

Present Scenario and Future Potentials of Takaful

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[Abstract: *The idea of having a Shariah based insurance system (Takaful) stems from the desire of the followers of Islam to conduct their affairs in day to day life according to the teachings of Islam and within the framework of Islamic law. Takaful is based on the concept of cooperation, brotherhood and solidarity of the members of the society who voluntarily agree to contribute money to support a common goal of providing mutual financial aid to the members of the group under certain terms and conditions. Takaful has emerged as a complementary and supportive system of Islamic Banking movement throughout the world. Due to inherent Shariah principles which are universal in character, the Takaful business would be more appealing in the coming years both for the Muslim and non-Muslim communities. Most of the Muslim countries having Islamic Banks have established Islamic Insurance companies as necessary complements to Islamic Banking. The growth of Islamic Insurance companies would serve as the vehicle of risk pooling. It will also provide a means of investment. It has been estimated that total Takaful contribution (premium) is approximately 0.05% of total world insurance premium. However, the growth of Takaful industry during last decade was very impressive. The demand for Shariah compliant products is increasing and a high level of demand for Takaful is being predicted by market observers. It is now right time for the national regulators to provide supportive Takaful laws, rules and guidelines.]*

Introduction

Takaful is an Islamic alternative to conventional insurance based on the concept of trusteeship and cooperation inspired by the beliefs of the followers of Islam. Muslim societies in different parts of the world are now practising Takaul scheme as their own way of sharing financial responsibilities to assist each other. They have invented an Islamic way of mutual assistance to deal with uncertainties of life.

Takaful is a social scheme based on the principles of brotherhood, solidarity and mutual assistance. It provides mutual financial aid and assistance to those who are members of the takaful scheme and voluntarily agree to contribute a certain amount of money for that purpose. It is a mutual agreement among the participants of the scheme. This has its origin in the concept of collective sharing of individual's loss. Takaful is being practised now as an alternate of conventional insurance system and is bounded by Islamic principles, rules and the law of Islam (Shariah).

Takaful is an Arabic word stemming from the verb "kafal" which means to take care of one's needs. Under this scheme, the members or the participants in a group agree to jointly guarantee themselves against loss or damage caused by specified perils. The entire group would assist the incumbent person from the fund they have created to alleviate (indemnify) his loss and or to provide him with financial help. Takaful is a legally binding agreement between all the participants of the scheme to pay any of the members who suffer a loss as specified in the takaful certificate (policy). Takaful scheme has evolved from the teachings of Islam, i.e., on the basis of the Quran and the Sunnah (Traditions of Prophet Muhammad). The Quran says: "Help ye one another in righteousness and piety, but help ye not one another in sin and rancour" (*The Quran 5:2*). *The Prophet Muhammad (P.B.U.H) said:* "The believers, in their affection, mercy and sympathy to each other, are like the body, if one of its organs suffer and complains, the entire body responds with insomnia and fever" (*Muslim*).

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Takaful, generally means joint guarantee. It is an understanding among a group of people (called the participants) who agree to reciprocally guarantee each other financially, should any event (as defined in the contract) occur. The basic objective of a Takaful contract is to pay from a common fund, which is set up by the participants of the scheme. The fund thus created may be managed by the participants themselves or through professionals or by a registered Takaful Operator. The fund is created by the equitable contributions of the participants. The Takaful operators can be registered under the relevant Companies Act or Cooperative Societies Act, Societies Registration Act or by Takaful Act. In order to ensure that a Takaful scheme operates within the principles of Islamic teachings, the transactional aspects of the system is subjected to Islamic contractual laws. Hence, Takaful contracts are based on the principles of Mudarabah (limited partnerships), which means profit and loss sharing.

The fundamental basis of Takaful scheme is that its operations do not involve any element which is not approved by the Shariah (Laws of Islam). Therefore, it is necessary that the Takaful operators should establish and maintain Takaful fund for the class or each of the Takaful schemes carried on by the operator's. The assets comprised in the fund shall be applicable only to meet such part of the operator's liabilities and expenses as is properly so attributable. The assets of the Takaful fund shall be kept separate from all other assets of the operator. This means that the fund of the entrepreneurs of a Takaful company should not be amalgamated with the Takaful fund created by the participants of a Takaful scheme.

