

# Takaful requires further steps to raise awareness in India

India is home to the second-highest Muslim population after Indonesia and the second-largest populated country in the world after China. It was in 1818 during the colonization period when insurance was introduced in India. Insurance is a well-known risk-mitigating tool both in our personal lives as well as in the business environment. Having insurance helps policyholders financially according to the terms and conditions of their insurance policy in case any misfortune befalls them. Its usefulness is undeniable, and its importance is recognized widely. However, regulatory requirements make insurance a highly demanding service for the public. For instance, to renew road tax, insurance must be bought by car owners. Nowadays, almost everyone has insurance either due to compulsion (ie employment requirements or government regulations) or voluntariness. The concept and idea of insurance are not new because it has been in India since 1818. However, there is limited research that examines the awareness and knowledge related to Takaful. Thus, DR SYED AHMED SALMAN in this article aims to examine insurance policyholders' awareness and knowledge of Takaful in India.



*Dr Syed Ahmed Salman is a senior lecturer in the Faculty of Business and Accountancy at Lincoln University College, Malaysia. He can be contacted at syedahmed@lincoln.edu.my.*

## Insurance in India

The practice of insurance in India is far from being a recent phenomenon. Rather, the birth of insurance in India started in 1818 when Oriental Life Insurance was founded. Five years later in 1823, another insurance company called Bombay Assurance Company was established, followed six years later by Madras Equitable Life Insurance Society. Bombay Mutual, Oriental and Empire of India are three more Bombay-based insurance companies that were founded, following the British Insurance Act of 1870, in 1871, 1874 and 1879 respectively. Despite these local insurance companies, at the time they all faced many hurdles to flourish in the insurance market in the light of strong competition from foreign companies such as Liverpool and London Globe Insurance, Royal Assurance and Albert Life Assurance.

The Insurance Regulatory and Development Authority of India opened up the market in August 2000 with an invitation for registration applications for privately owned companies. Foreign companies were permitted ownership of up to 49%. As at the end of March 2018, 68 insurers are operating in India, of which 24 are life insurers, 27 are general insurers, six are stand-alone health insurers exclusively doing health insurance business and 11 are reinsurers including foreign reinsurers' branches



and Lloyd's India. Of the 68 insurers presently in operation, eight are in the public sector and the remaining 60 are in the private sector.

Two specialized insurers, namely ECGC and AIC; one life insurer, namely LIC of India (LIC); four in general insurance; and one in reinsurance, namely GIC Re, are in the public sector. Twenty-three life insurers, 21 general insurers, six stand-alone health insurers and 10 reinsurers including foreign reinsurers' branches and Lloyd's India are in the private sector.

## Takaful: A brief overview

Takaful is not something new but rather it goes back to the time of Prophet Muhammad. Nevertheless, a different term known as Aqilah was used to refer to this concept, where it was practiced as a payment by a murderer's kin to the heir of the victim. There were many instances where the Arab tribes, the Prophet and his companions implemented Aqilah.

Takaful serves as a strong alternative to conventional insurance. This is because the primary objective of Takaful is not to seek to maximize personal profit, but rather to protect participants based on moral and ethical foundations. As mentioned earlier, the concept of Aqilah formed the basis from which the concept of Takaful stemmed. This dates back to the times of the Prophet until the present day. The companions of the Prophet applied and sustained the concept of Aqilah. For instance, Sayyidina Umar established a committee of collectors in 634, whose task was to offer a mutual contribution in the form of blood money for any manslaughter committed by someone from their society.

## Research methodology

In order to examine insurance policyholders' awareness and knowledge of Takaful in India, both primary and secondary data were used. Primary data was collected by distributing questionnaires and secondary data was

*Continued*

obtained from books, articles and online resources. Library research was used for the literature review. The snowball sampling method was adopted to collect the questionnaire data. To know the respondents' awareness and knowledge of Takaful, eight questions related to Takaful were asked. Descriptive statistics were used in this study. Since the nature of the research is exploratory, the questionnaire was the most suitable method.

