

SHARIAH SCHOLARS' VIEWPOINT ON THE PRACTICE OF UNDERWRITING AND RISK RATING FOR INDIVIDUAL PARTICIPANTS IN FAMILY TAKAFUL

ABSTRACT

The practice of underwriting and risk rating for individual participants in family *takaful* stems from the underwriting practice in life insurance, and thus could contain elements which contravene the essence of the *shariah*. A review of literature on *takaful* indicates that there are very few materials which look at the underwriting practice from a *shariah* perspective. The aim of this study was to find out the *shariah* viewpoint on the underwriting and risk rating practice for individual participants in family *takaful*. More specifically, it sought to gather the opinions of *shariah* scholars on the factors being used in the process of selection and classification of risks for individual participants to a family *takaful* pool. This study also explored the level of exposure and knowledge that *shariah* experts on *takaful* have pertaining to the underwriting practice. The study sample consisted of five purposefully selected *shariah* experts on *takaful*. The research method used was based on the Delphi technique and included two rounds of semi-structured face to face interviews with each participant. This study found that most of the *shariah* scholars interviewed did not seem to have a deep exposure to the underwriting and risk rating practice in family *takaful*. They however declared that underwriting and risk rating is permissible, although they had some concerns regarding some of the factors used in the underwriting process. The findings of this study will be of interest to the *shariah* scholars, *takaful* operators, regulatory bodies, academicians, and other stakeholders.

INTRODUCTION

In conventional insurance, underwriting represents the initial phase in the process of insurance premium determination. The process involve a series of assessment and examination among other to determine individuals' risk rating and their subsequent risk class or policy group determination as well as policy content. The process also is part of the steps to determine the insurance premium.

The *takaful* operator has similar underwriting and risk rating practices as the insurance company (Frenz & Soualhi, 2010). It is here pertinent to observe that if the *takaful* operators have similar underwriting practices to insurance companies; it can be assumed that any issue being faced by the insurance company as regards to its underwriting process is likely to be faced by the *takaful* operator as well. It so happens that there are concerns regarding the underwriting practices of insurance companies. Palmer (2007) states that there are claims that the underwriting process gives rise to situations of unfairness and that there could be moral and fairness issues with the use of factors such as age, family history, gender and others, in the selection and classification of risks. He quotes various studies which have been done on the insurance side looking into these issues. However, these concerns have barely been raised on the *takaful* side. Daud (2009) seems to express concerns regarding the rigorous underwriting practices as adopted by *takaful* operators. **According to her, the tests to examine the health status is not in line with the spirit of ta'awun or mutual cooperation.**

She is one of the rare persons from the *takaful* industry who dared to express concerns about the underwriting practice not conforming to the spirit of mutual cooperation that *takaful* was meant to embody. Since the underwriting practice of *takaful* was adopted from that of insurance, the same questions of unfairness raised within the insurance industry are likely to be raised within the *takaful* industry. This issue might be more concerned in *takaful* industry because *takaful* is expected to embody the high ideals of Islamic fairness and justice. This should have warranted the attention of *shariah* scholars. However, much of the research in *takaful* have focused on other issues facing the industry namely, the nature of the *takaful* contract, the sharing of surplus, the operational models, insurable interests and ownership issues among others. It is thus important to conduct a study looking into the underwriting practice of *takaful* operators and find out the *shariah* viewpoint on the risk rating process and the factors used in the selection and classification of risks. Thus, this study seeks to explore the *shariah* scholars' viewpoint on the practice of underwriting and risk rating for individual participants in family *takaful*. The purpose is to gauge the level of understanding and

exposure that *shariah* scholars have pertaining to the underwriting and risk rating practices in family *takaful* and to get their opinions on the underwriting process and the factors which underwriters use to select and assign risk ratings to participants.

