ABSTRACT

Insurance is an inescapable arrangement for individuals and business organizations in the contemporary world. There are two types of Insurance companies which are mainly dealing with insurance operations through two different concepts. One is conventional insurance companies. Other one is Takāful, Islamic alternative model of conventional insurance.

The conventional insurance and Islamic insurance are similar in some elements. Both of them provide protection in the event of unforeseen events and contributions must be made to start the coverage. The insurance company receives payment in the form of premium and will compensate policyholder in the event of covered losses or damages sustained by him/her.

This paper chiefly focuses to study the conventional and Takāful insurance comparatively to bring out the differences between them based on conceptual and operational framework. The differences between Islamic and conventional insurance lie in the ownership and financing of the company, in the management and accounting systems, in the entities in which the premiums are invested etc.

Keywords: Takāful, Islamic insurance, Differences between Takāful and conventional insurance

1. INTRODUCTION

According to the human history, the insurance appears simultaneously with the appearance of human society. Basically, a form of people helping each other inside their community when catastrophes occurred is called insurance. This type of insurance has survived to the present day in some parts of the world where modern insurance system is not widespread so far.

As Dorfman (1978, p.3) described, that the Insurance is a financial arrangement which redistributes the costs of unexpected losses. Insurance is a risk-sharing arrangement. In this arrangement between two parties, one party (the insurer) agrees to indemnify another party (the insured) against certain losses specified by a contract (the policy). Furthermore, Insurance is an economic device by which individuals and organizations can transfer pure risks (that is, uncertainty about financial losses) to others. Thus, economic units may now choose the risks that they would like to bear and that they are comfortable with. The “unwanted” risks may be transferred to others in exchange for a fee or a premium.

Moreover, the change is natural and unavoidable in every aspects of the life. This is the fact the whole history of mankind points out. In this way, the old order has given place to new and the agrarian society has been transformed into a modern industrial society. The process of industrialization has been so rapid that it may rightly be described, as the revolution. This revolution did not eliminate the chance of loss of life and property. The development in transportation industry, the increased use of machinery, swift expansion of technology, all these are followed by risks like accidents, hazards and injuries.

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To mitigate the seriousness of consequences of these unexpected perils and to cover the chances of loss, insurance is introduced to such an extent that this institution has become an essential of the modern life and it influenced in almost all spheres. And also, some of the important legal and socio-economic institutions, which have developed in the west during the last four hundred years and have left strong impacts on the Muslim society, are their present forms and structures. Islam enunciates the conflict with values and principles. The course of history has forced these institutions and organizations over Muslim society. Muslim scholars and economists are becoming more and more conscious of this conflict and applying themselves to task of wittingly the Muslim society. To achieve this purpose, it is necessary that the objective study of the contemporary institutions and the law of Islam should be made and then attempt to develop the alternate socio-economic system, which can fulfil Muslim need without violating the fundamental principles of Islam. One of the measures adopted in modern times for the institutions of economy and finance is insurance. (Syed Umar Farooq, 2010, pp. 55, 56)

The eminent Islamic scholars name it as Takaful. This target had been achieved by examining carefully all theories and practices covered by the established field of conventional economic and finance using Islamic laws and values as enshrined in the Al Qur’an and the Al Hadith (report of the sayings or actions or consent of Muhammad). The economic activities, which are permitted by Shari’ah, based mainly on the prohibition of interest (ribâ), engaging in permissible (halâl) dealing, and avoiding Prohibitive (harâm) dealing. Prohibition of entering into contracts containing uncertainty (gharar) or speculation or Gambling (maisir) and Payment of Zakâh.

As we discussed, the background of Takāful, Islamic alternative to insurance, is based on the concept of social solidarity, cooperation and mutual indemnification of losses of members. It is a pact among a group of members who agree to jointly indemnify the loss or damage that may inflict upon any of them out of the funds they donate collectively. As per practice of the Takaful companies, a part of contributions (premiums) under Takāful system falls under the category of donation in order to spread liability with the objective of common good. The remaining part of the premium is given on the basis of Muḍārabah. Therefore, structure of Takāful that comprises the contracts of Muḍārabah, Tabarru’ (to donate for benefit of others) and mutual sharing of losses, is made so as to eliminate the element of absolute uncertainty so far as determination of contributions is concerned.

