

"Feasibility Study of Islamic Insurance (Takaful) in India: Challenges & Prospects"

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ABSTRACT

1.1 Introduction:
Takaful is an emerging and dynamic concept which has brought new dimension in the insurance industry. In today's world of globalization one need to watch as to how rapidly Takaful concept grows among the strong traditional (Conventional) insurance.

After the success of Islamic banking, the Islamic insurance has also seen a ray of hope of success in India. As the Reserve Bank of India is exploring the opportunities for Islamic banking for Indian banks, similarly Life Insurance Cooperation of India (LIC) is setting a stage for driving Islamic Insurance in India.

Statistics show that currently there is a growth of 22% per year in Takaful Insurance compared to conventional insurance industry. Conventional insurance is currently facing market crises such as disbelief among the public on them, lack of confidence etc. Thus in this scenario, if the public have an option to move to other model of insurance which benefits, we need to see to what extent it can reach. India is a vast democratic country having a blend of various religions. Muslims ranks number second after the Hinduism as per the census records.

Ithmaar Banking Group and Islamic Banking and Finance Institute Malaysia (IBFIM), Global

Islamic Finance Forum predicts that by 2015 the expected potential is $7.4 up to $14 billion, with a growth of 15% to 20% per annum. (Takaful-the emerging concept; Wipro)

This paper focuses on the feasibility study of Islamic Insurance (Takaful) in, South Canara district, India. Currently 34% of Muslim population resides here and thus has become convenient to study about the feasibility factor. The respondents have been chosen from Muslim and Non-Muslim population.

1.2 About Takaful Insurance:
1.2 (a) The Shariah:
In Islamic law Shariah governs all aspects of a person's religious and personal practices in day to day life. The roots of Shariah connect to the holy book – The Quran and the Sunnah. These Holy books have been compiled more than 1,000 years ago. Any new developments in today's world like banking, credit cards, insurance etc. are dealt under Shariah. Any unanimous consent under Shariah gives rise to Fatwa, meaning religious ruling

1.2(b) Takaful:
The word Takaful in Arabic means "guaranteeing each other" or "joint guarantee". The main crux of Takaful insurance is the Tabarru (donation; contribution; gift) system i.e. making it free from gambling and uncertainty. The Muslim jurists are of the opinion that in Islam, insurance should be transacted on the principle s of cooperation and mutuality. People seeking protection under this scheme must be open enough with the intention to donate to the people in difficulty. Thus, under Takaful each participant contributes sufficient amount to cover the expected claims that may arise. Thus, this is based on the principle "pay a defined loss from a defined fund".

There are various principles of Takaful insurance which are mentioned as under:

➤ Under this system, every policyholder pays the subscription to help the people in needy.
➤ They come together for a common purpose i.e. cooperates among themselves for their collective good.
➤ This system does not derive advantage at the cost of others, meaning liabilities are spread and losses are divided according to the community pooling system that is prevailing.
➤ Lastly, uncertainty is eliminated in respect of compensation and subscription.
Thus, Takaful is based on the concept of cooperative insurance where it abides by the principle of “bear one another’s burden”.

**1.3 How General Takaful Works:**

Takaful refers to the Islamic concept where one contributes some amount to a Takaful fund in the form of participative contribution (Tabarru'). One enters into a contract (Aqad) to become one of the participants by agreeing to mutually help each other, if any of the participants suffer any form of misfortune, like death, permanent disability, loss, damage or any other such misfortunes as mentioned under the Takaful one personally undertake. Under Takaful the Contributions collected from the policyholders are considered as donations and they form the Takaful fund from which all claims are reimbursed.

At the end of each financial year, after deduction of expenses, any remaining cash surplus will not be retained by the company or its shareholders, but returned to the policyholders in the form of cash dividends or distributions. In this respect, Takaful business is different from the conventional insurance in which the policyholders, rather than the shareholders, solely benefit from the profits generated from the Takaful and Investment assets.

The Investment assets representing the Takaful fund that accumulate over the retained reserves, surpluses and provisions are invested by the shareholders who manage the company on behalf of the policyholders. The shareholders are rewarded with a percentage of the profit on these investments.