When a Takaful scheme is operated on the basis of mutual or cooperative principles, any surplus or deficit of the Takaful operation has to be shared by the participants, or the members themselves. But when a Takaful scheme is operated on commercial basis, the surplus of Takaful operation has to be shared between the operator and the participants in accordance with the principles of Mudarabah. The sharing of such surplus may be in a ratio as agreed between the contracting parties. The participants are entitled to a share of surplus as the providers of the fund and the operators are supposed to have a share of the surplus as the entrepreneur and managers of the fund.

When a contract is made between the operator of a Takaful life scheme and the participants of that scheme, the concept of Tabarru (donation) is incorporated in it. This means a participant will agree to relinquish a certain amount of Takaful contributions to fulfil his obligation of mutual help and joint guarantee, should any of the fellow participants under the scheme suffer a loss caused by specified perils and or hazards of life.

The sharing of surplus between the operator and the participants has to be made as per ratio fixed in the agreement. The operators are to strive prudently in order to ensure that the funds which are being managed by them are protected against undue overexposure and creates some surplus for distribution, since the operators are entitled to a share of surplus out of Takaful operations.

The operation of Takaful practices is supervised by an independent body called the Shariah Supervisory Board or Council. The Board advises the Takaful operators on the day-to-day operational matters in order to ensure that the Operator does not involve in its operation any element, which is not approved by the Shariah principles. The establishment of a Shariah Supervisory Board is a prerequisite before the commencement of the Takaful operation. The Board prescribes the necessary requirements for acceptability of different modes of transactions of the Takaful operators from the Shariah point of view and provide the

operators a clear perception of the relevant rules and principles of Shariah.

In majority of the Muslim countries, Takaful has emerged as a profit-sharing business venture between the Operator and the individual members of a group of participants who desire to reciprocally guarantee each other against certain loss or damage that may be inflicted upon any one of them. However, the aims and operations of a Takaful business venture should not involve any element which is contrary to Islamic principles and law of financial transactions.

Scope

This paper briefly describes the background of Takaful Insurance as part of Islamic Banking Movement. In the second part the role of Takaful has been analysed and focused in order to assess how Takaful helps to develop the economy towards balanced growth and prosperity. While assessing the potentiality and prospect of Takaful it has been observed that the major increase in consumption of Takaful will result from the increase in supply of Takaful. While describing the present scenario of Takaful market, the role of IDB and OIC have been identified. The role of government and the need for cooperation between Takaful operators and Islamic Banks have been vividly described. It has been suggested that the government of Islamic countries should have strategic policies to promote and foster the growth of Takaful for the development of a Shariah based, just and fair Financial system of Ummah.

Background

With the establishment of the Dubai Islamic Bank and the Islamic Development Bank as the starting point of Islamic Banking Movement, H.E. Prince Mohammed-El-Faisal-Al-Saud of Saudi Arabia took initiative for the establishment of a number of Islamic Banks. In one of such initiatives in February, 1976 he held discussions with H.E. Gafar Nimeiry (the then President of the Democratic Republic of Sudan) and asked for permission to establish an Islamic Bank to be operated in Sudan. Executive and Legislative authorities in the Sudanese Government at all levels gave every encouragement and acceded to the proposal.

When Faisal Islamic Bank was established, the Bank authorities initiated studies on the establishment of a co-operative insurance company. In this respect the opinion of the Bank's Shariah Supervisory Board (S.S.B) was sought. The S.S.B. studied the scheme at the first meeting. Studies continued and several steps followed. The Memorandum of Association and Articles of Association were prepared by the Faisal Islamic Bank authorities. The S.S.B. proposed some amendments which were implemented. The S.S.B. ensured that the scheme was sound from Shariah point of view as well as feasible from practical point of view. Therefore, the Islamic Insurance Company Ltd. Sudan was incorporated as a Sudanese Public Company (under the Companies Act 1925) in January 1979.

This is the first ever insurance company established in the world to transact business according to the Islamic Shariah. The entire authorised capital of this company was subscribed to by the Faisal Islamic Bank. The company was allowed numerous concessions and exemptions. All its assets and profits were exempt from all types of taxes. Further, the assets of the company are not subject to confiscation, nationalisation etc. The company is also exempt from the application of The Acts regulating insurance in Sudan.

In Malaysia, the Islamic Insurance Company was established as a private limited company (in accordance with Companies Act 1965) in November 1984 and started its operation from August 1985 as a composite Islamic insurance company. This was made possible by the Malaysian Government who, in 1982, took a positive step by forming a special body known as the 'Task Force' on the study of the establishment of Islamic Insurance in Malaysia. This task force was formed on the basis of the recommendation of the National Steering Committee on Islamic Bank, which highlighted in its report to the Malaysian Government of the need for Islamic Insurance. The Committee felt that it was necessary in order to cater the insurance requirement of the Islamic Bank which was about to be launched then.

