



## Takaful – Islamic Insurance

**Takaful** is an Islamic insurance concept which abides by the rules and regulations of Islamic Shariah law. It originates from the Arabic word Kafalah, which means «guaranteeing each other» or «joint guarantee». Conventional insurance involves the elements of uncertainty (Gharar) in the contract of insurance, gambling (Maisir) as the consequences of the presence of uncertainty and interest (Riba), which do not comply with the rules of Shariah. In 1985, the Grand Counsel of Islamic scholars in Mecca, Saudi Arabia approved Takaful system as the alternative form of insurance written in compliance with Islamic Shariah.

Takaful is perceived as cooperative insurance, where members contribute a certain sum of money to a common pool. The purpose of this system is not profit but to help those that need assistance, while not deriving benefit at the cost of others. Losses are divided and liabilities spread according to the community pooling system. It is founded on the cooperative principle and on the principle of separation between the funds and operations of shareholders, thus passing the ownership of the Takaful (Insurance) fund and operations to the policyholders. The premiums collected from the policyholders are considered as donations and they constitute the Takaful fund from which all claims are reimbursed. At the end of each financial year, after deduction of expenses, any remaining cash surplus will not be retained by the company or its shareholders, but returned to the policyholders in the form of cash dividends or distributions.

The Takaful system also has a built-in mechanism to counter any over-pricing policies of the insurance companies because whatever may be the premium charged, the surplus would normally go back to the participants in proportion to their contributions.

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