**Takaful Operational/ Contracts Models:**

There are several concepts that govern the relationship between the Takaful Operator and the participants. The most commonly used model is the Mudharabha and Wakalah Model under Shariah or combination thereof.

**Basic Concept of Mudharabha:**

This model is based on the principle of profit-sharing. Under this model, the contract is such as one partner provides his work (Takaful operator provides expertise and management of Takaful fund) and the other partner (participants) provides his capital, thus sharing profits of the joint-venture in pre-defined ratio. This model is also sometimes called as “profit-sharing Islamic contract”. This model is very much like Conventional Insurance [with ~profits or participating business].

This model differs with conventional insurance on the line that profit sharing is applied to only investment portion [which is accepted under Shariah], and also this model charges operating expenses directly from the Takaful Fund and not from participants funds.
Drawbacks of this model:
- The major drawback of this model is that it might not be commercially possible as enough income may not be generated under investment portion for Takaful Operator.
- As operating expenses are charged directly from the Takaful fund [underwriting result is the net of Tabarru, claims operating expenses, etc.], it should be laid out to the participants in a transparent manner.

Pure Wakalah Model:
This model is also called as "Agency Model". Under this model, the Takaful operator acts as the agent who administers the fund’s on behalf of the participants. In return the Takaful Operator receives a pre-agreed administration fee [Wakalah] to cover operating expense. But he does not share the investment profits or share in underwriting. Thus, in short this model says that, an agent is authorized to act on behalf of principal and carry out a predefined business for a fee [fee may be pre-determined or turnover on percentage]. Thus, this model is also known as "fee driven Islamic contract".

Wakahal Mudharabha Model:
This is a combination of Wakalah and Mudharabha models, where the concept of Wakalah is applied to underwriting and Mudharabha is applied to investment profits. Under this model, the operator charges a Wakalah fee from the Takaful contribution and all underwriting profits are distributed to the participants. The investment profits are shared between operator and participants based on pre-agreed ratio.

Conventional Insurance:
1.4 How Traditional insurance works?
Insurance is a contract between the insurance company, whom is known as Insurer and the policyholder, also called as Insured. The contract is in return for a consideration (the premium). The insurance company promises to pay a specified amount to the insured on the happening of a specific event (death of policyholder or maturity of the policy). Here the basic principle is transfer of risk from one to
other. The policyholder is also entitled to the bonus if he pays the entire premium, throughout the risk coverage term. But in case, if the policyholder defaults the payment, then the company is not under the obligation to pay the full Sum Assured. Same principle applies if the policyholder suppresses any material facts with the insurance company.

**Difference between Takaful and Conventional Insurance**

<table>
<thead>
<tr>
<th>Takaful</th>
<th>Conventional</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Takaful Insurance is based on the concept of Mutuality. The Takaful Operator acts as only a manager of the pool</td>
<td>1. Under Traditional Insurance, the concept is of Risk Transfer. The policyholder transfers risk to the Insurance Company by paying premium as consideration</td>
</tr>
<tr>
<td>2. Here, contributions are made for a good cause like mitigating the loss suffered by the participating party, thus bringing down the element of uncertainty i.e. Gharrar to an acceptable levels.</td>
<td>2. Traditional Insurance is based on the principle of uncertainty. One does not know as to when any loss will occur and what’s the compensation payable to the policyholder.</td>
</tr>
<tr>
<td>3. Under Takaful Insurance, the contribution paid by the participant is for a good cause and on the basis of purity.</td>
<td>3. Traditional Insurance is as gambling. If the insured event takes place, the insured will gain as he gets much than what is has paid to the company in form of premium. On the other hand, if the insured event does not take place, the insured is at a gain as he need not shell out anything to the insured and retain the premium with him.</td>
</tr>
<tr>
<td>4. Investments are done only in non-interest bearing i.e. riba-free funds instruments.</td>
<td>4. Under Conventional Insurance, investments are done in fixed interest bearing instruments like bonds etc. Hence, these come under Usury, Islam forbids it.</td>
</tr>
<tr>
<td>5. At the end of the accounting period the surplus which is generated is returned to them in proportion to shares of contributions made by them.</td>
<td>5. Under this, the insured is covered under the policy for a specific period and are not entitled to the profits of the Company. Only the share - holders are entitled to the profits.</td>
</tr>
</tbody>
</table>

**Acceptance of Takaful Model:**
Takaful operating models impacts product design, marketing, pricing and regional acceptance. Thus, the most common model which can be adopted is combination of Wakalah and Mudharabah model.

