RESEARCH ARTICLE

Revisiting *TAKAFOL* Insurance: A Survey of J&K YATEEM Trust and GUNIAT-UL-ULOOM (Issues and Challenges)

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Received 12 July 2018, Accepted 25 August 2018, Published Online 26 August 2018

ABSTRACT

With Muslims accounting for one in four of the world's population totalling nearly 1.6 billion of the world's 6.8 billion people, the potential market for Islamic financial services is considerable. India stands at the second place when it comes to Muslim population after Indonesia and with approximately 189 million Muslims as per 2017 census. Insurance has become an absolute necessity to trade and industry and all the financial activities. It is a risk mitigating tool both in personal life as well as in business environment. Islamic insurance is insurance that is very Islamic i.e. in confirmation with Islamic law (Shariah). It aims at protecting the human beings especially when they are in harm. The purpose is not profit but to uphold the principle of "bear ye one another's burden". The paper aims at introducing Takafol in India and throwing light on the challenges and certain issue faced by Islamic institutions.

Key words: Takafol (Islamic insurance), Al-Gharar (Uncertainty), Ijma (Consensus), Qiyas (Analogy), Shariah (Religious laws), Mudaraba (Trusteeship).

INTRODUCTION

In modern society, insurance has become an absolute necessity to trade and industry and all financial activities. There is a positive relationship between growth of insurance industry and economy. For a policy holder having insurance helps to counter misfortunes. Its usefulness and importance are undeniable but ethics in insurance is a concern for all. Life insurance has become the most effective vehicle for mobilising savings for capital formation and for long-term investment, as well as for making provisions for old age and bereavement in the case of individuals. But the concept of insurance is not acceptable to most of the conservative Muslims since it contradicts with some Muslim teachings. It was in 1903 that the Arab scholars declared insurance unacceptable but then started to search for an alternative. It was in 1970 that the concept of Takafol came into existence and in 1985 it took off when the Grand Counsel of Islamic Scholars in Makkah, Saudi Arabia approved it (Jaffer 2014).

Takafol also called as "cooperative insurance" where in the policy holders contribute a certain amount for a common purpose and each one of them pay a sum as insurance premium to help those in need of financial aid. It

Open Access Journal

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To Cite This Article: Seema Bashier and Mohammed Amin Mir. Revisiting *TAKAFOL* Insurance: A Survey of J&K YATEEM Trust and GUNIAT-UL-ULOOM (Issues and Challenges). *Research Journal of Social Sciences*, 11(2): 1-8, 2018.

is a system of mutual help and cooperation. The losses are divided, and liabilities are spread according to the system. It does not aim to derive benefits at the cost of others. Instead, it eliminates uncertainty in terms of premium and compensation (Nico 2010).

Takafol provides Shariah Compliant solutions to the prohibited concept with the conventional insurance while still protecting against uncertain events for commensurate fee (Syazrin 2016). Islam is in no way against the insurance, but it is against the means and methods that are currently used in conventional insurance. To be acceptable in Islam any form of insurance should avoid the elements of *riba* (interest), *maisir* (gambling) and *gharar* (uncertainty), though elements of *gharar* may be forgivable depending upon the circumstances.

1.1 Takafol in India

India being a multi-racial and multi religious country with second highest Muslim population has still not explored Takafol (Salman2017). Although insurance is in India since 1818 but the concept of Takafol is still new and untouched in India. Takafol has been offered widely all over the world including Muslim and non-Muslim countries. Sri Lanka has less than 10% Muslim population, some 15% of the policy holders of Takafol are non-Muslims (Salman2017). With the changing dimensions of the Indian economy and market, the possibility of practicing Takafol is greater. Although a lot has been said about Takafol, but the Indian Insurance Act does not stipulate any separate provision for such practice.

Life Insurance Corporation (LIC) of India has joined hands with the Saudi Insurance Co and the company is in a four-way partnership with LIC, LIC International- Bahrain, The New India Assurance Co and Al-Hokair group. It is providing Takafol products like endowment, money back and single premium policies amongst others in Middle East (Pai 2009).