Members of the task force were drawn from personalities and groups representing religious scholars, legal experts, and economic and insurance practitioners. The members of the task force visited a number of Islamic countries and also discussed with three Islamic Insurance companies already established or about to be established. Finally, in its report to the Government, the task force suggested that an Islamic Insurance company should be established in Malaysia as soon as possible. The Malaysian Government then promulgated legislation entitled as the Takaful Act 1984, which regulates the Islamic Insurance (Takaful) of Malaysia. It may be of interest to note that in Malaysia the Islamic Insurance Company (known as the Syarikat Takaful Malaysia) is practically a subsidiary of Bank Islami Malaysia Berhad, which owns 51% of the paid up capital of the Takaful company. The balance of 49% of the shares are owned by the various State Religious Councils and State Religious Foundations within Malaysia.

Role of Takaful in Islamic Economic system

In the recent past, the Muslim world is being stirred with an endless enthusiasm and impetus to occupy its real place among the community of nations and contribute its due share and to its duties to humanity. Takaful is a service to Muslim Ummah (community) as a welfare scheme. Introduction of Takful is an example as to how the principles of Islamic Shariah can help to create new socio-economic mechanism based on equity, justice and fair play.

The objective of Islamic Economy is to create an exploitation free society and upliftment of the entire society as a whole. The Takaful system, which has been working for the welfare of the mankind is not in contradiction with Islam. The objective of Islamic Economic system is the promotion of welfare of people which lies in safeguarding their faith, their life, their posterity and their property. By ensuring and safeguarding these elements of the people, Takaful serves public interest and, therefore, can play the most important role.

An exploitation free society as Islam envisaged has provisions for adequate capital formation. The Prophet of Islam disapproved begging and encouraged capital formation. He advised a poor companion to sell all his belongings for purchasing an axe for collecting firewood and sell those in the market. The Takaful system will facilitate capital formation of individual households. This will motivate every individual for saving under Family Takaful (Islamic Life Insurance) and the collective surplus funds will be invested in the capital market. This will facilitate further utilization of resource and greater employments.

Islam is the second largest religion in the world with one and quarter billion followers. In all, Muslims form a majority of the population in over forty countries. Muslims live in 184 countries comprising about 20% of world population. Islamic countries and other countries with a significant Muslim population in the recent past have encouraged the provision of financial services, including insurance, under Islamic principles. As a result, more than seventy Takaful/Islamic Insurance companies have been established for providing insurance coverage both in life and non-life sectors. These insurers generally known as Takaful operators are found not only in Islamic countries but also in Europe, North America and Australia. This type of modified insurance mechanism is expected to further influence the supply of and demand for insurance in the Muslim community.

Takaful has grown not only as an innovative financial instrument, but also on religious principles. The purpose of religion is the wellbeing of mankind. Islam as a religion seeks to order human life so as to make it actualise the pattern intended for it by its Creator. Islam is not only a religion but an ideology in the sense that the Shariah, its law, has given the Muslims a pattern of life with which to order their lives.

The Shariah is comprehensive, embracing all human activities, defining man's relations with God and with his fellow men. The Shariah grew out of the attempts made by early Muslims as they confronted immediate social and political problems to devise a legal system in keeping with the code of behaviour called for by the Quran and the Hadith. The purpose of Islam is always to inject morality into the fabric of human relations. How the Muslims earn its livelihood, how he spends his wealth and how his wealth is to be disposed of after his death all these are the stuff of Islam. In Islam, the human aspect is more important than the material one. It relies more on moral, ethical and human aspects than on the material aspects. This is something unique in the Islamic Economic system. Prophet Mohammad (P.B.U.H) said, "*One who eats to his heart's content, while his neighbor starves, is not a Mumin*". Helping neighbours, poor relations and the distressed contribute to an exploitation free society based on the principle of brotherhood .

Understanding the fundamental principles of Islamic Economic System is necessary in order to have a better understanding of the role of Takaful and its suitability in the Islamic Economy. For example, the right of private ownership accorded by Islam is not absolute and unconditional. The ownership is a kind of trust only. An individual may privately own and manage any kind of wealth, but he can not do with them whatever he likes. He is to regulate the uses of wealth as per the Shariah Law. An individual can make joint investment to earn profit from his investment. Takaful is a means whereby investments of surplus funds are made by the Operators and profits are distributed to the Participants, i.e., to the owners of the capital.

