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Study on Islamic Life Insurance Example

Study on Islamic life insurance

Chapter 1

Introduction

Background to study:

Insurance is a financial industry which has surfaced as a colossal industry for both in Muslim and Non Muslim world. In Conventional Insurance there are many elements, activities and procedures which are considered unethical, unlawful and unislamic by majority of Islamic scholars. Elements such as uncertainty, gambling and

excessive interest are the main culprits. (Khair Bakhsh, 2009). For the satisfaction of Muslim concern, market experts and Islamic scholars introduced an insurance with the name of Takaful. The increase in demand of Takaful system and the presence of large markets for its products is compelling the entitled authorities to introduce it in Pakistan as soon as possible.

Problem Statement:

What are the prospects and perception of Islamic life insurance in Peshawar?

Purpose of the study:

- To review why convention system is prohibited in Islam
- To compare Islamic Life Insurance (Takaful) with Contemporary Life Insurance.
- To find out justification of an Islamic Life Insurance (Takaful)
- Analysis of prospects of Takaful in Peshawar City.

Methodology

Applied Research:

In this research I will be studying existing Islamic life insurance system and adding no new finds to body of knowledge.

Scheme of study

Type of investigation:

This is a descriptive study:

The format, which will be followed in this study, is to find out justification of an Islamic Life Insurance and what are its prospects in Peshawar.

Cross-sectional Data:

In this research I will observe and study secondary data regarding Islamic Life Insurance and Conventional life Insurance system.

Unit of Study:

My research unit of analysis will be organization

Study Settings:**Field Study:**

Study will be done in natural settings in which variables will not be controlled.

Researcher's interference:

In this study researcher's interference will be minimal and has no direct interference with the Islamic life insurance organizations because I am not allowed to interfere in the organizations.

Methodology:

The methods I will be using in the report are both Primary and Secondary data collection.

Secondary Data:

For this research I will use secondary data.

Sources:

Internet

Leading newspaper articles

Books related to Islamic life Insurance (Takaful)

Research instruments:

The instruments which will be used in my research to collect primary data are:

Observations

Questionnaires.

Sample Size:

I will be distributing questionnaires.

Sampling Techniques:

The sampling technique will be simple random sampling that will help in reducing the biasness factor in the research.

Limitations:

The scope of my research will be limited to students of universities in Peshawar because of time and other limited resources.

Scheme of the report:

The report will consist of the following parts.

1. Introduction
2. Literature Review
3. Findings
4. Analysis
5. Conclusion and Recommendations

Literature survey

Meaning of Takaful:

Takaful is a form of mutual assistance (Ta'awun) strengthened by aiding the ones who are in problems and deserve to be helped.(Dr.Masum) (2009). According to him, Islamic Scholars have begun to accept and conclude to the viewpoint that Takaful is according to Shariah principles. Numerous Islamic conferences are being held and Shariah Councils are emphasizing by creating awareness amongst the Muslims that Takaful operations are free from unIslamic elements thus the development of Takaful in the market is to cater to the needs of Muslim by providing them products and services in accordance to Islam.

“Overtime, greater understanding on the concept of Islamic Insurance has emerged as the concept of Takaful, based on the contract of Tabarru (donation) and Mudarabah profit sharing.”

“Takaful is an alternative form of Conventional Insurance based on the concept of trusteeship and cooperation inspired by the beliefs of the followers of Islamic teachings.’

Murtaza Ali (2007).

It can be concluded that takaful is an Islamic way of dealing with uncertainties via mutual assistance and it is social scheme developed on the principals of brotherhood, solidarity and mutual assistance.

Takaful is rooted from an Arabic word Kafal, which means that one's needs should be taken care of. According to this scheme participants jointly agree to bind themselves against damages caused by hazards.

"Takaful is a legally binding agreement between all the participants of the scheme to pay any of the members who suffers a loss as specified in the Takaful certificate". (Dr.Masum)(2009).

Muhaimin Iqbal (2005), Abdul Rahim, Wahab and Kabir Hassan explain Takaful as a scheme that is derived from the concept of Ta'awun and the concept of Takaful is similar to Conventional mutual risk sharing. Takaful has a fixed maturity period and is considered long term saving tool. Apart from giving benefits of return it also provides a mutual financial assistance among participants.

"A Programme that pools efforts to help the needy in times of need due to immediate deaths or mishaps resulting in personal injury or disablement". (Bank Negara Malaysia)

Scholars like Dr.Yusof Qaradawi (July 2007) state "Our observation that the modern current practices are objectionable Islamic ally does not mean that Islam is against Insurance: it only opposes the means and methods."

According to the author the Islamic insurance companies will use the contract of donations and provide compensation and the operation of the company shall not get engaged in any unislamic elements.

HISTORICAL PERSPECTIVE;

“Muslims were involved in Marine activities in the Mediterranean and Indian Ocean from the seventh century on”. Chaim-Vardit (2009).”

“The rough model of Takaful was practiced by Arabian tribes, holding to the principal of pooled resources to help the needy on the voluntary basis” Masum Billah (2001).

Tamim become the first insurance term in Arabic only in 20th century and it is believed that Ibn Abidin, a Hanafite Jurist who died in 1836, is the First Muslim to coin name Insurance Sukara (security) influenced by Italian term Siguare and Turkish Sigorta. Chaim-Vardit (2009).

Merchants of Mecca used to form a group of Mutual funds with a purpose to help the victims or survivors of natural hazards during their commercial ventures into Syria, Iraq and other countries. Such a practice was supported and even contributions were made by Prophet Muhammad (P.B.U.H) while trading with the capital of Hazrat Khadija. Aziz-Abdul (2005)

“The period lasting from the fall of Rome until the Dawn of Islam was the darkest, most corrupt and unsettled period in the known history to man. Hence the Dawn of Islam removed darkness from the face of life and brought the environment of security and stability to the areas which came under the influence of Islam.”

According to Chaim-Vardit, Shariah recognizes several transactions and institutions which function in a way similar to certain type of Insurance. The typical ones are:

- Daman (guarantee) is synonymous to “Kafala” is used with risk or responsibility that one bears with regard to property of which one enjoys profit.
- Daman Khatar al Tariq (guarantee against travel hazards). In this type of transaction, the person himself wishes to be compensated for a future possible loss.
- Wala al Muwalat-This type of transaction was prohibited by Prophet Muhammad (P.B.U.H). The problem was this type of transaction established new ties, as strong as blood ties, outside the family was unbearable.
- Diya (blood money)-compensation to victim or victim's family for unintentional killing or bodily injury.
- Mudaraba-is not mentioned in Quran and there is much doubt whether it is mentioned in Hadith
- Zakat-means growth and purity. It is often mentioned as equal to modern social Insurance and there have been modern attempts made in Islamic states as Saudi Arabia and Pakistan to apply Zakat.
- The institution of Waaf (endowment)-the property endowed as Waaf was intended to support the poor, staff of mosques, hospitals, to maintain city facilities and the two holy cities.
- Jizya-tax levied on non-Muslims residing in Islamic State and provides them with security for their lives and property.

Holy Prophet (P.B.U.H) emphasised that a Muslim should protect itself from hazards and risks via transferring the

risk through Takaful Model. The life of a muslim is Controlled and destiny by Allah (S.A.T) but it does not mean that a Muslim cannot protect itself but indeed a Muslim in Islam should guard itself from misfortunes, hazards, risks and uncertainties. Dr. Masum (2001).

Types of Takaful Structures:

“There is no single “best” model that exists for takaful. Shariah scholars worldwide concur on fundamental components that characterize a takaful scheme, yet in their judicial opinions (fatwas), operational differences are tolerated as long as they do not contradict essential religious tenets.”

Ms Shakun Ashoka Raj (2007).

There has been a tremendous research done on the takaful models which includes work of prominent authors like Dr. Masum (2001), Hassan, Rahim and Wahab (May June 2007).

According to Hassan, Rahim and Wahab (2007) for the Mudarabah contract to be allowed and carried in Islam requires a number of elements to be present:

- The capital provider (participant);
- The entrepreneur (takaful operator);

- Capital an appropriate activity;
- Profit and loss sharing and offer and acceptance.

In the mudaraba contract, the two parties known as provider (rab ul maal) and the entrepreneur or takaful operator (mudarib) operates on a joint venture basis.

"An investment on a Mudarabah basis of 100 should at the end of the period give more than 100 to be termed as profit and for the operators to share that."

The other takaful model is known as agency or wakala model. On the basis of this principal, a person delegates his right or business to the other people/person to act as his agent or wakil. The agent is responsible to contribute his knowledge, skills, and abilities in performing the tasks assigned to him in the best manner. According to Dr. Masum (2001) in the Wakala model the salary of the agent who rendered the services is subtracted against the pool of funds. The net funds will be used for the purpose of investment and profits will be distributed accordingly.