To state the research problem, it is argued here that since the practice of underwriting and risk rating for individual participants in family *takaful* stems from the underwriting practice in life insurance, thus it could contain elements which contravene the essence of the *shariah*. This should have warranted the attention of *shariah* scholars. However, **to the extent of the our knowledge, there is no study has been done on it.** It is thus pertinent to explore the exposure of *shariah* scholars to the underwriting process and gather their opinions on the permissibility of the use of factors such as age, medical history, gender, occupation and others, in the selection and classification of risks for individual participants in family *takaful* underwriting. The purpose of this research was to find out the *shariah* viewpoint on the practice of underwriting and risk rating for individual participants in family *takaful*. More specifically, it sought to gather the opinions of *shariah* scholars on the factors being used in the process of selection and risk rating for individual participants to a family *takaful* pool. It was anticipated that a better understanding of the *shariah* viewpoint on the underwriting process would dispel any doubt which might arise there from and would provide a framework for *takaful* operators to conduct their underwriting process in line with the essence of the *shariah*. To investigate the above stated problem empirically, the following research questions are formulated next.

- 1) To what extent are *shariah* experts advising the *takaful* industry exposed to and knowledgeable about the underwriting and risk rating process in family *takaful*?
- 2) What issues have these *shariah* experts come across as regards to the underwriting and risk rating process for individual participants in family *takaful*?
- 3) What is the *shariah* viewpoint on factors which underwriters use in the selection and classification of risks for individual participants in family *takaful*?

The above research question would facilitate the achievement of the following research objectives;

- 1) To determine the level of understanding and exposure of *shariah* experts advising the *takaful* industry with regards to the underwriting and risk rating process in family *takaful*.
- 2) To find out about potential issues which these *shariah* experts might have come across pertaining to the underwriting and risk rating process for individual participants in family *takaful*.

- 3) To gather the opinions of *shariah* experts on factors which underwriters use in the selection and classification of risks for individual participants in family *takaful*.

The rest of this paper is organized as follows: the next section provides reviews on related past literature regarding insurance and *takaful* underwriting and highlights issues of concern on the current practice in the industry. The following section is on research methodology and discusses the sampling, the research approach, and the rationales of the approach as well as the techniques chosen to gather information. Finally, the last section presents the analysis results, interprets the findings and conclusions.

LITERATURE REVIEW

Underwriting is the process an insurer uses to determine if and on what basis it will accept applicants (Teale, 2008; Mehr & Gustavson, 1987). It basically involves the selection and classification of insured into groups or classes. According to Mehr and Gustavson, risk classification and underwriting help insurance companies place applicants into groups or classes. Each class consists of individuals who pose the same or comparable levels of risk. All members of a class pay the same premium. In this way, insurers assure that premiums are appropriate to risks and that all those with the same level of risk pay the same premiums (Treischmann, Hoyt, & Sommer, 2005). Indeed, life expectancy varies by age, gender, medical and family histories, occupation and lifestyle. Applicants for life insurance have different medical histories and risk factors for future disease that affect life expectancy. Treischmann et al. (2005) state that the purpose of any risk-selection or underwriting process is to place applicants into distinct groups that have similar expectations of life or risk of death at any time interval. They further mention that each group is charged a premium sufficient to cover costs associated with its expected rate of death. Insured in each group have the same expectation of life (risk of death), pay equally, and are self-supporting (Teale). He further states that no group or person unfairly subsidizes any other group.

The underwriting element is of utmost importance to the insurer. To fulfil its promise to pay future claims, an insurer must remain financially viable. An insurer's financial viability depends on administrative efficiency, sound investment strategy, continued marketplace competitiveness, and premiums corresponding to the claims that can be expected from the insurer's policyholders. It is indeed in this regard that the business of insurance is dependent upon accurate risk classification and differentiation, founded on the idea that the premiums should be more or less in proportion to the estimated risk level of policy holders. If an

insurer did not apply rigid underwriting standards but instead insured all applicants at standard rates, applicants who might be rated up or rejected by other insurers may join the insurer with less rigid underwriting process (Dorfman, 2005). This is what is known as adverse selection ((Dorfman, 2005; Harrington & Niehaus, 2004; Mehr & Gustavson, 1987). This will basically lead to higher loss expectancy for the insurer and will result in higher premiums being charged to compensate for the higher loss expectancy. Hence, this will in turn lead to fewer participants joining the insurer for insurance cover and the insurance might run out of business.

