

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



Understanding Takaful

Concept and Practical Aspects

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Introduction

Introduction of Participants

- Name
- Education
- Occupation
- Takaful Course (if attended before)
- Expectation(s)

Explanation of some basic concepts

1. Intellectual need of Revelation (*Wahi*)
2. Meaning of Shariah Compliance/Jaiz/Islamic.
3. Shar'ai Ruling is based on the process not on end result.
4. Shar'ai Ruling is based on 'Illat' not 'hikmat'.
5. Shar'iah Scholars have different opinions in permissibility of Takaful, what to do?
6. Takaful and Tawakkul

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.

Examples: The concept of Takaful is manifested in the system of Bait-ul-Maal, cooperative societies and joint family set-ups etc.

- **In practice, Takaful can serve as a risk-mitigation tool and an alternative to conventional insurance**

What is Risk?

Risk:

An uncertain event which causes unwanted consequences or losses is called "Risk" .

Example:

- Rise or fall in share price you bought for sell,
- Rise or fall in the Euro's price you bought for sell,
- Car accident with or without injury to the driver,
- Injuring others or damaging things as result of a car accident, etc.

Strategy to Handle Risk

Generally, there are five ways of dealing with a risk:

Risk
Avoidance

Risk
Control

Risk
Retention

Risk
Transfer

Risk
Sharing

Shariah Perspective on Risk Management

This concept is not only permissible according to the Shariah rulings, in fact is encouraged. Allah Almighty says:

○ وَلَا تُلْقُوا بِأَيْدِيكُمْ إِلَى التَّهْلُكَةِ --- [البقرة، ١٩٥]

اور اپنے آپ کو خود اپنے ہاتھوں ہلاکت میں نہ ڈالو

and do not put yourselves into destruction

○ وَأَعِدُّوا لَهُمْ مَا اسْتَطَعْتُمْ مِنْ قُوَّةٍ --- [الانفال، ٦٠]

اور (مسلمانو!) جس قدر طاقت تم سے بن پڑے، ان سے مقابلے کیلئے تیار کرو

Prepare against them whatever force you can

Shariah Perspective on Risk Management

There are also many Ahadeeth that describe the permissibility of this concept in Islam such as:

○ عَنْ أُسَامَةَ بْنِ شَرِيكٍ قَالَ: قَالَتِ الْأَعْرَابُ: يَا رَسُولَ اللَّهِ! أَلَا نَتَدَاوَى؟ قَالَ: نَعَمْ، يَا عِبَادَ اللَّهِ! تَدَاوُوا؛ فَإِنَّ اللَّهَ لَمْ يَضَعْ دَاءً إِلَّا وَضَعَ لَهُ شِفَاءً أَوْ قَالَ دَوَاءً إِلَّا دَاءً وَاحِدًا، قَالُوا: يَا رَسُولَ اللَّهِ! وَمَا هُوَ؟ قَالَ: الْهَرَمُ - [السنن للترمذی]

حضرت اسامہ بن شریک سے روایت ہے کہ صحابہ کرام رضوان اللہ علیہم اجمعین نے نبی کریم صلی اللہ علیہ وسلم سے دریافت کیا کہ: اے اللہ کے رسول! (جب ہم بیمار ہوں تو) کیا ہم علاج کرائیں؟ تو جناب رسول اللہ صلی اللہ علیہ وسلم نے ارشاد فرمایا: اے اللہ کے بندو! ہاں، علاج کرواؤ۔ کیونکہ اللہ تعالیٰ نے بڑھاپے کے علاوہ تمام بیماریوں کا علاج پیدا کیا ہے۔

It is narrated by Hazrat Usama bin Shareek that a Companion of Prophet (PBUH) inquired Prophet Muhammad (PBUH): Should we take medicine (when we get sick)? Prophet Muhammad (PBUH) replied: 'O People of Allah! Yes, get treatment for your illness because Allah Almighty has made available the remedies of all illnesses except that of old-age.'

Shariah Perspective on Risk Management

○ قَالَ رَجُلٌ: يَا رَسُولَ اللَّهِ! أَعْقِلُهَا وَأَتَوَكَّلُ أَوْ أُطْلِقُهَا وَأَتَوَكَّلُ؟ قَالَ: اعْقِلْهَا وَتَوَكَّلْ - [السنن للترمذی]

ایک صحابی نے آپ صلی اللہ علیہ وسلم سے پوچھا کہ اے اللہ کے رسول! میں اپنے اونٹ کو باندھ کر اللہ پر توکل کروں یا پھر اسکو چھوڑ دوں پھر اللہ پر توکل کروں؟ تو نبی کریم صلی اللہ ولیہ وسلم نے فرمایا کہ: ایسا نہیں کرو، بلکہ پہلے اونٹ کو باندھو پھر اللہ تعالیٰ پر توکل کرو

A companion of the Prophet (PBUH) asked: 'O Prophet of Allah! Should I tie my camel and then entrust Allah or should I leave the camel untied and then entrust Him?' The Prophet (PBUH) replied: 'Don't leave your camel untied: instead first tie the camel and then put your Tawakkal on Allah.'