Another fundamental principle of the economic system of Islam is that it stands for equitable distribution of wealth. Islam encourages people to be selfless helpers for one another by arousing in them feelings of sympathy. Takaful is a system where people are encouraged to contribute money for mutual help in times of need. Thus Takaful comes in for help of a distressed fellow by means of mutual cooperation and joint guarantee.

The Islamic Economic system combats the accumulation of wealth and its concentration in the hands of a small minority. The Islamic Law of inheritance provides for the shifting and distribution of wealth in a manner unknown in other legal and economic systems. It divides the estate of the deceased over a wide range of beneficiaries and not on a single heir to the exclusion of others. The nominee in a family takaful scheme is only a trustee and the policy money need to be distributed to all the heirs.

The Islamic system requires that wealth should be utilised as an instrument to serve the interest of the community at large. In the Islamic way of life, some special kind of levies are imposed. The objective behind them is to provide financial assistance to the people of lower income bracket from the money of the relatively better off people. In Islam, there are various kinds of compulsory levies ranging from very high rate of 20% of the income to the minimum of 2.5% of income. These are to be collected from the poor and the needy. This is an automatic mechanism of balancing income in the society. Islam makes it obligatory on every Muslim who possesses a certain limit of income upto one year to pay a certain percentage of it for the destitute and the needy. This is called Zakah. It is so important a part of Islam that the instruction of the payment of Zakah always comes next to Salat (prayer). The prophet described Zakah to be one of the five pillars of Islam.

Zakah is of course not a substitute of income tax. It is imposed on capital. Zakat has to be levied annually whether it is invested or not. Therefore, it is prudent for the owners and managers of the TYakaful fund to invest it in production purposes. It induces all the resources and wealth of the economy to be employed continuously in productive activities. By implementing Zakah system within the mechanism of Takaful, it helps develop the economy towards balanced growth and prosperity.

Potentiality and Prospect of Takaful Industry

In the contemporary Islamic countries, the role and importance of Takaful has not been duly recognized by the policy makers. Even the growth of conventional insurance is not very satisfactory. If we look into the present scenario of the insurance sector of the D-8 member countries, we find a dismaying picture. Tables A and B show the insurance density of D-8 member countries and the Middle Eastern oil rich countries.

TABLE-A
INSURANCE DENSITY OF D-8 ISLAMIC COUNTRIES

Country	Population (million)	Per capita GDP	Per capita Premium		Total
			Non-Life	Life	
Bangladesh	135	\$ 1,260	\$0.6	\$0.7	\$1.3
Egypt	65	\$ 2,900	\$ 9	\$ 2	\$ 11.0
Indonesia	210	\$ 3,770	\$ 8	\$ 6	\$ 14.0
Iran	68	\$ 5,200	\$ 23	\$ 3	\$ 26.00
Malaysia	23	\$ 10,750	\$ 62	\$ 78	\$ 140
Nigeria	107	\$ 1,380	\$ 7	\$ 1	\$ 8
Pakistan	132	\$ 2,300	\$ 2	\$ 1	\$ 3
Turkey	64	\$ 6,100	\$ 21	\$ 4	\$ 25

TABLE-B

INSURANCE DENSITY OF MIDDLE EAST ISLAMIC COUNTRIES

Country	Population (million)	Per capita Premium		Total
		Life	Non-Life	
UAE	2.6	\$ 58	\$ 252	\$ 310
Qatar	0.6	---	\$ 260	\$ 260
Lebanon	4.3	\$ 19	\$ 93	\$ 112
Kuwait	2.1	\$ 16	\$ 77	\$ 93
Oman	2.5	\$ 14	\$ 52	\$ 66
Saudi Arabia	20.5	\$ 0.6	\$ 37.5	\$ 38.1
Syria	15.8	\$ 0.1	\$ 16.5	\$ 16.6

If we compare insurance density of the Islamic countries with that of other countries of the world, we can understand where do we really stand. For example, in South Africa the share of insurance premium in GDP is more than 20% in comparison to 3.5% in Nigeria. In Bangladesh insurance penetration is less than 1%. In Japan premium per capita is approximately US \$ 3900. In Malaysia it is approximately US \$ 140 and in Bangladesh it is less than \$ 2.00 (two) only. This means, there is ample scope of growth of Insurance vis-à-vis Takaful in Islamic countries.

