*" originates from Arabic language.
- Its root word is "*kafala*" which means "*to guarantee*".
- Through inflection it changed to "*takafala*" which means "*to help each other*" or to "*jointly guarantee each other.*"

# The Concept of Takaful

- Takaful is a community-pooling system in which participants contribute their savings into the common fund to help those who need it most in times of financial difficulty
- It is based on the concept of brotherhood and mutual solidarity.
- **EXAMPLES:** The concept of Takaful is manifested in the system of Baitul Maal, the cooperative societies and the joint-family set ups etc...

# Takaful Process

- Takaful Operator creates the Waqf Fund or the “Taburru Fund”
- Participants contribute their premiums/contributions on the basis of “Taburru” into this Waqf Fund
- The Waqf Fund pays the claims



# Key Points on Takaful Process

## Point # 1

- Premiums are paid on the basis of Tabarru. In Shariah such a contract is called **Aqd Tabarru**



## Point # 2

- Premiums are credited into the Waqf Fund; Operator acts as Wakeel



## Point # 3

- The Waqf Fund pays the claims



## Point # 4

- Premiums are invested only in Shari'ah Compliant investment avenues

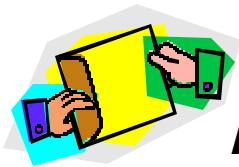


## Point # 5

- An independent Shariah Board supervises business activities for Shariah compliance