- After analyzing the Indian scenario, the Mudharabah model might be more attractive. The profits are shared among the policyholder. But the drawback is that this might not be acceptable worldwide.
- The Wakalah model on the other hand is widely accepted, but it has limited potential as the only source of income is Wakalah fee. This model may face a set back with respect to charging high wakalah fee which might not attract the participants.
- Taking the above two models into consideration, the combination of Wakalah and Mudharabah model suits the best where invest income usually makes the bulk of the profits and also widely accepted by Shariah scholars.

**1.5 Challenges in Rapid Growth:**
- Firstly, there is a lengthy process to start up a new company complying with all the legal aspects of insurance.
- Also, Shariah requirements are not uniform across jurisdictions, thus creating difficulty to come out with a uniform product globally.
- Conventional players are already performing well and on a large scale which can pose a real challenge for Takaful Insurance to make its stand in insurance market.
- Challenge for Takaful players to convince the customers at par with Traditional Insurance products.
- Educating the people on the benefits of Takaful insurance may consume time and also reaching them (lower end population) is a challenge.
- Tapping only local markets is not enough. It has to reach internationally for wide acceptability.
- New entrants will be hesitant to enter the Takaful market due to risk of investment, Insurance trends, IRDA rules etc.
- The current insurance market is unpredictable and hence the company must be in a position to invest more to develop innovative products.
- New software to be designed that will suit Takaful products which is again a cost factor.

The final challenge is that Takaful insurance concept can be developed for a limited type of risk, like personal risk. But in some complicated and commercial risks, it becomes really difficult to implement a product on mutual consent.

**1.6 Objectives:**
1. To study the untapped market for Takaful insurance
2. To evaluate response and awareness of Takaful insurance among Muslim communities

**1.7 Research Methodology:**
The study is descriptive in nature and using convenience sampling will be adopted. The study will be conducted in and around South Canara with respect to Muslim and Non-Muslim communities. The information will be collected from primary and secondary data. The primary data is collected using 148 respondents will be selected and well structured, pre-tested questionnaire will be used to collect information from the respondents. The secondary data will be collected from various sources like book, article and journals.

**1.8 Limitations:**
- Personal bias and non-cooperation may have affected the quality of study this study suffered a number of
limitations. First, survey limitation can be attributed to the study since research
This study will not consider opinion from other parts of the country due to economic constraints hence it is a representative study.

1.9 Data Analysis and Interpretations:
1. Chart representing the age of the respondents:

The number of respondents belonging to Muslim Community is 93%, followed by Non-Muslims which comes to 55%.

**Interpretation:** The Muslim population under this survey is more as this paper intends to find the awareness and feasibility of Takaful Insurance to begin its operations. Muslim population at a very young age is educated in Islam and is well aware of Sharia laws. This will help to exactly understand as are they aware of the Takaful concept?, and if yes would they prefer it having it in India.

Secondly, the Non-Muslim population has also been taken into account for the survey to study the awareness about the Takaful concept and also about Conventional Insurance plans. Under this category, many respondents were not aware as to what Takaful means and could not provide us with precise response. But this set of sample helped us to study about the conventional insurance and their awareness about such products.

2. Chart representing religion of the respondents:

<table>
<thead>
<tr>
<th>Religion</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Muslim</td>
<td>93</td>
<td>62.84%</td>
</tr>
<tr>
<td>Non-Muslim</td>
<td>55</td>
<td>37.16%</td>
</tr>
<tr>
<td>Total</td>
<td>148</td>
<td>100%</td>
</tr>
</tbody>
</table>

Majority of the respondents in the age of 31-40 years, which is followed by the age-group of 20-30 years respectively.

**Interpretation:** The respondents are more in the age group of 31-40 years which helps us to understand our research precisely. The respondents in this category are more vibrant with respect to investments and savings, thus having a wide knowledge about the products available in the market. The age group between 41-50 years amounts to 13.51% which stands at third place. These respondents have helped us to understand the pro and cons of investments in different saving instruments as per their experience.

