

# TAKAFUL – AN ISLAMIC WAY OF INSURANCE - DEVELOPMENTS, GROWTH, CHALLENGES AND ISSUES

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## ABSTRACT

*Islamic finance has developed mainly in two directions namely Islamic banking and Islamic insurance (Takaful). While information about Islamic banking is being increasingly disseminated, features, models and structures of Takaful are little known to the people in general. Purpose of this brief article is to describe main features and models of Takaful system operating in various parts of the world.*

*Takaful is not a new concept in Islamic commercial law. The contemporary jurists acknowledge that the foundation of shared responsibility or Takaful was laid down in the system of 'Aaqilah', which was an arrangement of mutual help or indemnification customary in some tribes at the time of the Holy Prophet (pbuh). In case of any natural calamity, every body used to contribute something until the loss was indemnified. Similarly, the idea of Aaqilah in respect of blood money or any disaster was based on the concept of Takaful wherein payments by the whole tribe distributed the financial burden among the entire tribe. Islam accepted this principle of reciprocal compensation and joint responsibility.*

*The distinction between the conventional insurance and Takaful business is more visible with respect to investment of funds. While insurance companies invest their funds in interest-based avenues and without any regard for the concept of Halal-o-Haram, Takaful companies undertake only Shariah compliant business and the profits are distributed in accordance with the pre-agreed ratios in the Takaful Agreement. Likewise they share in any surplus or loss from the pool collectively. Takaful system has a built-in mechanism to counter any over-pricing policies of the insurance companies because whatever may be the premium charged, the surplus would normally go back to the participants in proportion to their contributions.*

*The preceding discussion is an idea to explore and view to the people in general that how The Islamic system of Takaful can be a future a front runner. It is really a challenge how does it mechanize in present context, a crux has been highlighted to see its real stratifications.*

## Introduction

The world population in 1999 is estimated to be around 6 billion as per the Global Population Project based in the United States. The data on Muslim Population is not readily available. It was estimated by using information contained in a publication entitled Islamic Beliefs and Teachings from India. Accordingly there may be around 1.5 billion population in 1999. As we look around it is quite evident that people have not taken life insurance in the same way as in most other countries.

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