This paper intends to make a case for Takāful, an Islamic instrument of insurance and conventional insurance. This is an exploratory comparative study which provides a base for an understanding of Takāful with a comparison to conventional insurance. And also it tries mainly to clear a common doubt among public masses that the conventional insurance and Islamic insurance are same in all aspects and there are no any differences between them.

2. LITERATURE REVIEW

Several scholars have written about this subject in their literature. For instance, Essential Guide to Takāful (Islamic Insurance) by Engku Rabiah Adawiah and Hassan Scott, Islamic and Modern Insurance – Principles and Practices by Mohd. Ma’sum Billah, Takāful and Retakāful – Advanced Principles & Practices by Tobias Frenz and Younès Soualhi, Al Ta’mîn wa aḥkāmuh by Sulaiman bin Ibrahim, Takāful (Islamic Insurance): Concept, Challenges, and Opportunities by Safdar Jaffer, Farzana Ismail, Jabran Noor and Lindsay Unwin. But they did not focus their views on the matter itself. Some explained the subject in detail. Meanwhile others briefed it with other subjects. I tried to focus the issue and to differentiate between two types of insurance in the angle of the concept as well as the practice.
3. RESEARCH METHOD

This work is based on secondary data. Secondary data has been collected from several sources. Relevant literature has been gathered from a number of books. Extensive data has been collected through websites, and database articles. To receive objective of the study information work by different authors and organization have been used. We have used secondary data most of which is in English. Comparison between the conventional insurance and Islamic insurance (Takāful) has been done based on the collected data.

4. CONVENTIONAL INSURANCE AND TAKAFUL: CONCEPTUAL AND OPERATIONAL DIFFERENCES

In detail, the research paper contains the following subheadings:

4.1 What is Insurance?

Insurance as Ali described “Insurance is to act as a risk transfer mechanism, to provide peace of mind and protect against losses. Either can handle risk: assumption, combination, transfer, or loss prevention activities. Insurance schemes utilize the combination method by persuading a large number of individuals to pool their risks into a large group to minimize overall risk” (Ali, 2000).

As Qureshi (2011, pp.279, 280) defines, insurance is a mechanism whereby individual or business enterprises by paying out contribution (termed ‘premium’ in insurance) transfer some of the uncertainty of risks to the insurer. Insurer in the event of loss from insured peril compensates the victim (insured) out of the contribution so gathered from large numbers of insured. The contribution is usually a very small amount compared to the amount of protection available. The concept of insurance is basically an arrangement to mutually help one another in the event of an unfortunate event causing loss to any of the member(s). In short the mechanism of insurance inter alia brings about peace of mind, social stability and economic growth.

Insurance provides the peace of mind and protection to trade and industry, which ultimately contributes towards human progress. Thus insurance is a force contributing towards economic, social and technological progress of human being. Without insurance cover and industries, economic and social activity of the world will come to a grinding halt, or at least would have slowed substantially. (Syed Umar Farooq, 2010, p.57)

4.2 Conventional insurance

Insurance is a risk transferring mechanism whereby the individual or the business enterprise can shift some of the uncertainties to the shoulder of others. Under this assumption, all the people would desire to live in a healthier, comfortable and peaceful condition. To meet these facilities, different enterprises provide various services. They innovate, insurance product to undertake risk and uncertainty. (Syed Umar Farooq, 2010, p.57)

The conventional insurance is being implemented through state or private owned Insurance companies or corporations. They collect premiums from policyholders and invest them in interest-based activities mostly. Whenever losses occurred for policyholders, they pay them insurance payment indicated in the agreement. If there are no unfortunate incidents defined in the agreement within the specified period any payments will not be paid at all from the insurance company to the participants. This
is the common practice in conventional insurance. In addition to some companies give some bonuses and special offers in the sense of competition and promotion.

4.3 Takāful (Islamic Insurance)

According to Al-Omar (1996) the risk sharing is very important with in Islamic finance. The Shari‘ah manages the risk sharing by insisting on the use of well-defined contracts when financial transactions taken place. The contract is to be clear and well formulated to avoid all kinds of misunderstanding and confusion. In this way the uncertainty is lowered and the desire to minimize the risk is met.