Shariah Perspective on Risk Management

○ عَنْ سَعْدِ رَضِيَ اللَّهُ عَنْهُ قَالَ: كَانَ النَّبِيُّ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ يَعُودُنِي وَأَنَا مَرِيضٌ بِمَكَّةَ ، فَقُلْتُ: لِي مَالٌ أُوصِي بِمَالِي كُلِّهِ؟ قَالَ: لَا ، قُلْتُ: فَالْشَّطْرُ؟ قَالَ: لَا ، قُلْتُ: فَالثُّلُثُ؟ قَالَ: الثُّلُثُ وَالثُّلُثُ كَثِيرٌ ، أَنْ تَدَعَ وَرَثَتَكَ أَغْنِيَاءَ خَيْرٌ مِنْ أَنْ تَدَعَهُمْ عَالَةً يَتَكَفَّفُونَ النَّاسَ فِي أَيْدِيهِمْ - - - [الصحيح للبخارى]

حضرت سعد رضی اللہ عنہ فرماتے ہیں کہ آپ صلی اللہ علیہ وسلم مکہ میں میری عیادت کیلئے تشریف لائے۔ میں نے سوال کیا: میرے پاس کچھ مال ہے۔ کیا میں اپنے پورے مال کی وصیت کر دوں؟ آپ صلی اللہ علیہ وسلم نے فرمایا: نہیں۔ میں نے پوچھا: آدھے کی وصیت کر دوں؟ آپ صلی اللہ علیہ وسلم نے فرمایا: نہیں۔ میں نے پوچھا: تہائی مال کی وصیت کر دوں؟ آپ صلی اللہ علیہ وسلم نے فرمایا: تہائی کی وصیت کر دو اور تہائی [بھی] زیادہ ہے، تم اپنے وارثوں کو غنی چھوڑو یہ اس سے بہتر ہے کہ تم ان کو فقر کی حالت میں چھوڑو اور وہ لوگوں سے مانگتے پھریں

It is narrated by Sa'ad that The Prophet (PBUH) came to visit me when I fell ill in Makka. I said: I have wealth, shall I give the whole as Sadaqah? "No," replied the Prophet. "Then, (shall I give) a half?," the Prophet again said 'no.' "Then, (shall I give) a third?," "Yes," said the Prophet. "The third is much. Indeed to leave your heirs well-off is better than that you should leave them dependent on and to beg from people.

Risk Mitigation in Islam

Risk mitigation is not only permissible in Islam but is in fact encouraged

- **Islamic history is replete with examples featuring activities involving risk mitigation:**
 - **Dhaman Khatr al-Tareeq:** (ضمان خطر الطريق) A person would undertake another person's risks without any consideration/fee in return
 - **Dhaman Al-d'ark:** (ضمان الدرك) A person would influence a sale by promising to compensate for the loss if the subject-matter proved faulty
 - **Aqila:** (عاقله) A risk sharing mechanism in which community members pooled their share of Diyat (blood money)
 - **Aqd-e-Muwalat etc.** (عقد موالات) A person accept Islam at the hand of another and then pact an agreement with him that he will be the inheritor of his wealth after his death, an all liabilities for his wrongs will upon him
- The theme in all these examples is the concept of brotherhood and mutual solidarity



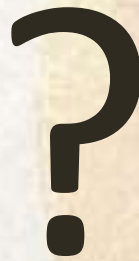
Conventional Insurance Vs Takaful

What is Insurance ?

- It is nothing but a promise of compensation for specific potential future losses.
- In exchange of a consideration an insurer, or insurance carrier, is a company selling the insurance policy.
- The insured, or policyholder, is the person or entity buying the insurance policy.

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 has reservations *only* with the way it is being practiced...

Reference about Concept of Insurance

- وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَىٰ ۖ وَلَا تَعَاوَنُوا عَلَى الْإِثْمِ وَالْعُدْوَانِ ۗ (المائدة ٢)
- المسلم أخو المسلم، لا يظلمه ولا يسلمه، ومن كان في حاجة أخيه كان الله في حاجته (الحديث)
- المؤمن للمؤمن كالبنيان، يشد بعضه بعضا» ثم شبك بين أصابعه (الحديث)

Types of Contracts

عقد معاوضه

Commutative Contract

- بمقابل سواء كان (عين المال، او منفعته) وهي ما كان التملك فيها : عقود المعاوضات .المقابل مالا او نحوه
- **Example:** Sell &Purchase, Leasing (Ijarah), etc.