# Recap – **Fundamental Differences** between Conventional Insurance & Takaful



**AQD MUAWAZA**



**AQD TABURRU**



**PREMIUMS BELONG TO COMPANY**



**PREMIUMS CREDITED TO TABURRU FUND**



**COMPANY PAYS THE CLAIM**



**TABURRU FUND PAYS THE CLAIM**



**RIBA-BASED PROFITS**



**HALAL INVESTMENT PROFITS**

# Sudan, Birthplace of Modern-day Takaful



Pioneer in Takaful, 1979

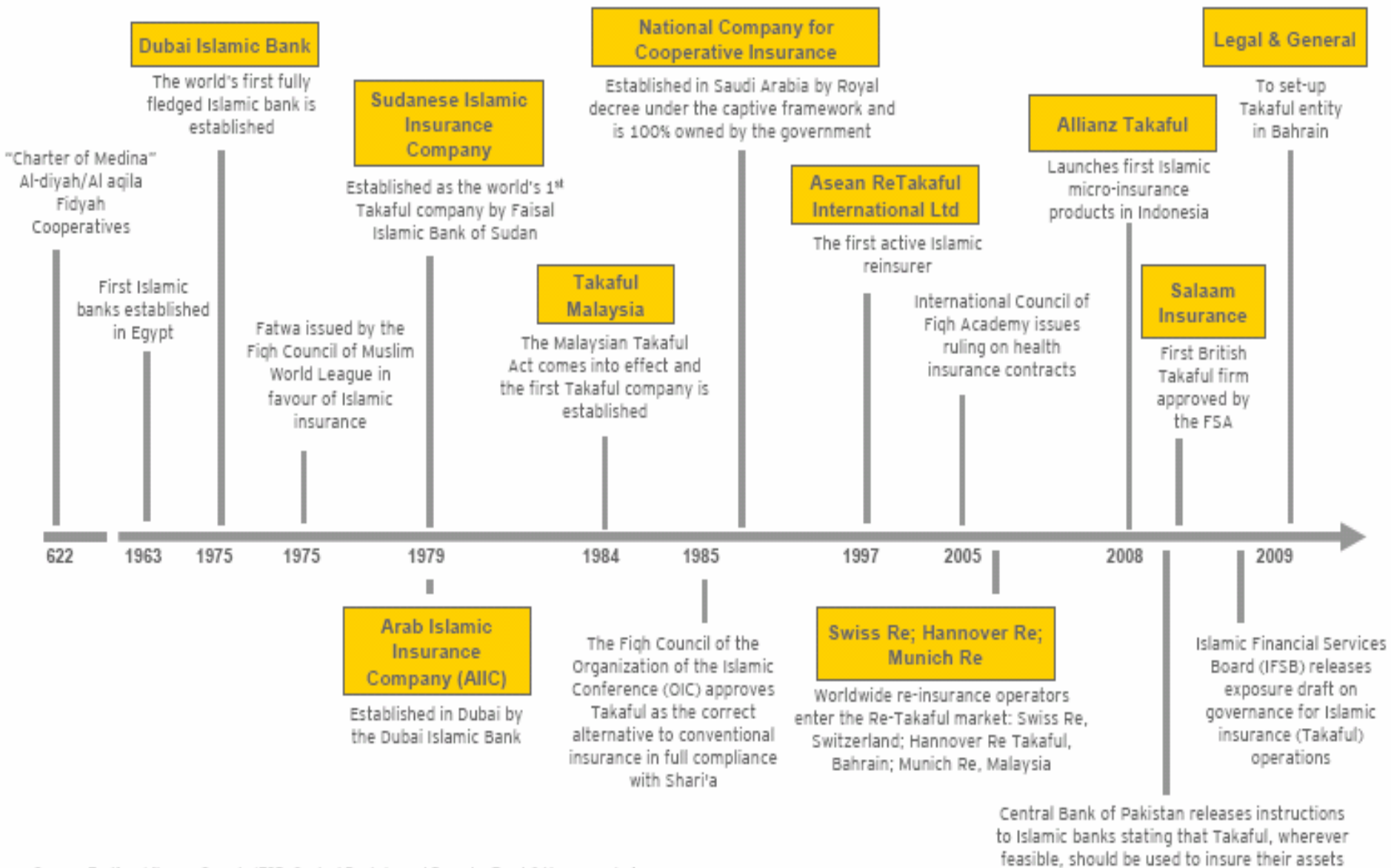
Ta'awuni Model

Takaful subsidized by Govt.