Similarly author Rahim, Wahab and Hassan "Under a typical wakala model, the Tabarru (donation) remains the property of the participants unless consumed, as they have the right to receive the surplus back and therefore it becomes a conditional gift."

Tijari model (business) commonly uses both the pure Mudarabah and modified Mudarabah approaches. Dr.masum is of the opinion, that modified Mudarabah approach is used where deduction of expenses is taken into consideration and as result more expensive premium is charged from the participants in order to cover the operational expenses while on the other hand Pure mudarabah approach is used where there are no operational expenses charged.

Waqf model-this model operates on non-profit basis that collects donation from individuals or firms who willingly want to contribute something positive to the society. Social organizations and enterprise are engaged in such type of activity.

Shakun Ashoka Raj (2007).

Concepts of beneficiaries in Takaful

It is vital to test the beneficiary in the policy in order to find that whether the beneficiary is the right person to be transferred the benefits. In order to do so the following concepts are under taken :

- Al-Wasiyah (bequest)
- Al-Mirath (inheritance)
- Al-Milkiyah (ownership)

In the Takaful Model if the policy holder outlives the policy duration then under such circumstances the policy holder is entitled for the benefits and he is the only owner but in

Waqf model the sole owner is Allah (S.A.T) and no one can claim the property or benefits. Dr.Masum (2001).

After death of the policy holder the following stages are inoccured before the distribution of benefits of the policy.

- Wealth heald by the policy holder is adding with total benefits
- If there are any debts left by the policy holder then from the total weath those debts are paid off .
- For the remaining the funeral expenses will be deducted.

The remaining property or any thing left is disrtibuted under the principals of Al wasiyah and Al mirath.

Al Wasiyah

Under the islamic principal the policy holder can give away via will 1/3 of the property. This is to reduces injustice that may be caused by the policy holder by giving his benefits not to his legal heirs .

Al Mirath

After making payments of loan taken by Policy holder, excluding funeral expenses from the remaining property and cash left by the deceased and executing his will, the remaining benefits, property and cash left is distributed among the legal heirs of the policy holder via Islamic methods.

CONVENTIONAL LIFE INSURANCE

INSURANCE:

Insurance is a medium via which people transfer the burden of uncertainty (financial loss) to the insurer, for an agreed financial attention known as "Premium". In return, the issuer promises to provide financial compensation to the insured for particular loss occurring. The clients of the policy are known as policyholders.

Human life is exposed to risks of death and disability due to natural disasters and accidents. Property possessed by man is exposed to various man made and natural hazards. Simultaneously man himself is exposed to different diseases, deadly viruses, the cure for which involves huge expenses. A family might have to face serious financial and moral hazards as a human life is lost or a person is disabled temporarily or permanently.

If an individual's property is damaged, it might result in decline in income of the individual.

Life insurance gives protection to an individual during his/her lifetime and after his death too. So we can say that it is an agreement that guarantees the payment of agreed amount of monetary benefit to the insured. There are number of companies offering Life insurance policies. The more the time period of the policy the greater its benefit e.g. if a person purchases a policy for the period of 10 years, he will get its benefit after 10 years but if he dies during this time frame, his family will get its benefit.

The insurance company reviews variables that are likely to affect the health and how long an individual lives after receiving an application by individual for life insurance policy. Actuary's Statistical Analysis is performed by a person known as "Actuary" who determines whether the individual is a good "risk" to insure. Insurance premium is calculated, the older an individual, the higher the life insurance premium to be paid. Insurance premium can also be higher if an individual has health issues like higher cholesterol. If the insurance company agrees to provide insurance the agent will deliver the life insurance contract. The contract will include:

- The amount of money to be paid when the policyholder dies.
- How long the contract lasts.
- The amount of premium that needs to be paid by the policyholder.

The policyholder will need to name the beneficiary to whom the benefit of the policy will be transferred in the event of death of policyholder.

HISTORICAL DEVELOPMENT OF INSURANCE:

Insurance is as old as the development of human society. In a society there are two types of economies

- Money economy
- Natural economy.

Natural economy is more old then the money economy where people form community to help each other. For example if the house of a person gets burnt, the community members will pool in funds and reconstruct the house.

Money economy practiced the transfer or distribution of risk by the Chinese and the Babylonian traders in the 2nd and 3rd millennium B.C.

Achaemenian monarchs of Iran were the first to insure their people and that process was registered in the governmental notary offices.

Life Insurance primarily established to provide protection against risk and catastrophes to people who were dieing very early, people who were aged and people who as a result of accident were disabled.

This was practiced made possible by sharing and transferring risk with other individuals of the society. The idea of insuring oneself against risk is as old as mankind.

Early times in England, societies were formed. Relief to the family of members of the societies would be given by making little sum of payments, if the grains of the farmers were damaged. The first life insurance company was established in England in 1705 and named the Amicable Society for Perpetual Assistance.

Life insurance developed from these small beginnings into colossal industry, which gives people sense of security they require to maintain financial stability, moral and faith against inflation, deflation, wars, boom, panic and all sort of devastation. Life insurance gives individuals sound financial back up to move forward as it is based on scientific principles. Life Insurance companies were the only companies to pay their dues fully and survive the crisis of recession while the banks and other investment companies failed to do so.

The purpose of selling life insurance is to make sure that it provides fresh air to people to start a life. In the larger view the life insurance policy becomes the reason for the beneficiary to begin a new life. Life insurance does active saving, utilization of funds and reserves for hazards and opportunities. It is a medium of savings, protection and growth and it has given people peace of mind and financial soundness.

TYPES OF LIFE INSURANCE

There are many different classification of life insurance each satisfying different need of individuals. Life insurance

can be broadly divided into two main types:

- Term Assurance
- Whole Life Assurance

Term Assurance:

It is the least expensive Insurance and is available in various forms. This form of insurance is opted if the individual cannot afford other types of insurance or when

temporary protection is needed. The premium from this type of insurance is free from element of investment. Term Assurance policy in case of death of policy holder during the specified years is bounded to provide lump sum amount of agreed money but if the individual outlives, then in such circumstances the contract is ceased and no money is to be provided to the policyholder.

Term Life Insurance policy lengths for:

- One-year term policy- promises to pay the beneficiaries of the policyholder the agreed amount of money if the insurer dies within one-year term policy.
- Five years - promises to pay the beneficiaries of the policyholder the agreed amount of money if the insurer dies within five-year term policy.

- Ten years, fifteen and twenty year term policy is also known as long term policy.

TYPES OF TERM ASSURANCE:

- Renewable term life policy –In this term life policy, the policyholder automatically qualifies to continue the policy when the specified time of the policy ends.
- Non-Renewable term life policy- this term life policy, the policy holder does not automatically qualifies to continue the policy when the specified time of the policy ends instead the individual has to re-qualify for the policy by undergoing physical examination in order to determine the health condition.
- Convertible term life policy-In this type of term policy the insured has the choice to covert this type of policy into permanent life insurance policy into variable insurance, whole or universal life insurance.
- Non-Convertible term life policy- simply means that policyholder cannot switch the policy to another type life insurance policy.

WHOLE LIFE INSURANCE:

This policy last the whole (entire) life of the insured. If the policyholder stops paying the premium he/she can get the benefit paid till date. Because of this reason it is an expensive life insurance policy. For example the funeral policy in which expenses are covered for the funeral of the person passed away. Full payment for the policy is taken at the time of purchases of policy.

Whole life insurance policy can be divided into two types:

- Ordinary Life Insurance
- Limited Payment Life Insurance

Ordinary life insurance:

It is also known as straight life insurance. In this type of insurance policy the insurer gives lifetime security. For example, if the insured is alive at 100, then he is to be paid the benefit of the policy or the agreed amount of money. Under this policy of life insurance the policyholder is charged high premiums in the start of the policy and charged less premium during the last years of the policy. The life insurance company invests the premium of the policyholder to accumulate a cash surrender value. The policyholder can withdraw from the policy by taking the cash value or borrowing cash value at lower interest rates. The cash value is relatively small in the start of the year and increases with years.

LIMITED PAYMENT LIFE INSURANCE:

This life insurance policy is also known as "limited pay life insurance" in which an individual pays for the specific time period and enjoys the policy for the rest of his/her life. The face amount of the policy is paid tax free to the beneficiaries the policyholder mentioned. This face amount can be paid on a monthly basis or in lump sum amount. If the

Policyholder mentioned to make payment to the beneficiary on monthly basis then the policyholder has four options to choose from:

- Life Income-In this policy the beneficiary of the policyholder is paid on the monthly basis as long as the beneficiary lives.
- Fixed Period Income-In this type of policy, the policyholder asks the insurance company to pay the beneficiary after his death the proceeds in equal amount over the period of ten years. The years determined are dependent on the wish of the policyholder.
- Fixed Amount Income-In this type of policy the policy holder asks the insurance company that after his death the nominated beneficiary should be paid lets suppose Rs.1000 a month till the proceeds are exhausted
- Interest Options-In this the policy holder asks the insurance company that after his death the benefit of the policy should be reinvested by the insurance company and the interest from the investment made should be provided to the nominated beneficiary each year.