Takaful market is bound to grow with the pace of the economy. The growth of the Takaful industry and economic development of these countries are interdependent. Although the demand for Takaful is a reflection of income and wealth, it is to be noted that risk consciousness is very low in the Islamic countries. There is an urgent need to create a deeper understanding and awareness among the policy makers, what role Takaful can play to improve the wellbeing and quality of life of the Ummah.

Takaful has been designed to help and stabilize the financial situation of individuals, families and organizations. At the same time Takafukl operators can meet the financing needs of large projects, thereby helping the national economies by enlarging the set of feasible investment projects and encouraging economic efficiency. Takaful will definitely help foster a more efficient allocation of capital and resources of Islamic countries by way of promoting trade, commerce and entrepreneurial activities. A growing Takaful and Retakaful market is an instrument for economic growth of the Islamic countries. In fact, the development of Takaful as an alternative of conventional insurance will contribute to economic prosperity of the Islamic countries. On the other hand, with the growth and development of the economy, the Takaful Industry will grow.

It is obvious that Takaful is a suitable alternative of conventional insurance for the Muslims. But, the pertinent question is how best it can serve the needs of the community ?

There is no doubt that Takaful has a vast potential for growth and this potentiality will definitely increase in the coming years. However, the future of Takaful will largely depend on how the increasing potentials are being exploited by Takaful operating system, keeping in view the need of the Islamic economy and state of affairs in Islamic countries.

Religion and culture of the Muslims are plus points for Takaful Operators. But that is not all. Political and economic stability of the Islamic States, professional maturity of the Takaful Operators, their ability to design appropriate products and reduce management expenses, including distribution cost, are some of the important factors for influencing the demand for Family Takaful. The factors which will influence the demand for General (non-life) Takaful are growth of trade, commerce and industry as well as risk potentials and their severity and frequency. Of course, risk awareness is another important factor.

The growth of both Family Takaful and General Takaful will depend on the marketing strategies, distribution network and adoption of improved information technology. Last but not the least, the supply of Takaful in the Islamic countries will depend mostly upon the support and sympathy of the policy makers. If the concept of Takaful is not properly understood, the legislators may not subscribe to the idea of promoting Takaful and for that matter floating of Islamic companies under the Conventional Insurance Act will simply mislead the consumers. Since an effective regulatory system plays a great role in the dynamics of supply, it becomes the responsibility of the Regulatory Authority of Islamic Countries to frame appropriate laws and rules for facilitating the growth of Takaful for the benefit of the community and, of course, for the growth of the economy as a whole.

It is obvious that interaction of demand and supply will determine the consumption of Takaful. The shift in demand for Takaful will occur as it is an innovative product and suits to socio-economic and religious teachings of Islam. Moreover, the Islamic countries are likely to have economic growth both in the micro and macro level. However, the major increase in the consumption of Takaful will result from the increase in the supply of Takaful. The demand already exists. The extent to which it is tapped would depend on the extent to which the supply curve moves to the right.

Present Scenario

Currently, there are about seventy “takaful” operators world-wide. During the last twenty-seven years Islamic Insurance (takaful) has developed mainly in Sudan, Egypt, Saudi Arabia, Iran, Kuwait, Lebanon, Malaysia, Brunei, Indonesia, Singapore, U.A.E., Bahrain, Bangladesh, Nigeria, Tunisia, Bahamas, Belgium, South Africa, Switzerland, Australia and the USA. Interestingly, takaful is seen in the non-Muslim world as well. For example, in Singapore there are less than half a million (15% of total population) Muslims but at least two operators are now providing takaful scheme in Singapore. In non-Muslim countries, the scheme is also likely to grow if the operators can prove their worth in comparison to conventional insurance products. In Muslim countries, Malaysia seems to be the single most successful country in terms of takaful. In Singapore, about 22% of the present takaful policy holders are non-Muslims.

Most of the Islamic countries suffer from the common attitude that insurance is undesirable. There is mass non-awareness among the Muslims about risk management and insurance, not to speak about takaful. In most of the Muslim dominated countries of the world, insurance still accounts for less than only one percent of the country's G.D.P. However various surveys have shown that the life and general insurance market has large potential to be exploited in Muslim countries, and in countries

where Muslims are at least 10% to 15% of total population . Takaful is likely to grow along with the conventional insurance schemes. But this is only when this new form of insurance should provide at least equal, and better value, as compared to the existing conventional insurance policies.