Surplus is 100% paid back to participants

Very Good Shariah Structure

# Global Progress of Takaful



# Innovation, Creativity, and Hard-Work brought Vitality in the Takaful Industry

**Ta'awuni Model**



**Sudan**

**Mudarabah + Wakala**



**Malaysia**

**Wakala**

**Middle East & Other  
Countries**

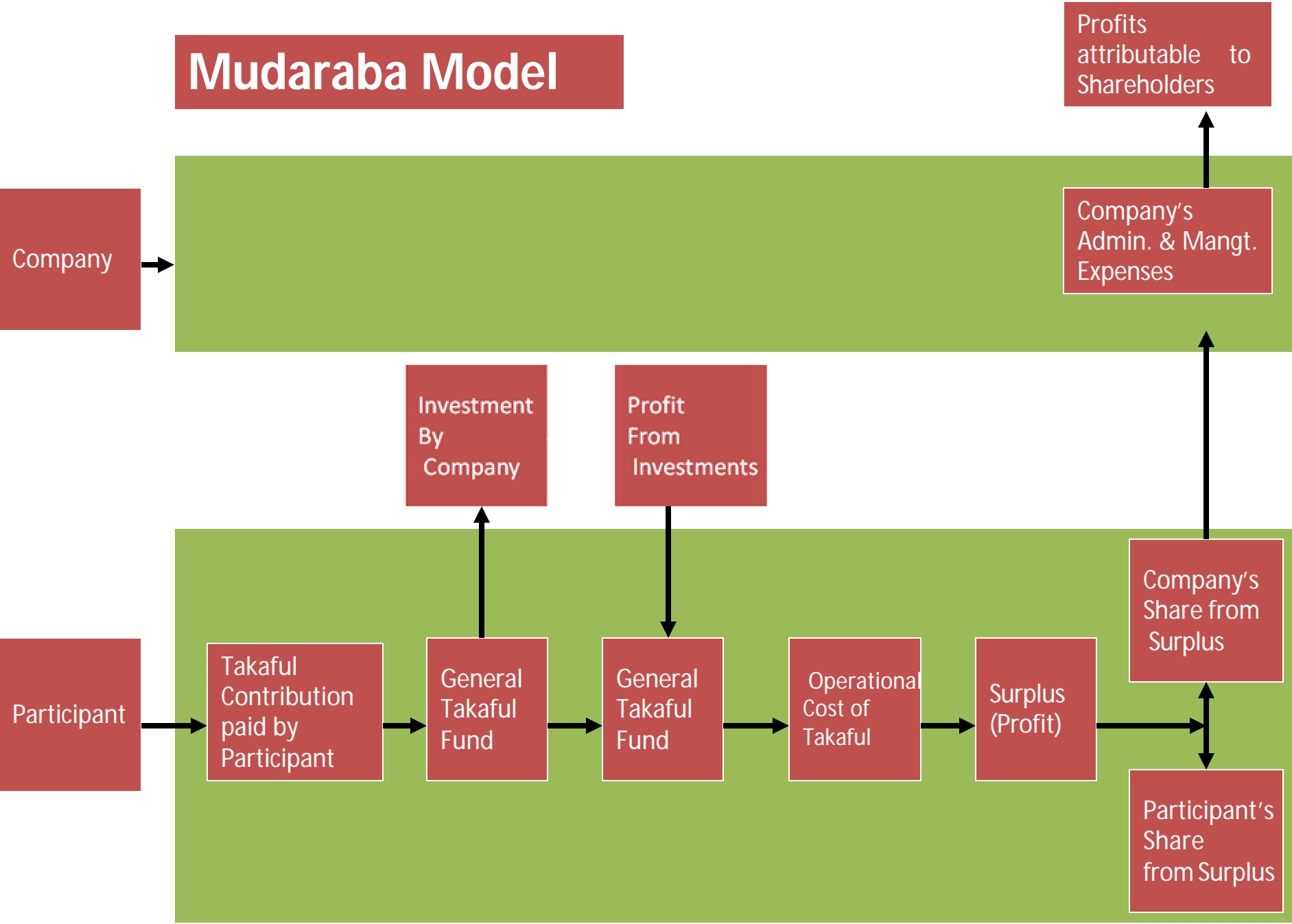
**Wakala - Waqf**

**Pakistan & South Africa**

## **Mudarabah Model**

**A principal-manager relationship is used between the policyholders (capital providers) and the Takaful operator (entrepreneur) for both underwriting and investment activities**