OTHER FORMS OF LIFE INSURANCE:

- Endowment Life Insurance- This policy is for a specific time period. The face value is paid to the nominated beneficiary if the policyholder dies during the specific period but if he is alive then the policyholder is paid the benefit of the policy.
- Variable Life Insurance-This policy is for the whole life. The policyholder is given option to decide the amount he wants to invest in life insurance and the amount he wants to invest in other investment

opportunities like buying stocks. It has a guaranteed death benefit, which is based on forecasted interest rates. These rates are not fixed indeed vary from company to company.

- Universal Life Insurance-This policy charges less premium in the start but does not provide death benefit or cash value as this policy is flexible in terms of premium payments and timing.
- Second To Die Life Insurance- This policy is designed for couples.(married).The benefit of the policy is provided to the heirs of the policyholders only when the surviving spouse dies.
- Juvenile Life Insurance-The purpose of this policy is to provide safeguard to the children. The guardian or the parent of the child purchases policy in order to secure the minor from mishaps.
- Modified Life Insurance Policy-In this life insurance policy higher premium are charged at the later years of the specified time. It is suitable for those individuals who believe that their salary/income will increase in the future.

METHODS FOR PROVIDING LIFE INSURANCE PROTECTION:

There are two methods that are actively used to provide life insurance to individuals.

- Annual Renewable Term
- Level Premium method

Annual Renewable Term:

This type of life insurance policy has overcome the challenge of insurability simply meaning that the policyholder can renew the policy without undergoing medical examination or providing sound health evidence. Because of poor health or other mishaps the insurer might not be allowed to renew the policy. So annual renewable policy (ART) ignores the insurability element, they simply pay the renewal premium. The policy period varies from 10 to 30 years and for the till the age of 95 mostly. In such policy the premium to be paid is much higher than other life insurance policies. The more the age the higher the premium to be paid and thus the greater the return on the policy. The premium is calculated by determining the death rate of each age group.

For Example:

A group of 1000 males (non-alcoholic) at the age of 40 wants to get a life insurance for \$1000. The death rate of males at the age of 40 is .332% out of 1000. This means that the insurance company would have to pay \$.332 for the death claim. The insurance company would have to collect \$.332 from each policyholder in order to cover the death claims.

The yearly renewable insurance premium increases, as the individual gets older. Premium sharply rises during the later years, because as the age grows the death rate also grows.

LEVEL PREMIUM METHOD:

In this type of life insurance policy the premium remains the same for the agreed number of years. The time frame varies from 10, 15, 20 to 30 years. This life insurance policy provides insurance to age 100. If the insurer survives till the age of 100 then the face value of the policy is paid to the policyholder. The premium charged in the early age is higher in order to cover for the morality expenses.

Level Premium method is also known as 'Legal Reserve' because the money invested by the company is according to the state law. The state requires the company to maintain a minimum amount of liquid so that it is able to pay for the agreed claims. The legal reserve that the insurance company maintains is equal to the present value of the future death claims minus present value of future premiums. The main objective of the legal reserve is to provide lifetime security. The policyholder has an option to withdraw from the policy by just taking the cash value which is less than the legal reserve because of deductions of expenses like sales.

UNISLAMIC ELEMENTS IN CONVENTIONAL LIFE INSURANCE

Conventional insurance contains the elements that are unacceptable in Islam which include

- Riba
- Maisir
- Gharar

Riba –also termed as interest, is present in conventional life insurance. Loans granted by companies are charged

on interest. An insured upon his death receives greater than he has paid. This is not permissible in Islam. Insurance funds stocks/bonds contain the element of interest

"Those who eat riba (usury) will not stand (on the Day of Resurrection) except like the standing of a person beaten by Shaitan (Satan) leading him to insanity. That is because they say, "Trading is only like riba or usury, whereas Allah has permitted trading and forbidden riba. So whosoever receives an admonition from his Lord and stops eating riba shall not be punished for the past; his case is for Allah (to judge); but whoever returns to riba, are dwellers of the Fire - they will abide therein. "Al-Quran, Al-Baqarah (2). - 275

Maisir- It refers to gambling or game of chance. Gambling of all forms/types is prohibited in Islam. The gambler tries to win mass wealth without making an effort. When the policyholder dies after only paying a small amount of premium his/her nominated beneficiary receives the benefit in term of monetary, which the policyholder has no idea where the amount has come from.

Al-Maisir is referred to in the Quran as follows:

"O you who believe intoxicants (all kind of alcoholic drinks) and gambling, and Al-Ansab (ways for seeking luck) are an abomination of Shaitan (Satan). So avoid strictly all that (abomination) in order that you may be successful." Al-Quran, Al-Maidah (5): 90

Uncertainty -It is an element which is termed as gharar, is prohibited in Islam. In business terms gharar means

undertaking business deals which are riskier and individuals do not possess sufficient knowledge about them. A contract which contains uncertainty due to:

- Occurring time is not known.
- The amount payable is not known.
- Whether the payment will be accepted as agreed.

HARAM/HALAL-Islam does not allow individuals to invest money in unIslamic activities. Insurance companies may invest in bonds or tobacco companies or any unethical activity which is not permissible in Islam then taking insurance from such companies is considered haram.

ISLAMIC LIFE INSURANCE

The transaction of an Islamic life insurance system aims to protect the life of widows, orphans and the dependents of the deceased against future risks and hazards. It follows the principal of Al-Mudaraba financing. Under this principal the insured and insurer mutually agree to co-operate. The insured dependants are protected of future hazards as well as donations are made for the uplift of poor individual who face accidents in Islamic society. This concept was present and practiced during the times of Holy Prophet (P.B.U.H). In Islamic life Insurance policy the nominee is just acting as a trustee and is not considered the absolute beneficiary. The purpose/responsibility of the individual nomination (nominee) by the assured is to distribute the benefit to the heirs of the deceased under the principal of Mirath and Wasiyah. In Islamic life insurance policies there are two situations in which the benefits of the policy are transferred i) the insurer can claim from the insurer the benefits if he outlives the time mentioned in the policy a) the paid premiums b) the profits made upon the paid premiums

and c) the dividends/bonus made according to the company policy. In the other situation if the insured is not alive or passed away during the policy, the benefits are transferred to the nominee (selected by insured) and it is mandatory for the nominee to distribute the benefits of the policy among the heirs of the policyholder. The benefits include a) paid premium b) profits made on the paid premiums c) bonus/dividends make the company policy and d) donations from the company's charitable funds according to the policy selected by the assured. The benefits of the Islamic life insurance policy are not just claimed by individuals who face natural death/accidents but the benefit are also provided to people insured and passing in unlawful death example suicide/murders. The reason for that is life and death can only be determined by Allah (S.A.T) as He is the Creator and Sustainer Of the universe. This is well explained in the Quran; -

“No soul can die except by the permission of Allah (SWT), the term being fixed (by Allah SWT.....”

Every human being in the society has the right to enjoy the benefits as long as they are obtained from lawful ways. Islamic life insurance does not restrict the right of insured from the benefits if he is a criminal or committed suicide because the policy obtained by him is via lawful manner.

CRUCIAL ELEMENTS FOR THE TAKAFUL SYSTEM

- Sincere intention for Takaful purpose, which is, know as Ne'aa
- Integration of Shariah Principals which includes i) Ta'awuni concept ii) riba avoidance ii) using Wakala and Mudaraba models in management systems iii) coincidence of ownership iv) participation of policyholder in

management.

- Conducting the business according to the principal of Shariah. Following Moral values and ethics. No unlawful elements should be involved in conducting transactions which are against the line of Islam like:
 - The parties getting involved in the contract are mentally fit and have the legal knowledge.
 - Insurable interest
 - Principle of indemnity prevails
 - Offer and acceptance is made by both the parties as the result to get involved in the contract.
 - Mutual consent which includes voluntary purification
 - The time duration of the policy and the agreement conditions.
- Shariah Advisory committee will be regulated which will be monitoring the takaful auditing process.

