FUTURE OF ISLAMIC INSURANCE (TAKAFUL) IN INDIAN MARKET

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Abstract:
Takaful has been accepted as an alternative to insurance and it becomes popular not only in Muslim countries but also in non-Muslim countries. Similar to the insurance, *takaful* can provide the same benefit, coverage and protection to the participants. And it has an additional unique feature, i.e. its compliant nature with Islamic principles. India is ranked in the third position in terms of Muslim population in the world. In addition, worldwide India and China accounted for 40% of world's economic growth in the year 2011. According to the World Takaful Report (2009), the annual compounded growth rate of *takaful* is 31% and Indian sub-continent represents the highest growth of 85% in its Takaful contributions. Furthermore, *takaful* products are meant for both Muslims and non-Muslims. It is believed that if India is offering *takaful* products, it will be able to attract more Muslim participants while fulfilling the needs of non-Muslims. Therefore, it is expected that India can be the future *takaful* giant market. The regulators and the current insurance operators in India should relook at the needs and the trends of the market to take the opportunity of Indian growing economy and *takaful* unique nature.

Key words: Insurance, Takaful, India and market

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1. Introduction:

Takaful has emerged as an important financial system with worldwide acceptance, as it provides for mutual assistance to participants in case of misfortune. Takaful Act 1984 defines *takaful* as "*a scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for the purpose*". The conventional insurance concepts and practices are non-*Islamic* due to its inherent *haram* elements, namely, interest, uncertainty and gambling. Hence, the emergence of Takaful overcomes the inherent *haram* elements in the insurance practices all over the world.

The benefits provided by Takaful to its participants are in line with ethics and at the same time it fulfils the protection needs of the individual, group and business entity. According to Engku Rabiah, Hassan Scott, & Azman Ismail (2008), the concept of Takaful can be seen in the practice of *'Aqilah* (payment of blood money or Diyyah) under the Arab tribal custom. Then, this concept was adapted by Islamic practitioners through the verdict of the Prophet (P.B.U.H). It can be summarized that Takaful is the practice to help one another with good intention with the hope of getting *Barakah* (blessings) from Allah the Almighty. India is a country with the third largest number of Muslims in the world. However, takaful has not been introduced in India. It can provide the same protection, coverage and benefit like insurance and at the same time, it can meet the needs of both Muslims and non-Muslims.

2. The Conceptual Framework of Takaful

Section 2 of the Takaful Act 1984 defines Takaful as "a scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose," and Takaful business as a "business of Takaful whose aims and operations do not involve any element which is not approved by the Shari'ah."

Mohd Ma'sum Billah (2007) and Tan Kin Lian (2006) explain that the term Takaful is derived from the root word 'Kafala' which means guarantee. Thus, the word Takaful means "shared responsibility" or "shared guarantee, responsibility, assurance or surety." They further clarify that the technical meaning of Takaful from the economic point of view is a mutual guarantee provided by a group of people living in the same society against a defined risk. Mohd Fadzli (1996) has mentioned that Takaful is simply known as a co-operative insurance. Basically, Takaful conforms to the Islamic principles because the participants agree to help each other in times of need, they cooperate among themselves for a common good, the element of uncertainty is eliminated and it is based on the donation contract which divides losses and liabilities accordingly.

Mohd Ma'sum (2003) has also explained that four parties are usually involved in Takaful. The four parties are the (1) Takaful Operators, (2) participants, (3) the insured and (4) the beneficiaries. Those who contribute to the fund are known as the participants, while those who among the participants face the defined risk and are assisted by the fund are known as the insured. The beneficiaries are those designated as the recipients of the funds and the funds are managed by the Takaful Operators. Any Takaful Operators in the world has the responsibility to abide by the shari'ah principles (Mohd Ma'sum, 1997; Tan Kin Lian, 2006; Engku Rabiah, et al., 2008; Archer, Rifaat Ahmed & Nienhaus, 2009; Frenz, 2009; Frenz and Younes Soualhi, 2010).

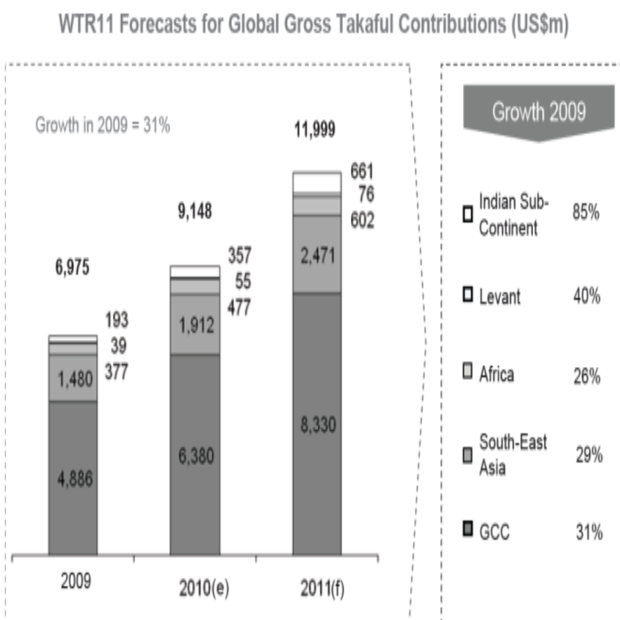
In essence, the Takaful Operators has the freedom to manage the fund but it must be in accordance with the shari'ah and agreed by the participants in the contract (aqad). However, it should also be noted that the fund is separated into two segregated funds (Frenz, 2009; Frenz and Younes Soualhi, 2010).

