THE ROLE OF ISLAMIC INSURANCE IN TODAY'S WORLD

Davronova Charos Ikrom qizi
Student of Tashkent Institute of Finance, Faculty of Economics
davronovacharos1008@gmail.com

ABSTRACT

This article discusses the role of Islamic insurance in today's challenging world. Moreover, it is informed that the development of Islamic insurance in accordance with the Shariah takaful. As well as, statistics of takaful markets in some countries are mentioned.

Key words: *Islamic insurance, takaful, shariah, conventional insurance, mutual insurance, policy holders.*

Introduction

To witness interesting challenges and opportunities in the field of insurance, takaful or Islamic insurance in the space to watch and the field with witch to be involved. This view is certainly in the minds of many entrepreneurs and insurance practitioners around the world who have witnessed the growth of takaful since the mid-1990s. The paces of growth and supply of takaful have been striving to catch up with the unlocking of pent-up demand. It is most fulfilling to note that whilst it is relatively easy to critique the possibilities of takaful, those who believed in the demand for Islamic products persevered and took the steps to commit their capital in green field takaful projects and initiatives, and have been proven right. The momentum created by the growth in takaful has eventually been reason enough for critics of takaful to join in the development of the takaful industry[1].

Takaful is a Shariah compliant alternative to insurance where participants (policyholders) contribute to a common pool of funds with the intention of jointly guaranteeing each other. Therefore, the risk is not shifted from the insured to the insurer, instead it is jointly borne and shared by all participants in the Takaful pool. A licensed company with insurance management capabilities is appointed to manage the Takaful pool on behalf of the Takaful participants.

In terms of products, similar to conventional insurance, Takaful has two distinct lines of business namely general and family (life). However, genral Takaful schemes are "risk-only" contracts of joint guarantee whereas family Takaful schemes are typically structured as Shariah compliant investment plans[2].

According to statistics, the global takaful market size reached US$30.5 Billion in 2022. Looking forward, the publisher expects the market to reach US$ 54.9 Billion by 2028, exhibiting a CAGR of 10.29% during 2022-2028 [3]. Some of the largest names in takaful market, according to a Research and Markets report, were believed to be following: Islamic Insurance Comapany, JamaPunji, AMAN, Salama, Standard Chartered, Takaful Brunei Darussalam Sdn Bhd, Allianz, Prudential BSN Takaful Berhad, Zurich Malaysia, Takaful Malaysia, Qatar Islamic Insurance Company[4].

Literature Review

Professor Simon Archer, Professor Rifaat Ahmed Abdel Karim and Dr. Volker Nienhaus explained about shari'ah principles governing takaful contracts in their book which is known "Takaful Islamic Insurance: concepts and regulatory issues". They examined a few Shari'ah principles which are deemed significant in shaping the takaful contract, as well as in making takaful a viable economic product in modern times. They discussed about the basis of a acontract for takaful. The first and fundamental question to be posed is whether or not takaful involves a contract. This question is significant from a Shari'ah perspective, as any financial dealing between people must be based on a particular contract to achieve the approval of the Shari'ah scholars. The contract must be compliant with Shari'ah principles. A contract of lending or borrowing money for a premium is not valid contract because it is tantamount to riba. Likewise, a contract between two parties who agree to sell and purchase an asset the existence or specification of which is uncertain is prohibited, because the subject matter of the sale must be identified to avoid uncertainity or gharar. takaful must be based on a valid contract to legitimate its operations, which include the contributions of the participants to the takaful fund, the investment of this money, and the payment of the claims to those who are entitled to them. These are all financial transactions which require a contractual basis to be valid and legitimate[5]. Moreover, they investigated and analyzed business models in takaful, corporate governance and stakeholder rights in islamic insurance, legal issues in takaful, issues in rating takaful companies in their book.