COMPARISON BETWEEN ISLAMIC LIFE INSURANCE AND CONVENTIONAL LIFE INSURANCE:

Issues	Islamic Life insurance	Conventional life insurance
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Accounts	In Islamic life insurance there are two accounts i) PA account that is treated according to the principal of Al-Mudaraba and the other ii) PSA account which is managed on the basis/on the concept of Tabarru (donations)	In the conventional Life insurance the collected premiums are deposited in the account known as Life Insurance account/Funds.
Accounting	In Life insurance cash accounting is given emphasis.	In conventional Life insurance different methods are in operations like cash, Accrual, Deferred etc.
Benefits	In Islamic life insurance system benefits are paid from the funds owned by the participants.	In Conventional Life the pool of funds are the sole ownership of the company and from these funds benefits are given..
Bonus	In Islamic life insurance system profits from the takaful investments are distributed between the operator and participants. The ratio of profits to be shared should be according to the Al-Mudaraba Principal.	In Conventional Life Insurance the company may decide to give profit for a given year and may not give for a particular year depending on the return from investment.
Claims	In Islamic life insurance system if the policyholder dies, the beneficiaries can claim the value from the PSA account apart from the amount in PA account. Incase the policy holder survives the maturity of policy he is to be benefited from the value and benefits of the policy in the PA account.	In Conventional Life Insurance if the policyholder dies, the right of beneficiaries is on the entire amount mentioned in the policy. Incasing the policy holder survives till the maturity of the policy then he can claim the amount of the policy mentioned plus the interest if any.
Contracts	In Islamic life insurance system the participants own the takaful funds and the operators are the one who manage them.	In Conventional Life Insurance policies are sold and the purchasers are the policyholders therefore we can say that traditional life insurance is a buy-sale contract.

Company	The company is known by the operator because he acts as a trustee, manages the company as well as is the entrepreneur too.	In Conventional Life the company has a direct relationship with its client.
Commission	<p>The agent shall be not confused with the operator and shall be paid for the services by the operator from the shareholders fund if his services are needed.</p> <p>If the contributors agree then commission can be paid from the collected premium.</p>	In Conventional Life Insurance the agents are to be paid by the collected premiums.
Capacity	As per Ulama's view and guideline the least age to acquire a Takaful contract is 15 years.	In Conventional Life Insurance the minimum age to obtain a policy is 16 years but infants between 10 to 12 can also obtain only if they have underwriting provided by a respected guardian.
Disclosure	In Islamic life insurance system it is not essential to disclose moral or physical hazards related to the subject matter of the policy.	In Conventional Life insurance if information has to be disclosed then it has to include moral and physical hazards related to the subject matter of the policy.
Damages	In Islamic Life Insurance, there is no evidence to charge unreasonable damages to the insurer but if the damages are in accordance to the principal of Diyat, Daman, and Taawun and shared responsibilities then the damages can be charged.	In some cases the Court of Justice can charge damages to the insurer.
Elements	Islamic Insurance practices do not involve the unIslamic elements like riba, gharar and maisir.	Conventional Insurances involve the elements which are not in accordance with Shariah.

Extra Risk Premium	In Islamic Life Insurance, Rate of premium are fixed and are determined by the actuarial evaluation therefore it is not obligatory to pay extra premium. But in cases if a policy-holder is considered to go an through a strain on the mutual fund due to his poor health then under such circumstances, the policyholder may have to increase the premium to PSA.	In Conventional Life insurance extra premium is charged to the policyholder if extra risk is for seen. People who have riskier jobs and are involved with alcoholic addiction, under such cases risk is forecasted in advance.
Ex-Gratia	In Islamic Life Insurance Ex gratia payments are not justified.	In conventional Life insurance the payment of Ex gratia are practiced on regular and mandatory basis.
Foetus	In Islamic Life Insurance the foetus could be provided the insurance under the name of his /her mother for the purpose of health protection.	In Conventional Insurance no policy is provided to the foetus.
Funds	In Islamic Life Insurance, the funds are managed by the operators but belong to the participants on collective basis.	In Conventional Life Insurance funds belong to company.
Forfeiture	In Islamic Life Insurance the paid premiums cannot be forfeited of the participants neither for any offense committed nor even for utter most good faith.	In conventional Life Insurance the paid premium of the participants can in some cases be forfeited for the reason of utter most good faith.
Guarantees	In Islamic Insurance the operator does not provide any guarantee on contract. Takaful scheme is undertaken on mutual basis between the two parties.	In Conventional life Insurance the company gives guarantees especially for death benefits.

Investments	<p>In Islamic Insurance the funds shall be invested in interest free schemes</p> <p>They must follow the procedure laid by the Shariah</p> <p>They must not include in any un lawful and unislamic activities.</p>	<p>In Conventional Life insurance the investments are made in interest evolved schemes.</p> <p>Any schemes that do not comply with Shariah can be under taken if the returns are high.</p>
Insurable Interest	<p>Insured interest can be implacable on any individual or property but the benefit via the policy shall be distributed on the grounds of Al waqf, Al hibah, Al Amanah, Al Qard, Al Faraid.</p>	<p>In conventional life insurance the insurable interest right is only designed for special individuals.</p>
Mechanism	<p>In Islamic Life insurance the procedure for operations is followed as the one defined by the Shariah.</p>	<p>In Conventional Life insurance the mechanism followed is man made and customs.</p>
Nature	<p>The nature of Islamic Insurance is to stronger brotherhood, solidarity and mutual cooperation</p>	<p>Conventional insurance aims to maximize profits and operates as a business.</p>
Nomination	<p>In Islamic Life Insurance the nominee is not considered as an absolute beneficiary infect he is liable for the distribution of benefits amongst the heirs of the policyholder.</p>	<p>In Conventional Life insurance the nominee acts as an absolute trustee and no on e else can claim the benefits.</p>
Profits	<p>In Islamic Life Insurance the share of profit is in operation as long as the policy is active as secondly the amount of profit is determined by the return on performance made my the investment.</p>	<p>In Conventional Life Insurance the distribution of profits does not lie with the policy, which means that the policy cannot allow the policyholder to get profit at any time and at any amount preferred by the policyholder.</p>

Premiums	<p>In Islamic Life insurance Fixed minimum premiums are applicable to all participants with no limitation on age.</p> <p>The reason is that takaful is regarded as a mean for saving for future hazards rather than compensating for death of participants.</p> <p>Secondly the operators cannot charge for high morality rate to make greater profits.</p>	<p>In Conventional Life insurance there are various types of premium depending on the type of policy opted.</p> <p>In Conventional Life insurance the greater the age the more the amount of premium charged.</p>
Regulations	<p>Islamic Insurance is based on the foundation of Shariah. Primary Sources being the Holy Quran and Traditions of the Holy Prophet (P.B.U.H)</p>	<p>Conventional Insurance follows law based and made by man and culture.</p>
Regulatory Frame work	<p>In Islamic life insurance system Shariah justified statutory provisions; Juristic opinions (Fatwa) and decisions of the Shariah supervisory bodies are considered.</p>	<p>In conventional Insurance legal literature, law and judicial precedents are considered.</p>
Suicide	<p>In Islamic Life Insurance it is believed that life and death occur because Allah (S.A.T) wants and its the that Supreme power Who only knows about it so in cases of suicide the benefit are entertained to the beneficiary of the deceased.</p>	<p>In Conventional Life Insurance if it is proved that the insured committed suicide with in the duration of policy with an intention to leave the benefits to the nominee then in such cases the benefits shall be provided.</p>
Surrender value	<p>In Islamic Life Insurance if the policy holder wants to withdraw then under such conditions only a small portion of fee is charged for with draw but all the premiums paid to the PA account will be refunded along with that any portion of profits earned on those paid premiums will be given to the policy holder.</p>	<p>In Conventional Life Insurance if a policyholder with draws then in such situation he is entitled to get on a sum less then the total premium paid.</p>
Term Of Policy	<p>Takaful insurances have fixed term of maturity example 5 10 15 20 years.</p>	<p>In Conventional Insurances the term of policy can be fixed and can be indefinite depending on the type of policy.</p>

JUSTIFICATION FOR ISLAMIC LIFE INSURANCE

Islamic Life Insurance is a financial transaction agreed mutually between insurer and insured with the aim of providing security against future risks and unforeseen events. In Islamic life insurance all the unlawful and prohibited facts/elements have been removed. The Quran and Sunnah of Holy Prophet (P.B.U.H) are considered the General source of Islamic Law. This has been indicated in the following verse:

“O you who believe! Obey Allah (s.w.t.) and obey the Prophet (s.a.w.).....”

Holy Quran: - There are around five hundred verses in the Quran, which highlight the legality of sanctions. The contract of insurance in Islamic viewpoint contains the elements of co-operation and is a binding promise for the both parties. From the Islamic point of view insured and the insurer have to perform and give their best efforts. It also contains the elements to reduce hazards in life making the individual to improve and aim for a comfortable life. All these are fulfilled with in the teaching of the Quran therefore the Holy Quran is eternal source of guidance for all Islamic insurance contracts. The Holy Quran is truly considered as a plain statement for guidance of mankind to be successful in both worlds. This can be well supported by the following verse from Holy Quran:

“... it is a plain statement to man, a guidance and instruction to those who fear Allah (s.w.t.)....”