An underwriter who violates sound underwriting principles loses in both directions. An underwriter who underpriced the real risk (does not properly recognize a risk and accepts it in the standard or better class) will have assumed excess deaths that will show as financial liabilities. An underwriter who overprices risk will lose business to competitors who are more accurate. According to Teale (2008), insurers have suffered financial difficulty because of overly aggressive or incompetent underwriting.

Heath (2007) states that those coming from an economics background strongly defend the practice of underwriting as being the most equitable or just arrangement in coming up with an actuarially fair premium. He further mentions that, on the other side of the spectrum are those approaching the debate from a philosophical or civil rights law perspective and who decry the unfairness within the underwriting practice. Palmer (2007) who approaches the issue from an ethical and philosophical perspective puts forward that the determination of the premium and availability of insurance for an individual is made in relation to one's inclusion in certain statistical groups and this by itself gives rise to a fairness issue. This is the most damning criticism against current risk rating practices and this is what Maitzen (1991) terms as statistical discrimination. His argument is that the statistical correlations and actuarial tables which underwriters use in the selection of participants and classification of risks are imperfect in the way they classify risks into classes. Palmer states that there is truth in the claim that there will be individuals who will be assigned into classes which do not truly reflect the risks they bring in and this in itself is unfair. Maitzen notes that unfairness is bound to happen when statistics is involved since the statistical models being used must rely on correlations that do not necessarily indicate causation. Similarly, Brockett and Tankersley (1997) mentioned that the link between certain genetic factors and specific diseases is overestimated. They state that there is correlation but it is not a perfect correlation and does not show causality.

As regards the second major argument against the current underwriting and risk rating practice, Heath states that it is based on the

“moral intuition that it is unfair to penalize individuals for circumstances that are outside of their control or for things that are not their fault”, p139.

According to this argument, it is fair to assign a higher risk rating to an individual with a poor driving habit, but it is not morally right to charge a young man with higher premiums just because most young men on average have bad driving habits. Similarly, proponents of this argument claim that one cannot assign a higher rating based on gender since one does not choose one's own gender and this is clearly beyond our control. Another argument put forward against the current underwriting practice is that high risk individuals are denied the benefits of insurance and that this practice is unfair since it is wrong to deny a social good to members of the society. An example of this practice is regarding the case of applicants who are rejected based on the occupation they hold. Palmer state that some insurance companies do not provide cover for certain occupations like firemen or divers. He further notes that insurance is a social benefit and it is unfair to exclude people based on their occupation. Having surveyed the arguments against underwriting and risk rating, Heath states that the critics fail to appreciate the importance of underwriting and the consequences that would arise if the risk rating principle were to be rejected. He says that one has to look at the whole picture and that in the aggregate, the underwriting practice promotes better fairness and equity than injustices caused by the statistical models, more so because insurers do not have access to complete information and thus have to rely on data provided by the applicants in order to come up with their prognostics. Palmer too acknowledges that there might not be an option which will give the optimal result. Nevertheless, he states that the insurers owe a duty of care to ensure that individuals are placed in classes that best match their true risks, and that insurers should take a greater burden in avoiding unfairness that results from statistical discrimination when individuals have no potential to modify the characteristics which are used to put them into certain classes or categories. It cannot be denied that there are shortcomings in the underwriting and risk rating practice and that the risk of having situations of unfairness by using statistical models is very much alive. Since the underwriting and risk rating practice in family *takaful* is similar to that of life insurance, it is likely that the above shortcomings and unfairness issues would also manifest themselves in family *takaful* underwriting.