By now Takaful like Islamic Banking has become a viable reality. Due to inherent Shariah principles which are universal in character, the Takaful business would be more appealing in the coming years for both the Muslim and non-Muslim communities.

Takaful (Islamic Insurance) has bright prospects and potentialities as a financially viable and competitive alternative insurance for the Muslim Countries, because most of the Muslim Countries having Islamic Banks have also welcomed takaful as a necessary complement to Islamic Banking. Islamic Banking cannot be fully Shariah-based unless there is Takaful to take their insurance business. Therefore, Takaful like Islamic Banks has proved its viable reality and having its strides of expansion in almost all the Muslim Countries.

The confidence and faith of Muslim Countries in Islamic economic system is gaining solid ground. Recently the Heads of State and Government of Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey met in Dhaka on 1-2 March, 1999 for the Second D-8 Summit with the objective of implementing projects and programmes of co-operation that are of vital interest to their peoples. Among other issues, the Heads of State endorsed the proposal to enhance the capacity of existing retakaful company of Malaysia to meet the needs of member countries of D-8. It was further agreed that the experts of these countries will meet to draw up the modus operandi and formulate the appropriate strategies to promote takaful and retakaful. It is heartening to note that takaful operators are organising seminars and conferences on a regular basis and exchanging ideas and informations to make takaful viable.

In July 2004, the regulators of D-8 countries met in Malaysia and a mechanism for cooperation among the Takaful regulatory authorities was evolved. It was decided that two working groups on the areas of education and training as well as financial infrastructure development would be framed and be led by Malaysia and Egypt, respectively. In June 2004 a memorandum of understanding was signed by the Islamic Development Bank with Bank Negara, Malaysia, which among others sought to promote and expand Takaful and retakaful business among Organization of Islamic Conference member countries. In June 2005, a twelve member Committee was established comprising regulators and Takaful practitioners of the OIC member countries. Recently the committee has identified and proposed action plans to address the gaps in the development of Takaful and Retakaful. The action plans have been divided in to the following eight main areas:

1. To provide customized support for establishing Takaful companies in targeted jurisdictions.
2. To foster development of sound legal, Regulatory and Shariah framework for Takaful companies throughout the world.
3. To provide development of existing Takaful markets and investment overseas.
4. To promote development of basic and full range of Takaful products to meet wider expectations of customers.
5. To promote human capital support by way of education, training and research in the field of Takaful operation.

6. To create awareness among the Muslim Ummah regarding benefits of Takaful in socio-economic development.
7. To increase capacity and support for Retakaful arrangements in OIC countries.
8. To optimize existing framework of dispute resolution, in respect of Shariah and technical aspects of Takaful Industry.

Role of Government.

Government is to play an active role in the Islamization of insurance in the country. Islamization may take place in two ways. The first way is to restructure the whole insurance sector on Islamic foundations and the second is to allow some Islamic insurance companies or some old firms to transform their business on Islamic lines keeping the existing set-up as it is. These two approaches require different strategies on the part of the government.

In the former case, the government may promulgate a regular detailed and codified law to reorganise the insurance industry in line with Shari'ah principles. This law should reflect the true spirit of mutual help and co-operation. Elements that make the present insurance practices un-Islamic (e.g., interest, gambling, gharar) should not be allowed in any circumstances. Some Islamic countries such as Malaysia, Bahrain and Sudan, have already enacted such laws which can be used as guiding examples.

However if the government opts for the latter approach, then it must make suitable changes in the existing Insurance Act to create a favourable environment for new companies to be established on Islamic principles. Moreover, the government must facilitate and encourage these companies by providing them incentives such as tax exemptions in the initial period of establishment. This may help the existing conventional insurance companies to restructure their business on Islamic lines. A time frame may also be decided by the government for complete transformation of conventional Insurance business into Islamic Insurance.

Another function the government should perform is reinsurance arrangement. Presently, insurance companies are having two kinds of re-insurance arrangement, (i) with the National Re-insurance Corporation, (ii) with foreign insurance companies. In both of these arrangements, the insurance company enters into a similar type of contract with the re-insurer, as one between an individual and the insurance company, including all un-Islamic elements of insurance. For extending re-insurance service to the Islamic insurance companies government may establish a Fund, and all Islamic insurance companies should contribute a proportion of their written premium to this Fund. This proportion may be different for different policies. The objective of this fund should be to help the insurance companies in paying the claims. A proportion of this fund may be invested in profitable ventures according to Islamic principles and profit can be shared between the fund and the insurance companies.