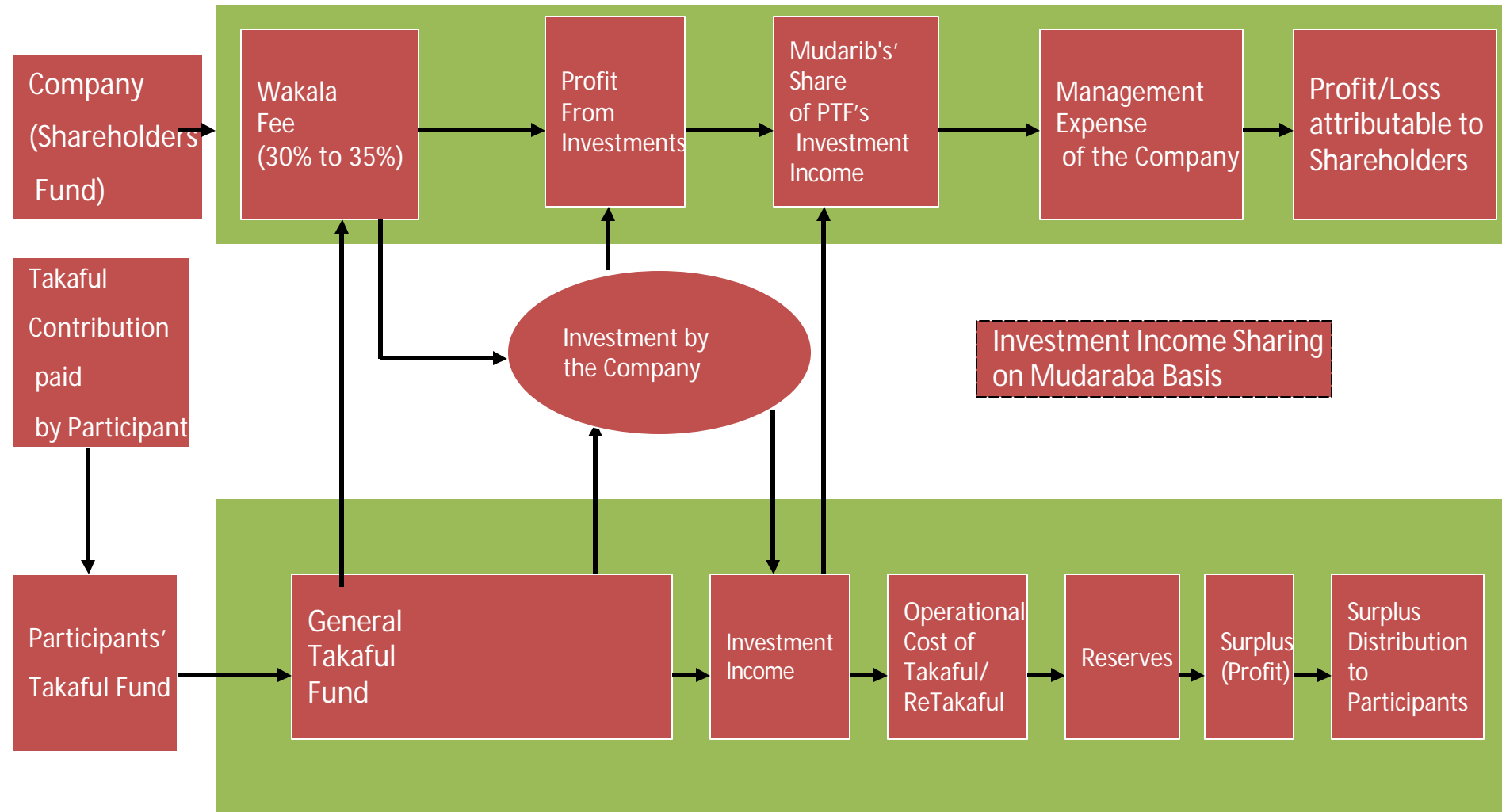
# Mudaraba Model



## Wakala Model

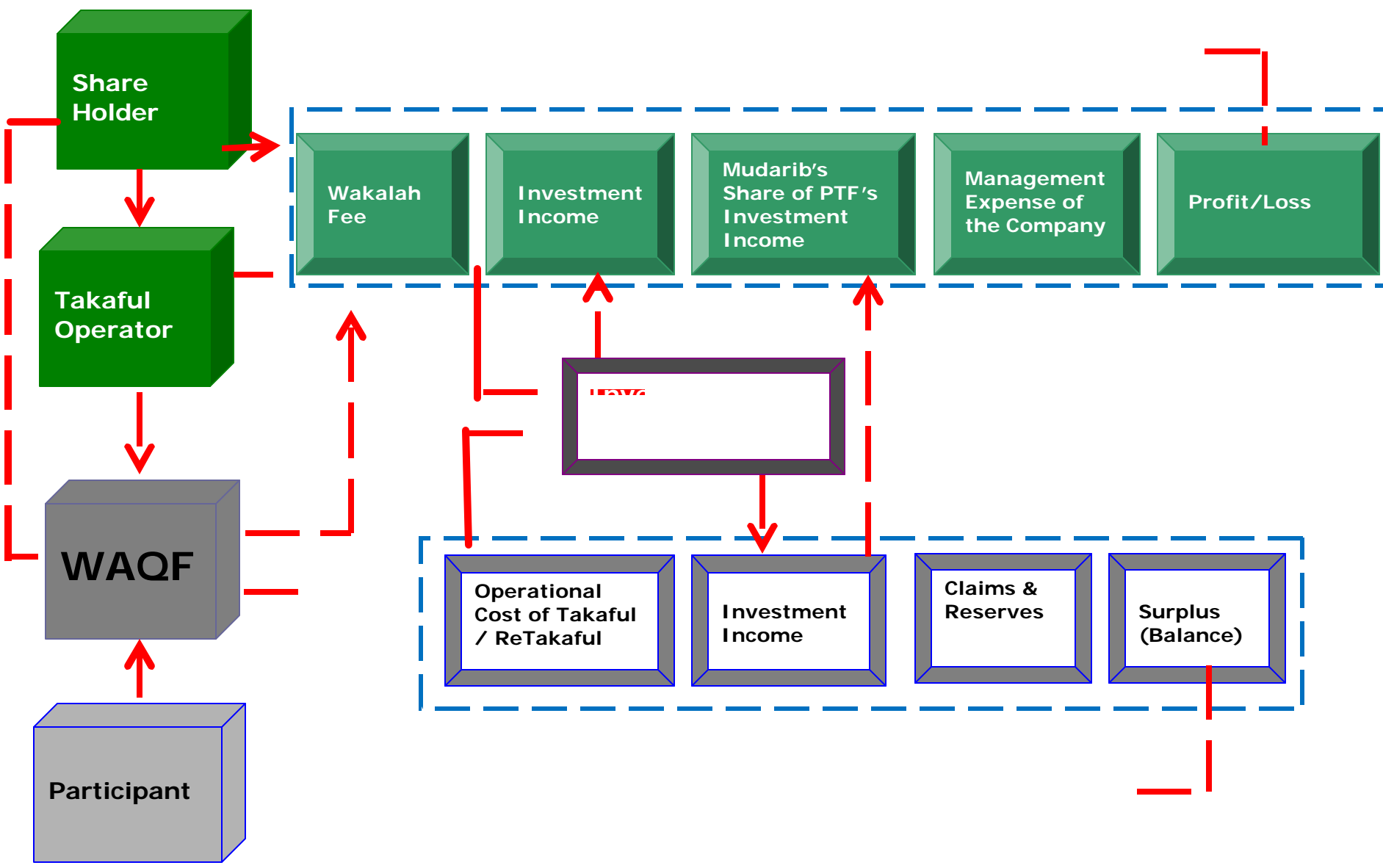
**A principal-agent relationship is used between the policyholders and the Takaful operator for both underwriting and investment activities**