Adnan Malik who is serving as Lecturer and Industry chair, Centre for Excellence in Islamic Finance at the Institute of management Sciences in Pakistan and Karim Ullah who has a PhD on designing Islamic financial services from Brunel University London wrote their book which is named “Introduction to Takaful. Theory and Practice”. This book provides comprehensive account of the theory and practice of takaful, which is an Islamic alternative to insurance. The concepts are explained using real life case studies, calculations, and exhibits to aid in reader learning and reflection. Takaful, both as an academic subject and as well as practice, is growing particularly in the world leading financial and learning hubs such as in the UK and the USA and countries with large Muslim populations in Asia, Africa, and Middle East. Authors have focused on the different takaful models being practised around the globe. These models can be broadly divided into non-profit and for profit. The non-profit category includes the tawuni (cooperative) model, in which the takaful operator does not get anything in return for providing its services. In for-profit models, the takaful operator can earn a fee or a profit share in return for the services it provides. For-profit models are based on mudarabah and wakalah models. In the mudarabah model, the operator takes a fixwd fee and gets nothing from the surplus. The wakalah – mudarabah waqf model is a refined for-profit model based on wakalah and is mainly practised in Pakistan. In this model, the takaful fund is declared as a waqf fund and the operator becomes the wakeel. The waqf fund compensates participants for their defined losses when an event that is covered occurs[6].

Hossein Askari, Zamir Iqbal, Abbas Mirakhor studied distinctive features of takaful. They wrote that takaful is based on cooperative principles that spread the liability among the policy holders, and all losses are shared. This mutuality results in the policy holders guaranteeing the performance of each other. In other words, policy holders are both the insurer and the insured in mutual guarantee[7].

Research methodology

During the preparation of the article, comparison method will be used and analyzed. By this method, we understand differences between conventional insurance, mutual insurance and takaful. Moreover, various graphs and charts will be investigated we can inform about changes of takaful markets and takaful contributions, according to years.

Analysis and results

At present, takaful has very limited application in Islamic financial markets, with very few institutions offering insurance services on a large scale. Although the application of takaful is for the most part indemnity based and limited to the loss of physical property, a growing number of products in the market target family and medical coverage based on Shariah principles.

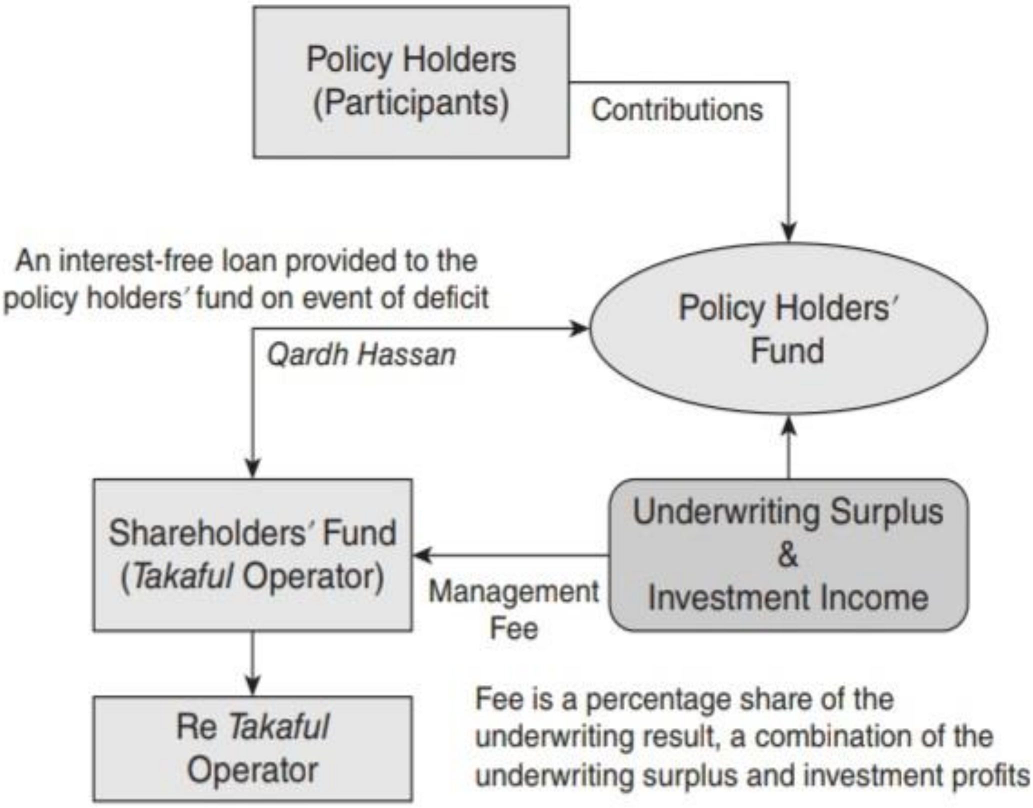
Comparative Features of Conventional Insurance, Mutual Insurance, and Takaful[8]