India's largest lender State Bank of India (SBI) and the largest insurance company Life Insurance Co of India were looking to launch Islamic products (Pai 2009). However Reserve Bank of India (RBI) study concluded that Islamic banking may not be feasible in the current regulatory framework in the country. SBI's then General Manager (Overseas Expansion and Planning) Naresh Malhotra, along with other officials at the International Business Group met several experts to study the legal and regulatory hindrances towards launching Shariah Compliant products. A working group was constituted by RBI, which concluded that Shariah-Compliant instruments are not feasible in the current regulatory framework (Rediff 2005).

The residuum of the paper is as follows. The next section deals with the review of literature, following the section of research methodology. Penultimate section deals with results and discussions and the final section concludes with suggestions and conclusions.

1. Review of literature

Wahid Akhter (2010) in his research paper discussed different Takafol models being practiced by Takafol operators across the world. Kabir Hassan et al (2010) laid stress on the preference for Takafol above conventional insurance. One of the greatest challenges, i.e. the misconception that Takafol is for Muslims only has been settled in the paper. Simon Archer et al (2010) discussed one of the main challenges confronting the Takafol industry in raising awareness among its various stakeholders and to have a robust risk management. Salman, S.A., (2010), found that majority of Muslims were aware of the insurance practices which involve interest, uncertainty and gambling. Keeping in view such practices followed in India, Muslims believe that conventional insurance should be prohibited. Majority of the Muslims and non-Muslims believed that ethical value should be considered in the insurance business. Safder Jaffer et al (2010) believes that Takafol industry is facing numerous regulatory and technical challenges and it must survive side by side conventional insurance. He laid stress on developing suitable human resources. Sharifuddin et al (2016) elaborates the concept of Al-Takafol in Islam and its development in Malaysia, specifically in the establishment of Syarikat Takafol Malaysia Berhad (TMB), Malaysia's pioneer in Islamic insurance. Haemala Thanasegaran (2016) analysed the duty of utmost good faith in non-marine insurance and Takafol contracts in Malaysia. The author then evaluates the holistic adequacy of the reforms undertaken in Malaysia to date from a socio-cultural and economic perspective. Joël El-Qalqili (2017) writes that the Islamic finance industry grew from a socio-economic movement to a global industry. One of the central claims often raised in discussions around Islamic finance and Takafol is that of standardized legal framework and products. The standardization is difficult given the diverse and pluralistic nature of Islamic law and its interpretation, but in conventional finance, standardization is often achieved through soft law norms produced by (private and public) international regulatory bodies. To examine whether similar processes can be found in Islamic finance, this article looks at the central actors and main coercive forces of soft law norms, to the Takafol industry.

From the above discussed studies, it is found that the issue where further studies required to be conducted are as follows:

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- There is existence of unethical practices of conventional insurance in India.
- Insurance is a concept that is not easily acceptable by most conservative Muslims worldwide since it contradicts with some of the Muslim teachings.
- Since Muslims consider conventional insurance unethical as such there is limited engagement of life insurance by Muslims and hence, if Takafol is offered it can capture the untapped market.
- India having large number of Muslims should offer it to tap the market.
- The practice of surplus sharing in Takafol can attract the policy holders.

Takafol has not been offered till now in India even though there is a huge market for it. Therefore, in the above back drop the objective of the paper is

- ✓ to explore opportunities and to examine the awareness and knowledge of insurance as well as Takafol in India.
- ✓ to have an insight into the issues and challenges facing the Takafol industry.
- ✓ to investigate the issues and challenges facing the Takafol industry.
- ✓ to find sustainable solutions to some of these challenges.

2. Research Methodology

The study is descriptive in nature and convenience sampling was adopted. The study was conducted in and around Jammu and Kashmir, India involving Muslim and non-Muslim community. The information was collected from primary sources as well as secondary sources. The primary data was collected using 600 respondents. The secondary data was collected from various sources like books, articles, internet and journals.

The study is divided into two parts. The first part deals with awareness of Takafol among the people irrespective of their religious background. The second part is a study of two Trusts functioning in J&K having enough 'Current/ Liquid Assets' & Fixed Assets and the utilization of said assets.