# Wakala Model



The background of the slide is a light blue-tinted image of architectural blueprints. A pencil and an eraser are visible on the drawing. The word 'FIRST FLOOR' is printed in large, spaced-out letters across the top of the blueprint. A dark red banner with a white border is positioned in the center, containing the title text.

# Wakala-Waqf Model



# Takaful – Investment Avenues

- Shari'ah compliant Government Securities
- Immoveable property
- Joint Stock Companies
- Redeemable Capital
  - Mutual Funds
  - Musharika Certificates
  - Term Finance Certificates
  - Participation Term Certificates
- Placement of excess funds with Banks and Islamic financial institutions



Section C:  
The Reality of Takaful

# Applied Takaful: from **Customer's** Perspective

- Takaful resonates with the beliefs and values system of people from different cultures:

Shariah  
Compliant

Ethical

Transparent  
& Full-  
Disclosure

Shariah &  
Socially  
Responsible  
Investments

Surplus  
Sharing

# Applied Takaful: from **Investors'** Perspective



134

# Takaful Operators in 2009

Excludes



Approx.  
36

Window Operators



15

Irani Operators

- **Global Market Size** (E&Y, WTC 2009)
  - 2004: US\$ 1.4 billion
  - 2006: US\$ 2 billion
  - 2007: US\$ 3.4 billion
  - 2010: US\$ 4.3 billion
  - 2012: US\$ 8 billion
- **KEY FACT:**  
60% of customers of Takaful in Malaysia are non-Muslims.
- Takaful is growing 35% faster than conventional insurance worldwide (Dr. Ahmed Al Janahi, Managing Director NOOR Takaful, WTC 2009)
- More than 18 Re-Takaful Operators worldwide

# Takaful – Product Portfolio

- **General Takaful**

- **Motor:** Third-party liability & comprehensive motor insurance for both individual and commercial markets. Other ancillary services being offered include road, personal accident insurance, among others.
- **Marine:** Marine cargo, hull, liabilities and freight forwarders
- **Engineering:** Erection all risks, contractors' all risks, plant and machinery, loss of profits and deterioration of stock
- **Property & Casualty:** Fire and allied perils, property all risks, public liability, product liability, professional indemnity, medical malpractice
- **Miscellaneous:** Money insurance, fidelity guarantee, workmen's compensation, employer's liability, traveler's insurance, personal accident
- **Specialty lines:** Including bankers' blanket bond, jewelers' block, directors and officers insurance

- **Family Takaful**

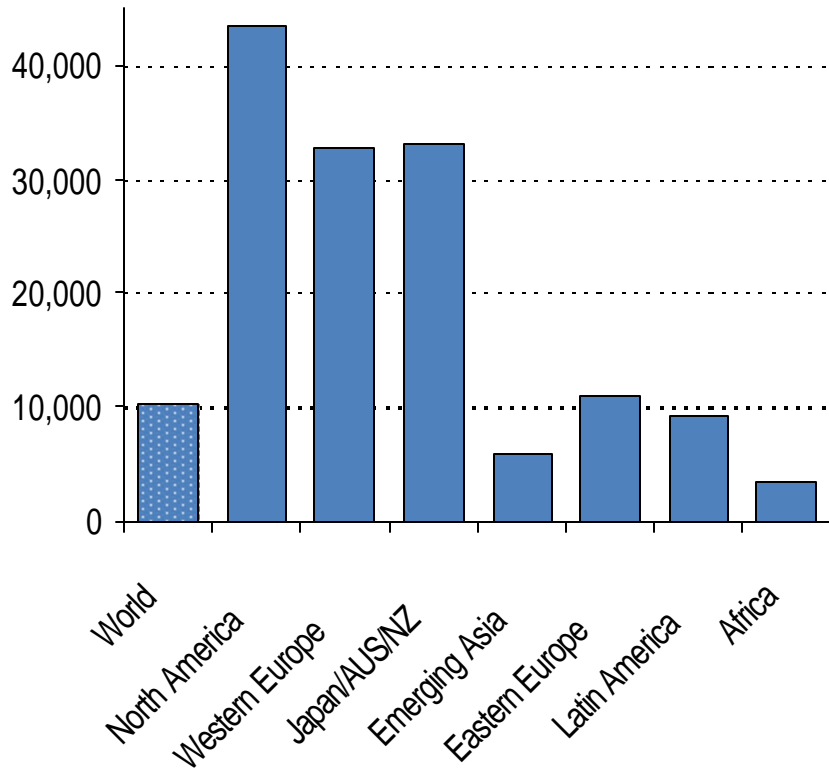
- **Life & Health:** Includes group family Takaful (group life), personal accident & sickness benefits, group health insurance, medical & travel assistance benefits