Need for cooperation between Takaful Operators and Islamic Banks

Banking and Insurance are the two fundamentals of modern trade and commerce. Banking provides safety to the depositors and plays a vital role in development by financing the surplus fund to the deficit groups. On the other hand, Insurance provides safety for the people as security against accident, calamities and pathetic

situation. Modern trade and commerce cannot be conceived without involvement of Banking and Insurance. But the conventional system of Banking and Insurance, which are based on and linked up with interest, cannot be adopted by the Muslims as a Shariah compatible system. But, trading and equity financing as well as the principle of compensation and group responsibility are widely accepted in Islam.

Further, there is an intrinsic and inherent relation between Islamic Bank and Islamic Insurance. It is a precondition for the success of Islamic Bank to cover its risk by a system accepted in Islam. This is possible by adopting the system of Islamic Insurance. On the other side, progress of Islamic Insurance depends on a healthy growth of Islamic Banking.

Due to inherent Shariah principles which are universal in character, the Islamic Banking and Takaful business would be more appealing in the coming years for both the Muslim and non-Muslim communities. There is a tremendous possibility for the growth of Islamic Banking and Islamic Insurance. But, there are still a lot of problems and hindrances to run the Islamic Bank and Islamic Insurance, some of which are as under:

1. Absence of appropriate legal framework for carrying out Islamic Banking and Insurance operations in most of the Islamic countries.
2. Shortage of trained manpower to conduct business complying with Shariah Rules.
3. Absence of Shariah based securities.
4. Shortage of support institutions.
5. Absence of good relationship among the Management, entrepreneur and the Controlling and Legislative Authority.
6. Lack of public awareness.
7. Ignorance of the mass people about Shariah principles and practices in business and commerce.
8. Pre-dominance of Secular Western Capitalistic Economic System.
9. Lack of support from Government.

Islamic Banks have already attained considerable success in the Banking sector. It is just the beginning of Takaful business and it is likely to flourish in the Insurance sector in the coming days. To attain the desired level by both the Islamic Bank and the Islamic Insurance, a strong relationship needs to be built up between the Islamic Bank and the Islamic Insurance throughout the world. The following actions may be taken jointly by the Islamic Banks and Islamic Insurance Companies for their mutual growth and expansion and to face the challenges :

1. Efforts should be made to change the legal framework for conducting banking and insurance operations according to Islamic Shariah.
2. Sufficient training and research institute having logistics of modern technology may be established to train up the manpower.
3. To create public awareness, seminar, symposium etc. both national and international level may be organised.
4. Islamic Money and Capital Market should be developed.
5. Central Shariah Council should be set up both for Islamic Banks and Islamic Insurances.
6. Like in Malaysia, both Islamic Banks and Islamic Insurance Companies should be regulated by the same Regulatory Authority.

7. Cordial and harmonious relationship between Islamic Banks and Islamic Insurance Companies should be developed.
8. Efforts should be made to establish more Islamic Insurance Companies and Islamic Banks.

Islamic Banking and Islamic Insurance system have tremendous potentiality and prospect. The successful launching and operation of Islamic banks and insurance has established the fact that banking and insurance without interest is feasible, viable, competitive and sustainable in the face of competition from the conventional interest based system. The gradual and successful globalisation of Islamic Banking and Islamic Insurance coupled with the growing awareness of the people about their financial and social benefits makes it clear that the current century is going to be the century of Islamic banking and insurance vis-a-vis complementation of Islamic ideals for the betterment of the people at large and establishing equity and justice for all.

By now Takaful like Islamic Banking has become a viable reality. Due to inherent Shariah principles which are universal in character, the Takaful business would be more appealing in the coming years for both the Muslim and non-Muslim communities.

It is no denying of the fact that Takaful (Islamic Insurance) has bright prospects and potentialities as a financially viable and competitive alternative insurance for the Muslim countries. Most of the Muslim countries having Islamic Banks have also helped to create takaful as a necessary complement to Islamic Banking because Islamic banking can not be fully Shariah based unless there are Takafuls to take their insurance business. Takaful like Islamic Banks has proved its viable reality and having its strides of expansion in almost all the Muslim countries. The Governments of these countries ought to have strategic policies to promote and foster the growth of Takaful.

Suggested measures.

