

TAKAFUL and TA'AWUN

TWO FACES OF THE SAME COIN

By Joseph Zakhour*

Non-Arab participants at the AIO Conference which is to be held in the Republic of Sudan, would certainly be interested to know that Sudan was the first Arab country who introduced Islamic Insurance, some three decades ago, under the name "Cooperative Insurance" (in Arabic Ta'awun). Translated in English "Ta'awun" means Cooperation.

However, Scholars in Malaysia have at a later date suggested that "Takaful" (which translated in English means "solidarity") would be more appropriate to describe the Islamic way of writing insurance contracts. Hence the word "takaful" proliferated across most Arab and Islamic Countries.

In year 2003 Kingdom of Saudi Arabia promulgated its first insurance law, whereby the kingdom authorized the formation of "Ta'awuniya insurance companies" meaning "Cooperative Insurance Companies". In so doing the country where Islam was born, favored the word "Ta'awun" (Cooperation) over "Takaful" (solidarity) as an ID for Islamic insurance. Hence all Saudi Arabia insurance companies now identify themselves as "cooperative insurance companies" which is the case in Sudan as well. But Insurers in South east Asia and the Gulf, and also in UK lean towards the word "Takaful" for no specific reason other than probably, that "Takaful" is easier to pronounce. As such when compiling Islamic insurance premiums in the world both "Takaful" and "Ta'awun" premiums are combined in the same basket, and deemed to be "Islamic insurance" written premiums.

Based on a report recently published by Ernst and Young, UAE, Islamic Insurance premiums written in 2010 amounted to some US\$8.5 billion whereas another compilation published by Dubai based Takaful Re would indicate that the Islamic premiums reached US\$ 13.5 billion in 2010. As opposed to this

conventional world premium compiled by Swiss Re's Sigma, exceeded US\$ 4.3 trillion

The truth is that Islamic Insurance is a young enterprise compared to "conventional" insurance, which began some four centuries ago, and as such are not comparable..

Non-Arab insurers would on the other hand be intrigued by the difference between Islamic insurance on the one hand and Conventional insurance on the other. The difference may be summed up as follows:

By virtue of the Takaful or Ta'awun insurance contract "takaful" Insurers and Reinsurers are bound to share their underwriting profit and/or loss with the "Subscribers" meaning the "Insureds". When a profit is made a dividend is distributed among policyholders. But when a loss is reported, Insurers and Reinsurers are held to grant the policyholders, an interest-free loan, and which they would recover from the policyholders when underwriting returns back to profitability and the policyholders account is back in green

Conventional insurers do not of course operate that way, or agree to make the insurance contract subject to such provisions, even though conventional insurer may consent to share underwriting profit generated by a particular insurance contract.

As for "Micro Takaful" or "Micro Insurance", they are deemed a by-product or a derivative of the "Micro Credit" which was designed and offered by Banker Mohamed Younis to his compatriots in the rural areas of Bangladesh, and which proved to be most effective turning poor and unemployed women and men into productive forces. Mohammad Younis' Micro credits ranged between \$ 500 to \$ 1000 and made it possible for the borrowers to acquire such small "assets" as a sewing machine or a pair of goats or sheep or buffalos to stop being idle, engage in productive work and earn their living.

As years went by, business of the borrowers grew up creating new jobs in and around rural Bangladesh. The outturn of the Micro Credit received the admiration of the whole world and was crowned with Mohamed Younis earning Nobel Prize back in 2006

The population of the vast rural regions of Africa would certainly need both Micro Credits, to get equipped, and Micro insurance or Micro Takaful to cover any other meager assets they may be able to acquire with such a loan and get productive.

Hopefully the AIO conference will find ways and means for Insurers to reach out to that population, especially housewives, farmers, and crafts men and women, and provide them with insurance contracts that will protect their little assets bearing in mind that the premium chargeable may hardly be economically feasible, in view of the minimal exposure involved..

Will any insurer be willing to get involved in such a long term investment? Will any insurer or reinsurer have the motivation, patience and courage that Mohammad Younis had when he launched his initiative, and which eventually made wonders ?

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