3. Results and discussions

4.1 Awareness and knowledge of Takafol

Table 1. Sample Profile				
No.	Characteristics	Description	Frequency	Percent
1	Age (Years)	20-30	157	28.5
		31-40	302	55
		41-50	74	13.5
		51 & above	17	3
	Total		550	100
2	Religion	Muslims	352	64
		Non-Muslims	198	36
	Total		550	100

Table 2. Awareness and knowledge of Takafol

No.	Description	Frequency	Percent
1	<i>Why Insurance</i>		
	i. Compulsory	216	39.28
	ii. Voluntary	184	33.45
	iii. Did not have any insurance	150	27.27
	Total	550	100
2	<i>Why do you need insurance</i>		
	i. Death	48	12
	ii. Tax Benefits	80	20
	iii. Investment	52	13
	iv. Others	220	55
	Total	400	100
3	<i>Do you think that based on your religious understanding, should the conventional insurance be banned?</i>		
	i. Yes	180	45

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	i. Yes	92	90	11	61	103	86
	ii. No	10	10	7	39	17	14
	Total	102	100	18	100	120	100
12	<i>Takafol can provide coverage and benefit similar to the conventional insurance.</i>						
	i. Yes	82	80	8	44	90	75
	ii. No	20	20	10	56	30	25
	Total	102	100	18	100	120	100
13	<i>Do you know Takafol has been offered in many countries all over the world</i>						
	i. Yes	87	85	13	70	100	83
	ii. No	15	15	5	30	20	17
	Total	102	100	18	100	120	100

Note: In the sample size of 600, only 550 responded out of which 400 had taken insurance products for different reasons and 150 respondents did not have any insurance.

While conducting survey it was found that majority of the respondents (55%) were in the age of 31-40 years followed by 28% in the age group of 20-30 years and it was observed that they are very enthusiastic about investment and savings. There were 64% Muslim and 36% non-Muslim respondents. It was also found that majority of the respondents 47% were from Government Sector followed by 40% in Private Sector and the remaining 13% were among others.

When the respondents were examined as to why they needed insurance 39.28% said it was compulsory for them and 33.45% volunteered to go for it and 27.27% did not have any insurance. Further they were asked the reason and 20% of the respondents wanted to avail tax benefits, followed by 13% who wanted to go for investment & retirement benefits & 12% to cover losses due to accidents, disability & deaths. 90% of the people believed that everyone needs insurance no matter how rich or poor the person is.

When asked about banning the conventional insurance based on a religious belief 45% of the respondents said yes but 55% believed that it is not the right thing to do. When it came to whether the practice of insurance should be ethical 82% believed it should be ethical and 8% were averse to the belief that interest is unethical.

Talking about awareness of Takafol 40% Muslims and 12% non-Muslims knew about it. The main source of information was internet. So, an overall of 25% of the respondents were aware about it. Of these 25% when asked about the points of difference between Takafol and conventional insurance it was observed that in case of difference in contract in Takafol and in conventional insurance 61% Muslims and 35% non-Muslims had knowledge about Takafol.

As far as payments (i.e. contribution belongs to the participants and Takafol operators depending upon the Takafol model vs Premium belongings to the insurance co) 47% of the Muslim respondents and 39% non-Muslims were affirmative. Talking about risk (risk sharing vs risk transfer) 60% Muslim respondents and 40% non-Muslim were aware of it.

When religion and ethics were discussed (i.e. acceptance and prohibition under any religion and ethical teachings) 74% of Muslims and 56% of non-Muslims believed that it is acceptable under any religion. Overall 71% of the respondents believed that ethical aspect is acceptable under any religion.

Most respondents i.e. 90% of Muslims and 50% of non-Muslims know that Takafol is an ethical insurance and is suitable for all. Again 90% of the Muslims and 61% of non-Muslims know that Takafol is free from interest, uncertainty and gambling. Although 80% of Muslims know that Takafol can provide coverage and benefit like the conventional insurance, only 44% of non-Muslims know about it, thus, creating a lot of scope for their awareness. When asked about Takafol being offered in many countries all over the world 85% of Muslims and 70% of non-Muslims respondents were aware of it.

4.2 Study of Trusts

4.2.1 J&K Yateem Trust

J&K Yateem Trust is one of the oldest Trusts in Jammu and Kashmir, India which was established in 1972 to serve humanity. It is being run by a Board of Trustees. It is not the outcome of the political turmoil but was established before the start of the turmoil. It is functioning all over the state with the motto 'Serving the Deserving'.

