

# Business Concept & Model

General Takaful

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## Shari'ah Issues about Conventional Insurance

- The participant contributes a small amount of premium in a hope to gain a large sum - **Khatar**.
- The participant loses the money paid for the premium when the insured event does not occur - **Gharar**.
- The company will be in deficit if the claims are higher than the amount contributed by the participants - **Gharar**.
- The element of **Riba** (Interest) exists in lending or borrowing funds/investments at fixed interest, and other related practices in the investment activities of the conventional insurance companies

# Major Differences between Conventional Insurance & Takaful

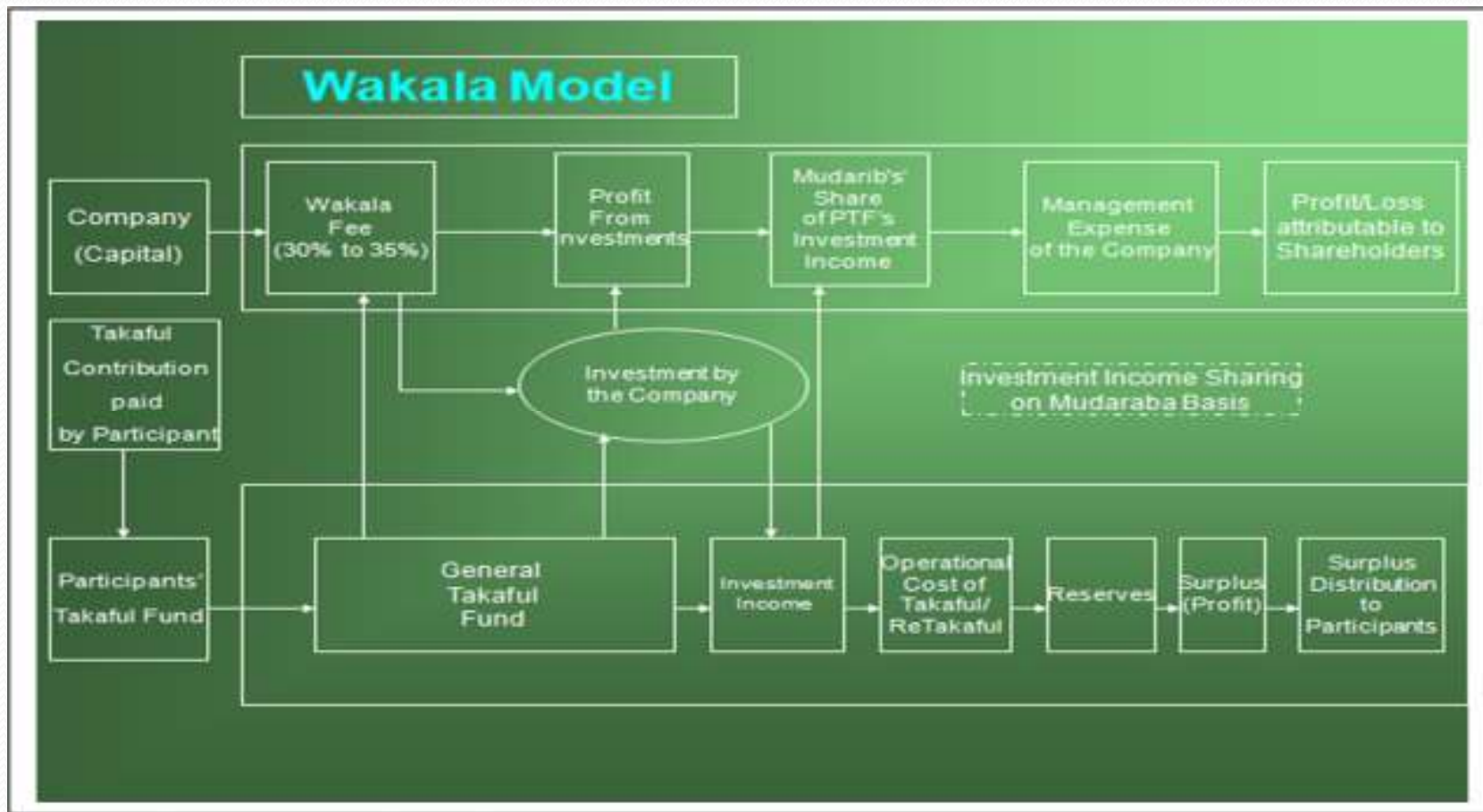
- Concept
- Business Model
- Management
- Laws
- Contract
- Investment
- Shari'ah Board
- Accounting
- Distribution