Sunnah: - are the traditions of Holy Prophet (P.B.U.H) and are considered second source of Islamic Law after the Quran. Numerous hadith support and approve the validity on insurance in the Islamic societies. Holy Prophet has

justified the principal of “Tawakul” in hadith:

“... Narrated by Anas bin Malik ®, the Holy Prophet (s.a.w.) told a Bedwin Arab who left his camel untied trusting to the will of Allah (s.w.t.): Tie the camel first and then leave it to Allah (s.w.t.)....”

Another purpose of the Insurance is to protect the insured from future financial strains and this has also been justified by Holy Prophet (P.B.U.H) in the following hadith:

“Narrated by Abu Huraira ® the Holy Prophet (s.a.w.) Said: whosoever removes a worldly hardship from a believer, Allah (s.w.t.) will remove from him one of the hardships of the Day of Judgment. Whosoever alleviates from one, Allah (s.w.t.) will alleviate his lot in this world and the next....”

Life insurance policy is considered to provide protection to the dependents of future risks, hardships and catastrophes and this is also justified in one of the hadith of Holy Prophet (P.B.U.H):

“Narrated by Amir bin Saad bin Abi Waqqas ®, The Holy Prophet (saw) said verily it is better for you to leave your offspring wealthy than to leave them poor asking others for help...”

Analogical Sources: - These include istisnah, ijma and qiyas which further support and justify the concept and application of insurance in Islamic societies. If any decision taken by the above mentioned sources do not contradict Quran and Sunnah then such decisions are considered lawful.

Masaleh al-Mursalah: -With the passage of times as things change so does the implication of insurance contracts changed. They were differently practiced in the era of Prophet Muhammad (P.B.U.H) and if we see now due to advancement and globalization dynamic change has surrounded the world. In such situation there is a need to understand the public interest and work for those individuals of the societies who are facing loss/damage/risk and hardships. The significance of this practice could be judged from the following :

“ Allah (s.w.t.) Intends every facility for you; He does not want to put you to difficulties....

FIQH: - There are various provisions in the fiqh that deal with insurance matters. In the book by Fiqh Al Sunnah under the section 'Shirkatut Tameen' the lawfulness of insurance terms and contracts have been discussed. Insurance contracts are considered to be mutually agreed and based on cooperation which is sharing the principals of Al Mudaraba, Al wakala, Al Aqd and Al Sharikha according to this book.

VIEWS OF ISLAMIC SCHOLARS ON INSURANCE

The opinions of the Muslim Scholars are dissimilar on the validity of Insurance. These views of the Ulama's can be categorized into three main types:

- Insurance is lawful only if it is free from the practice of Riba. This viewpoint is supported by Shaikh Ibn Abidin, Mohammad Taqi Amini, Shaikh Mahmud Ahmad, Mustafa Ahmad Zarqalbrahim Tahawi, Ahmad Taha As-Sanusi, Yusuf Musa, Mohammad al-Bahi, Ali al-Khafif, Zafar Shahidi, Mohammad Muslehuddin, M.A. Manna, along with Ayatullah Khomeni.
- Some Muslim Scholars accept general Insurance but are against the life insurance as it contains the unislamic elements. Islamic Life insurance according to the Scholars opposes the principals of Mirath and Wasiyah. This was approved in Morocco on 6th May 1972. The Muslim Scholars who believe firmly regarding this view include Ahmad Ibrahim, Mohd. Musa, Mufti Mohammad Bakheet, Mohammad Abu Zahra. The Muslim League Conference, which was held in Cairo, accepted this view in 1965.
- The final group of Muslim Scholar was of the viewpoint that insurance is prohibited according to the teaching of Islam as it contains the three elements (Maisir, Gharar and Riba) that make it unsuitable for any Muslim to follow. The Muslim Scholars who supported this idea included Abdullah al-Qalqeeli, Mustafa Zaid, and Jalal Mustafa al-Sayyad.

GENERAL MISCONCEPTIONS & RESPONSES TO THEM MISCONCERTION 1

Any transaction that involves Riba is prohibited. This is supported by an ayat of the Quran "... Allah (S.W.T.) has permitted trade and prohibited Riba'...."

RESPONSE

Islamic Life Insurance model is based on the principal of Al-Mudaraba financing. It does not involve the riba. In Islamic model the profits and the dividends obtained are shared in agreed proportion between the insurer and

insured. Shariah Supervisory Board held in Sudan declared that Islamic model does not contain any unlawful elements is not against the teaching of Islam. Islamic Model is further supported by the Divine principle of mutual transaction as Allah (S.W.T.) says:

"...O you who believe! do not misappropriate your property among yourselves in vanities, but let there be among you traffic and trade by mutual good will... "

MISCONCERTION 2

In Sha'ban 1398 A.H a conference was held in Mecca where some Ulama's announced that insurance contains the element of betting as the insured hope to get something from the opportunity of material gain.

RESPONSE

According to Mustafa Al Zarqa, gambler during gambling is always hoping to win a chance over the other or defeat rather than cooperating. On the other hand the parties in the insurance contract are mutually cooperating to insure oneself against loss, mishaps and tragedies and also work to provide material to orphans widows and other dependents of the society. So it is concluded that an insurance contract does not involve the element of betting / gambling.

MISCONCEPTION 3

It is also believed by some Ulema's that insurance contains the element of Gharar, which means uncertainty. As Gharar is against the teaching of Shariah, it is prohibited in Islam.

"The holy Prophet (s.a.w.) Prohibited transaction by Gharar, (uncertainty) "

RESPONSE

An Insurance contract does not involve the elements of gharar/uncertainty. In insurance contract of life and property the risk is presumed to be incurring in the future while in the life insurance contract subject matter is the life of the policy holder who is blessed by a life by the Creator of the world and who will die when Allah (S.A.T) wants him to. This concept is thus in accordance to the religion and Allah (S.A.T) says:

"... Every should shall have a taste of death..."

So it can be analyzed that Islamic insurance does not contain the elements of 'Gharar'.

MISCONCEPTION 4

Any transaction that involves the element of Maisir (gambling) has strictly been declared by Allah (S.A.T) in Quran. Insurance proceeds in a similar fashion to gambling. As the Gambler hopes to gain some material on the amount paid, similarly the insured also hopes to get the benefit in greater value then by paying the premiums so it is believed that insurance contains the ingredients like gambling. The Quran prohibits Maisir in the following Ayat:

"...They ask you concerning wine and gambling. Say: In them is great sin..."

RESPONSE

According to Mustafa Al Zarqa, gambler during gambling is always hoping to win a chance over the other or defeat rather than cooperating. On the other hand the parties in the insurance contract are mutually cooperating to insure oneself against loss, mishaps and tragedies and also work to provide material to orphans widows and other dependents of the society. So it is concluded that an insurance contract does not involve the element of betting / gambling.

MISCONCEPTION 5

Any transaction that is not in light with the Quran or evidence is not found in Sunnah and not practiced by the Holy Prophet (P.B.U.H) is declared unIslamic. Allah (S.W.T.) has indicated:

"... If anyone desires a system other than Islam never will it be accepted from him..."

RESPONSE

There are various provisions in the Quran and Holy prophet emphasizing on mutual co-operation and Al Mudaraba financing. Similarly the practice of the insurance developed from the practice Al Aqilah. The approval of Holy Prophet (P.B.U.H) regarding insurance could be analyzed from his verdict given in a conflict among two women from the Huzail tribe. The Holy Prophet (p.b.u.h) according to Abu Huraira gave the verdict that the unborn child would be compensated as he got killed in the womb. In this tradition reported, it can be analyzed that the practice of Diyat was present.

MISCONCEPTION 6

In an insurance policy, the insured put his trust on the insurer that he will protect him from mishaps so this concept is not in line with the Shariah as a Muslim needs to believe that Allah (S.A.T) will protect. Such a practice is against the concept of "Tawakul" as the believers only need to believe and put their trust on Almighty Allah (S.A.T).

Allah (S.W.T.) says:

".... but on Allah (S.W.T.) put your trust (Tawakkul) if you have faith..."

RESPONSE

As some Muslim scholars believe that insurance contract is against the principal of "Tawakul" in reality this is not true because in the Islamic insurance the insured and the insurer mutually agree to take the initiative for protection of the insured against loss, damages and mishaps ultimately putting their trust in Allah (S.A.T) who is the creator and sustainer of the Universe. The insurance is just an effort to overcome difficulties/hazards in future not going against the teaching of "Tawakul". The Holy Prophet (S.A.W.) explained the principle of 'Tawakkul' in the following Hadith:

"The Holy Prophet (S.A.W.) told a Bedouin Arab who left his camel untied, trusting to the will of Allah (S.W.T.), "tie the camel first then leave it to the will of Allah (S.W.T.)...."

