

# The challenges and suggestions for Takaful in India: Experts' views

Practically, Takaful will be welcomed if it is introduced in India which has the second-highest Muslim population in the world. Without Takaful, Muslims in India are helpless except to participate in insurance which is prohibited in Islam. Since Takaful is based on Shariah, it can be termed as ethical insurance. Many studies have provided enough evidence that ethical and social justice is desirable in all religions. DR SYED AHMED SALMAN delves further.



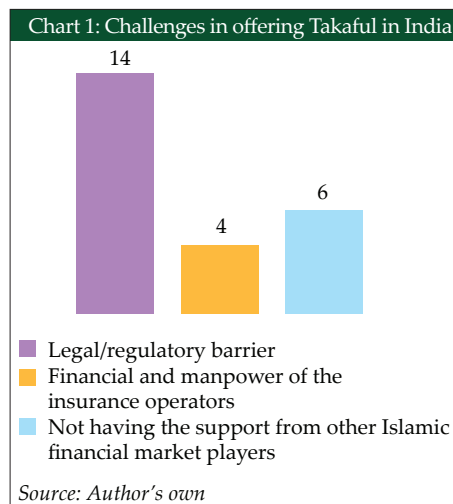
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The objective of this research is to explore the perceptions of Islamic finance experts toward the challenges and solutions of introducing Takaful in India. Out of 25 finance experts that were approached, only 18 were selected to be interviewed, representing 72% of the total Islamic finance experts approached.

When the interviewees were asked whether they foresee any challenges in starting to offer Islamic finance/Takaful in India, they raised three potential challenges – legal/regulatory barrier (14 interviewees), financial requirement (one interviewee) and not having strong support from other Islamic financial markets (three interviewees).

Regarding the legal or regulatory barrier, one of the experts further explained that the main challenge is the acceptance of terminology such as Takaful by the Insurance Regulatory and Development Authority (IRDAI) and politicians which is not easy in India due to religious issues among different religions. It will be part of the political game and the regulators need to think carefully in choosing terminologies acceptable to all.

Changing or amending the law needs to be supported by a political will. Without the support from politicians, it is not possible to offer Islamic finance/Takaful in India. Furthermore, the majority of Indians do not tend to insure themselves, especially Muslims. Some religious groups' leaders mentioned that it is not right for Muslims to have Takaful because



they do not prefer to have any types of insurance or Takaful products.

The second challenge is related to the capacity of the insurance operators. For instance, a huge amount of investment might be necessary, according to one of the experts who said that Takaful operators may need huge investments to invest in information technology (IT) systems as well as to provide adequate staff training, a Shariah board and such.

Since the fund flow of Takaful is different from insurance, the operators cannot escape from making an investment in IT. In addition, having qualified staff is not free from costs because of the training costs and attractive salaries. Since the Takaful industry is a service industry, service quality plays an important role in the success of the industry. In addition, Takaful products need direct marketing, such as face-to-face promotions about the product. Thus, the personnel in charge should be competent enough to explain and answer questions by potential participants as well as being able to suggest a suitable product to participants.

The third challenge is due to the limited Shariah compliant investments and

Islamic financial markets in India. One of the experts mentioned that Takaful will face investment issues since the Indian financial institutions are based on an interest system. There are very limited Shariah compliant investments available in India. Takaful does not have any support from the Islamic financial institutions like Islamic banks or Islamic capital and money markets within the Indian context.

Not having support from other Islamic financial market players (since India does not have Islamic banking and a well-developed Islamic capital market) is one of the main challenges for Takaful companies to start operating in India.

However, one of the experts is of the opinion that there will be no challenges at all in offering Takaful in India, since Takaful is almost similar to conventional insurance with its only additional unique features of avoiding interest, uncertainty, gambling and investment in Shariah non-compliant products. As such, Takaful is not at all strange to the Indian people.

## Essential steps to be taken

The interviewees mentioned six essential steps to overcome the challenges – creating awareness through education (16 interviewees), regulation (16 interviewees), enforcement of Shariah governance (seven interviewees), preparation by the operators (four interviewees), support from other Islamic financial market players (six interviewees) and learning experience from other countries (seven interviewees).

One of the interviewees mentioned that education is an essential step and the first thing to be emphasized on, explaining that seminars, talks or workshops should be open to the public to create awareness on the importance of education in their lives. As such, more budget should be

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allocated to education to help students who are the youth leaders of the future.

Education is one of the ways to uplift society and disseminate knowledge to decide what is right or wrong as well as what is suitable or not. If the public is lacking in education, it is not good for the country. So, in order to make people understand insurance or Takaful, education should be the first step for the government to seriously consider for the younger generation.