According to Frenz and Soualhi (2010) and Abu Bakar (1996), the underwriting process in family *takaful* is similar to the underwriting process in life insurance (The only difference is in the screening of risks to ensure *shariah* compliance. Frenz and Soualhi state that the *shariah* compliance screening differs across companies since a permissible risk by one operator might not be approved by another. There is thus the need to have an underwriting framework which can help standardise the *shariah* screening process for risks in *takaful* companies. As regards to the other aspects of underwriting, the mode of operation is very much similar to life insurance. The underwriters gather information on the applicant through the application form, the agent's report and other information sources such doctors' statements and medical records (CIFP Course Materials, 2009). They then process the application and decide if and on what conditions to accept the application based on the risk rating process. The applicant is then informed about the contribution or *tabarru'* to be made in order to enter the pool. It should be noted that the contribution is determined by underwriters through the risk rating process and that the factors which which are used in the risk rating process in family *takaful* are similar to the factors used in risk rating in life insurance. Similarly the classes into which the participants are grouped are very much similar to life insurance.

To sum up the above discussion, the reviews of literature on both life insurance and family *takaful* have provided a sound understanding of the importance that people have given to having an arrangement in place to compensate participants in times of loss. The practice of *takaful* in modern times is very different from the Arabian practices of yesteryears, such that in today's world, the *takaful* operators need to underwrite the incoming risks before accepting participants into the pool. This is to ensure fairness, equity and solvency of the fund. From the above literature review, it was found that there are several factors taken into consideration when the underwriters assess the risks and which affect the risk rating of the participant. This in turn determines the contribution rate of the participant to a *takaful* pool. These factors are briefly discussed in the following paragraphs.

FACTORS AFFECTING RISK RATING

Since the underwriting and risk rating process is similar in both insurance and *takaful*, the underwriters use similar factors in the risk rating process. The information below is derived from literature on both insurance and *takaful*, from personal communications with underwriters and from prior researchers such as Abu Bakar (1996), Teale (2008), Dorfman

(2005), Treischmann, Hoyt and Sommer (2005) and Mehr and Gustavson (1987). The factors are as follows:

Age.

Expected mortality is highly correlated with age. It is believed that the older the person, the greater the likelihood of death. This is because physical impairments become more severe and complex with advancing years. In contrast, young lives are seen in a brighter light by underwriters since young people are generally in good health.

Gender

It is believed that probabilities of death of females are generally less compared with the probabilities of death of similarly situated males. Therefore, men will tend to pay a higher premium than women at the same age because men have a shorter life span and the anticipated mortality is higher.

Physical Build

This is determined by a number of parameters amongst which are the relation between height and weight. Underwriters normally base themselves on weight charts that indicate the average weights for various heights and ages. These charts also show the degrees of overweight and underweight with the respective extra mortality ratings that correspond to increases or decreases in weight. Being underweight at lower ages may be seen as being prone problems like anaemia, Tuberculosis and lack of resistance to infections. Being overweight at older ages may signal to the underwriter that the patient is prone to cardiovascular diseases, high blood pressure and kidney problems.

Medical History

The physical condition of a proposer is of basic significance in underwriting. The underwriter will look at an applicant's current medical condition as well as past medical history, medical tests conducted and any risk of serious impairments. Some diseases may render a person uninsurable.

Personal History

The lifestyle, habits, hobbies, travels, places of residence and previous amount of insurance cover also affect one's risk rating. If a person is known to have a dangerous hobby or to have stayed in a risky area or to have a risky lifestyle, the underwriter may assign a higher risk rating to that person's application. The underwriters also look at substance abuse, smoking and tobacco use as well as excessive consumption of alcohol. These will definitely increase the participant's risk rating.

Family History

The impact of family history has been assessed from three angles. The first one is heredity, which is basically the transmission of cell characteristics from one generation to another. The second one is average longevity of the family, which is a pointer to life expectancy of current members. The third one is the impact of family environment which includes exposure to infection and other risks. The underwriter may give a higher risk rating if the both parents have died before age 50, or if the family discloses two cases of diabetes or heart disease before age 60. The underwriters are more likely to give a better rating if both parents reach age 70.

Financial Status

The underwriter normally assesses the relation between an applicant's income and the amount of insurance being applied for. If the applicant seeks more life insurance than they need or can pay for, it raises the question whether they would adhere to the contract.

