

Islamic Insurance in the Global Economy

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Abstract: *Islamic insurance industry is experiencing a period of rapid growth in terms of its net contributions and profit, however, at the same time, the development of this industry is still faced with tough obstacles and constraints due to the Shar'iah issues in some certain aspects. Islamic insurance operations need to be fine-tuned to meet the Islamic direction and the needs of Muslims. There are many different operational models with various Islamic jurisdictions trying to meet the needs of Muslims in general as regard Islamic insurance in the global Islamic economy. The two challenging issues that are studied are the ownership of the Islamic insurance risk fund and the surplus distribution accumulated from the risk fund. The findings reviewed that insurance principles contribute substantially to Islamic insurance operation ($\beta = 0.405$) justification in terms of Islamic features and operator fees ($\beta = 0.925$) and ($\beta = 0.255$) respectively.*

Keywords: *Islamic insurance, global economy, ownership, surplus distribution*

I. INTRODUCTION

Demographic report showed that about 1.5 billion of the world population are adherents to religion of Islam (Frenz, 2010). This tremendous number and the expected increment in the coming years, suggest some means of addressing the issues of human behaviour pertaining to daily financial activities based on Islamic principles that is expected to differ significantly from conventional or non-Islamic way (Maysami, 1999). It is a natural phenomenon in any society that everyone is exposed to all sorts of unexpected daily risks. These risks may impact on one's life, property or even business ventures. The future of the global Islamic insurance industry remains bright and recent research further highlights that Islamic insurance contributions will continue to grow faster than the rate of premium growth in the global conventional insurance industry.

II. GLOBAL ECONOMY

The global economy, which is known also as world economy is the international exchange of services and goods that is articulated in money wise. Global economy is exclusively to human economy activities and judge in monetary expressions. For the objective of global acceptability, stability, growth, and sustainability, there is an increasing demand for the best practical model and the need to reduce differences between models, which is currently a major barrier in the development of operations, cooperation, and achievement that limit access to compatibility. As the industry becomes ever more competitive, together with the ongoing difficulties in the global economic environment, more and more operators are concerned at how they can overcome the challenge of maintaining the exciting growth rate of the past few years while also becoming increasingly focused on the imperative of boosting profitability from their core business. According to Global Economic Prospects in 2017 the report stated that the global growth in 2016 is estimated at a post-crisis low of 2.3 percent and is projected to rise to 2.7 percent in 2017. Growth in emerging market and developing economies (EMDEs) is expected to pick up in 2017, reflecting receding obstacles to activity in commodity exporters and continued solid domestic demand in commodity importers. Across major economy world-wide showing degradation in the past three years. There is a need to a fair system that may help others specially Muslim whom they started to voice out economically and started search for new ways and approaches that may fulfill their needs and wants, this why Muslims globally concentrate to unite economically by different means and ways as of in Islamic banking, Islamic insurance etc. There is global shortage of acknowledged Islamic scholars in the field of insurance and lack of consensus on *Shari'ah* compliant product. Global Islamic insurance contributions grew in 2008 by 22% to reach US\$5.3 billion; in 2009 it reached US\$7 billion grown by 23%, and continued to grow again in 2010, reaching US\$8.3 billion. It has continued to grow and is expected to reach US\$12 billion by 2012 (World Takaful Report, 2012).

III. ISLAMIC INSURANCE

The Islamic insurance scheme evolved from the teachings of Islam. Insurance is a *ta'awun* system for minimizing the risk and loss shared between participants in order to cover the other affected participant(s). The role of Islamic law is to establish a pluralistic society on the basis of *ta'awun* and *takaful* in duties and rights (Elzarga, 1980). In other words, *Shari'ah* puts much importance on risk mitigation to attain the above developmental objective. The definition of Islamic insurance practice is mainly based on the principle of mutual cooperation, solidarity and brotherhood, which is operated based on the *Mudharabah* financing technique in which the parties of the contract share profits at the agreed proportion. This is an alternative to the interest based financing technique (Billah, 1998). According to Hasan, (2004) Islamic insurance can be defined as the co-operation in a systematic way by a large group of people who have the same chance of risk. In case the risk happens to any one of them, they cooperate to share the risk. A similar definition is echoed by Ali Alkhfif who defines insurance as a theory of systematic co-operation to expose the risks and minimize it, if it occurs to any one of the group. From these definitions, Islamic insurance is in line with *maqasid alshari'ah* (Islamic rule objective), in which they support each other. However Islamic insurance industry has always been outshined by the conventional insurance as a Swiss re sigma reported that, while \$45bn of conventional insurance premiums written in Muslim countries in 2007, Islamic insurance contributions accounted for just 4%, or \$1.7bn. Islamic insurance plans for participation between two or more people in which they stand as guarantor for each other. The Islamic insurance terminology that allows the shared group to participate in the system allows them to cooperate in carrying out an effective, one payment of the appropriate compensation to the victim through the donation of its contribution (Abugada, 2008). Therefore, in the Islamic insurance industry, there is still need for further jurisprudential determination from the *ulama* and practitioners. In the standard Islamic law there is no equivalence to conventional insurance, Islamic insurance is a new approach to dealing with tools to minimize risk (Masud, 2011). From the jurisprudence views, in the adoption of participants' contribution in the Islamic insurance fund; the participants' contribution is considered *tabarru'* and this adoption differentiates Islamic insurance from conventional insurance. With a *tabarru'* contract the *gharar* is forgiven. In the Islamic insurance models practiced globally, there are general fundamental, legal and technical aspects which are shared across all the models. They are: segregation between the shareholders fund and participants' fund, supervisory *Shari'ah* board, and *Shari'ah* compliant investment policy (AAOIFI, 2012). Undeniably, the highest challenge confronting Islamic insurance is how to come out with comprehensive *Shari'ah* compliant system or legitimacy, from Islamic perspective, without destabilizing the business concerns which is profitability, sustainability, and competitiveness (Dusuki, 2011).