عقد تبرع

Taburru Contract

- عقود التبرعات : وهي ما كان التملك فيها من غير مقابل مثل الهبة والصدقة، والوصية والوقف والاعارة.
- **Example:** Hibah (Gift), Sadqah, Loan, Aariah, Wasiyyah, **Waqf** etc.

Insurance Business Model



Prohibitions/ Don't in Contract (*Mu'amalat*)

1. Free Mutual Consent
2. Prohibition of *Gharrar*
3. Prohibition of *Riba*
4. Prohibition of *Qimar* (gambling) & *Maysir* (games of chance)
5. Prohibition of *Kilabah* & *Ghishsh* (fraud & deception)
6. Prohibition of two mutually inconsistent contracts or contingent contracts
7. Conformity of Contract with the *Maqasid al-Shari'ah* (Objectives of the Shari'ah)

Riba, Qimar, Gharar

- sales-purchase contract is **Aqd Muawaza** and due to this some ills involves:



R I B A



Qimar/Maysir



Gharar

Riba, Qimar and Gharar are prohibited in Shariah.

Definition of Riba

- *“Literal meaning of Riba is of “excess/markup”*
- **Riba-Al-Quran**
- A conditional or understood increase versus a loan is Riba
- **Riba-Al-Hadith**
- A conditional increase in commutative contract without consideration.
- Prohibition of Riba is similar to the prohibition of pork (خنزیر کا گوشت), liquor (شراب), gambling (جوا), adultery (زنا) etc., for which no specific definition was given.

Riba in Quran

Riba in Al-Quran

■ يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً وَاتَّقُوا اللَّهَ
لَعَلَّكُمْ تُفْلِحُونَ .

اے ایمان والو! کئی گنا بڑھا چڑھا کر سود مت کھاؤ، اور اللہ سے ڈرو، تاکہ تمہیں
فلاح حاصل ہو۔

O those who believe do not eat up riba doubled and redoubled.
[A'al-e-'Imran-130]

Riba in Quran

Riba in Al-Quran

■ يَا أَيُّهَا الَّذِينَ آمَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنْتُمْ مُؤْمِنِينَ (278) فَإِن لَّمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِنَ اللَّهِ وَرَسُولِهِ وَإِن تُبْتُمْ فَلَكُمْ رُءُوسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ - (279)

اے ایمان والو! اللہ سے ڈرو اور اگر تم واقعی مومن ہو تو سود کا جو حصہ بھی (کسی کے ذمے) باقی رہ گیا ہو اسے چھوڑ دے۔ پھر بھی اگر تم ایسا نہ کرو گے تو اللہ اور اس کے رسول کی طرف سے اعلانِ جنگ سن لو۔ اور اگر تم (سود سے) توبہ کرو تو تمہارا اصل سرمایہ تمہارا حق ہے۔ نہ تم کسی پر ظلم کرو، نہ تم پر ظلم کیا جائے۔

O those who believe, fear Allah and give up what still remains of the riba if you are believers. But if you do not, then listen to the declaration of war from Allah and His Messenger. [Al-Baqarah-278,279]

Riba in Hadeeth

Riba in Al- Hadeeth

• عَنْ جَابِرِ رَضِيَ اللَّهُ عَنْهُ قَالَ: لَعَنَ رَسُولُ اللَّهِ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ أَكِلَ الرَّبَا وَمُؤَكِّلَهُ وَكَاتِبَهُ وَشَاهِدِيهِ وَقَالَ هُمْ سَوَاءٌ .

حضرت جابر رضی اللہ عنہ سے روایت ہے کہ آپ صلی اللہ علیہ وسلم نے سود کھانے والے ، کھلانے والے ، اسکے لکھنے والے اور اس پر گواہ بننے والے پر لعنت فرمائی ہے۔ اور آپ صلی اللہ علیہ وسلم نے فرمایا: یہ سب (گناہ میں) برابر ہیں۔

Prophet (s.a.w.s) cursed one who charges riba, gives it, records it, and witnesses it. He said: 'they are all equal' [Al-sahih-lil-Muslim, 2995]

Riba in Hadeeth

Riba in Al- Hadeeth

• قَالَ رَسُولُ اللَّهِ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ الرَّبَا سَبْعُونَ حُوبًا أَيْسَرُهَا أَنْ يَنْكِحَ الرَّجُلُ أُمَّهُ -

