

## **INTRODUCTION TO TAKAFUL**

### **A. Meaning of Takaful**

- Takaful comes from the Arabic root-word 'kafala' — guarantee.
- Takaful means mutual protection and joint guarantee.
- Operationally takaful refers to participants mutually contributing to a common fund with the purpose of having mutual indemnity in the case of peril or loss.

### **B. Reference — Al Quran:**

- "Help (ta'awan) one another in furthering virtue (birr) and Allah consciousness (taqwa) and do not help one another in furthering evil and enmity". Al Maidah: verse 2 (5:2).
- Takaful is a form of mutual help (ta'awun) in furthering good/virtue by helping others who are in need / in hardship.

### **C. Reference – Hadith:**

- "Tie the camel first, then submit (tawakkal) to the will of Allah"
- The hadith implied a strategy to mitigate/reduce risk.
- Takaful provides a strategy of risk mitigation/reduction by virtue of collective risk taking that distributes risks and losses to a large number of participants. This mitigates the otherwise very damaging losses, if borne individually.

### **D. Main drivers of Takaful**

- Piety (individual purification)
- Brotherhood (mutual assistance)
- Charity (Tabarru or contribution)
- Mutual Guarantee
- Community well-being as opposed to profit maximization.

### **E. Basic Elements of Takaful**

- Mutuality and cooperation.
- Takaful contract pertains to Tabarru'at as against mu'awadat in case of conventional insurance.
- Payments made with the intention of Tabarru (contribution)
- Eliminates the elements of Gharrar, Maisir and Riba.
- Wakalah/Modarabah basis of operations.
- Joint Guarantee / Indemnity amongst participants – shared responsibility.
- Constitution of separate "Participants' Takaful Fund".
- Constitution of "Shariah Supervisory Board."
- Investments as per Shariah.

### **Objections to Conventional Insurance**

- Scholars view the insurance contract as an exchange contract – money is being exchanged for money over time.
- This brings about the problem of gharrar (which leads to maisir) and in investments aspect, riba.