3. Chart representing the respondents belonging to various sectors:

- Government Employee
- Housewife
- Private Sector
- Retired
- Self-employed
The majority of the respondents are working in Private sector (48.65%), followed by Self-employed (21.62%), Housewife's, Government employees and Retired people.

**Interpretation:** As we can see, the majority of the respondents belong to private sector followed by self-employed. As there are limited options for Government jobs, the respondents under this category are less. Under this survey, Housewives have also contributed significantly as they also play a vital role in deciding for the investments and other decision activities.

4. Chart representing buying of insurance product by the respondents:

Do you buy Insurance Product

<table>
<thead>
<tr>
<th>Buying Insurance</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>123</td>
<td>83.11%</td>
</tr>
<tr>
<td>No</td>
<td>25</td>
<td>16.89%</td>
</tr>
<tr>
<td>Total</td>
<td>148</td>
<td>100%</td>
</tr>
</tbody>
</table>

When asked as to are they buy Insurance (other than Motor Insurance)?, 83% of the respondents said Yes. This is a good indicator that people are aware about the need of insurance and are ready to go for it.

**Interpretation:** This is a significant finding that 83% of the respondents have said that they invest in Insurance schemes. This is a good indicator that the Indian population has realised the importance of insuring themselves to cope up with unexpected contingencies. Also, it has helped us to understand as to whether they are aware as to the new concept of Takaful and if yes, do they know any difference between Conventional Plana and Takaful concept.

5. Chart representing the awareness status of the respondents with respect to the concept of Takaful Insurance:

Are you aware about Takaful Insurance Concept?

<table>
<thead>
<tr>
<th>Awareness about concept of Takaful Insurance</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>84</td>
<td>56.76%</td>
</tr>
<tr>
<td>No</td>
<td>64</td>
<td>43.76%</td>
</tr>
<tr>
<td>Total</td>
<td>148</td>
<td>100%</td>
</tr>
</tbody>
</table>

When asked as to are they aware about the concept of Takaful which prevails in Sharia law, 56% of the respondents said that they are aware about the concept.

**Interpretation:** Most of the Muslim population are aware about Takaful and other related concepts of Islam. This is due to the education given to them about Islam at a very young age. The remaining 43% of the respondents said that they are not aware as to what this concept is. Thus, this implies that, if Takaful Insurance is introduced in India, the entrant has to stress more on creating the awareness level at the root-end level and also it might take a lot time to flourish in competition with the conventional insurance products.

6. Respondents awareness about difference between Takaful and Conventional Insurance:

Do you know any differences between Takaful and Conventional Insurance?

<table>
<thead>
<tr>
<th>Are you aware about the differences between Takaful and Conventional Insurance?</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
When asked as to are they aware about any difference between Takaful and Conventional Insurance, 47% of the respondents said Yes and 52.7% responses were No.

**Interpretation:** In India, the Insurance sector gained its momentum only from the year 2001. The awareness about investing in Insurance products was carried on by many Multi-national companies that entered India after 2001. Hence, result was, increase in sale of Insurance products and also reaching customers at root-end level. Today people are aware as to for what and why insurance should be bought. Thus, conventional insurance has deepened its roots in the market.

But when asked about Takaful Insurance, a portion of the respondents were not aware about the concept. Also, if they had idea about Takaful, they were not aware about the difference between Takaful and Conventional plans and vice-versa. Only 43% of the respondents had some idea as to the difference between the two. This clearly indicates that Takaful concept awareness among the people is not so great and hence lot of effort is required in educating the people to convenience about this concept at par with conventional insurance.

### 7. Chart depicting Respondents preference of buying Takaful Insurance in place of Conventional Insurance plans:

**Do you feel that takaful insurance is feasible in India?**

<table>
<thead>
<tr>
<th>Feasibility</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>82</td>
<td>55.4%</td>
</tr>
<tr>
<td>No</td>
<td>43</td>
<td>29.1%</td>
</tr>
<tr>
<td>Not Sure</td>
<td>23</td>
<td>15.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>148</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

As per the table, we can see that 55% of the respondents feel that Takaful insurance can be feasible in India if introduced. Remaining 29% and 15% of the respondents are of the opinion that Takaful will not work out or are not sure about it.