	Conventional Insurance	**Mutual Insurance**	**Takaful**
Responsibility for providing protection	Risk is transferred from the insured to the insurer	Mutual risk sharing among members	Mutual risk sharing among participants
Governing law	Secular law and regulation	Secular law and regulation	Secular law and regulation and Shariah law
Ownership	Shareholders of insurance company	Members	Participants

Contract forms	Bilateral insurance policy	Bilateral insurance policy	Wikalal mudarabab agreement and unilateral contracts based on principles of tabarru (donation)
Investment	No restriction on equity/debt investments	No restriction on equity/debt investments	All investments to be in accordance with Shariah principles – excludes all debt and some equity investments
Liability of operator	Insurance company (and ultimately its shareholders) is responsible for any claim payments	Members of the mutual fund are collectively responsible for payment of claims and may be asked to contribute in the event of shortfall	Participants are collectively responsible for payment of claims and may be asked to contribute in the event of shortfall if takaful operator does not provide qardh hassan (interest – free loan)
Surplus in operational income	Ultimately for shareholders accounts	For members accounts	For participants accounts

There is no standard operating model for takaful companies, as each country may decide on a particular model. Primarily, takaful models can be mudarabah based, wikalah based, or a hybrid of the two. Typically, implementation of takaful is carried out in the form of solidarity mudarabah, where the participants agree to share their losses by contributing periodic premiums in the form of investments. They are then entitled to reedem the residual value of profits after fulfilling the claims and premiums. One of the critical differences between contemporary insurance models and takaful is participants' rights to receive surplus profits.

Mudarabah-Based Takaful model[9]

