

Seven Misconceptions About Insurance and Takaful

WHAT YOU SHOULD KNOW.....

Misconception No. 1:

Risk Protection (insurance) is against Taawakkul—total dependence upon Allah (swt).

- χ **Response No. 1:** No human actions change the Will of Allah (swt) for our destiny. Whether a person has insurance/Takaful or not has no effect on future events. However, we are instructed to take precautions and then fully trust and depend upon Almighty Allah (swt): in Hadith narrated by Anas bin Malik when an Arab Bedouin asked Prophet Muhammed (PBUH), “Shall I leave my camel untied and seek Allah’s protection on it, or should I tie it?” The Holy Prophet replied, “Tie your camel and then depend upon Allah (swt).” [as quoted by Sunan At Tarmizi, 1981.]

Misconception No. 2:

All Risk Protection (insurance) is Haram-prohibited.

- χ **Response No. 2:** Fiqh Council of World Muslim League (1398/1978) resolution and Fiqh Council of Organization of Islamic Conference (1405/1985) in
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Jeddah resolved that, "...conventional insurance as presently practiced is Haram." And that, "...cooperative insurance (Takaful) is permissible and fully consistent with Shariah principles." Hence, conventional insurance is prohibited for Muslims because it contains elements of Riba, Al Maisir, and Al Gharar. By contrast, Takaful provides risk protection in accordance with Shariah using principles of Ta'awun (mutual assistance), brotherhood, piety and ethical operations.

Misconception No. 3:

All Insurance is a form of Gambling or Wagering, which is forbidden in Islam.

- χ **Response No. 3:** Risk or uncertainty can be divided into: **Pure Risk** and **Speculative Risk**. Pure Risk involves the possibility of Loss or No Loss. For example, damage to property due to fire. Pure Risks are the subject of insurance risk protection and Takaful. On the other hand, Speculative Risk involves the possibility of Loss, No Loss or Gain. For example, venturing into a new business, or gambling on horse race. Speculative Risks that include a potential Gain or Profit **cannot be insured**.

 - χ Takaful schemes use the principle of indemnification to compensate for the loss that occurs to a Takaful Participant. Takaful insures only Pure Risks and the claims only pay in the event of Loss to cover repairs, damage, replacement of property, or an agreed fixed sum. In Takaful Taawuni (assurance), the compensation is each Participant's accumulated
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savings plus profits added to a Tabarru (donation) from the Takaful general pool.

Misconception No. 4:

All Insurance seeks to maximize profits which takes benefits away from Policyholders.

χ **Response No. 4:** Most conventional insurance companies are stock companies that seek to maximize profits. Since the interests of shareholders conflicts with policyholders, by raising prices, denying claims, etc. these insurers can boost profits for shareholders. Takaful operators, by contrast, are mutual or cooperative entities. The goal of Takaful is community well-being and self-sustaining operations--- not high profits. Under the Takaful Mudarabah Model, surplus (or “profits”) is shared fairly between shareholders and policyholders. Under the Takaful Wakalah Model, surplus is returned entirely to policyholders.

Misconception No. 5:

All Takaful operators are the Same.

χ **Response No. 5:** Alhumdilallah, in Islam there is unity in diversity. Over the centuries, several Takaful Models have evolved which are approved by Islamic scholars. While they all share the fundamental goals of cooperative risk sharing, these models differ slightly in legal structure and organizational operations. Takaful Models usually are described by the Islamic contracts used; namely, Hebbah, or 100% Tabarru [Sudan], or Al Mudarabah [Bahrain/Malaysia], or Al Wakalah [Saudi Arabia].

Misconception No. 6:**Insurance schemes are a modern day invention.**

χ **Response No. 6:** Actually, social arrangements for pooling of risks existed many centuries ago. The Takaful system evolved from ancient methods of risk protection in Arabia 14 centuries ago called: (a) daman khatr-altariq – surety for traders; (b) a'qila – payment to family of murdered victim by accused relatives; (c) hilf – confederation for mutual assistance. The year 1706 marked the emergence in United Kingdom of the first “perpetual assurance scheme”. The first insurance company in America (1740s) founded by Ben Franklin was a merchant’s cooperative. However, in modern times many of these old cooperatives have “demutualized” and converted into stock companies to pursue higher profits.

Misconception No. 7:**“I don’t need insurance/Takaful.”**

χ **Response No. 7:** A Takaful scheme gives us an opportunity to practice the virtues of Islam...including self-purification. Surah Al Maidah (V.2) says: “Help one another in furthering virtue and Taqwa (God-consciousness), and do not help one another in evil and transgression.” In Hadith by Ahmad and Abu Daud: “Whosoever fulfils the intention of his brother, Allah will fulfil his intentions.” And “Always help those who helps his brother.”

χ The first Constitution in Medinah (622 CE) arranged by Prophet Muhammed (PBUH) contained three aspects directly related to risk protection: social insurance for

the Jews, Ansar and Christians; Article 3 concerning ‘weregild’ or ‘blood money’; and provision for Faidyah (ransom) and Aqila. We should follow his example to meet our needs and social obligations.

- χ **A Takaful scheme provides us the self-discipline for savings and the habits of sound financial planning to take care of ourselves and the needs of our children and families. Hadith by Sahih al-Bukhari, as narrated by Amir bin Saad bin Abi Waqqas, describes Prophet Muhammed (PBUH) as saying: “Verily, it is better for you to leave your offspring (heirs) wealthy than to leave them poor asking others for help” and “...The one who looks after and works for a widow and for a poor person is like a warrior fighting for Allah’s cause...”. Also, from Sahih Muslim Hadith No. 59, as narrated by Abu Huraira, has the Holy Prophet (PBUH) saying: “Whosoever removes a worldly hardship from a believer, Allah (swt) will remove from him one of the hardships of the day of Judgement.”**
- χ **Takaful operations can provide an effective method to accumulate the savings of individuals for the collective good of the community. In many Muslim communities lacking capital resources, a Takaful can become an engine for economic growth and development by channeling its funds into Shariah approved investments sponsored by the local business community.**

For more information on Takaful Taawuni or Takaful schemes worldwide, please contact us at Bank Al Jazira 9662-651-8070, ex. 2108 ask for Omar Fisher.

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