**Interpretation:** It can be said that Takaful resembles cooperative insurance in which insured contributes certain amount to a common pool. Also it resembles the operation of Chit funds that operate in some parts of South India. Here each participant pays his subscription to assist the needy.

Here, what we have to understand is that the purpose of Takaful is not to profit, but to support each other's burden in case of untoward event. Under Takaful losses are divided and
the liabilities are spread across the community pooling system.
Looking at the above factors, 55% of the respondents feel that Takaful Insurance can make a big difference in the insurance sector if introduced in India. The other respondents have a feeling that it is a community based concept and hence are reluctant about it or are not sure about it. Thus, majority of Muslim population have a positive note on Takaful insurance and its feasibility factor in India.

Findings of the Survey:
The following are the findings of the research and after analyzing the information provided by the respondents the following information were found:
➢ Respondents are aware about Insurance and its uses. Nearly 83% of the respondents buy insurance products and this is a good indicator.
➢ Also this study depicts that 56% of the respondents are aware about the concept of Takaful. Some of the responses were as under:
i. Takaful works on Islamic principle and hence there is no ‘Riba’.
ii. Takaful is in compliance with Shariah (Shariah complaint) and thus the burden is shared among the Takaful members.
iii. It’s the concept of pooling of risk to assist the needy.
iv. Takaful acts as alternative to conventional insurance which is free from interest (Riba), Non-profit insurance.
➢ 47% of the respondents are aware about the major difference between Takaful insurance where as 56% of the respondents are not aware. The main reason for not understanding the concept of Takaful is because they are not educated or exposed to this.
➢ If option provided, 54% of the respondents are ready to go for Takaful Insurance in place of Conventional Insurance plans.
➢ 54% of the respondents are of the opinion that Takaful insurance is feasible in India.

Recommendations:
➢ It is recommended that awareness should be created among the people with respect to Takaful Insurance at the root-end level.
➢ Clear difference between Conventional and Takaful Insurance should be made known.
➢ IRDA should look into introduction of this concept by inviting Takaful Insurance players working successfully in Malaysia, Singapore or other Islamic countries.
➢ Pilot projects can be carried out to look into feasibility factor in India by existing Conventional insurance companies under the guidance of IRDA.

Conclusion:
From the study, it is seen, that people are aware at least about the Takaful concept in brief. As 62% of our respondents belong to Muslim population, they are aware about the feasibility factor in in India. Also 55% of the respondents feel that this concept can be adopted.
No doubt that Takaful insurance market is at a premature stage, efforts can be made to address the challenges and educate the people on this concept. As Conventional insurance is very popular among the people, due to its current melt-down stage, introduction of Takaful insurance can be a stepping stone for its wide response and popularity in years to come.

References:
Takaful- the emerging concept....Wipro
International Journal of business and social science – volume 3 No 22

Questionnaire:
Section 1: Personal information
1. Age group:
a. 20-30 years
b. 31-40 years
c. 41-50 years
d. 51 years and above

2. Sex:
a. Female b. Male

3. Nationality: ...............................................

4. Religion (Optional):
a. Muslim b. Non-Muslim

5. Marital Status:
a. Single
b. Married
c. Divorce

6. Education:
a. Undergraduate
b. Graduate
c. Postgraduate
d. Others: Please specify.............................
7. Current Job:
   a. Governmental Employee
   b. Private Sector
   c. Retired
   d. Self Employed
   e. House wife
   f. Others: Please specify.............................

8. Average Income per month:
   a. Less than Rs.10000
   b. From Rs.10000 to Rs.25000
   c. From Rs.25000 to Rs.50000
   d. Above Rs.50000
   e. No Income

**Section II: About Takaful Concept:**

9. Do you buy any Insurance product (Excluding Motor Insurance)
   a. Yes                        b. No

10. Are you aware about Takaful Insurance Concept?
    a. Yes                       b. No

11. Do you know any differences between Takaful and Conventional Insurance?
    a. Yes                       b. No

12. Would you prefer Takaful Insurance in place of Conventional Insurance Plans?
    a. Yes                       b. No                   c. Not sure

13. Do you feel that Takaful insurance is feasible in India?
    a. Yes                       b. No                   c. Not sure