The insurance policy is not against the principal of "Tawakul" but in this the insurer and insured mutually work together for welfare / protection of the insured against unforeseen events or tragedies. This is in line with the principals of Quran as Allah (S.A.T) states:

"... Co-operate you one another in righteousness and piety...." [1]

MISCONCEPTION 7

In life insurance policy the benefit is transferred after the death of the policy holder to the nominee but in the

concept of Wasiyah and Mirath it is the heirs of the deceased to whom the belongs are transferred .So it is concluded that the insurance is against the principals of Mirath and Wasiyah.

RESPONSE

Islamic Life Insurance does not deviate from the principal of Mirath and Wasiyah. According to the Supreme Court of Pakistan, it was declared that a nominee is not more than a trustee who receives the benefits after the policyholders death and is under obligation to transfer the benefits among the dependents of the policyholder in accordance to the Islamic principal of Mirath and Wasiyah. The role of the nominee under Islamic law is of a trustee who is responsible to transfer the benefits of the policy to the dependents of the deceased and if he is one of the legal dependants of the policy holder then under such case he may be entitled to get a portion of the benefits of the policy.

MISCONCEPTION 8

Some Ulama's and even some Muslims believe that insuring Ones life against death is unlawful. It is because death is for every Muslim to proceed so protecting ones self against the system by Allah (S.A.T) is prohibited. Muslim scholars who are in favor of this view include Shaikh al-Azhar Shaikh Jad al-Haq Ali Jad al-Haq, an anonymous claim in the Muslim Brotherhood published in 1941.

Allah (S.W.T.) states:

".... Verily the knowledge of the hour is with Allah (S.W.T.). It is He who sends down rain, and He who knows what is in the wombs-Nor does anyone know what it is that he will earn tomorrow, nor does anyone know in what land he is to die. Verily with Allah (S.W.T.) is full knowledge and He is acquainted (with all things)..."

RESPONSE

An insurance policy does not go against the will of Allah (S.A.T). The aim is not to insure death or life or gain material of policyholders. Actually in insurance contract the participants and the operators mutually agree to compensate or work for an unforeseen event or tragedy. Such concept is in line with the Islamic principle and Islam encourages the 'ummah' to strive hard in overcoming difficulties in their lives. The Prophet (S.A.W.) said:

".... Narrated by Abu Huraira ® the Holy Prophet (S.A.W.) said: Whosoever removes a worldly grief from a 'mu'min', Allah (S.W.T.) will take away from him one of the grieves of the hereafter. Whosoever alleviates a needy person, Allah (S.W.T.) will alleviate from him in both the world and the hereafter...."

ELABORATED VIEWS FOR ISLAMIC INSURANCE

- Islamic insurance work in same way as the concept of Al wadiah. Under this principal two parties agree to a contract where one deposits and the other acts as a trustee "Amanah" with the aim to safeguarding the amount deposited. The concept of Al-Wadiah has been originated from the following Ayat of the Holy Quran when Allah (S.W.T.) says:

"... Verily Allah (S.W.T.) commands you to render back your trusts to those to whom they are due...."

- Transactions developed in the ancient customs or “urf” are allowed only if they do not go against the teaching of Shariah, the Divine Law of Quran and the ultimate source of knowledge the Sunnah. Any “urf” or any custom developed by people in societies has always been supported by Islam because it provides convenience to the people and the societies. The insurance contract is believed to be developed from the ancient Arab custom “urf” also known as practice of Al Aqila, which was supported by Holy Prophet (P.B.U.H). The justification of “urf” is indicated in the following hadith:

".... Whatever Muslims see good it is good with Allah (S.W.T.)."

- Unless an authority proves the origin of a transaction invalid it is considered permissible or allowed. This is explained by the by Surat in the following;

"The origin in everything is lawful unless an authority proves one unlawful."

- Establishment of insurance is derived from the ancient Arab tradition of “Al-Aqila”, with an aim of mutual co-operation justified by Al-Quran, (as Surah al-Maidah 5:2). For the purpose of public interest the transactions are based on ‘Al-Mudarabah’, which is dependent on doctrine of ‘Masalih al-Mursalah’. Because of these facts Islamic insurance has been justified by the Shariah.
- Shariah emphasizes that any promises or duties undertaken by individuals or teams or any parties needs to be fulfilled with the intention of good performances. The Prophet (S.A.W.) once said in one of his Traditions:

"Muslim are bound by their conditions except the one which prohibits the permitted one or permits the prohibited one...." [2]

This is further justified in the Holy Quran when Allah (S.W.T.) says to the effect:

"O you who believe! Fulfill your promises"

- If the terms and conditions of an Islamic insurance are lawful between two parties then it becomes obligatory on them. This concept is supported by the Islamic school of “Maliki” and due to lawfulness such contracts becomes permissible in the light of Shariah.
- The operation of an Islamic Insurance are also based on the grounds of eliminating hardships from ones life ('Masalih al-Mursalah') and taking steps to look after the welfare of people who may face loss/damages/tragedies of and incident whose catastrophe is unbearable. Allah (S.W.T.) says:

"...Allah (S.W.T.) intends every facility for you and He does not want to put you to difficulties...."

- The policyholder's purpose should not be limited in terms to just gain a monetary benefit but indeed it should be considered a initiative to utilizes his abilities in the best possible manner to compensate for the unforeseen events in the future or any losses damages caused to property life or wealth. Therefore these contracts contain the element of fostering cooperation between the insured and insurer who mutually agree to do so. . Such principle has been justified in the Shariah Allah (S.W.T.) says:

"... and co-operate you one another in righteousness and piety...."

- In Islam any transaction based on the fact, to fulfill necessity is permissible. . According to Saad bin abi waqas it is reported that the holy Prophet (P.B.U.H) emphasized that one should leave their offspring's wealthy rather then they are poor and are asking for help and begging.

Safwan bin salim reported that Holy Prophet highly regarded the person who took care of widows and poor children and compared the noble cause to the Muslims who

Fought for Islam and with those who fasted all day and prayed all night.

- In Islamic Life Insurance, the policyholder pays regular premium with the motive to compensate for the

welfare of his dependants and simultaneously from the charitable funds donations are provided to the beneficiary's of the policyholder along with premium paid and profits by the insurer. The Holy Prophet (S.A.W.) also used to accept donations there fore it can be concluded that donation and contributions are permissible and lawful in the eyes of Shariah.

- Al Zarqr and Al Alwan compared Islamic life insurance with retirement pension schemes. They are of the opinion that both the policies work in similar fashion. The Islamic scholars have supported the retirement pension schemes. Adil Salahi accepted that retirement pension schemes motive is to ensure security to the subscriber and his family in future and in times of hazards. Salahi was of the opinion that if Islamic life insurance is based on the steps of retirement schemes, then why Islamic scholars do not accept the life insurance as being lawful? Therefore it could be concluded that as both scheme have similar grounds thus they should be equally accepted.
- According to Islamic Shariah a Muslim is suppose to spend his life and wealth in an Islamic and lawful manner similarly he is also being advised to save for the future difficulties and unforeseen events. The Holy Prophet (S.A.W.) provided a guideline for an economic plan:

"Allah (S.W.T.) blesses those who acquire wealth in good manner, then the wealth is spent accordingly and the remaining is saved for future use when risk occurs."

Insurance policy does not contradict the teachings and the limits laid by Holy Prophet (S.A.W.). The basic purpose of Islamic insurance policy is to save for the future mishaps and contribute donations for the betterment of deprived individuals of the society.

ISLAMIC TAKAFUL IN OTHER COUNTRIES

Islamic Insurance industry has enormously progressed, as an alternative to contemporary Insurance Industry. Takaful Insurance was developed in order to satisfy the needs to consumers in Islamic manner. For years there was confusion seen among the Muslim which regarded Insurance against their religion but in year 1979 the first insurance company was set up in Sudan. Its main motivate was to provide consumer driven needs in accordance to Shariah and then an other insurance company was being set up in Malaysia in 1984, thus it was just a being of a new journey for the Muslims to experience and take advantage of.

Many new takaful insurance industries are being opened over the couple of years primarily in Muslim countries and countries with a majority of Muslim Population Example Middle East, UAE and Egypt. Various Takaful companies are being operating in countries like as Pakistan, Australia and Lebanon.

The response to the takaful businesses in the Middle East is significant and the takaful businesses are growing at a rate of 10% per annum while the growth rate of Malaysian Takaful industry is 60 % per annum.