آپ صلی اللہ علیہ وسلم کا ارشاد گرامی ہے کہ سود ستر گناہوں کے برابر ہے ، ان میں سب سے ہلکا گناہ یہ ہے کہ آدمی اپنی ماں سے نکاح کر لے۔

The Messenger of Allah peace be upon him said: Interest/usury consists of seventy sins, lesser of them is that a man marries his mother. [Al-sunan libn-e-Majah, 2265]

Qimar/Maysir (Gambling)

- The word 'maysir' literally means 'getting something too easily' or 'getting a profit without working for it'
- It means that both parties stake their money in such a way that one party draws total profit and the other party incurs total loss

Four elements in Qimar;

1. Commutative Contract between two.
2. Everyone puts his money on risk.
3. Uncertainty in conclusion of event.
4. One draws total profit and the other 100% total loss.

Qimar/Maysir in Quran

يَا أَيُّهَا الَّذِينَ آمَنُوا إِنَّمَا الْخَمْرُ وَالْمَيْسِرُ وَالْأَنْصَابُ وَالْأَزْلَامُ رِجْسٌ مِّنْ عَمَلِ الشَّيْطَانِ
فاجْتَنِبُوهُ لَعَلَّكُمْ تُفْلِحُونَ [المائدة: 90]

اے ایمان والو! شراب ، جوا ، بتوں کے تھان اور جوئے کے تیر ، یہ سب ناپاک شیطانی کام ہیں ،
لہذا ان سے بچو ، تاکہ تمہیں فلاح حاصل ہو۔

O you who believe! Wine, gambling, altars and divining arrows are filth, made by Satan. Therefore, refrain from it, so that you may be successful. [Al-Maidah, 90]

Qimar/Maysir(Gambling) in Hadith

■ عن عبدالله بن عمر رضى الله عنهما قال: قال رسول الله صلى الله عليه وسلم: ان الله حرم على امتى الخمر و الميسر - [مسند احمد 6511]

حضرت عبد الله ابن عمر رضى الله عنهما فرماتے ہیں کہ آپ صلی اللہ علیہ وسلم کا ارشاد ہے کہ : بلاشبہ اللہ تعالیٰ نے میری امت پر شراب اور جوئے کو حرام قرار دیا ہے۔

Narrated by Hazrat Abdullah ibn Omar RA: The Prophet SAW said, Verily Allah has prohibited wine and gambling for my Ummah

■ ان النبی صلی اللہ علیہ وسلم نہی عن الخمر و الميسر و الکویۃ۔ [سنن ابی داود، 2/351، باب ماجاء فی السکر]

تحقیق کہ آپ صلی اللہ علیہ وسلم نے شراب ، جوا اور کوبہ (موسیقی کا آلہ) سے منع فرمایا ہے۔

Verily, Prophet SAW prohibited wine, gambling and al-koobah

Gharar (Uncertainty)

- Literal meaning of Gharar is: To Cheat, Deceive, Lure, Entice, Risk, Danger, Hazard. دھوکہ دہی، غلط امید دلانا، اور خطرہ
- In the Fiqh, Gharar is the element of uncertainty in the basic parts of commutative contract. i.e. Subject Matter, Price, period, Delivery etc.

Basic conditions of effectiveness of Gharar:

1. Should be found in Commutative contract.
2. Should be major.
3. Shouldn't found in contracts which are exempted.
4. Should be found in basis of contract. (isalatan)

Gharar in Quran & Hadith

■ يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ -

• اے ایمان والو! آپس میں ایک دوسرے کے مال ناحق طریقے سے نہ کھاؤ

- O you believe, do not devour each other's property by false means.
[Al-Nisa, 29]

■ عَنْ أَبِي هُرَيْرَةَ قَالَ: نَهَى رَسُولُ اللَّهِ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ عَنْ بَيْعِ الْحَصَاةِ وَعَنْ بَيْعِ الْغَرَرِ -

• حضرت ابو ہریرہ رضی اللہ عنہ سے منقول ہے کہ آپ صلی اللہ علیہ وسلم نے کنکر اور غرر کی بیع سے منع فرمایا ہے۔

- Hadrat Abu Hurraira (*Radi Allahu anhu*) narrated that the Prophet Muhammad (*Salla Allahu Alaihe Wasallam*) has forbidden two kinds of sale (Bai): Bai Hassaat (*in which outcome is determined by the throwing of stones*) & Bai Gharrar.” [Al-Sahih lil Muslim]