Takāful is derived from the Arabic root-word “Kafala”, a verb, which means guarantee, bail, warrant or an act of securing one’s need. Therefore, Takāful (in its reciprocal form) means joint guarantee, whereby a group of participants agree to mutually guarantee each other against a defined loss. In the context of Islamic insurance, Takāful refers to an arrangement for a mutual indemnity in providing protection and compensation to the participants who suffered from perils or hazards. (Engku Rabiah Adawiah, 2008, p.03) In his research, Azeem Pirani, Head of Marketing & Alternate Distribution at Pak-Qatar Family Takaful Limited States that this method of risk mitigation has been used for centuries, albeit under different names. Prior to the advent of Takāful, as we know it today, the most common has been ‘Mutual Insurance’ which, although similar, is not identical. Takāful is based on the principle of solidarity, mutual help, brotherhood and cooperation among members of the community.

The elements which were against the Shari‘ah in conventional insurance were subject to great deliberation and discussion to ensure that social and mutual protection mechanism like insurance can be used by 1.57 billion Muslim population with great freedom and without the worries of religious constraint for the greater social and economic benefits. As mentioned aspects like interest, uncertainty and gambling were cardinals to exit to make insurance Shari‘ah-compliant. Beside these elements as per Wikipedia following principles are the essence of Shari‘ah-compliant insurance:

- Policyholders cooperate among themselves for their common good.
- Every policyholder pays his subscription to help those who need assistance.
- Losses are divided and liabilities spread according to the community pooling system.
- Uncertainty is eliminated with respect to subscription and compensation.
- No advantage can be derived at the cost of others (Wikipedia, 2012)

Mahmood (2008) said, Shari‘ah-compliant insurance is based on principles of mutual cooperation (tā‘awun) and donation (tabarru’), where the risk is shared collectively and voluntarily by the group of participants. It is derived from an Arabic word meaning ‘joint guarantee’ or ‘guaranteeing each other’. According to Redzuan, Rahman & Aidid (2009), the majority viewpoint by many contemporary Islamic jurists and scholars is that, for an insurance system to be acceptable by Islamic tenets, it must be founded on the principles of (1) mutual cooperation (2) tabarru’ (donation). These are the essence of Shari‘ah insurance, which embraces the elements of mutual guarantee, mutual protection and shared responsibility. Tabarru’ means donation, gifts or contribution. Participants in a Shari‘ah insurance scheme mutually agree to relinquish as donation, a certain proportion of their contributions, into a Shari‘ah fund, to provide financial assistance to any members of the group suffering from a loss. Under Shari‘ah insurance, each participant contributes a certain proportion of the full amount of his contribution as tabarru’. Obaidullah (2005) said donations from all participants are accumulated into a common fund called ‘tabarru’
fund’ or ‘risk fund’, from which compensation or indemnification is paid to participants suffering a defined loss. Jching (2008) said Shari‘ah-compliant insurance is also built on the principle of mutual cooperation where each participant participates in each other’s losses and the Shari‘ah insurance operator facilitates this cooperation using its expertise. (Qureshi, 2011, pp.281, 282)

The origin of Islamic insurance started before the era of the Holy Prophet Muhammad (S.A.W) which is based on “Āqilah” mutual co-operation (Klingmuller, 1969). Later such insurance transaction was steadily practiced and was even made mandatory in some cases during the period of the second Caliph, Saydina Omar (R. A .A). During the period of 14th to 17th century a Sufi Order of the Kazeeruniyya was very active especially in port cities in Malabar and in China. This order served as a kind of marine travel insurance company.

In 19th century, a Hanafi lawyer Ibn Abidin (1784 -1836) was the first Islamic scholar who came up with the meaning, concept and legal entity of insurance contract. He was also the first person, who repeated the word insurance in the context of a legal constitution, and not in a customary practice (Klingmuller, 1969). In 1906, Muhammad Baqit Mufti of Egypt approved the idea of insurance which was explained by Ibn Abidin. In the period of twentieth century, a well-known Islamic jurist, Muhammad Abduh issued two ‘fatwas’ mentioning that an insurance transaction is like the transaction of ‘al-mudarabah’ financing technique, while the other was that a transaction which is similar to endowment or life insurance are legal. (Mher Mushtaq Hussain, 2011, p.25)

In the later part of the 20th century, Islamic insurance companies have been started in several places of the world as Shari‘ah compliant insurance. At present, there are more than 200 hundred takāful companies provide various Islamic insurance products to not only Muslims but also non-Muslims.