Occupation

Underwriters normally have a list of occupations which are considered hazardous. The risk levels vary depending on the nature of the occupation. There are occupations which make an individual prone to accidents such as scaffolding workers. Other occupations may possibly cause health related problems and give rise to medical impairment, for instance, factory workers exposed to chemicals. There are also occupations which have close proximity with risky elements such as drugs and alcohol, for instance, waitresses in a bar.

The above mentioned underwriting factors are used to decide on the status of the applicant who will then be placed into groupings commensurate with the level of risks, i.e. preferred risks, standard risks, sub standard risk and declined risks (Teale, 2008; Dorfman, 2005).

METHODOLOGY

This study applied a qualitative research method known as the Delphi technique. According to Sekaran and Bougie (2010), this technique of interview is used when the objective of the inquiry is to have a collective view from a panel of experts about issues where there is little or no definite evidence and where opinion is important. They further state that the participants in a Delphi study are interviewed in successive rounds until a certain level of consensus to any specific issue is reached. An important feature of the Delphi technique is that the identities of the participants are kept secret (Sekaran & Bougie, 2010). Thus, questionnaires were sent to each scholar separately, and the interview was conducted face to face and in private. Each interviewee was identified by a pseudonym, and all

interviews were recorded and transcribed verbatim. The interview was done in two successive rounds to gauge their understanding of the underwriting and risk rating process and to gather their opinions on the factors underwriters use in the selection and risk classification process. No further interview was needed beyond the second round since there was not much divergence in the opinions gathered. The information obtained from the interviews formed the basis for the overall findings of this study.

The rationale for the qualitative research is based on a socially constructed view of reality (Dey, 1993; Sekaran & Bougie, 2010). It is concerned with how complexities of the socio-cultural world are experienced, interpreted, and understood in a particular context and at a particular point in time (Dey). In the case of this research, the process of underwriting and risk rating were not present at the time of revelation of the *Quran* and the *ahadith*. This is a modern process which requires deliberation by *shariah* scholars of the current times, who are well versed in the groundings of the *shariah* and who can formulate grounded opinions on these issues. Furthermore, this research required exploration of the level of awareness and exposure which *shariah* advisors have on the underwriting and risk rating practice. Thus, it was the researcher's contention that qualitative research was best suited for this study.

The rationale for the Delphi technique is one of the many approaches used in qualitative research (Dey, 1993). It is basically a way of obtaining a collective view from a panel of experts about issues where there is little or no definite evidence and where opinion is important (Sekaran & Bougie, 2010). This approach was thus very appropriate for this study since little is known about the *shariah* viewpoint on the practice of underwriting and risk rating in family *takaful*. According to Sekaran and Bougie, in a Delphi study, the participants respond to questionnaires in successive rounds until it is stopped by the researcher, or when a certain level of consensus is reached. The interviews are conducted in an iterative mode, with the aim of reaching a certain consensus on the issues at hand. Ludwig (1994), as cited in Hsu and Sandford (2007), indicates:

“Iterations refer to the feedback process. The process was viewed as a series of rounds; in each round every participant worked through a questionnaire which was returned to the researcher who collected, edited, and returned to every participant a statement of the position of the whole group and the participant's own position. A summation of comments made each participant aware of the range of opinions and the reasons underlying those opinions (p. 55).”

The iterative element in this technique provides the researcher with opportunities to present the opinions of each expert to the other experts for their feedback. This helps in coming up with a more consistent view on the issues deliberated and serves the purpose of the study. Another important feature of the Delphi technique is that the identities of the participants are kept secret (Sekaran & Bougie, 2010). This is a good thing since it helps to offset the possibility that certain dominant individuals might influence the flow of the outcome and also helps to offset the possibility of group pressure for conformity. It also helps the experts to voice out their opinions freely without fear of backlash from the advisory boards and bodies on which they serve.