Fatawas against Conventional Insurance

- Majority of scholars are of the opinion that the conventional insurance practiced today is not Shariah compliant
- Fatwa issued by a committee comprising of leading scholars for the Saudi Arabia Government
 - *“Our observation that the modern form of insurance companies and their current practices are objectionable Islamically does not mean that Islam is against the concept of Insurance itself ; not in the least – it only opposes the means and methods. If other insurance practices are employed which do not conflict with Islamic forms of business transaction ; Islam would welcome them”* “The Lawful & the Prohibited in Islam” (pg. 276)
- The National Fatwa Committee Malaysia deliberated on the question of life insurance (15th. June 1972) and below is a translation of an extract from the minutes recorded
 - *“Life insurance as presently practiced by insurance companies is a fasid transaction as it is contrary to the Shariah principles of contract because it contains the following elements : Riba, Gharar, Maisir. As such from the Shariah point of view, insurance is haram”.*



Takaful

Definition of Takaful

Takaful is a community-pooling system,

based on the principles of brotherhood and mutual help,

wherein participants contribute in a fund,

to help those who need it most in times of financial difficulties.

EXAMPLES: The concept of Takaful exists in cooperative societies and joint-family systems etc

In practice, Takaful can serve as a risk-mitigation tool and an alternative to conventional insurance.

Takaful Through Times

NO.	EVENTS	Year
1	Unanimous decisions by Muslims & Fatwa issued by the National Religious Council of Malaysia.	1972
2	First International conference on Islamic Economics was held in Makkah.	1976
3	Fatwa issued by the Higher Council of Saudi Arabia in favor of the Islamic Insurance model.	1977
4	Development of Takaful in modern times by establishing the first Takaful Company in Sudan.	1979
5	Establishment of The Islamic Arab Insurance Company in Saudi Arabia which was later relocated in UAE.	1979-80

Takaful Through Times

NO.	EVENTS	Year
6	Dar-Al Mal-Al Islami Trust, Switzerland.	1981
7	Saudi Islamic Takaful and Re-Takaful Company, Bahamas.	1983
8	Islamic Takaful Company in Luxembourg.	1983
9	Development of Takaful in modern times by establishing the first Takaful Company in Malaysia.	1984
10	Takaful Act, an act passed to provide for the registration and regulation of Takaful business in Malaysia.	1984

Takaful Through Times

NO.	EVENTS	Year
11	Syarikat Takaful, Singapore.	1995
12	Islamic Insurance Company, Qatar.	1995
13	ASEAN Takaful Group evolved into ASEAN Re-Takaful International (ARIL) in Labuan, Malaysia.	1997
14	Establishment of Dubai Takaful Insurance Company, UAE.	1997
15	Establishment of Trinidad-Tobago Takaful Friendly Society.	1999
16	Establishment of Amana Takaful in Sri Lanka.	1999

Takaful Through Times

NO.	EVENTS	Year
17	A code of Ethics was developed for the Takaful Industry by Takaful Malaysia and Takaful Nasional.	2000
18	Al Aman Takaful, Lebanon.	2002
19	Ijtima' held in Darul Uloom, Karachi on permissibility of Takaful	2003
20	International Takaful conference held in London to promote Takaful business.	2003
21	A paper was published by Bahrain Monetary Agency (BMA) which proposed rules to regulate the Takaful and ReTakaful industry.	2004
22	A committee to frame Takaful rules in Pakistan was founded	2004

Takaful Through Times

NO.	EVENTS	Year
23	Takaful Insurance forum organized by Egyptian Insurance Supervisory Authority (EISA) was held for the recognition of a growing interest in Takaful scheme.	2005
24	SECP notifies Takaful Rules in Pakistan.	2005
25	First General Takaful operator in Pakistan	2006
26	Pak-Kuwait Takaful Limited established in Pakistan	2006
27	Takaful Pakistan Limited established in Pakistan	2006

Takaful Through Times

NO.	EVENTS	Year
28	Pak-Qatar General Takaful Limited established in Pakistan	2007
29	Pak-Qatar Family Takaful Limited established in Pakistan. This is the first Family Takaful operator in this country	2007
30	Dawood Family Takaful Limited in Pakistan	2008
31	Window Takaful operations are allowed in Pakistan	2015

Three Operational Models

Pure
Mudrabah

Practiced in earlier eras, this model is not in vogue anymore.

Pure Wakalah

This model is not widely practiced.