Takaful or Islamic Insurance is only a subset of the global insurance industry of \$ 2.5 trillion, where the global Takaful business is approximately \$ 3 billion only. However, Takaful is the fastest growing area of the world insurance market. At present, Takaful is growing @ 20% to 25% per annum compared to world average growth of conventional insurance @ 5% to 6% per annum. The impetus to this growth would not have been there, if there were lack of demand, and if there were no prospects of potential rewards both for the customers and entrepreneurs of Islamic Insurance. The opportunities and potentials of Takaful are glaring indeed . What is needed is better awareness about the goodness of Takaful system. For this, the Takaful Industry needs to have strong marketing and technical expertise in both insurance matters and Shariah matters. It needs to highlight goodness of the Islamic financial System and its application within Takaful practices.

It is an excellent opportunity to expand the size of Takaful market by addressing the need of the customers who have preference for this product. In a market place, the attraction of Takaful business is not just because it is based on Islamic Shariah but because it is a better and a fair system. This aspect should be attractive to everyone, irrespective of any religious basis upon which the system stands initially. Considering these aspects, Takaful players in

the market should take appropriate measures on an urgent basis, in order that the opportunities are not missed for one or other reasons. Some of the suggested measures are mentioned below:

1. In view of the importance of customer awareness, a comprehensive customer education programme needs to be developed, which will promote product transparency, ensure accountability and the availability of avenues for customers to seek redress.
2. Towards promoting the sound Takaful Industry, the formation of national and international Takaful Associations aimed at providing a common platform for the Takaful operators to address the issues and interests of the Takaful industry is an urgent necessity.
3. The challenge confronting the Takaful industry in the pursuit towards intensifying market penetration to further entrench its development underscores the importance of enhancing the productivity and efficiency of distribution capabilities to better complement and support sound business expansion. The Takaful operators need to strengthen the necessary institutional capabilities via investment in information and communication technology.
4. In the rapidly evolving financial environment, the Takaful industry needs to have the ability to shift to new areas of comparative advantage in response to changing conditions and thereby swiftly capitalize on the new changing opportunities. Embracing smart collaboration or strategic alliance with Islamic Banks and financial institutions and building stronger customer allegiance and retention would reinforce the efforts to achieve this objective.
5. Policy initiatives of the Regulatory Authority ought to be essentially devoted towards enhancing the effectiveness of the internal control structure within the Takaful Operators, specifically in the areas of corporate governance and risk management practices. The Regulatory Authority should also take measures to improve the operational efficiencies of the Takaful operators to enhance the potential performance of the industry.

Although the Takaful industry continues to demonstrate resilience and robust performance, in the recent years competitive elements confronting the industry arising from market liberalization, technological advancement and greater customer expectations are the catalysts towards further development of innovative products, effective services and improved efficiencies in operational process.

The effective use of distribution channels, dynamic investment strategy and increased public awareness on Takaful will definitely provide an impetus for further growth of the Takaful industry. The endeavour to develop the Takaful industry that is competitive, dynamic and more resilient will be the result of the combined commitment and collaborative effort of the regulators, industry and market partners, i.e., Islamic Banks and non-banking financial institutions. The aim shall be to create progressive world class Takaful Operators for promoting the development of Shariah based, just, and fare financial system for the Ummah.

Concluding Remarks

A dramatic rise in the demand for Takaful Insurance is being predicted by market observers, as the population of Islamic countries becomes financially more sophisticated and more determined to invest in Shariah compliant products. Moreover, due to the ethical nature of the products, Takaful ought to be attractive to both Muslims and non-Muslims. It is obvious that

the potential demand for Takaful products is very large and the Takaful Industry is now poised for a Global take-off.

The Global Takaful Industry is small in comparison to the Conventional Insurance counterpart. Therefore, the market needs to gain worldwide brand recognition and exceed performance standard set by the Conventional Insurance Industry. It is nice to note that takaful operators are increasingly starting to realize that the ethical guidelines and transparency of their products are creating appeal to both the Muslims and more importantly the larger non-Muslims communities.

The Takaful Industry is fast evolving and entering a stable development phase. However, only a few National Regulators have enacted a Takaful framework for the industry. Malaysia and Bahrain are leading examples of having progressive Takaful Regulation. Recently, Saudi Arabia and Pakistan have also established Regulatory Framework for Takaful business. It is heartening to note that the Govt. of Bangladesh is actively considering to enact a separate Takaful Act. This will certainly help the growth of the nascent Takaful Industry of the country.

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