IV. ISLAMIC INSURANCE CONCEPTUAL FRAMEWORK

The conceptual framework of this research is to resolve the issue of 'Islamic insurance' with regards to the operation of the various models based on their business paradigm and within the *Shari'ah* framework. Islamic insurance contract consists of three types of relationship: the relationship between the operators (company) and the participants, the relationship between the operators and the participants' fund and the relationship between the participant and the fund (Dagi, 2010). According to Alkhulaifi (2012) the three types of relationships are: the relationships between the participants and the participants' committee, the relationship between the operators' (shareholders) committee and the participants' committee, and the relationship between the operators (shareholders) and the shareholders' committee. *Shari'ah* standard from AAOIFI divides the relationships in Islamic insurance into three relationships: the relationship between the operators (shareholders), the sharing relationship, the relationship between the operators and the participants' fund, and the relationship between the participants and the participants' fund (AAOIFI, 2010). Business operation is measured by the views of:

- 1) Operators of Islamic insurance;
- 2) *Shari'ah* board members; and
- 3) Experts in Islamic insurance

Systemic Islamic insurance is subject to many *Shari'ah* issues related to its framework, model use, application and operations. The conflicting issues have been solved from time to time, but there is a need for more work to be done in order to grow and sustain the Islamic insurance industry.

Critique analysis of each of the insurance principles created on mean score and standard deviation results, the findings show that application of the conventional insurance principles are relatively varied among the three selected countries. The anchor point is 3.00, any mean score above 3.00 indicates that such aspect of insurance principles is being adopted and applied by Islamic insurance companies.

Table 1: Analysis of Application of Insurance principles

Respondent's Item	Mean	SD	Skewness	Kurtosis
Full disclosure of material facts of insurable items	4.220	1.163	-1.750	2.271
Ownership of insurable items at the time of the claim.	3.990	1.106	-1.401	1.433
Contribution (apportion of claim among the Islamic insurer of the same interest)	3.530	1.473	-0.721	-0.909

Referring to the result as shown in table 2, Islamic insurance adopted and applied the Principle of “Ownership of Insurable Items at the time of the claim”. This is because the mean scores of all of them are well over the anchor point 3.00 most of the Islamic insurance companies in these countries agree with the use of “Actuarial Calculation, Statistical Data”, “Market Forces”, and “Risk Approach Pricing” as guides in determining the amount of “Contribution” to be paid by participants. However, all the respondents disagree with the use of “Benchmark on Others” as a guide. A critical analysis reveals from the mean score that “Risk Approach for Pricing” seems to be more favoured (M= 3.75, SD= 1.162) by all the three countries as shown in table 2.

Table 2: The Descriptive Analysis of the amount for Contribution

Respondents' item	Mean	SD
By risk approach for pricing	3.75	1.162
By market forces (competition)	3.41	1.175
Statistical (historical) data	3.29	1.395
Actuarial calculation	3.19	1.459
By benchmark on others	2.96	1.357

V. CONCLUSION

Although, *Shari'ah* principles play a major role in the operations of Islamic insurance in the market, but the translation of *Shari'ah* itself is not independent and comprehensive because of the different views, *ijtihad* and implementations. Instead, it is still dependant on other principles. Islamic insurance is subject to both the general principles of law of contract and some special legal principles in the Islamic insurance contract. Thus, Islamic insurance contracts, adopt some certain conventional principles in its practice. This is acceptable as long as the concept of fairness in *Muamalat* (transaction) as articulated by the *Shari'ah* is protected. The adoption of these principles is in agreement with the legal maxim that permits every form of transaction except that there is a clear cut evidence from the primary sources that prohibits it. Their application may be somewhat in few cases different from what is obtainable in conventional insurance. The Islamic financial service board (2006) guideline supports the findings of the current study. The guideline observed that regulators across various countries differ in their approaches on how they see their role in relation to *Shari'ah* compliance. While some countries established their own *Shari'ah* board either to advise on Islamic insurance-specific rules or to oversee the operation of Islamic insurance companies' *Shari'ah* boards, others do not do so.

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