4.2.2 Jamia Guniat-ul-Uloom, Akhyarpur

Jamia Guniat-ul-Uloom is among the major leading Islamic institute of Northern India established in 1983 at Akhyarpur (Bhalessa), Doda, J&K by Hazrat Gh. Qadir Ganipuri, it has been serving from last 35 years. Situated in the remote area, it is doing wonders. For a place situated in mountains with no road connectivity and electricity till 2015, it has achieved a lot. It carries out similar programs as those of J&K Yateem Trust.

4.2.3 Analysis of 'Financial Statements' of J&K Yateem Trust & Jamia Guniat-ul-Uloom

- Major source of income of both these organizations is Donations, School Fee, etc & Interest earned from Savings Bank (SB) Accounts being operated in various Banks. At present Banks offer an interest rate of 3.5% - 4.00% p.a. on SB Accounts which is lower than the current inflation rate. As per the financial statements provided to us there seems to be no other sources of income other than mentioned herein above. Donations made to any registered trusts or charitable organisations carry a tax rebate on them and once any Govt. regulation against such a rebate will have drastic (negative) effects on donations received by such organisations. (Refer Table No. 3)
- Both the organizations have liquid assets available which are in the shape of Bank Deposits which does not seem beneficial for sustenance of such organisations. The present government was contemplating to introduce a 'Finance Bill' which would directly have impact on deposits held in Banks in India. The depositors were sceptical about the Bill and it has been stalled by the Government for now. (Refer Table No. 4)
- The organisations have increased their 'Fixed Assets' base year on year as is evident from their 'Audited Financial Statements', they have built orphanage houses, etc. which are non-commercial establishments whereas some portion of their capital could be utilized for generating different sources of income which would help their sustainability and stability. The present fixed assets do not generate any income except the schools run by them where they charge very nominal fee from the students, orphans are provided education 'free of cost'. (Refer Table No. 5)

Table 3

Name of the Trust	Major Sources of Income	Financial Year [USD (In Millions)]		
		2015 – 16	2016 - 17	2017 – 18
J&K Yateem Trust	Donations, etc.	1.263	1.173	1.261
	Interest Income	0.004	0.004	0.008
	Total	1.267	1.177	1.269
Jamia Guniat-ul-Uloom, Akhyarpur	Donations, etc.	0.111	0.113	0.134
	Interest Income	0.003	0.003	0.003
	Total	0.114	0.116	0.137

Table 4

Name of the Trust	Current Assets	Financial Year [USD (In Millions)]		
		2015 – 16	2016 - 17	2017 – 18
J&K Yateem Trust	Cash in Hand & Bank	0.616	0.834	0.663
	Other Current Assets	0.142	0.009	0.009
	Total	0.758	0.843	0.672
Jamia Guniat-ul-Uloom, Akhyarpur	Cash in Hand & Bank	0.088	0.066	0.060
	Other Current Assets	0.015	0.039	0.041
	Total	0.103	0.105	0.101

Table 5

Name of the Trust	Fixed Assets	Financial Year [USD (In Millions)]
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Seema Bashier and Mohammed Amin Mir. Revisiting *TAKAFOL* Insurance: A Survey of J&K YATEEM Trust and GUNIAT-UL-ULOOM (Issues and Challenges). *Research Journal of Social Sciences*, 11(2): 1-8, 2018. DOI: 10.22587/rjss.2018.11.2.1

		2015 – 16	2016 - 17	2017 – 18
J&K Yateem Trust	Fixed Assets	2.063	2.199	2.388
	Total	2.063	2.199	2.388
Jamia Guniat-ul-Uloom, Akhyarpur	Fixed Assets	0.167	0.223	0.261
	Total	0.167	0.223	0.261

(Source for Tables 3, 4 & 5: Audited Financial Statements of J&K Yateem Trust & Jamia Guniat-ul-Uloom, Akhyarpur for the FYs 15-16, 16-17 & 17-18.)

4.3 Issues & Challenges

Takafol is now being offered by more than 60 companies in 23 different countries and has now evolved into a rapidly growing industry. It faces many challenges especially when they are operating within a dual banking and insurance regime. Some challenges are:

4.3.1 Lack of awareness:

As per the survey and interviews (Chairmen of both the trusts), there is lack of awareness amongst people in general and policy makers of such trusts in particular. The policy makers of both the trusts were totally unaware about investment options like in Stock Markets, etc.

4.3.2 Islam-o-phobia:

Without understanding basics of Islam a lot of hindrances come in a way in the conception of idea of Islamic Insurance for Government and people. Unfortunately, anything that is prefixed with the word 'Islam' is ascribed with 'terrorism'.