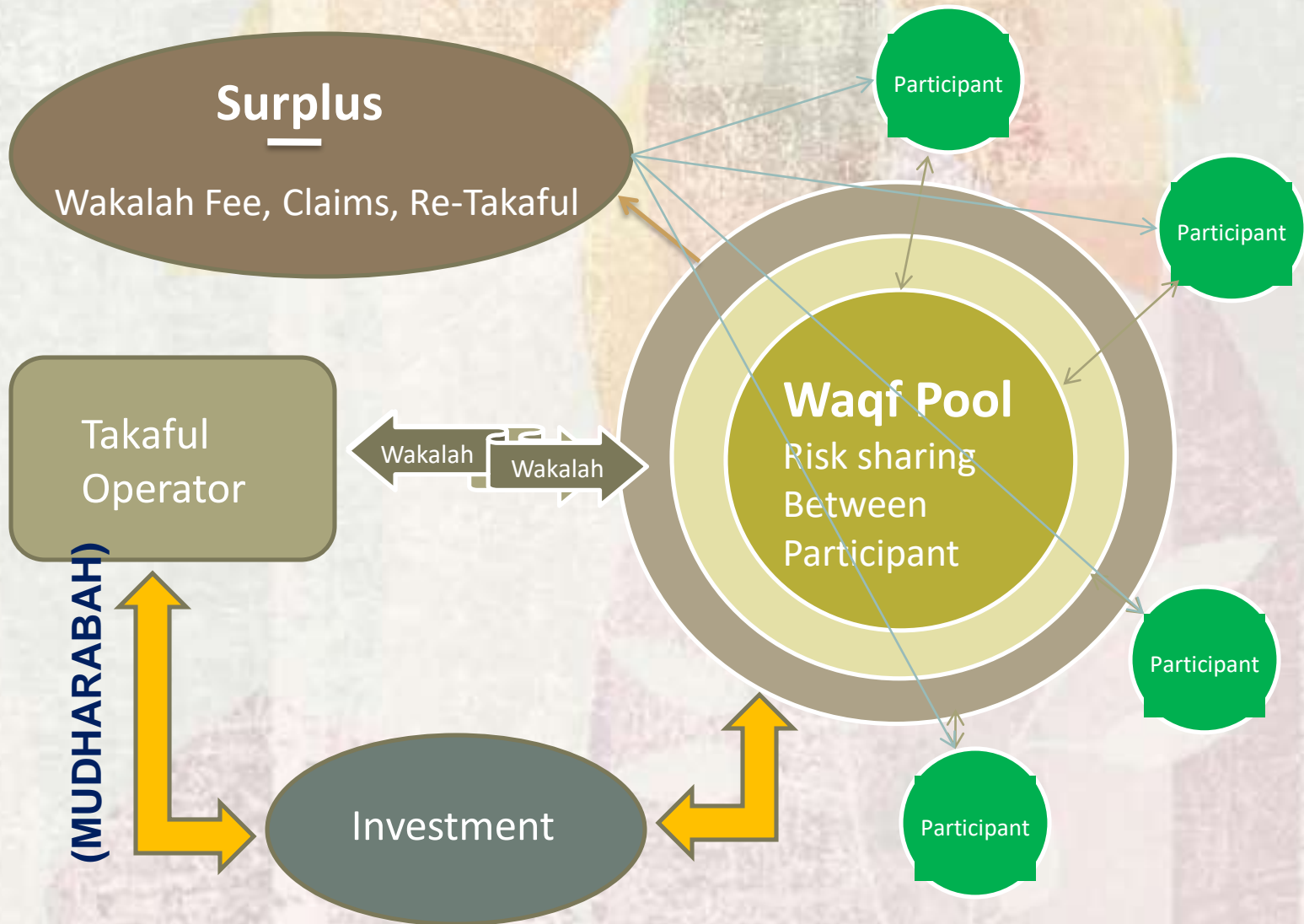
Hybrid –
Wakalah +
Mudrabah

This is the most prevalent model.