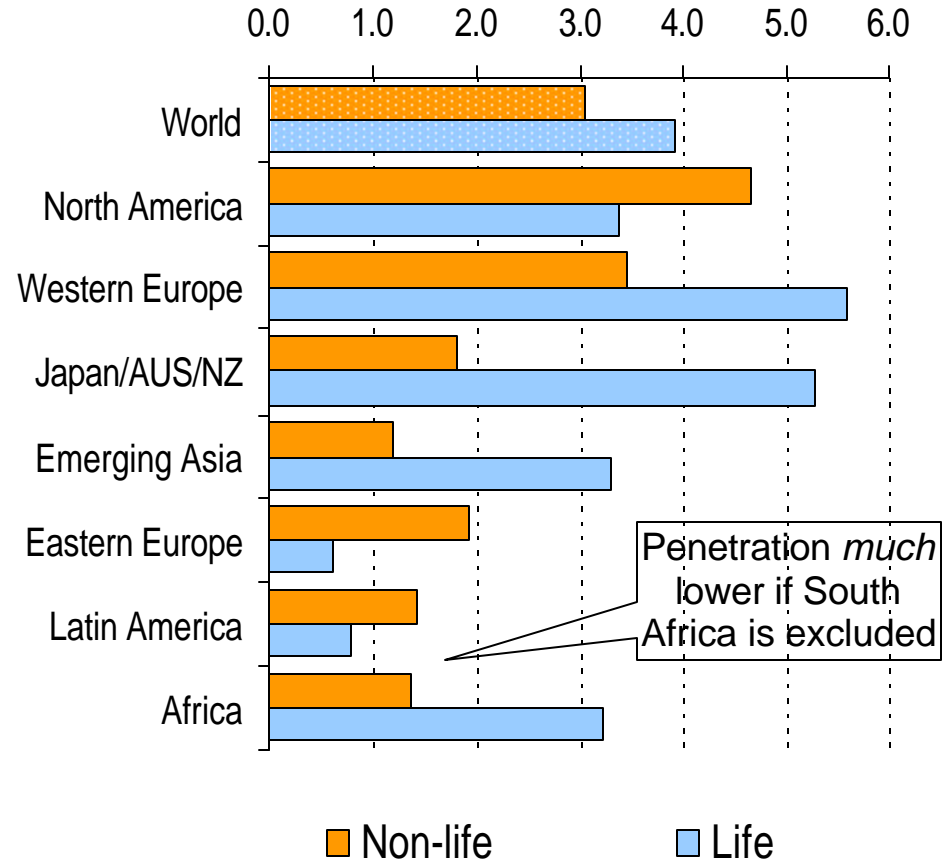
**AFRICA IS THE NEXT  
BIG GROWTH  
REGION FOR  
ISLAMIC FINANCE**

# Insurance Penetration in Africa

Per-capita income (2006, US\$)



Insurance market penetration (2006, in %)



Ref: Munich Re

Primary Insurance:  
Low per-capita income and market penetration

# Facts & Figures...

- The Islamic Finance market in Africa is potentially worth close to **\$235 billion** (Moody's Investors Service)
- Estimated **37** Islamic Financial Institutions operate in Africa
- The percentage of Muslim Population in Africa is **47.81**; the continent is host to second largest Muslim Population in the world
  - **Total Population of Africa (2008): 967**
  - **Total Muslim Population in Africa (2008): 462.36**

# Challenges for Takaful in Africa

Development  
of Shariah  
Scholars  
trained in the  
field of Islamic  
Finance &  
Economics

Establishment of  
training centers  
and universities  
for the Islamic  
Finance human  
resource  
capacity  
building

Development  
and  
Implementation  
of Facilitative  
Regulatory  
Framework

Jazaakum Allahu Khairan

May Allah Reward you

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