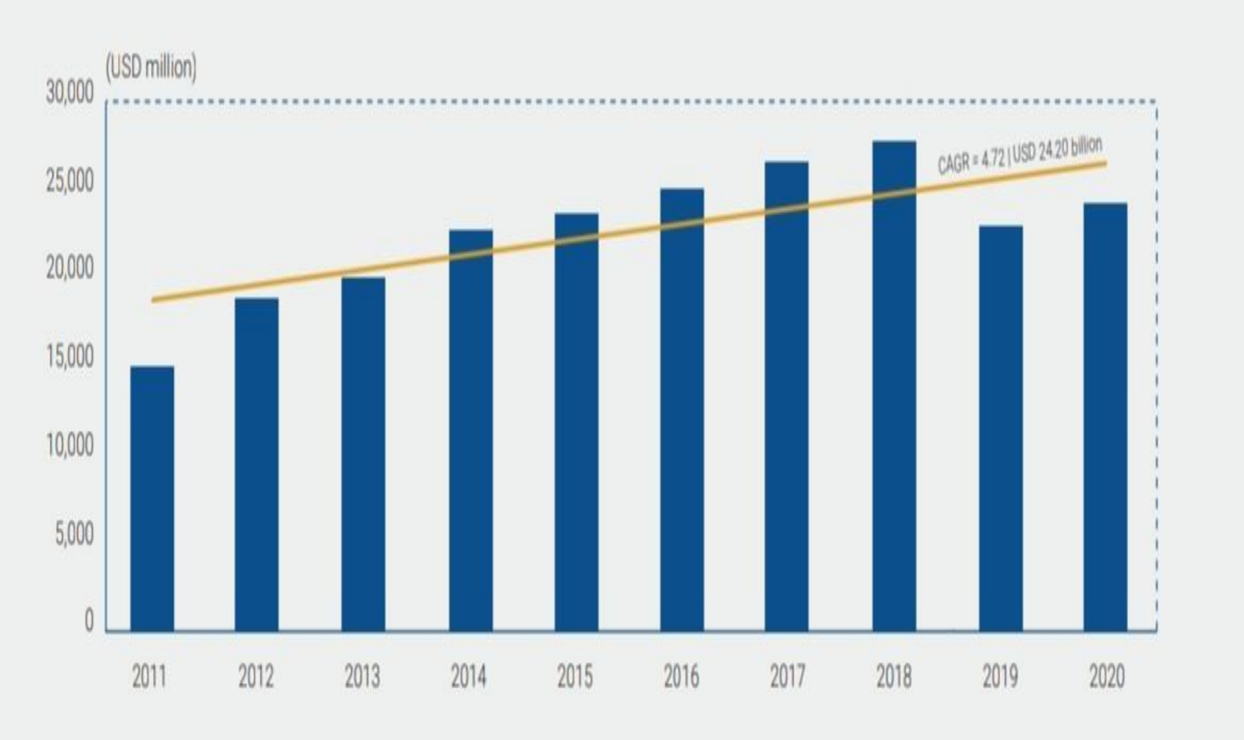


Takaful companies can constitute reserves (like conventional mutual insurance companies), which allows for the need of the insured to make supplemental contributions if claims exceed premiums. This figure shows a takaful setup based on mudarabah contract.

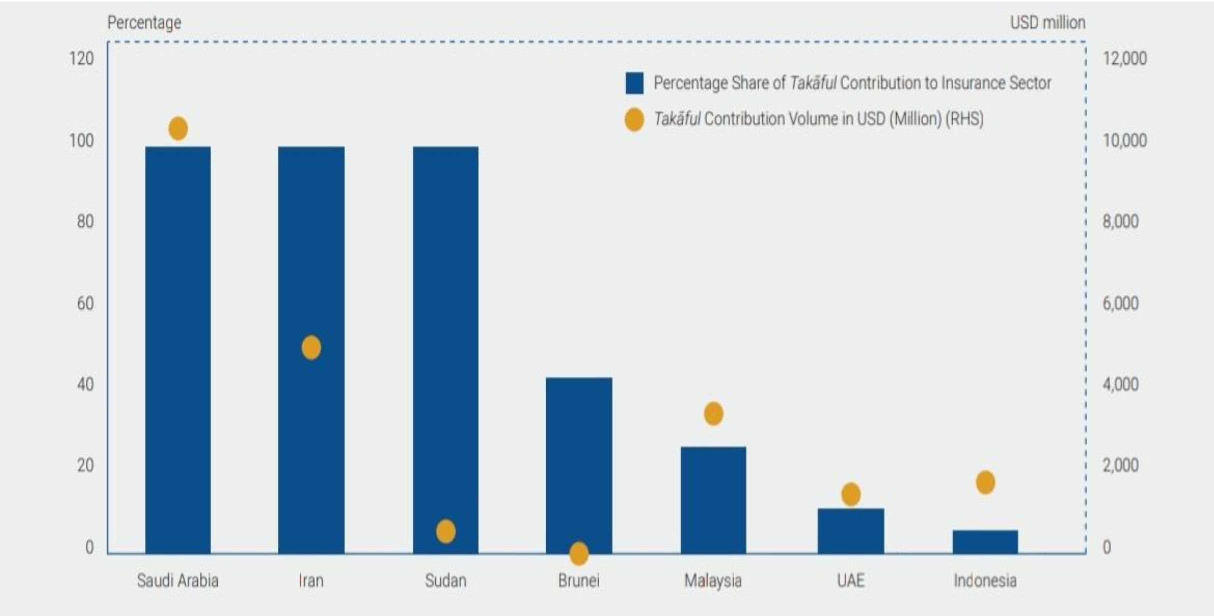
In the wikalah model, the policy holders and the takaful operator enter into a principal and agent agreement whereby the operator becomes the representative of the policy holders. The operator is paid an agreed fee to operate and manage the policy holders' assets. Technically, there is not much difference between the mudarabah-based on wikalah-based models except that the underwriting surplus goes back to the policy holders' funds rather than being shared with the shareholders or the operator.