A purposeful sampling procedure was used to select the panel of experts for this study. This sampling method is used when there is a need for subjects who are in the best position to provide the info required or when a limited number or category of people have the info that is sought (Cavana, Delahaye, & Sekaran, 2001). In purposive sampling, the subjects normally conform to some criteria set by the researcher (Dey, 1993). In this study, the criteria for selection of participants were:

1. All participants were experts in *shariah* and held academic qualifications in *shariah* related fields.
2. All participants were *shariah* advisors in the *takaful* industry and were registered as such by the Bank Negara Malaysia.
3. All participants have published papers on *takaful* related issues.

The participants included five individuals who were members of the *shariah* advisory boards of Great Eastern Takaful Sdn Bhd, Munich Re Retakaful, MNRB Retakaful, HSBC Amanah Takaful and the Shariah Advisory Council of Bank Negara Malaysia. Invitations to participate in this study were sent to seven *shariah* scholars, but only five responded. This is acceptable since according to Thangaratinam & Redman (2005), panel sizes have ranged from 4 to 3000. They further state that “representation is assessed by the qualities of the expert panel rather than its numbers”, p120. However, one disadvantage of purposeful sampling is that it may curtail generalisability of the findings because of the use of experts which are conveniently and purposefully selected.

The technique used was the Delphi technique since it was the most appropriate technique to find out about issues where there was little or no evidence at hand. A purposeful sampling method selected very prominent *shariah* scholars based on certain specific criteria as set by the researcher. However, it should be noted that despite the attempt by the researcher to provide objectivity throughout the study, yet it is the nature of qualitative study that there

would always be an element of subjectivity involved since the study is largely based on the researcher's observation and interpretation of the environment and the data collected.

Analysis Results and interpretation

The purpose of this research was to find out the *shariah* viewpoint on the practice of underwriting and risk rating for individual participants in family *takaful*, and more specifically on the factors which underwriters use in the selection and classification of risks. The researcher believes that a better understanding of the *shariah* viewpoint and of potential issues on this practice would likely help the *takaful* industry move closer to the true spirit of mutual cooperation and brotherhood. This chapter presents the key findings obtained from the interviews conducted. Following is a discussion of the findings with details that support each finding.

4.2.1 Research findings pertaining to research question 1:

The first major finding which the researcher came across was that some of the *shariah* scholars interviewed, did not seem very well exposed to the underwriting and risk rating practices in family *takaful*. This is evidenced by excerpts from the interviews conducted:

Scholar B: "In all fairness, the *takaful* operator I am advising did not expose us to the underwriting practice"

Scholar C: "What do you mean by underwriting? Can you explain to me how it is performed?"

Scholar E: "I have not really researched this area..."

As can be seen, the *shariah* experts in certain cases did not seem to have a good grasp about the underwriting practices and some admitted that they did not have exposure to the process. Thus, in a couple of instances, the researcher had to explain to the scholar how underwriting and risk rating is carried out in *takaful*. This lack of knowledge and exposure to *takaful* processes would raise pertinent questions pertaining to their ability to ensure the *shariah* compliance of *takaful* operations. Out of the five scholars interviewed, only one scholar claimed to have been introduced to the underwriting and risk rating practice by actuaries at the company the scholar is advising.

4.2.2 Research findings pertaining to research question 2:

The second major finding was that only two out of the five *shariah* scholars interviewed were aware of potential issues and had some concerns regarding the underwriting and risk rating

practice in family *takaful*. Two of the scholars expressed concerns on the factors being used in the underwriting process. They both expressed their discomfort pertaining to the use of some of the factors. One of them stated that the issue was raised in the *shariah* board meeting in which the scholar is a member and was put forward to the *takaful* operator. The scholar declined to offer more details pertaining to the outcome of the discussion which they had. The fact that only two scholars found issues can be explained in that most of the experts interviewed did not seem to have a deep grasp of the underwriting process and hence did not have the opportunity to spot potential issues which might pose a *shariah* problem.