4.4 Islamic Insurance (Takaful) and Conventional Insurance – A Comparison

Conventional insurance and Islamic insurance can be evaluated through various viewpoints. In this article, Islamic and conventional insurance are compared on the following bases:

4.4.1 Governance

First of all, the governance viewpoint the Takaful principles have their roots in Shari‘ah. Sacred orders of Allah in Al-Qura’n, religious, social and commercial practices of The Holy Prophet (SAW), Ijmā’ (the agreement of whole Islamic world on an issue) and Qiyās (comparative arguments), form the basis of Shari‘ah. Shari‘ah is the constitution of Islamic world. According to Islam, the basic principles of Shari‘ah are necessary for an action to be approved religiously. The opinions and interpretations of Al-Qura’n and Al – Sunnah from suitable, prominent Islamic Shari‘ah scholars also considered in this regard.

In conventional insurance system rules and regulations are made according to human mind and thinking. Currently, most of the rules implemented in the insurance world are driven from western philosophy which is naturally on the basis of materialism and secularism. Based on this idea, there are regulatory institutions in almost all countries in the world.
4.4.2 Goal

The goal of conventional insurance is to maximize profit in favour of shareholders because they are stock companies and ignore client while in contrast Takāful goal is well-being and self-sustaining operation without earning high profit. In another word, the payment of premiums to pool is voluntary for mutual assistance without individual monetary gain.

4.4.3 Risk Transfer/Sharing

Conventional Insurance is a mechanism whereby individual or business enterprises by paying out contribution (termed ‘premium’ in insurance) transfer some of the uncertainty of risks to the insurer. Insurer in the event of loss from insured peril compensates the victim (insured) out of the contribution so gathered from large numbers of insured. The contribution is usually a very small amount compared to the amount of protection available. Unlike conventional insurance, which risk is transferred from the insured to the insurer, the Takāful Insurance mutual risk is shared amongst the participants. Takāful operations are based upon the principles of mutuality, whereby each participant makes a donation to a Takāful fund. In the event of its loss, the participant will receive the amount of its claim.

4.4.4 Ownership

Takāful fund is managed by operator but ownership is of participants. They have a complete right of contribution and benefits. In conventional insurance the policyholder purchase policy and there exist seller – purchaser relationship. Takāful company performs trustee and operator functions. In conventional insurance there exist one to one relationship between policy holder and company.

4.4.5 Monitoring committee

In Takāful companies, having a is one of the mandatory committees should be included in the system of Takāful. The Shari‘ah Supervisory Board is to be formed by the operators and their role is to review the operations, supervise its development of Shari‘ah insurance products, and determine the Shari‘ah compliance of these products and the investments. The Shari‘ah Supervisory Board have to carry their own independent audit and certify that nothing relating to any of the operations involve any element that is prohibited by Shari‘ah. (Qureshi, 2011, p.287) While in conventional insurance there is no such Shari‘ah supervisory committee to monitor the activities of the company in order to be under the Shari‘ah guideline.

4.4.6 Unlawful elements

Different elements like Ribā (Interest), Gharar (uncertainty) and Maysir (Gambling) are involved in conventional insurance. For instance, in non-life policies if a policyholder does not make a claim, his insurance company keeps the whole amount. If he/she cancels the policy contract also loses all premiums which he/she has deposited. Likewise if the insurance company terminates its activities, the policyholders will be refunded proportionally.

The uncertainty is also observable in the conventional insurance. The premium Payment from the policyholder is certain but is uncertain from the shareholders or the company as well as the benefits to be paid depend on the outcome of future events not known at the time of contract. In order to eliminate the element of uncertainty in the Takāful contract, the concept of "tabarru" (to donate or give away) is
incorporated in it. In relation to this, a participant agrees to relinquish as *tabarru’* certain proportion of his *Takāfūl* instalments or contributions that he agrees or undertakes to pay thus enabling him to fulfil his obligation of mutual help and joint guarantee, should any of his fellow participants suffer a defined loss. In *Takāfūl* the element of uncertainty is eliminated as subscription and compensation is concerned.

And also there are some features alike gambling in conventional insurance. The policyholder pays his premium, he/she might get a very big amount if the losses indicated in the policy occurred, if not he/she will lose all the premiums paid. It works by mere chance, speculation and conjecture and not from work, taking responsibility or real sector business.