According to Islamic Financial Services Industry Stability Report, the overall takaful sector's direct contributions increased by 4.8% y-o-y to USD 24.2 billion in 2020, after a significant decline (-14.8%) in 2019. The decline was attributed to significant changes in the exchange rate (USD) used to denominate Iranian data. Iran suffered significant foreign exchange depreciation and inflation in 2019 as a result of sanctions. This affected, to some extent, the value of contributions reported after being denominated in USD to allow for cross-country comparisons. Over the past 10-year period (i.e.2011-20), global takaful contributions have grown by an estimated compound average rate of 4.72%. We can see this information in the chart below.

Trend of Global Takaful Contributions (USD million) (2011-20)[10]

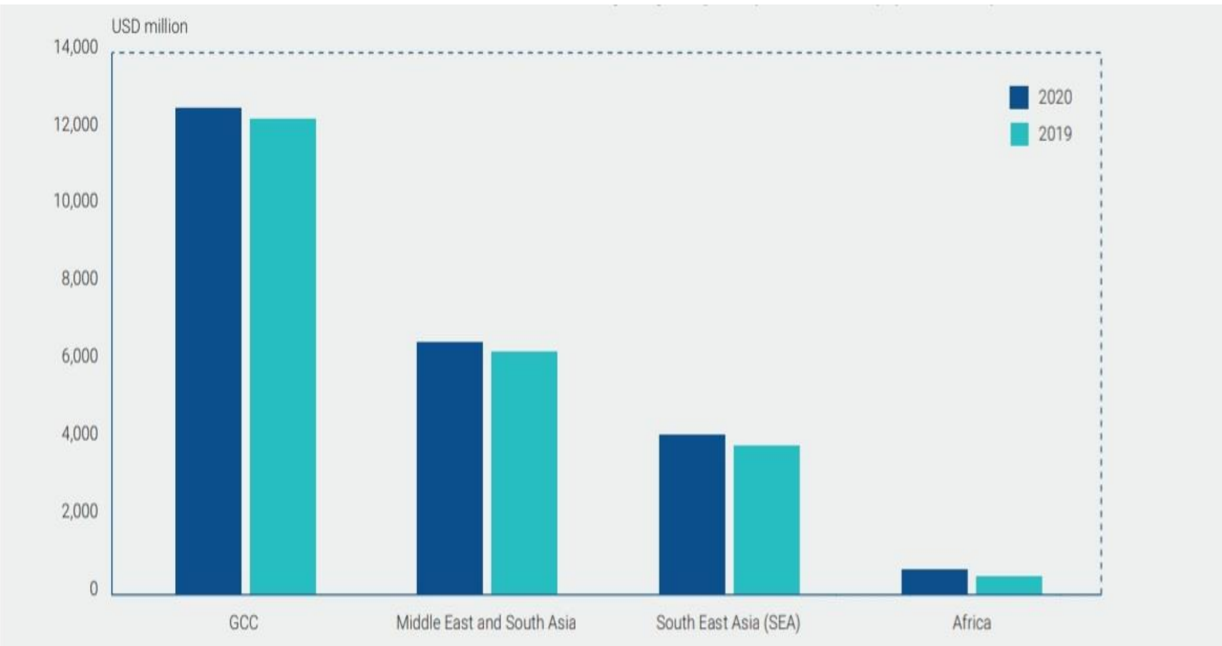


Contribution of Top Seven Takaful Markets (2020)[11]



This chart illustrates the top seven markets, which generated roughly 95% of the overall contributions, are Saudi Arabia, Iran, Sudan, Brunei, Malaysia, UAE and Indonesia. General takaful constitutes the lion's share (82.6%) of total contributions in 2020, estimated at USD 22.4 billion.

Takaful Contributions by key Region (USD million) (2019-20)[12]



According to this graph, takaful contributions and the market share in four regions-namely, the GCC (43.2%,USD 12.72 billion), the Middle East and South Asia (42.0%, USD 11.36 billion), South-East Asia (11.25 USD 3.02 billion) and Africa (2.03%, USD 0.55 billion).