4.2.3 Research findings pertaining to research question 3:

The third major finding was that all of the *shariah* scholars said that the practice of underwriting and risk rating was permissible. Some of the scholars state that this practice is of prime importance to maintain the solvency of the pool and this is a practice made permissible based on the acceptability of *urf* in islamic jurisprudence, which basically means the recognition of prevailing local customs which do not contravene islamic principles (Ramadan, 2006). Most of the scholars also put forward the concept of *maslahah*, or the greater public good, as basis for the acceptability of the underwriting and risk rating process in family *takaful*. One scholar declared that it is permissible based on the ruling of its permissibility by AAOIFI. Thus, the general consensus among the experts interviewed is that underwriting and risk rating is permissible from a *shariah* perspective.

The fourth major finding was the collective view from the *shariah* scholars that most of the underwriting factors were allowed to be used in the risk rating process. However, most of them expressed concerns regarding gender, family history, financial status, occupation and physical build. As regards to the use of gender, they state that the *takaful* operator has to ascertain whether this poses a genuine concern in terms of risks brought in to the *takaful* pool. Most of them opine that charging a different contribution rate based on gender is not in line with the *takaful* spirit. As regards to family history, three out of five scholars are of the opinion that family history should ideally not be included among the underwriting factors. They agree that risks based on family history are speculative and that in *shariah*, pricing should be done on a subject matter which exists or is very likely to exist. They also state that if this were to be taken as a factor, it should be medically proven that a family member's illness or early death will have a negative incidence on the life of the participant. Pertaining to the use of financial status as an underwriting factor, most of the scholars agree that *takaful* operators should not ignore or penalise those applicants with low income in order to better

reflect the *takaful* spirit of brotherhood. As regards to the use of physical build as an underwriting factor, most of the *shariah* scholars agree that there must be clear medical proof that this may negatively affect the health and life of the applicant and that ignoring this factor will affect the riskiness in the pool. Pertaining to the use of occupation as a factor, most of the *shariah* scholars are of the opinion that the *takaful* operator should consider providing coverage to applicants who are deemed to have risky occupations but who provide *halal* services to the community. Most of them are also of the view that it is permissible to give *takaful* coverage to an individual working in a *haram* environment. However, most of them state that it is not permissible to give coverage to a person having a *haram* occupation. The views stated above reflect the general consensus among the scholars on the factors which underwriters use in the risk rating and selection process. However, it should be noted that there has been some minor differences in the juristic opinion on certain cases since the scholars derive these opinions based on their own mental efforts or on *ijtihad*, and thus juristic differences may arise.

The fifth major finding was that most of the *shariah* scholars were of the opinion that there is room for improvement for *takaful* operators to reach the true spirit of *ta'awun*. Most of them agreed that *takaful* in its current practice does not fully reflect the spirit of mutual cooperation, solidarity and brotherhood which are supposed to be the philosophical underpinning of the *takaful* arrangement.

DISCUSSION ON FINDINGS

The major findings can be summarised as follows:

1. Most of the *shariah* experts interviewed did not seem to have a deep exposure to the underwriting and risk rating practice in family *takaful*.
2. Only two out of the five *shariah* scholars interviewed were aware of potential issues and had some concerns regarding the underwriting and risk rating practice in family *takaful*.
3. All of the *shariah* scholars said that the practice of underwriting and risk rating was permissible. The collective view from the *shariah* scholars was that most of the underwriting factors were allowed to be used in the risk rating process. However, most of them expressed concerns regarding the use of factors such as family history, financial status, gender, occupation and physical build in the underwriting process.

4. Most of the *shariah* scholars were of the opinion that there is room for improvement for *takaful* operators to reach the true spirit of *ta'awun*.