One fund is known as the shareholders' fund and the other fund is the contributions of the participants. The shareholders' funds are usually made of initial capital (paid up capital or working capital), management fees, surplus distributions or any additional capital injections funds (Frenz, 2009; Frenz and Younes Soualhi, 2010).

3. Historical Development of Takaful Industry Worldwide

The primary key message by Ernst and Young (2010) in its World Takaful Report is that the global Takaful market experience a continued growth in the previous years (refer to Figure 2.1). It has been reported that the compounded annual growth rate (CAGR) in 2009 for the global gross Takaful contributions has improved about 31%. The Indian sub-continent represents the highest growth of 85% in its Takaful contributions, followed by Levant of 40%, Africa of 26%, and South-East Asia of 29% and GCC of 31%.

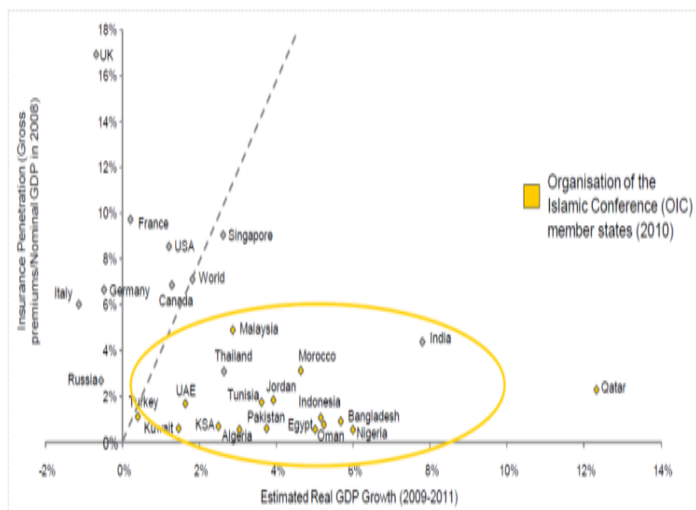
Figure 1
Global Gross Takaful Contributions (US$ Million)



Source: Ernst and Young, World Takaful Report (2011), pp. 14

This shows that the Takaful industry from 2005 until 2009 has experienced a significant growth and is making its way into the global market. The growing gross Takaful contributions in the global industry is due to the facts that more Muslim people all over the world have grasped the concept of Takaful in the recent years and that there is an increased awareness with regard to Takaful among them (Macey, 2008). Maysami and Kwon (1999) claim that Takaful is growing fast in the Islamic countries with Muslim population but it is also found in North America, Australia and selected European countries.

Figure 2
Insurance Penetration and Real GDP Growth for Selected Countries (2009-2011)



Source: Ernst and Young, World Takaful Report (2010), pp. 40

The circled area in Figure 2.2 shows that the overall insurance penetration in the Organisation of Islamic Conference (OIC) countries remains sluggish compared to the estimated real GDP growth. Although the Takaful industry experiences a continued growth but penetration remains low in the key markets (OIC countries). The circumstance is caused by the small number of Takaful Operators in the regions and the great regulatory challenges facing the Islamic finance industry nowadays such as the absence of a regulatory body that operates in accordance to Islamic principles (Sameer Abdi, 2007).

Basically, the world is experiencing a healthy and growing Takaful industry. Islamic Development Bank (IDB) in Jeddah promotes Takaful through its education department while Saudi Arabian Monetary Agency (SAMA) provides regulations for the insurance products in the Kingdom of Saudi Arabia (Dawood Yousef Taylor, 2005).

The modern day Takaful claims to have its first appearance in Sudan in 1979 and has been making its way throughout the world since then (Maysami & Kwon, 1999; Islamic Fiqh Academy, 2000; Dawood Yousef Taylor, 2005; Lewis and Hassan, 2007; and Farooq, Chaudhry, Alam & Ahmad, 2010).

The main reason why Takaful was reintroduced in 1979 is because Muslim scholars realized that the conventional insurance did not fulfil the Muslim ethics (Maysami & Kwon, 1999; Islamic Fiqh Academy, 2000; Dawood Yousef Taylor, 2006; Lewis and Hassan, 2007; and Farooq, Chaudhry, Alam & Ahmad, 2010). They conceded that conventional insurance is deemed *Fasid* because the contracts involve *Gharar*, *Maysir* and the investments of premiums are *Riba*-based.