The nature of the principles of *Takāfūl* is different from the conventional insurance because all the operation in *Takāfūl* is in line with the *Shari’ah* principles. The operation of *Takāfūl* is based on the principle of Al- *Mudārabah* which is profit and loss sharing techniques which is alternative to interest (*Ribā*) in Conventional Insurance.

As a result of these non-permitted elements, the majority of Muslim scholars have generally decided that the practice and operation of conventional insurance as currently practiced do not fulfil the rules and requirements of *Shari’ah*. Therefore, in June 1972 the Malaysian National *Fatwa* Council resolved that the present-day life insurance as provided by the conventional insurance companies was not in line with the principles of *Shari’ah*. Similarly, in comprehensive deliberation, the *Fiqh* council of The Muslim World League in 1978 and the *Fiqh* Academy of the Organization of Islamic Conference (OIC), at gathering in December 1985, resolved that no form of insurance, life or general, confirmed to Islamic principles and therefore it was *ḥarām* (prohibited). (Suraiya Hashim, Asnida Shahideen and Wan Roshidah Fadzim, pp.199, 200)

### 4.4.7 Operation

Takaful system operates in such a way that the participants contribute their money as premium to a company. The company divides the contributions into two parts i.e. donation (*Tabarru’*) for meeting mortality liability or losses of the fellow policyholders and the other part for investment. Accordingly, the clause of *Tabarru’* is incorporated in the contract. Both the accounts are invested in *Shari’ah* compliant investments and returns thereof distributed on *Mudārabah* principle between the participants and the *Takāfūl* operators. The profit attributable to the participants is credited into the two accounts respectively.

Conventional insurance operates in such a way that premium is paid by policy holders to insurance company and then this amount is invested by insurance company in interest bearing or non-*Shari’ah* compliant investing areas. Amount of interest and profit is received by insurance companies and then surplus is retained in the company without distributing it among policy holders and only claims are met with this surplus. And also Takaful operates on mutual assistance principle. Conventional insurance operates on business principle.

### 4.4.8 Contract

Conventional insurance is a buy-sell contract in which the insurance company offers and sells protection and the participants (policyholders) accepts and buys the premium at a certain price. In case of Islamic insurance, the participants give up individual rights to attain collective rights over contribution and benefits along with
the Takāful operator as the one who manage the fund. The contract under Islamic insurance is usually involves the concepts of *Tabarru*, *Muḍārabah* and *Wakālah*. (Jacky Lim, 2010)

### 4.4.9 Investment

According to Billah (2001) the distinction between the conventional insurance and Takāful business is more visible with respect to investment of funds. While insurance companies invest their funds in interest-based avenues and without any regard for the concept of *Ḥalāl-o-Ḥarām*. Takāful companies undertake only Shari‘ah compliant business and the profits are distributed in accordance with the initially agreed ratios in the Takāful contract. (Syed Umar Farooq, 2010, p.58) In addition to that the Governments of the countries in which Muslims are in majority have introduced a legal framework which helps in introduction of new Shari‘ah compliant products. *Muḍārabah* certificates are the instruments which are evolved from such legal framework. While a conventional insurance company invests in interest based instruments like treasury bills, certificates of deposits, interest bearing bonds etc… (Hakim, 2007)

### 4.4.10 Surplus

Likewise the policyholders of Takāful share in any surplus or loss from the pool collectively. Takāful system has a built-in mechanism to counter any over-pricing policies of the insurance companies, because whatever premium charged, the surplus would normally go back to the participants in proportion to their contributions. (Syed Umar Farooq, 2010, p.58) While in conventional insurance profit is not shared between members in a specific ratio and in some year bonus is provided and sometime not. Moreover, if unfortunate lose not happened the paid premiums will not be reimbursed.

*Takāful* differs from conventional insurance in the sense that the company manages and employs the funds for investment, business and administration on behalf of the participants. Profits attributed to the participants’ funds are shared between the Takāful company and the participants according to an agreed formula. In case of insurance, the premium funds become property of the company and any profits or losses go to the company’s account.

### 4.4.11 Forfeiture

In insurance contract there is clause that insurer can forfeit the premium amount that is paid by the policy holders under certain circumstances. *Islam* does not allow the forfeiture of premium, wholly or partly, as the amount of premium is consider as loan by insured to insurer. In *Takāful* there is no forfeiture of contributions and it is distributed among the participants in form of surplus (Mahmood, 1991).