4.3.3 Lack of Support from Government:

Reserve Bank of India has shelved the proposal of introducing Islamic Banking and Insurance in India, but nothing has been done so far about it.

4.3.4 Shortage of Shariah Compliant Assets:

Since, there are unethical investment options available in India the policy makers of such trusts are sceptical about investing their money in Equity Markets.

4.3.5 Lack of Standardization:

There is lack of standardization because there are many debatable areas and scholars (of different schools of thought) mostly do not agree with each other. Every region has its own interpretation, thus, causing confusion.

4.3.6 Acceptability:

Majority of the Muslims believe that Insurance is prohibited (haram) and as such do not want to go for it, the perception overlooks the famous hidayah of the Prophet Muhammad (PBUH) '**tie your camel then depend on Allaah SWT**'.

4. Suggestions and Conclusion

5.1 Suggestions

5.1.1 Knowledge Imparting/ Awareness: Imparting education to people about Takafol by conducting seminars, debates, symposia and conferences. Introduction of 'Islamic Finance' as a subject in Universities and Colleges providing Business and finance related education.

5.1.2 Development of Human Resource: Since there is a very little work done on Islamic Banking & Insurance, there is dearth of skilled scholars who have proper and adequate knowledge. Scholars especially Islamic scholars must play a big role in not only improving the concept of Takafol but to aware people about the concept of Islamic Insurance.

5.1.3 Islamic Financial Institutions: Islamic Financial Institutions should extensively market their products using different mediums of promotion available like the Internet, Social Media, Print & Electronic Media. This will suffice the need for awareness of Islamic Insurance.

5.1.4 Investment Options: On an average, if there are 1000 such trusts in India and going by the figures of the samples of study an amount of 137.90 Million US Dollars (approximately) are not into the investment circle but idle. The same amount of money could be invested and infused into the economy. Currently these trusts earn interest of 3.5% – 4% p.a. on Savings Bank Deposits as one of the sources of income; however, there are much better Shariah Compliant investment options available to them which they need to be made aware of. Proper investments will help them sustain over a longer period.

5.1.5 Hiring of a Portfolio Manager: Since there is no Takafol in India and it seems it is going to take ages for introducing the same, these trusts can adopt '**Wakala Model**' with some changes wherein they can hire a 'Portfolio Manager' who can help them to identify Sharia based products and invest accordingly. This will help them in utilizing their current/ liquid assets.

5.2 Conclusion

The aim of this paper was to find out not only awareness among people about Takafol but also to find out how the Muslim run trusts utilize their money in the state of J&K, a state with largest Muslim population in India. The findings when compared with the findings of earlier research conducted by Salman, S.A., (2017) it was found that 60% of Muslims in India knew about Takafol as compared to 40% of the Muslims in J&K, India. The reason being none other than the lack of knowledge and seriousness of scholars in imparting education about Islamic financial instruments. A majority i.e. 90% of the Muslims and 61% of non-Muslims who know about Takafol agreed that it was free from interest, uncertainty and gambling. 45% believed that conventional insurance needs to be banned. A majority of Muslims i.e. 82% believed that insurance should be ethical whereas 18% did not find anything unethical in conventional insurance.

The second part of the paper revealed that the two trusts under research have liquid assets available in the form of Bank Deposits. Although they are aware that interest is prohibited in Islam, they are left with no option but to keep their liquid assets in the form of Bank Deposits because they were unaware of various ethical or Shariah Compliant investment options. The fixed assets do not generate any major amount as income which puts their sustainability and stability in jeopardy as Donations, etc are the major sources of Income. We concluded that if there are 1000 such trusts with liquid assets of 0.137 Million US Dollars each in India, an amount of 137.90 Million US Dollars is not invested but remains idle.

There is no doubt that Takafol insurance market is at a premature stage, efforts must be made to educate not only the common people but also the industry players who can offer Takafol to a large untapped market. At present insurance penetration in India is only 3.9% of the total population and people are not ready to invest either because of lack of awareness or religious or other issues. The government should also examine the needs of the people and make them invest in ethical insurance so that the benefit seeps into the society. It is worth to mention here that during 'Sub-Prime Crisis in 2008' only such Economies did not have any major negative impact whose basis was 'Islamic Finance'.

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