Conventional Insurance is growing at a steadily rate in terms of profitability but the speed with which Islamic insurers are entering the market indicates that there is a gigantic market.

According to the Gulf news the Islamic Takaful Premium growth rate has been 20% since 2000 and in year 2015 it is expected to reach \$ 7.4 billion.

TAKAFUL IN ARAB COUNTRIES

Dubai Islamic Insurance & Reinsurance Company (AMAN)

This company was established in 2002 and conducts investments and other transactions according to the Shariah. Since the establishment of the company the workforce of the company increased by 80% in order to fulfill rising demand for takaful products. The success of the company can be analyzed by the fact that in 2006 it paid AED 782,548 zakat while in year 2007 it paid 1010,325. The cash available at the end of year 2006 amounted AED 26,011,362 while in 2007 the cash available at the end of the year increased to AED 32,416,914.

In the UAE, Islamic Arab insurance (SALAMA) completed 30 years of success. It has won best Takaful provider award 2009 global finance magazines recently.

The following table will help us understand the development of Takaful in Arab countries. It depicts the progress takaful via private companies in the Arab region but does but include NCCI (cooperative company of Insurance). The reason why this company is excluded is to provide a better picture of takaful penetration because this company gets its businesses from government sources.

Market figures from Sigma Swiss & Arig

US\$m	Life Takaful	General Takaful	Total Takaful	Total Market	Takaful Share of Market
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Saudi Arabia	1.3	60	61	781	* 8%
UAE	1.1	12	13	815	2%
Qatar	-	6	6	153	4%
Bahrain	-	5	5	134	4%
Sudan	0.4	27	27	33	83%
Jordan	0.3	6.3	7	141	5%
Total	3.1	116	119	2,057	6%

Takaful businesses in Arab regions - 1999

From the above chart it can be concluded that the total takaful businesses have grown at a higher rate if we make a comparison with general and life takaful.

QATAR ISLAMIC INSURANCE COMPANY

This company was formed in 1995 and since then this company is growing and satisfying the needs to the dynamic changing market according to the Shariah. It contains high quality Islamic insurance portfolio and it has the lowest bad debt provision in the country.

The Company's interim financial statement ending 30th September 2008 showed that the company generated profit worth QR 57.4 million and the earning per share of the company for 2008 were QR 3.83.

If we look at the history of performance of the company it can be analyzed that it is one of the leading company in its country because in 1998 its total net profit increased from QR 2.5 million to QR. 60.5 million in 2007.

QIIC provides vast variety of products and services extending its services and products to aviation, marine, computers, electronics, energy and agricultural insurance. In life insurance it covers accidents, travel, motor, and property.

SOLIDARTITY INTERNATIONAL

As the demands for takaful products and services increased this lead to the establishment of Solidarity. Its aim is to provide products and services of standard quality and become world leader in Takaful business. It provides products of full range of family, General and retakaful. Solidarity has a paid up capital of (US\$ 100,000,000) due to which it ranks amongst the top ten highest paid up takaful companies of Arab.

It has it operation in Bahrain and Qatar and is planning to move in countries like Pakistan, Iran, Morocco and United Kingdom.

Islamic Insurance In Malaysia

Malaysia is the one of the largest global market for takaful industry, The following chart shows the geographical percentage of takaful and it can be viewed that Malaysia covers 27% of the total market for takaful.

These are estimated figures Takaful % Of total

Malaysia	\$143m	27%
Other Asia Pacific	\$50m	9%
Europe, USA	\$6m	1%
Arab Countries	\$340m	63%
Total	\$538m	100%

Source: Islamic banking

Impressive growth rate of takaful businesses in Malaysia. The products sold under the family takaful were individual products, mortgage policies, pension plans and saving products. All classes were sold under the General Takaful.

The growth for Malaysia can be distinguished from the following table:

Us \$M	Family Takaful	% Increase	General Takaful	% Increase	Total Takaful	% Increase
1998	55.0		36.6		91.6	
1999	70.0	27%	42.7	17%	112.7	23%
2000	93.2	33%	49.8	17%	143.0	27%

Source: Islamic banking

Lets take an example of a Malaysian takaful company which is one of the companies in Malaysia that is performing well, so for that purpose the company's income statement is been viewed:

Asean Retakaful International (L) Ltd

2006
USD

Operating revenue	16,120,063	8,996,674
Transferred from revenue accounts		
- ATG Pool Fund	277,402	265,764
- Family Retakaful Fund	364, 654	169,843
- General Retakaful Fund	1, 034,607	810,454
Investment income	657, 196	372,326
Gain on disposal of investment securities -		13,545
Other operating income	609,225	248,449
Total income	2,943,084	1,880,381
Operating expenses		
Staff costs	(460,129)	(397,915)
Depreciation	(62,593)	(53,403)
Administrative and general expenses	(459,011)	(436,640)
Profit before taxation and zakat	1,961,351	992,423
Zakat	(106,000)	(125,174)
Tax expense	-	(5,263)
Net profit for the year	1,855,351	861,986
Dividends per ordinary share (sen) - (net)	5.0	2.5

Source: Income statement of Asean Retakaful International Ltd 2006

Only twenty-seven countries were selected because the demographics and insurance statistics were available. United States would be the highest takaful premium with US 7.4 billion in the year 2015, which estimates that takaful in United States would be growing at a rate of 20% per annum. It is an achievable task because takaful industry in Malaysia is growing at the rate 60% per annum and Middle East at 10% per annum.

ISLAMIC TAKAFUL IN OTHER NON MUSLIM COUNTRIES

The Millea Holding Inc group hopes to generate a positive premium from its new operations of Islamic Takaful. It aims to generate takaful premium of YEN 2.5 billion (US\$ 24.3 Million) within a five year of its establishment. Currently this new takaful introduction in the market will be managed by the reinsurance subsidiary in Singapore which is being set up at a capital of YEN 1.6 billion (US\$ 15.5 Million).

Millea holding Inc group is diversifying its portfolio in order to strengthen its reinsurance business in the market.

The growth of Conventional Insurance in the world is around 5% to 6% while the growth rate of Islamic Insurance is 10% to 20%.

After going through the study of Takaful Islamic Insurance in other Muslim countries I stand at a conclusion that takaful Islamic Insurance has a huge market and a rising demand. It can be also linked that Pakistan can successfully promote takaful and especially people of Peshawar, as they are more towards religion will accept takaful eagerly. I am confident that a branch of Takaful in Peshawar will not be a bad idea and will be accepted by

the people. By making a comparison between the Takaful growth rate and Conventional growth rates it can be concluded that the Muslims have a need for insurance and Takaful is its Solution!!

SECTION 3

STATISTICAL ANALYSIS OF QUESTIONNAIRE

NEED FOR SURVEY

After excluding the lower class from the target market a few important questions raised for which it was felt necessary to conduct a survey. For example it is required that what percent of middle and upper class is interested in insurance policies. What percentage of them have already availed an insurance policy? Are they willing to give it up for Islamic life insurance policies? Are they able to pay the premiums regularly?

To get all these facts I have no other option except to conduct a survey. Thus a survey was conducted to fulfill these requirements.

SURVEY METHOD:

Questionnaires were distributed among these people. Thus the method of my survey was to get information through questionnaire. Among these people I used the random sampling method.

DATA COLLECTION:

I distributed the questionnaire among 200 people and collected the valuable information provided by these people.

DATA ANALYSIS:

After having collected the required data the next step for me was to analyze the data carefully to reach at some conclusion. Thus I used the software “Statistical Package for Social Sciences (SPSS)”.

DATA COLLECTION:

Through the questionnaires the following data was collected. In the following lines we will analyze them one by one. The questions and responses to them are as follows.

Data Analysis

Question 1

Your monthly income ranges between?

Question 2

Numbers of dependents on you are?

Question 3

Have you already purchased an insurance policy?

Question 4

If no please mention the reason?

Question 5

Do you have any knowledge of an Islamic life insurance system?

Question 6

If yes how was their term and conditions:

Question 7

Will you be sure that it's completely interest free?

Question 8

You prefer takaful over conventional life insurance

Question 9

Will you buy an insurance policy from an Islamic life insurance company if possible?

Question 10

Do you expect that it will improve economy?

Question 11

If you have already bought then how much are you spending on insurance annually?

CONCLUSION

The information gathered from the questionnaire, i got to know that 58% of people in Peshawar have a purchasing power between Rs.5000 to Rs.10000. As people of Peshawar have large families, i got to know that 35% of every household have more than 3 dependents while 24% have three dependents to be looked after.

Islamic Life Insurance has a potential of 84% as these are the individuals who have not yet purchased insurance and 40% of the individuals provide a reason that they did not purchase as it is forbidden in Islam and consider it haram due to the unIslamic elements involved in the insurance policies.