# What is Takaful?

- Takaful is a form of cooperative insurance and its concept is based on the following principles:
- ***Mutual Responsibility.*** The participants of the Takaful scheme all agree to be mutually responsible.
- ***Mutual Help and Co-operation.*** The participants of the Takaful scheme all agree to cooperate and help each other.
- ***Mutual Protection.*** The participants of the Takaful scheme also agree to protect one another in the event of difficulty as a result of tragedy.

# Takaful Business Model



## Comparing Takaful to Conventional Insurance

<b>Issue</b>	<b>Conventional Insurance</b>	<b>Takaful</b>
Organization Principle	Profit for shareholders	Mutual for participants
Basis	Risk Transfer	Co-operative risk sharing
Value Proposition	Profits maximization	Affordability and spiritual satisfaction
Laws	Secular/Regulations	Shari'ah plus Regulations
Ownership	Shareholders	Participants
Management status	Company Management	Operator
Form of Contract	Contract of Sale	Cooperative, Islamic contracts of Wakala or Mudarbah with Tabar'ru (contributions)
Investments	Interest based	Sharia compliant, Riba-free
Surplus	Shareholders' account	Participants' account/ Shareholders' account



# Conventional Insurance

- Gross Premium (GP) Rs 60,000,000 (first year Rs 50,000,000)
- Less Reinsurance Rs 15,000,000 (25% of GP)
- Net Premium Rs 45,000,000
- Less Unearned Premium reserve adjustment Rs 4,000,000 (40% of 60,000,000-50,000,000)
- Net Earned Premium Rs 41,000,000
- Add Commission received Rs 3,000,000 (20% of Reinsurance Premium)
- Add Investment Income Rs 1,000,000
- Less Commission paid to agents Rs 9,000,000 (15% on GP).
- Less Net Claims Rs 12,000,000
- Less Management Expenses Rs 20,000,000 (33.33% of GP)
- Profit attributable to Shareholders Rs 4,000,000



# Takaful-Participants Fund

- Gross Contribution(GC) Rs 60,000,000 (first year Rs 50,000,000)
- Less Retakaful Rs 15,000,000 (25% of GC)
- Net Contribution Rs 45,000,000
- Less Unearned Contribution reserve adjustment Rs 4,000,000(40% of 60,000,000-50,000,000)
- Net Earned Contribution Rs 41,000,000
- Add Commission received Rs 3,000,000 (20% of Retakaful Premium)
- Add Investment Income Rs 600,000
- Less Commission paid to Takaful operator Rs 21,000,000(35% on GC)
- Less Commission paid to agents Rs 9,000,000(15% on GC)
- Less Net Claims Rs 12,000,000
- Profit available for distribution to participants Rs 2,600,000





# Takaful Operator

- Wakala (agency) fee Rs 21,000,00
- Add share of Investment Income Rs 400,000
- Less Management expenses Rs 20,000,000
- Profit attributable to Shareholders Rs 1,400,000



# Investment of Takaful Funds

- Investment on Mudaraba basis with Islamic Bank
- Islamic Investment funds promoted and managed by Century Banking Corporation
- Investment in other Shari'ah-compliant funds available on the market
- Deposits on Mudaraba basis with Islamic Retail Bank
- Investments in forex dealings through Islamic Bank
- Investments in Shari'ah-compliant equities on the SEM
- Investments in Gold bars with Bank of Mauritius
- Investments in Sukuk Funds on the international market
- Investments in Commodity Murabaha on the LME