

# Principles of Takaful

## Objective

To develop in the candidate:

- a knowledge and understanding of the technical aspects of Islamic Insurance (Takaful) and its application in the global marketplace.

## Purpose

At the end of this unit, candidates should be able to demonstrate an understanding of:

- Nature and principles of Islamic insurance;
- Shariah framework of Islamic insurance;
- Operational framework of Islamic insurance;
- Structure of Islamic insurance markets;
- Constraints and opportunities for Islamic insurance;
- Way in which ethical considerations of Islamic insurance are applied and practiced.

## Summary of learning outcomes

1. Explain the main features of Islamic contracts.
2. Discuss prohibited contracts from the Shariah point of view.
3. Explain why traditional insurance is prohibited from the Shariah point of view.
4. Discuss the main features of Islamic insurance vis-à-vis conventional insurance.
5. Explain the operational framework of Islamic insurance including the different models applying in different countries.
6. Discuss the management principles and practices relating to Islamic insurance companies:
  - Organisational structure;
  - Shariah board roles and responsibility;
  - Financial management aspects and investment policies which are acceptable to Islamic insurance companies;
  - Technical management aspects and acceptable underwriting policy from a Shariah point of view.
7. Explain the constraints and opportunities for Islamic insurance.
8. Explain the application of ethical considerations of Islamic insurance practice and their impact on underwriting policy and practice.

## Important notes

- The October session will test the legal position as of 28th February of the same year.
- The April session will test the legal position as of 31st August of the preceding year.

## **1. Explain the main features of Islamic contracts**

### **1.1 The main features:**

- 1.1.1 Mudaraba (Partnership);
- 1.1.2 Wakala (Agency);
- 1.1.3 Tabarau (Donation);
- 1.1.4 Kafallh (Sponsorship).

## **2. Discuss prohibited contracts from the Shariah point of view**

### **2.1 Contracts prohibited in Shariah:**

- 2.1.1 Usury (Riba);
- 2.1.2 Ambiguity (Gharar);
- 2.1.3 Gambling (Miser).

## **3. Explain why traditional insurance is prohibited from the Shariah point of view**

### **3.1 Nature of Islamic insurance:**

- 3.1.1 Historical background;
- 3.1.2 Conventional insurance;
- 3.1.3 Arguments against conventional insurance;
- 3.1.4 Gharar in insurance contracts;
- 3.1.5 Riba in insurance contracts;
- 3.1.6 Other arguments.

## **4. Discuss the main features of Islamic insurance vis-à-vis conventional insurance**

### **4.1 Islamic insurance:**

- 4.1.1 Shariah point of view;
- 4.1.2 Mutuality;
- 4.1.3 Relationship between Islamic insurance companies and policyholders;
- 4.1.4 Investment policy.

### **4.2 Islamic insurance vs. mutual insurance:**

- 4.2.1 Differences between mutual's and Islamic insurance.

## **5. Explain the operational framework of Islamic insurance including the different models applying in different countries (Mudaraba-Wakala)**

### **5.1 Operation of Islamic insurance:**

- 5.1.1 Pure mutual vs. commercial models;
- 5.1.2 Islamic insurance (pure mutual model);
- 5.1.3 Islamic insurance (commercial model);
- 5.1.4 Surplus and deficit treatment.

### **5.2 Mudaraba – Wakala model:**

- 5.2.1 Mudaraba and Wakala features;
- 5.2.2 Wakala as a portfolio management contract;
- 5.2.3 Mudaraba as an investment and fund management contract.

### **5.3 Practice in different markets:**

- 5.3.1 Sudan;
- 5.3.2 Malaysia and Asia – Pacific markets;
- 5.3.3 Jordan;
- 5.3.4 Gulf Area.

## **6. Discuss the management principles and practices relating to Islamic insurance companies**

### **6.1 Management Principles and Practices:**

- 6.1.1 Organisational structure;
- 6.1.2 Shariah board's roles and responsibility.

### **6.2 Financial management aspects:**

- 6.2.1 Principles of Islamic accounting;
- 6.2.2 Investment policies which are acceptable to Islamic insurance companies;
- 6.2.3 AAOIFI accounting and auditing and governance's standard;
- 6.2.4 Technical management aspects;
- 6.2.5 Acceptable underwriting policy from a Shariah point of view;
- 6.2.6 Prohibited business.

## **7. Explain the constraints and opportunities for Islamic insurance**

### **7.1 Islamic insurance constraints and opportunities:**

- 7.1.1 Reinsurance;
- 7.1.2 Lack of qualified people;
- 7.1.3 Opportunities.

## **8. Explain the application of the ethical considerations of Islamic insurance practice and their impact on underwriting policy and practice**

### **8.1 Ethical considerations of Islamic insurance practices:**

- 8.1.1 Framework of Islamic ethics;
- 8.1.2 Islamic ethics and Islamic insurance.

## Reading list

The following list provides details of various publications which may assist with your studies.

Periodicals and publications listed as additional reading will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. Any reference materials cited are authoritative, detailed works which should be used selectively as and when required.

**Note: The examination will test the syllabus alone.**

The reading list is provided for guidance only and is not in itself the subject of the examination.

CII/BIBF members can borrow most of these additional study materials from CII Knowledge Services and the BIBF library and may be able to purchase some at a special discount. For further information on lending and discounts go to [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) or [www.bibf.com](http://www.bibf.com).

## Books

Introduction to Islamic Insurance (Takaful) – Bahrain: BIBF Publication.

M.S. Najatullah Islamic Insurance and Economy, Witherby.

Accounting Standards of Islamic Financial Institutions, Accounting & Auditing Organisation, 2008.

## Periodicals

- The Journal. London: CII. Six issues a year. Also available online (CII/Personal Finance Society members only) at [www.knowledge.cii.co.uk/category/resource-type/-journal](http://www.knowledge.cii.co.uk/category/resource-type/-journal).
- Policy: Middle East insurance magazine, four issues a year.

## Examination guides

Guides are produced for each sitting of written answer examinations. These include the exam questions, examiners' comments on candidates' performance and key points for inclusion in answers.

You are strongly advised to study guides for the last two sittings. Please visit [www.cii.co.uk](http://www.cii.co.uk) to buy online or contact CII Customer Service for further information on 020 8989 8464.

Older examination guides are available (for members only) at [www.cii.co.uk/knowledge/resources](http://www.cii.co.uk/knowledge/resources).

## Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.