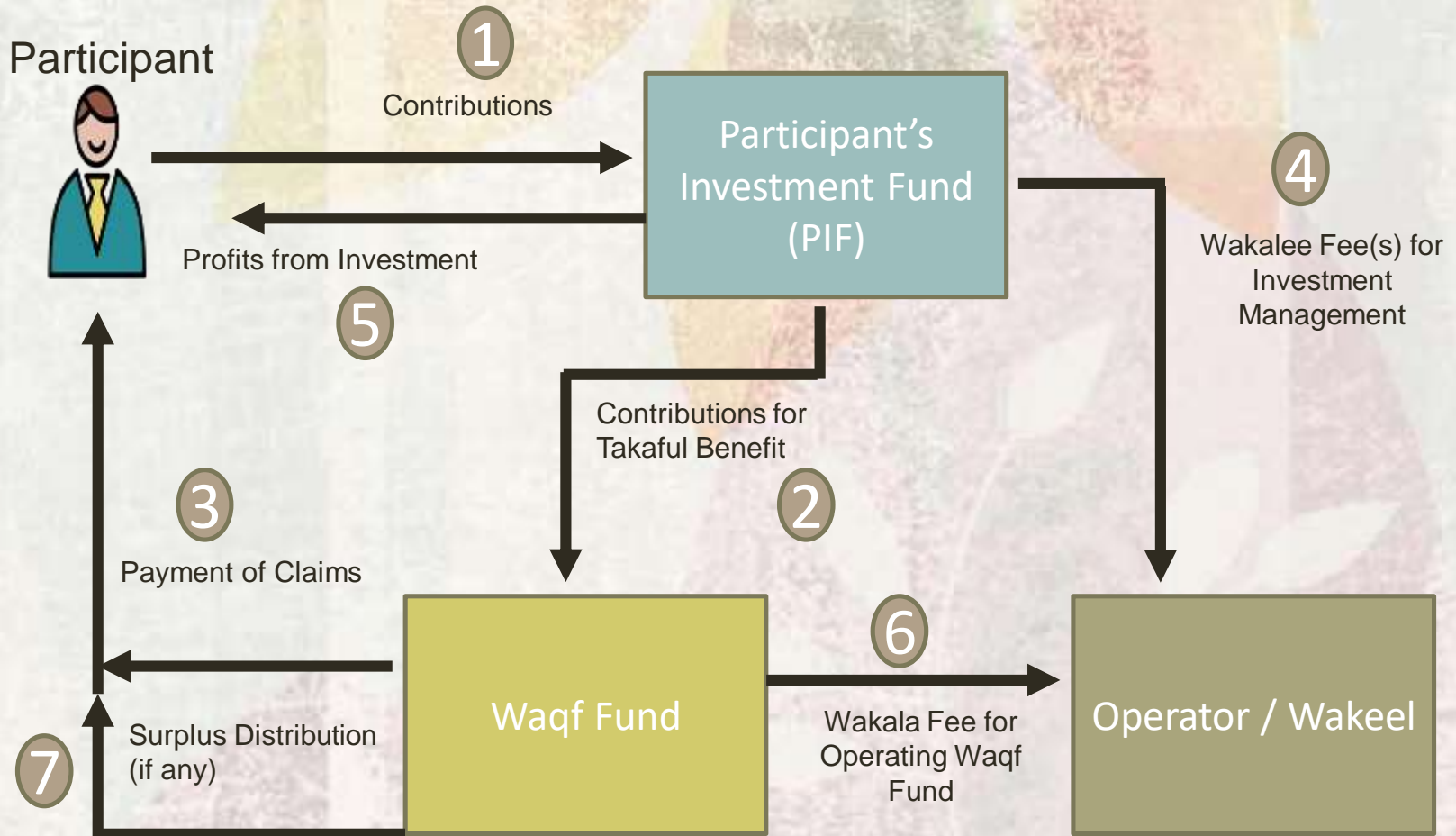
Hybrid –
Wakalah+
Mudrabah+
Waqf

This model was suggested by Shariah Scholars in Pakistan.

How does it Function? Waqf Pool



How does it Function? Family Takaful



The Difference between Conventional Insurance and Takaful

Section	Takaful	Conventional Insurance
Nature of Contract	Takaful is a Tabarru' based contract	Whereas, Conventional Insurance is a contract of Compensation (Aqd Mua'wza)
Strategy	Sharing of Risk	Transferring of Risk
Contribution/ Premium	The Contribution paid to the Waqf belongs to the Waqf; the Operator is not the owner of this amount.	Whereas, the premiums paid by the insured belongs to the insurance company
Investment	Shariah compliant investment	Equity/debt-no restrictions
Underwriting profits	No provision for underwriting profit	Insurance companies will make profit if the claims are lesser than the premium
Re-Takaful Commissions/ claims/ surplus	belongs to the Waqf; the Operator is not the owner of this amount	belongs to the insurance company

The Difference between Conventional Insurance and Takaful

Section	Takaful	Conventional Insurance
Underwriting Policy	Underwriting techniques + Shariah framework of Halal and Haram	Under Underwriting techniques
Claims	Payable from Participant's Takaful fund(Waqf Fund).	Payable from overall fund of the company
Surplus	Could be given to the Participants	Belongs to Company Shareholders
Deficit	Qardh-al-Hasan is given to the Participants Takaful fund.	Financed from shareholders fund i.e. company
Salvage/ Recoveries	Belongs to Waqf Pool	Belongs to the Insurance Company
Shariah Supervision	A Shari'ah Board/Advisor is an integral part of any Takaful setup which supervises the investment activities of the company.	Whereas, in conventional insurance, no such kind of supervision takes place nor is there any law concerning it.