## Profile of respondents

The total number of respondents was 909. Out of that, 50.27% were Muslims and the rest non-Muslims. About 61.28% were males and 38.72% females. The majority of the respondents were aged between 26 years and 30 years, followed by the age ranges of 46–50, 36–40, 31–35, 21–25 and 51–60. All respondents were insurance policyholders.

## Awareness and knowledge of Takaful

Seven questions were created to examine respondents' awareness and knowledge of Takaful. The questions were related to whether they have heard about Takaful, differences between insurance and Takaful, nature of Takaful (ethicality and free from prohibited items and suitability regardless of religion) and coverage of Takaful and its global market.

Almost half of the Muslim respondents (42%) have heard about Takaful while about 85% of non-Muslims never heard about Takaful. Overall, only 29% of the respondents were aware of the existence of Takaful.

## Takaful vs. insurance

The respondents were asked further whether they know the differences between Takaful and insurance in terms of the contract, payment, risk and religious and ethical aspects. In the contractual relationship, a Takaful contract is based on the concept of mutual contribution while in insurance, it is based on the concept of sales of exchange. In terms of payment, the contribution belongs to the participants and Takaful operators depending on the Takaful model adopted while in insurance, all the payments belong to the insurance companies only. Concerning the concept of risk, Takaful adopts the risk-sharing concept, whereby

the participants share the risks faced by them, while insurance adopts a risk-transfer concept, whereby the policyholders transfer their risks to the insurance companies.

When religious and ethical aspects were examined, Takaful is acceptable under any religion and it is not against the teachings of any religion; insurance was on the contrary. The majority of Muslim respondents knew that they are different in terms of the contractual relationship (60%), risk (58%) and acceptability of Takaful under any religious teachings (74%).

However, in terms of payment, only 47% of the Muslim respondents were aware of the differences. The majority of non-Muslim respondents (70%) were aware of the acceptability of Takaful under any religion and the non-acceptability of insurance. However, for the rest of the differences, the majority were not aware, ie contract (51%), payment (71%) and risk (51%).

Overall, the results of the descriptive statistics showed that 57% of all the respondents were aware of the differences in the contract and similarly, 43% for payment, 56% for risk and 73% for acceptability of Takaful under any religion and ethical aspects.

The majority of the respondents (75% of Muslims, 55% of non-Muslims and 70% of overall) knew that Takaful is ethical insurance. Regarding the suitability of Takaful for anyone regardless of religion, the majority (76% of Muslims, 77% of non-Muslims and 76% of overall) agreed that it is suitable for anyone.

The majority of the respondents (77% of Muslims, 62% of non-Muslims and 73% of overall) agreed that Takaful is free from interest, uncertainty, gambling and investing in prohibited business activities. As far as the coverage and benefits are concerned, the majority knew that Takaful can offer similar products and services like conventional insurance. The majority of the respondents had decent awareness that Takaful is offered in many countries, ie 84% Muslims, 72% of non-Muslims and 81% of overall.

Based on the result of the descriptive statistics, overall, the awareness and knowledge of Takaful are very low since

only 29% of the respondents were aware of the existence of Takaful. However, among the respondents who have heard about Takaful, the main sources of information were the internet, relatives, friends and neighbors.

Regarding knowledge of the differences between Takaful and insurance, the majority of the total respondents were aware of differences in contracts and acceptability of Takaful. Also, the majority of the respondents accepted that Takaful is ethical insurance that is free from the prohibited elements and can provide coverage similar to insurance, and they were also aware that it is a growing industry.

**“ India is in a better position to introduce Takaful because of its large Muslim population, economic growth and insurance revenue ”**

## Conclusion

It is known that Takaful has been introduced as an alternative to insurance not only in Muslim countries but also in non-Muslim countries. This study focused on the awareness of Takaful in India due to its large Muslim population, GDP growth rate and expansion of insurance operators. This product is not only for Muslims but also for non-Muslims and thus, it will widen the existing insurance market. India is in a better position to introduce Takaful because of its large Muslim population, economic growth and insurance revenue.

Therefore, the Indian government, Muslim scholars and insurance operators should create awareness among the public by establishing institutes and conferences and by word of mouth especially through social media. ☺