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Feasibility of Introducing Takaful (Islamic Insurance) in India from the perspective of Islamic Finance Experts

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ABSTRACT

Objective: India as the second largest Muslim populated country has no practice with Takaful. This triggers the researchers to identify why Takaful has not been introduced in India. The main objective of this study is to scrutinize the perception and acceptability of Islamic finance experts to introducing Takaful in India.

Analysis: The total 18 interviews have been conducted and all of them are male. Out of 18 interviewees, 12 are conducted through face to face interviews, and the remaining interview sessions were done either by phone calls or emails.

Method: A combination of convenient sampling and purposive sampling method is used for selecting the Islamic finance experts as the respondents. Interview technique is the solely method used to collect the findings for this research.

Findings: Four questions were asked to know the opinions of Islamic finance experts on the viability of Takaful in India. They are related to (Q1) possibility of introducing Takaful soon, (Q2) benefits of offering Takaful, (Q3) challenges to offer Takaful and (Q4) essential steps to be taken to start offering Takaful.

Result: Regarding viability of Takaful, most of them share the positive view on this matter. In terms of operation, hybrid Wakalah-Mudarabah is the best suitable model for both general and family Takaful products.

Keywords: Feasibility, Takaful, Insurance, Islamic Finance Experts & India

INTRODUCTION

Human beings possess limited knowledge and cannot forecast or predict the future with hundred percent^[1] certainty. In addition, they have limited capacity to avoid unfortunate events. By nature, they are born with limited ability and capacity to control any future incident, which means they are perpetually exposed to risks. Within the context of insurance, risk is a danger or unfavourable exposure to misfortune. Health deterioration, accidents, natural disaster, and economic loss are examples of risk.

^[2]Group Symposium, Resolution 42 of Al-Rajhi Bank-Saudi Arabia, Resolution of National Fatwa Committee of Malaysia 1972, Resolution of Dewan Syariah Nasional Indonesia 2001 and Resolution of Fiqh Council^{[9][10]} of Muslim World League 1978. From the assorted boards and investigations from the religious scholars on the conventional insurance, the alternative

way of this which is acceptable and lawful under Shari'ah is Takaful. The practice of the conventional insurance contract contains major elements of interest, uncertainty and gambling which invalidates the conventional insurance contract.

This paper is organized in five sections. Section two is devoted for literature review. Section three discusses about research methodology and section four deliberates the findings and last section concludes the paper.

LITERATURE REVIEW

This part deliberates^[3] the utmost pertinent findings of previous researchers in the area of Takaful (Islamic insurance). Ali et. al (2014), discuss the issue of applying *Tabarru* concept^[4] in Takaful and the issue of underwriting surplus of *Tabarru* fund. They have raised the Shari'ah issues because the concept of *Tabarru* is not

based on the pure donation^[5]. In Takaful, the participants make the *Tabarru* with the expectation that their financial loss will be compensated if they meet any misfortune^[6] according to the terms and conditions of the Takaful contract. Also, the amount of *Tabarru* is specified based on the underwriting^[7] process, whereby, the participants who are facing higher risk are supposed to make a higher amount of *Tabarru* contribution. Thus, voluntary contribution nature of *Tabarru* has been changed to compulsory nature of the contribution. Consequently^[8], it makes the contract bilateral.

RESEARCH METHODOLOGY

The objective of this research is to explore the perceptions of Islamic finance experts towards the viability of introducing

Profile of Islamic Finance Experts: The total number of interviewees is 18 and all of them are male. In terms

of age range, four are between 25 to 30 years, three are between 31 to 35 years, one is from 36 to 40 years, three 41 to 45 years, two 51 to 60 years and the rest (four) are between 61 to 65 years. In the case of material status, one is single, one is divorced and the rest are married. Interviewees consist of 12 master degree holders, five PhD holders and one Mufti. Among the master degree holders, one of them has three master's degree and one is also Mufti.

FINDINGS

Four questions were asked to know the opinions of Islamic finance experts on the viability of Takaful in India. They are related to (Q1) possibility of introducing Takaful soon, (Q2) benefits of offering Takaful, (Q3) challenges to offer Takaful and (Q4) essential steps to be taken to start offering Takaful.

Table 1: Feasibility of Takaful in India

Possibility of introducing Takaful in near future	Islamic Finance Experts																	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Feasible	√	√	√		√	√	√	√	√	√	√	√	√	√	√	√		√
Not Feasible soon				√													√	
Huge size of Muslims	√					√			√	√		√			√			
Name "Takaful" is a barrier				√													√	

Feasibility of Takaful in India: When the interviewees are asked whether Takaful can be offered in near future, the majority (16 interviewees) believe that it can be done. Among the interviewees who think that Takaful can be introduced within the foreseeable future mention some of the reasons why it is possible. Six interviewees believe that huge size of Muslim population in India invites for introducing Takaful. It might be due to the fact that India has the second highest Muslim population in the world. However, there is no Takaful in India and so Muslims are helpless except to participate in insurance which is prohibited in Islam.

Table 2: Benefits of Offering Takaful

Benefits of offering Takaful	Islamic Finance Experts																	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Benefit to the community	√		√	√		√			√	√					√	√	√	√
Economic development		√	√				√		√			√	√	√	√		√	

Benefits of Offering Takaful: The major benefits of offering Takaful are benefit to the community and contribution towards the economic development. The first one is it will be beneficial to the Indian community as a whole (10 Interviewees). IFE 3 mentions:

Essential steps to be taken: The interviewees mentioned six essential steps to start Takaful. They are creating awareness through education (16 interviewees), regulation (16 interviewees), enforcement of Shari'ah governance (7 interviewees), preparation by the operators (IFE 1, IFE 4 & IFE 11), support from other Islamic financial market players (IFE 16) and learning experience from other countries (IFE 18).

