The Thirteenth lecture

Takaful: Islamic Insurance

Takaful is an Islamic insurance concept grounded in Islamic Muamalat (banking transactions), observing the rules and regulations of Islamic law. This concept has been practised in various forms for over 1400 years.

Theoretically, Takaful is perceived as cooperative or mutual insurance, where members contribute a certain sum of money to a common pool. The purpose of this system is not profits but to uphold the principle of 'bear ye one another's burden.'

Principles of Takaful

The principles of Takaful are as follows:

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 a community pooling system.

Uncertainty is eliminated in respect of subscription and compensation.

No members derive an advantage at the cost of others.

QUESTIONS

EX: N 01

1. What is Takaful؟
2. How does Takaful work؟

EX: N 02

1. In determining any compensation, the Takaful operator will identify the cause of the loss. T F
2. A Takaful contract is based on the principle of utmost good faith (trust), whereby participants do not need to disclose all material information required. T F
3. Participants must have a legitimate financial interest in the subject matter in order to participate in a Takaful plan. T F
4. A Takaful contract is based on the principle of utmost good faith (trust), whereby participants need to disclose all material information required. T F

ANSWERS

EX: N 01

1. **What is *Takaful*?**

Takaful means 'guaranteeing each other' and is based on the principles of *Ta'awun* (mutual cooperation) and *Tabarru'* (donation). In this arrangement, a group of *Takaful* participants (policyholders) agree between themselves to share the risk of a potential loss to any of them, by making a donation of all or part of their *Takaful* contribution (premium) to compensate for a loss.

In conventional insurance the risk is transferred from the policyholder to the insurance company, which brings elements of uncertainty and chance into the contract as to if and when one of the two parties makes a loss. *Takaful* is a structure in which the risk is shared between all participants, thus removing the elements of uncertainty and gambling from the contract.

2. **How does *Takaful* work?**

The participants of *Takaful* each pay a *Takaful* contribution, based on their individual risk and the likelihood of making a claim, to create a *Takaful* fund. The nature of the risk covered, and the period of cover, is specified in the *Takaful* contract (insurance policy).

The *Takaful* fund is invested strictly in *halal* activities, with non-interest bearing assets, in order to maximise the fund value in a *Sharia'a*-compliant manner.

If it is ascertained that the *Takaful* fund is overfunded, the amount by which it is overfunded will be distributed to eligible *Takaful* participants by way of a participation discount (in addition to any No Claims Discount) from the participants' next year's *Takaful* contribution.

EX: N 02

1. **TRUE**
2. **FALSE**
3. **TRUE**
4. **TRUE**