### 4.4.12 Encouragement for goodness

Takaful helps people to accumulate their saving for goodness of whole community. An opportunity is provided by Takāful scheme to people to practice Islamic way. The Holy Prophet (PBUH) saying is “*Whoever removes the hardship from believer, Allah will remove hardship from him one of the hardship of the Day of Judgment*” (*Ṣāḥīḥ Muslim*). Insurance is vice versa.
The following table briefs the differences between Takāful and conventional insurance:

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>CONV. INSURANCE</th>
<th>TAKĀFUL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>No religious consideration, solely profit motivated</td>
<td><strong>Al-Qura’n, Al-Hadīth, Ijmā’, Qiyās, Islamic Ethics</strong></td>
</tr>
<tr>
<td>Organizational Principle</td>
<td>Profit for shareholders</td>
<td>Mutual for participants</td>
</tr>
<tr>
<td>Basis</td>
<td>Risk transfer</td>
<td>Cooperative risk sharing</td>
</tr>
<tr>
<td>Laws</td>
<td>Secular/Regulations</td>
<td>Shari’ah &amp; prudential regulations</td>
</tr>
<tr>
<td>Ownership</td>
<td>Shareholders</td>
<td>Participants</td>
</tr>
<tr>
<td>Management status</td>
<td>Company management</td>
<td>Operator</td>
</tr>
<tr>
<td>Form of contract</td>
<td>Contract of sale</td>
<td>Cooperative, <strong>Wakālah or Mudārabah. Waqf with Tabarru’</strong> (contributions)</td>
</tr>
<tr>
<td>Responsibility of Policy holders/Participants</td>
<td>Policy holders pay premium to the insurer</td>
<td>*Participants make contribution to the scheme *Participants mutually guarantee each other under the scheme</td>
</tr>
<tr>
<td>Investments</td>
<td>No restriction, mostly Interest based, non-Shari’ah compliant</td>
<td><strong>Shari’ah</strong> compliant, <strong>Ribā-free</strong></td>
</tr>
<tr>
<td>Profit</td>
<td>Belong to shareholders</td>
<td>Shared between participants and operator based on profit sharing principles</td>
</tr>
<tr>
<td>Surplus</td>
<td>Shareholders’ Account</td>
<td>Participants’ Account</td>
</tr>
<tr>
<td>Shari’ah Council</td>
<td>Not applicable</td>
<td>Obligatory</td>
</tr>
</tbody>
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5. RESULTS

After comparing conventional insurance with Takāful, it is indicated that Takāful is more suitable than conventional insurance to whole mankind especially to the vast Muslim community of the world.

This article gives a comparative analysis of Islamic and conventional insurance system. In this way it is an addition to the literature on the subject. It has a managerial implication in the shape of guidance to the potential buyer of the insurance. It will give a clear picture to who intend to choose an insurance policy providing essential guidelines through differentiating the insurance companies.

6. CONCLUSION:

The Muslims all around the world wish to go side by side with modern commerce. They are not willing to follow non - Islamic practices. They are looking for Islamic alternatives to prevailing financial instruments and practices. Islamic banking is a great success not only in Muslim majority but also in Muslim minority countries. Major international banks are today offering Shari’ah compliant products. In the similar manner Takāful presents an Islamic alternative to insurance.
The interpretations made by scholars provide a complete framework governing Islamic Insurance. In this article, the suitability of Islamic insurance over conventional one along with the applicability in Muslim world is discussed. Ahmed (2010) reported that the Islamic principles can prohibit the global crisis to occur. Islamic insurance funds are invested in interest-free securities which reduce the chances of the crisis in this industry. Resultantly it provides a solid support for Islamic insurance.

To maintain Islamic behaviours a Muslim may adapt his practices to and comply with Shari’ah principles. The models of Takāfūl are helpful in categorizing it. Tawakkul concept best deals with Takāfūl because firm belief in Allah is compulsory but taking due care is also necessary. Takāfūl and conventional insurance models are different because of their permissibility in Islam. Conventional mode is based on Ribā, Gharar and Mysir which are prohibited in Islam.

The discussions on whether conventional insurance is in line with the Shari’ah have manifold but the widely accepted view is that conventional insurance is contrasting to Takāfūl. The major conceptual and operational paradigms are enough to define such contrasts.

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