However, Yusof Al Qaradawi (1985) believes that the modern form and concept of insurance is acceptable and only opposes the means and methods of the conventional insurance. In his view, insurance is acceptable if it is modified in a way that conforms to the Islamic principles. Tan Kin Lian (2006) summarizes that Takaful has been revolutionizing because the industry has been receiving support and approval from the *Shari'ah* scholars around the world.

6. Prospects and Challenges of Islamic Insurance in Indian Market

The span of Islamic finance and Takaful is growing alarmingly fast, not only in Gulf but also in non -Muslim countries. Though the industry is at its early stages the estimated contribution globally is at about US $3.4 billion in 2007. This figure seems to be low in many jurisdiction and presently it is focusing on the retail markets with wholesale needs largely yet to be addressed. There are 150 Takaful operators working worldwide including non-Muslim states (Keat, 2009).

India is a multi-linguistic country; the sacred feature of it is 'unity in diversity'. In present era it is progressing itself in every sphere of life. It has a great potential market to serve to its large population of 1.38 billion out of which the Muslim population is 13% and the world Muslim population is 10.9 which is quite considerable figure. It is estimated India would be the most populated country by the year 2025 (Pavithra, 2008).

Malaysia, Indonesia, Saudi Arabia, Bahrain are the leading players in this field among Muslim countries and Australia, United Kingdom and Singapore are few among many who have adopted Islamic finance in their economy. Various researches are being carried out to explore the new potential markets for investment. India has a potential market due to its large population of 1.38 billion, out of which more than 13.6% are Muslims (Pavithra, 2008).

Indian economic market is growing incredibly. Worldwide India and China accounted for 40% of world's economic growth in the year 2011. Indian economy has grown alarmingly over past few years, with an increase in real GDP at an average rate of above 7%.due to its giant market potential capacity and investors are looking forward to invest funds in India (Samad, 2006). Now India has become the fifth largest economy in the world and mainly due to its domestic demand. Great expectations are ahead in the upcoming years (Vohra & Sehgal, 2011).

The distinctive features of Takaful (Islamic Insurance) make it so appealing even to non-Muslims. Takaful operations have not yet started functioning in India. It has examined the huge potential; and reliance life has come out with Shari'ah based code though it is not a Takaful product. This indicates Takaful would be launched in India in the future. Insurance Regulatory and Development Authority of Indian Act (IRDA) should think in terms of developing the required regulatory framework for Takaful (Islamic insurance).

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There are many key issues to be looked into, but prime among them being the acceptability of *Takaful* terminology by Insurance Regulatory and Development Authority "IRDA" which is a supervisory body in India for Insurance. The issue of following the *Takaful* model is also one of the issues that needs due attention, as India is following most of the legal laws of England. If India adopts the London Model of *Takaful* Industry, it will be easier for India to amend its laws.

The other being the awareness among masses, in India 70% of the population lives in rural areas and only 30 % lives in urban areas therefore strong and concrete efforts have to be made to make people aware of the benefits of *Takaful* Industry. The unawareness among the people will give rise to one more issue, the issue of start-up cost, as companies will have to pay more for advertisements; moreover they have to set low tariffs so that they could effectively promote the image of *Takaful* industry among the potential customers and secure their market share.

In India the various ethnic groups are scattered all around the country. The companies have to identify those places where Muslims are dominating so that the companies could easily tap their market. Moreover, qualified staff with adequate knowledge of Islamic insurance and *Shari'ah* is scare. It is even more challenging to find management, staff and trained *Shari'ah* scholars. Constant endeavour is required to establish *Takaful* education program. There should be continuing efforts to start *Takaful* education programmes – similar to Malaysia and Bahrain - which will support the industry.

The other challenge that the *Takaful* industry will encounter is the issue of *Re-Takaful* as it is evident that initially there will be very few companies that will start operating, so the risk is marginally higher for these companies as compared to those who will start functioning later on.

7. Conclusion

It has been recognized that takaful can be used as an alternative to insurance. Takaful is successfully introduced in both Muslim and non-Muslim countries all over the world. Malaysia is one of the leading countries which promote Islamic finance and it is very successful. Compared to India, the Muslim population in Malaysia is low but it can manage to be the hub of Islamic finance.

Therefore, India should study how Malaysia and other countries have succeeded in implementing takaful in their own countries. This paper also highlights, how takaful has been implemented worldwide successfully has been elaborated. This study has significant contribution to the Indian society, regulators, insurance operators and investors. If the regulators are supporting to offer takaful, insurance operators can expend their business, investors can have more variety in investment activities and the society can enjoy the benefits of takaful.

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