The second essential step is lobbying the regulatory body due to the fact that in India, the IRDAI is a supervisory body for insurance whereby without its support and approval, Takaful cannot be offered in India. Due to Takaful having additional restrictions such as approval of the product by the Shariah board and investment choices, it has a unique nature where contracts in insurance and Takaful are not the same.

The third essential step is related to Shariah governance. Seven interviewees are of the view that good Shariah governance will be essential since it can mould operators to operate in line with Shariah.

Shariah governance should be established in Takaful and it should be the foremost step. The ultimate aim of having Takaful is to eliminate Shariah non-compliant practices and to minimize the unethical issues as much as possible. Once the practice is in line with Shariah, unethical issues will automatically not exist anymore.

The role of Shariah governance in Takaful is essential because it is not only responsible for product approval but also for ensuring the whole process of the Takaful practice is in line with Shariah. It can monitor the approval of advertising contents in the pamphlets to ensure that potential policyholders are not misled and there is no misunderstanding toward Takaful operators. It can also mould the operators rather than the facilitators of the industry — they should be independent from the management and if possible, centralized at the government level in addition to the Shariah boards at the operator level.

Transparency of information is important, especially regarding how

Takaful operators comply with the Shariah requirements. There should be reports from the Shariah board regarding Shariah compliance. In addition, Shariah board members need to ensure the information disclosed is transparent enough to ensure that uncertainty regarding the inflow and outflow of the Takaful funds does not exist and to minimize possible unethical problems.

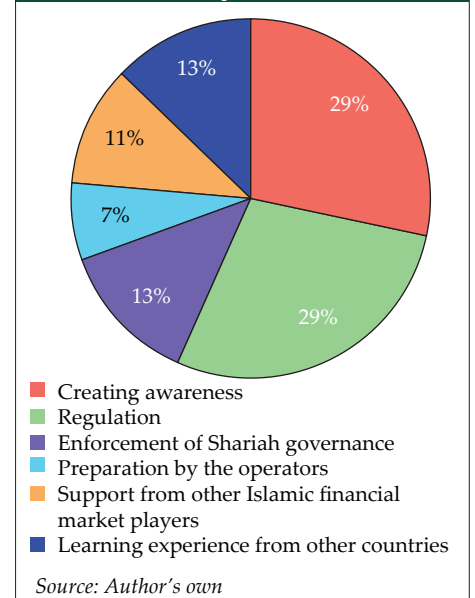
The fourth essential point is that operators need to prepare themselves before offering the Takaful products. Their suggested area is related to marketing, infrastructure and innovation. Marketing is essential to portray the product in the eyes of the public. Agents and front office employees are the main people dealing with customers directly. They should be well trained on how to market the products and how to convince potential policyholders of the ethical features.

Every single word coming from the front office staff reflects on the image of the companies and hence, it is the most important initiative that should be taken by Takaful operators. Strategies that should be used in marketing the Takaful products should stress on the products that suit customers' needs, that are free from unjust and unfair activities, that observe the ethical code of conducts and are reliable and transparent products — this will result in the public having confidence and trust in the operators. Thus, the top management should think carefully in choosing a strategy which comprises the aforementioned elements.

In addition to marketing, there is a need to have an adequate infrastructure, especially when Takaful products are offered through Islamic windows. There should be a separate system to handle insurance and Takaful and also the investment. Separating the management will be the preference so as not to mix up these two different types of products. Innovation plays a significant role in the success of the operators because Takaful offers similar prices and benefit coverage like conventional insurance and hence, it is very difficult to penetrate the market unless the operators emphasize on research and innovation to come out with attractive products.

The fifth essential point is support from other Islamic financial institutions

Chart 2: Essential steps to be taken



such as Islamic banks, Islamic capital markets and Islamic money markets. Takaful needs Islamic banks to deposit the money and to make business transactions with other parties like issuing cheques. At the same time, it needs to have an avenue to make an investment in Islamic markets.

Finally, it is important for India to learn and experience from other countries offering Takaful products. According to one of the experts, non-Muslim countries like Thailand do not have a centralized Shariah board and hence, individual operators need to take the initiative to have their own Shariah committee members to provide approval for the products and to ensure that the operating activities are in line with Shariah.

Takaful operators should take advantage of the huge Muslim population in India as a first step in entering the market. Moreover, this is the right time for the introduction of Takaful since the Indian economy is currently booming which will have a positive impact on the insurance sector. Amending the existing law is essential to start Takaful operations; however, it should be promoted as a cooperative product rather than as a religious product in order to have speedier participation from non-Muslims. Since India has plenty of Waqf assets, they should be fully utilized for the beneficiaries and in this sense, a Waqf model can be used. ☺