Saudi Arabia accounted for the largest share of the GCC takaful market in 2020. Due to Covid-19 pandemic constraints, the takaful sector in the Gcc experienced a marginal growth of 1.5% in gross contributions written, worth USD 12.72 billion in 2020. Although the region maintained its prominence as the largest takaful market in 2020 with a share of 52.3% of the overall contributions, the underlying factors and scale of this growth vary across the countries. Kuwait registered the highest contributions growth (5%) in 2020 among those countries that recorded a slight growth in contributions written-namely, Saudi Arabia (2.3%), Oman (1.1%) and Qatar (0.1%)

– whereas takaful contributions fell marginally in the UAE (-0.5%) and Bahrain (-0.3%).

In the Middle East and South Asia region, contributions were up marginally (by 1.29% y-o-y) in 2020 (USD 11.36 billion), representing42.0% of the overall contribution. The constituent countries are diverse – namely, Iran, Jordan, Palestine, Pakistan, Bangladesh, Sri Lanka and Maldives. Iran is the largest market in the region, with contributions rising slightly (by 2%) in 2020 y-o-y to USD 4.96 billion, representing 88.7% of the region's total contributions for the year. Iran had suffered significant foreign exchange depreciation and inflation in 2020 as a result of economic sanctions imposed on the country in recent years. Invariably, this has affected the value of contributions and growth reported after being denominated in USD to allow for cross-country comparisons.

Countries with a prominent takaful sector in South-East Asia are Malaysia, Brunei Darussalam and Indonesia. Takaful contributions in these countries grew by 7.1% in 2020, reaching USD 4.69 billion (2019: USD 4.38 billion). The 2020 growth rates for these countries are: Brunei, 10.9%; Malaysia, 8.5% and Indonesia, 3.1% . Malaysia dominates the takaful sector in this region, with contributions representing 71% of the total contributions, estimated at USD 3.34 billion in 2020[13].

Conclusion

The growth in the takaful industry, although to a certain extent initiated by political objectives riding on religious zeal within Muslim-majority countries, seems to have gained momentum due to free market forces and global economic potentials leveraged by industrialists. There is growing evidence to suggest that Islamic finance is no longer just on the fringes of global finance, it has now come into the mainstream of international finance and is here to stay.

Among other things, the membership of the IFSB has expanded to include financial regulators from non-Islamic countries, including major Asian economic players such as Japan, China, South Korea, and Singapore.

Encouraging developments and trends in Islamic insurance lends confidence that this industry has taken off. There are various motivations and driving factors for the development of industry, ranging from religious fervor to the opportunities that exist in finance for broadening and deepening the process of financial intermediation. These factors augur well for financial innovation and engineering, enhanced financial services penetration in national jurisdictions, and better diversification of risks.

Competitiveness of Islamic insurance in future would depend on how governments and regulators in different emerging market jurisdictions perceive and nurture the future development institutional, regulatory, and supervisory frameworks

Takaful regulators, in particular, need to confer and compare national systems and dialogue with market participants so as to identify regulatory best practices and avoid duplicative regulatory work. It is also important for each regulator to understand and evaluate the major changes in the laws and regulations in other jurisdictions and the international implications of those changes.

REFERENCES

1. Sohail E. Jaffer. Islamic Insurance: Trends, Opportunities and the Future of Takaful
2. Islamic Finance Toolkit 2020, IFAAS
3. https://www.researchandmarkets.com/reports/5732368/takaful-market-global-industry-share
4. https://www.investopedia.com/terms/t/takaful.asp
5. Simon Archer, Rifaat Ahmed Abdel Karim, Volker Nienhaus. Takaful Islamic Insurance: concepts and regulatory issues.
6. https://link.springer.com/book/10.1007/978-981-32-9016
7. Hossein Askari, Zamir Iqbal, Abbas Mirakhor. Introduction to Islamic Economics
8. Hossein Askari, Zamir Iqbal, Abbas Mirakhor. Introduction to Islamic Economics
9. Hossein Askari, Zamir Iqbal, Abbas Mirakhor. Introduction to Islamic Economics
10. Islamic Financial Services Industry Stability Report, 2022
11. Islamic Financial Services Industry Stability Report, 2022
12. Islamic Financial Services Industry Stability Report, 2022
13. Islamic Financial Services Industry Stability Report, 2022