One of the key barriers faced by Islamic life Insurance companies is that of unawareness among the people. Islamic Life Insurance companies need to create awareness via choosing the appropriate mediums, as 57% of the people in Peshawar are still unaware of the concept of Takaful Insurance. Individuals who have idea about the concept of Takaful still suffer from the information about the terms and conditions. In Peshawar 39% of the population do not have any idea about the terms and condition of Takaful while 30% believe that the terms and conditions are difficult to understand.

Apart from the unawareness levels, another Myth is very common among the population, they believe that Islamic insurance is not completely interest free. 74% of the individuals of Peshawar hold this view point.

The interesting fact that was revealed via the information gathered is that 51% of the individuals are willing to prefer Islamic life insurance over contemporary while 59% individuals are willing to buy Islamic insurance if they get a chance.

People in Peshawar are very much concerned about their activities. If given a chance and opportunity they will prefer products and services that are in accordance with their religion. In Peshawar 63% of the people are not spending anything annually on insurance.

So it can be concluded from the analysis that Peshawar is a great market to offer Takaful. Products should be made in accordance to the need and range of individuals. The companies need to create awareness and create Brand image that the products offered are halal and in accordance to Shariah.

FINANCIAL ANALYSIS

The stock market plays a vital role in the success of any financial institution. Therefore it is very essential to know the opportunities for Islamic Life insurance in that area before opening its branch in that segment. Islamic institutions are compelled by Islamic laws to invest in products or firms that fall in the rules of Shariah thus this limit the opportunities for Islamic institutions and therefore the presence of institutions that are in accordance to Shariah are essential for the success of Islamic life insurance companies.

INVESTMENT SELECTION

The most important decision for the manager of Islamic Life insurance is to find suitable fund investment opportunities. The criteria that the manager uses fall into two types:

- Qualitative criteria
- Quantitative criteria

QUALITATIVE CRITERIA

Under the guidelines of Shariah an Islamic industry is to strictly follow the restrictions while making investments in corporations. Following are the corporations and companies in which an Islamic Industry cannot invest.

- Islamic industry cannot invest in firms that are involved in the production, selling or distribution of alcoholic drinks.
- Islamic industry cannot invest in companies who are involved in the slaughtering of pork or any activity that

is linked to the products of pork.

- Any firm, which is involved in gambling, casino, bar, lotteries or any related gaming, Islamic industry cannot invest in such corporations.
- Firms, which are linked or involved with filmmaking or entertainment sector like theater, Islamic industry is restricted to make investment in such firms.
- Islamic industry is not allowed to make investment in firms that create/make pornography or any scenes, which are considered unacceptable in Islam.
- Firms that make cigarettes or are related to the production of tobacco, Islamic industry is bound not to invest in such firms.
- Firms or research industries that are involved in creating genetically identical humans, Islamic industry cannot invest in such corporations.
- Islamic Firms cannot invest in companies that produce weapons.
- Islamic Industry is restricted to select any firm for investment, which is involved in the abortion activities.
- Corporations which have bad publicity or any prove that they are badly treating employees such industries are not an appropriate investment opportunity for Islamic firms.
- Firms that are polluting the society and as evidence for the harm created there is proof available, in such firms investment is not allowed for Islamic Industry.

- Islamic Industry cannot invest in conventional banks and insurance sectors.

QUANTITATIVE CRITERIA

After identifying the unacceptable companies and eliminating them then the remaining companies are refined further in order to be one safe hand side that the income generated is via appropriate financial resources. Therefore it becomes essential for the manager to use the quantitative criteria. The eminent Muslims scholars have approved guidelines which need to be followed in order to analyze the appropriate firms that lie in the rulings of Shariah. The Guidelines include:

- Total dividend divided by 12-month Average market capitalization, if a company's result is greater or equal to 33%, then such a company should be excluded and should be considered inappropriate for Islamic industry for investment purpose.
- Sum of Cash and Interest Bearing Securities divided by 12-Month Average Market Capitalization, if the company's result is greater or equal to 33%, then such a company should not be selected by Islamic industry for investment purpose.

Accounts Receivables divided by 12-Month Average Market Capitalization, if the result of the company is greater or equal to 49%, then such a company is not to be selected for investment by Islamic industry.

On the basis of the above-mentioned criteria, we will analyze the stock market of Pakistan and identify suitable opportunities for Islamic Life Insurance system. We will be considering the top 100 companies listed on the Karachi stock Exchange. Analyzing the companies I came to conclusion that only a few fulfill the requirements for

the Quantitative criteria laid by the Islamic Scholars. Examples of Companies include:

SITARA GROUP OF INDUSTRIES

Sitara group of industries also provides investment opportunities for Islamic Financial institutions meeting the Islamic scholars criteria. In 2006 Earning per share was RS.18.2 while in 2007 it increased to Rs30.4. Therefore it is providing an opportunity for Islamic Life insurance companies for investments.

PAKISTAN STATE OIL:

Pakistan state oil is also one of the most profitable corporations meeting the criteria for Islamic financial institution investment. The earning per share of PSO increased from RS.27.34 in 2007 to Rs.81.94 in 2008.

Lucky cement

Lucky cement is also one of the most profitable and eligible corporations for an Islamic Life insurance system investment. The earning per share of lucky cement increased from Rs.2.98 in 2008 to Rs.3.41 in 2009.

Oil and Gas Development Corporation

The third one among the 100 indexes is Oil and Gas Development Corporation. Also OGDCL meets the criteria for

Islamic financial investment. The earning per share in 2008 was Rs.10.31 and increased to 12.91 in 2009. Therefore it can be analyzed that Islamic life insurance companies have opportunities of investment.

Conclusion

From the above observations it can be concluded that the choice for a conventional life insurers is there to select from a large pool of corporations but similarly there are corporations, which not only meet the criteria but also are very profitable therefore the Islamic life insurance system will face no problem in investment.

RECOMMENDATIONS

Unawareness among the Muslim:

One of the basic concerns for the Islamic life insurance industry is the awareness level among the people. Muslims in Pakistan have a conservative approach that is due to lack of education and the way they perceive and follow their religion. In order to overcome such barrier the Islamic life insurance companies need to develop marketing strategies that create a positive image of the products in the society and attract the customers. Seminars, workshops, multi media presentations, news paper, brochures and other appropriate mediums could be used to spread the information regarding the Islamic life insurance products and companies in order to diminish the set trends in the minds of the Muslims.

Inefficient Islamic banking Operations:

Islamic banking has a bright future in Pakistan, as the majority of populations of the country are Muslims having beliefs in the values and traditions of its religion. It can be observed that Islamic banking system in Pakistan could have been more efficient if it operated as an independent system rather than emerging as Islamic windows of Conventional banking system.

Proper and Correct Segmentation Of the market: For the Islamic Life insurance companies in Pakistan it is vital that these companies focus on the segmentation of the market. In order to do so Islamic life insurance companies should identify their niche market and target appropriate customers with appropriate products. There are many insurance companies in the market so Islamic Life insurance companies need not to concentrate on the entire market but creating their own niche should be their primarily objective in order to sustain the competitive environment. Islamic life insurance companies should offer products that are innovative.

Promotion of a Locative efficiency:

Islamic Life insurance system can improve the efficiency by working more for the welfare sector of the society. In order to do so they can under take the following efforts:

- Reasonable portion of the investment funds such be allocated to the priority sectors such as agriculture.
- Invest able funds should go for charities of widows, orphans and needy individuals of the society.

Modern Insurance Policies and Practices:

In order for the Islamic Life insurance System to perform well in the highly competitive market the companies to offer good quality of customer services and use technology in order to break through in the market and sustain. Electronic Communication like Internet could be used in order to making customer reach easy and evaluating the market easily. Islamic life insurance system needs not only to be brick companies but also need to follow and develop as click companies.

Research and Development:

In the present scenario the Islamic Life Insurance system lacks scholars who posses working knowledge of Islamic Fiqa with modern economics and finance. An institution or an organization is made of its employees so it is very important to recruit the appropriate staff. These employees need to have skill and knowledge with a spirit to fulfill the Islamic operations in the best of their efficiencies.

Another reason that needs to be highlighted is the unavailability of statistics and data regarding Islamic Life insurance system. The companies that are entering the market are new and are medium sized players, lacking expertise and standardization due to which these companies are facing lack of opportunities.

Islamic system in an unIslamic society:

Unfortunately the dilemma that the Islamic life insurance companies in Pakistan have to face is the lack of knowledge of the people about their religion. It is very difficult to go against a system and establish a mechanism

which the individuals at any cost are not willing to accept. So here it becomes the duty of the scholars to deliver and become part in removing the misconceptions about Islamic insurance and encouraging them to accept as it lies with in the Shariah.

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