Among the interviewees who mention that education is the essential steps, IFE 15 explain as follows:

“There should be some seminars, talks or workshops opened to the public to create the awareness and important of education in their lives. In addition, there should be more budget allocated for education to help the students who are in need. The youth are the leaders of the future and hence, education must the first thing to be emphasised on”. (IFE 15)

In the current situation, due to poverty, the youth start working without going to school. Parents cannot afford to send their children to school and there is lack of having the basic necessity such as food, clothing and shelter. Poor people's kids are brought up without proper education.

The second essential step is lobbying the regulatory body (16 interviewees) because it might be due to the fact that in India, Insurance Regulatory and Development Authority of India (IRDAI) is a supervisory body for insurance. Without the support and approval from this regulatory body, Takaful cannot be offered in India. It is because Takaful has additional restrictions such as approval of the product from Shari'ah board and investment choice and it has unique nature since the contracts in insurance and Takaful are not the same.

The third essential step is related to Shari'ah governance. Seven interviewees believe good Shari'ah

governance will be essential since it can mould the operators to operate in line with Shari'ah.

“Shari'ah governance should be established in Takaful and it should be the foremost step. The ultimate aim of having Takaful is to eliminate Shari'ah non-compliant practices and to minimise the unethical issues as much as possible. Once the practice is in line with Shari'ah, automatically unethical issues will not exist anymore”. (IFE 9)

The role of Shari'ah governance in Takaful is essential because it is not only responsible for the product approval but also for ensuring the whole process of Takaful practices is in line with Shari'ah. They can monitor the approval of the contents of advertisement in the pamphlet to ensure that the potential policy holders are not misled and there is no misunderstanding towards the Takaful operators.

The fourth essential point is that the operators need to prepare themselves before offering the Takaful products (IFE 1, IFE 4 & IFE 11).

Finally, it is important for India to learn experience from other countries which offered Takaful products (IFE 18). According to IFE 18, non-Muslim countries like Thailand does not have the centralised Shari'ah board and hence the individual operators need to take initiative to have their own Shari'ah committee members to get the approval of the products and to ensure that the operating activities are in line with Shari'ah.

It can be summarised that Takaful is viable based on the opinions of Islamic finance experts. After discussing the interview results for the viability of Takaful, the next section explains specially on their opinions for choice of Takaful model and products to suit within the Indian context.

Operational Aspect of Takaful

Table 5: Operational aspect of Takaful

Choices of Takaful Models.	Islamic Finance Experts																	
(a) General Takaful																		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Pure Wakalah Model					√						√							
Pure Mudarabah	√					√					√					√		

Conted...

Hybrid Wakalah-Mudarabah Model	√	√	√	√		√		√	√	√	√	√	√	√	√	√	√	√
Wakalah Waqf Model	√		√		√	√	√			√	√		√	√	√	√	√	√
Family Takaful																		
Cooperative (Taa'wuni) Model	√		√		√	√				√								
Pure Wakalah Model											√							
Modified Wakalah Model		√	√								√		√	√				
Pure Mudarabah						√					√	√				√		
Modified Mudarabah Model	√		√			√					√		√	√				
Hybrid Wakalah-Mudarabah Model		√	√	√		√		√	√	√	√	√	√	√	√	√	√	
Waqf Model			√		√	√					√			√	√	√		√
No command on model since the industrial player can decide.							√										√	

General Takaful: Currently, there are four Takaful models used almost all over the world. The Islamic finance experts are further asked which model is the best suit for general Takaful in the Indian context. In the case of general Takaful products, the best suitable model is hybrid wakalah-mudarabah model (voted by 15 interviewees), followed by wakalah waqf model (13 interviewees), pure mudarabah model (4 interviewees) and pure wakalah Model (2 interviewees).

Family Takaful: Similar question is asked for the family Takaful products, hybrid wakalah-mudarabah model

(voted by 13 interviewees), waqf model (8 interviewees), modified mudarabah model (6 interviewees), modified wakalah model (5 interviewees), cooperative model (5 interviewees), pure mudarabah model (4 interviewees), pure wakalah model (1 interviewees) and two interviewees are silent on this issue.

With regard to *Waqf* model, India is a rich country with Waqf assets and hence, these assets are fully utilised, it will be beneficial to the poor Muslims.

Table 6: Suggested products to be offered first

Suggested products to be offered first	Islamic Finance Experts																	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
General Takaful products	√	√	√	√	√	√		√	√		√	√		√	√		√	
Family Takaful products			√	√					√	√	√	√	√	√	√	√	√	√
No command							√											

Suggested products to be offered first: In the case of the products, eight interviewees think that both general and family products should be offered at the same time. However, five interviewees think that general Takaful products should be offered first, before family Takaful. Four interviewees think that family Takaful should be offered first. One interviewee (IFE 7) does not disclose his opinion.

In addition, since it is the new products for India, it is difficult to estimate exactly which product will be

profitable. So, to diversify the risk, it is better to offer both products.

CONCLUSION

The paper has provided the interview results from the Islamic finance experts. Their views are important because once Takaful is offered, the operators must get the approval to offer the products and they have adequate experienced in Islamic finance. Regarding viability of Takaful, most of them share the positive view on this

matter. The interviewees mentioned six essential steps to start Takaful. They are creating awareness through education, legal support, enforcement of Shari'ah governance, preparation by the operators, backing from other Islamic financial market players and learning experience from other countries. In terms of operation, Hybrid Wakalah-Mudarabah Model is mostly preferred by the interviewees over the other Takaful models. However, in the case of products, both general and family Takaful products are suggested to be offered overall.

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