Takaful from Customer's Perspective

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

**Shariah
Compliant**

Ethical

**Transparent
and Full
Disclosure**

**Shariah and
Socially
Responsible
Investments**

**Surplus
Sharing**

Participant Takaful Fund (PTF) - Income

Income of PTF consists of following:

- Contributions received from participants (other than the portion transferred to PIA under Family Takaful Policies)
- Claims and commissions from Re-Takaful operators
- Investment profit attributable to participants in the PTF
- Salvage/Recoveries
- Qard-e-Hasana by the shareholder fund in case of a deficit
- Any donation made by shareholders

Participant Takaful Fund (PTF)- Outgo

The outgo of PTF consists of the following:

- Settlement of losses and expenses occurred therein
- Cost of Re-Takaful
- Takaful Operator's fee – Wakala fee
- Share of investment profits of PTF as Mudarib
- Surplus distributed to participants
- Return of Qard-e-Hasana to the shareholder's fund



Shariah Guidelines

Shariah Guidelines

- ✓ Screening Criteria for Investment
- ✓ Halal & Haram Business Venues
- ✓ Co-Takaful Guidelines
- ✓ Surplus Distribution Guidelines
- ✓ Charity Guidelines
- ✓ Re-Takaful Guidelines
- ✓ Advertisement Guidelines

Screening Criteria for Investment and Shares

- Supervision for Shariah Compliance
- The nature/ Existence of the investee company's business
- Debt to total Asset ratio should not exceed 33%
- Illiquid assets should be at least 20% of the total assets
- Investment in non-Shariah compliant activities and income from the same- 5%
- Net Liquid Assets should be less than the Market price per share
- Sale before possession, T+2

Shariah Guidelines Regarding Halal & Haram Business Venues

- Impermissible Businesses according Shariah ?
- Group Takaful Coverage for companies of impermissible business nature?
- The collateral of any conventional bank?
- Assets of conventional companies, may they be fixed or not?
- Leased/financed assets of any conventional bank or conventional leasing companies?

Shariah Guideline regarding Co-Takaful

- Permissible to be a leader as well as follower in a Co-Takaful setup;
- Allocation of the coverage share
- Explicit wordings of 'offer' and 'acceptance'
- The contribution cheque should be issued in the name of the Takaful company, whether the Takaful company is the leader or the follower
- Permissible to share in service charges and surveyor fee with coinsurance companies
- Permissible to act as a *wakeel* for other following co-Insurance companies.
- All minor claims of one third (1/3) of sum-covered amount may be recovered from follower co-insurance companies.

Surplus Distribution in Takaful

- To create various sub funds
- The loan shall be repaid from the future surpluses without any excess.
- Any portion of Surplus couldn't given to the Takaful company
- The actual distribution of surplus may be done only to those Participants leaving the pool during the year by way of withdrawal, death or maturity of the membership.
- No surplus shall be distributed if any claim(s) has been lodged/paid
- The Takaful Operator may distribute surplus either in cash or adjust against future Contributions
- Some amount of Surplus may be made for the charity purpose

Charity Guidelines

- The source of Charity Fund:
 - ✓ Impure income generated by the non Shariah Compliance transactions
 - ✓ A portion of the Surplus from PTF (if any)
 - ✓ General donations
- Disbursement as defined by the Shari'ah for "Zakat
- Provision to disburse in socio-economic welfare activities,
- Disbursement within one year of its transfer.
- Cannot be used for sponsorships or any such activities result in direct / indirect promotion or marketing or advertising of the Company
- Should avoid from cash payment to avoid from miss utilization of funds
- Separate accounts will be maintained for the Fund

Re-Takaful Guidelines

- Should own dedicated Shariah board/ or under the governance of another once
- Incorporated as a Re-Takaful company/ window
- Should have Separate Takaful Pool
- Wakala Fee/Mudarib share should be clearly agreed upon
- The surplus , As well as commissions received from Re-Takaful operator should be considered as a part of PTF
- That no profit commission can be agreed upon based on the finance performance of contracting companies

Recommended Readings and Websites

- ***“An Introduction to Takaful”***
Dr. Mufti Ismatullah Sahib
- ***“An Introduction to Islamic finance”***
Mufti Taqi Usmani Sahib
- ***“Takaful” – A way of Islamic Insurance***
Mufti Dr. Ijaz Ahmad Samdani

Jazaak Allah Khairan

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