The findings above have provided better insight into the *shariah* opinions regarding the underwriting process and have helped to raise awareness on certain issues regarding which *shariah* scholars have expressed their discomfort. It is important to note that the scholars gave a similar opinion to AAOIFI regarding the permissibility of using actuarial practices to determine contribution rate. However, they expressed concerns regarding some of the factors used in the underwriting process. This in itself is an interesting development. By expressing these concerns, the scholars concur with Daud (2009) in that the current practice of underwriting does not reflect the true spirit of *takaful* and that there is room for improvement. It is however well noted that the findings have dispelled any potential doubt pertaining to the permissibility of underwriting from a *shariah* perspective since all of the scholars have agreed to its permissibility. The researcher however finds that it is matter for concern that there is a lack of proper training being given to *shariah* scholars advising *takaful* operators pertaining to the underwriting practices and that this could possibly create doubts in the minds of *takaful* participants and other stakeholders in the industry as regards to the full *shariah* compliance of *takaful* operations. The researcher hopes that these findings will lead to better *shariah* compliance practices and better awareness on the need for close scrutiny of *takaful* operations before they are declared as *shariah* compliant.

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

This study was conducted using a qualitative research method known as the Delphi technique whereby interviews are conducted until a certain level of consensus is reached. The information obtained from the interviews formed the basis for the overall findings of this study. The study was based on the following research questions:

1. To what extent are *shariah* experts advising the *takaful* industry exposed to and knowledgeable about the underwriting and risk rating process in family *takaful*?
2. What issues have these *shariah* experts come across as regards to the underwriting and risk rating process for individual participants in family *takaful*?
3. What is the *shariah* viewpoint on factors which underwriters use in the selection and classification of risks for individual participants in family *takaful*?

These three research questions were largely satisfied by the findings in chapter four. The findings are summarised below.

This study gave an insight on the level of exposure of *shariah* experts to the practice of underwriting and on their opinions regarding the underwriting process. The scholars concurred with AAOIFI regarding the permissibility of using actuarial practices to determine contribution rate. However, they expressed concerns regarding some of the factors used in the underwriting process such as gender, family history, financial status, physical build and occupation. This study could lay the ground for further research on underwriting practices as adopted by *takaful* operators and could also lead to deeper discussions among *shariah* scholars on a broader basis so that we have a definite opinion on these issues. Among the major findings, the researcher found interesting that some of the *shariah* scholars did not seem to have a deep exposure to the underwriting and risk rating practices in family *takaful* and some of them even claimed that they were not invited to look at the underwriting and risk rating practices of the *takaful* companies which they advise. Based on this, one can seriously question the *shariah* compliance audit of *takaful* operators. Moreover, only two out of the five *shariah* scholars interviewed were aware of potential issues at the outset of the interview and had some concerns regarding the underwriting and risk rating practice in family *takaful*. Perhaps this could be explained by the fact that underwriting is quite technical in nature and that this might have posed a barrier for *shariah* scholars. The take away of this study however lies in the fact that the scholars collectively expressed their concerns on the current *takaful* practice and stated that there is room for improvement in terms of achieving mutual cooperation, solidarity and brotherhood.

The followings are several recommendations based on the research findings for various stakeholders:

For *Shariah* Advisors:

They should make sure that they understand all the operations of the *takaful* operator before they declare it as being *shariah* compliant. If they are not given access to the operations and are not exposed to the processes, they should decline their judgement as regards to *shariah* compliance. Furthermore they should attend training courses to make up for the gap in knowledge.

For *Takaful* Operators and Actuaries:

They have a duty to explain the *takaful* processes to their *shariah* advisors, especially as regards to the technical aspects, and should adopt a transparent approach in their operations

in order to ensure *shariah* compliance of their offerings and practices. Failing that, they run the risk of legal, *shariah* and reputation risks.

For Regulatory Bodies:

They should make sure that *shariah* board members are adequately trained before granting them *shariah* advisory licences and they should come up with regulations asking the *takaful* operators to be transparent to the *shariah* advisors when it comes to the *takaful* operations.

Limitations and Future Research:

The sample in this study was small. Perhaps research could be done with a bigger sample. Moreover, the researcher only focused on family *takaful* underwriting for individual participants. This could be extended to include group participants. Other research might also look into the underwriting for general *takaful* and explore potential issues.

CONCLUSION

This study was conducted using a qualitative research method known as the Delphi technique. The purpose of this research was to find out the *shariah* viewpoint on the practice of underwriting and risk rating for individual participants in family *takaful*. More specifically, it sought to gather the opinions of *shariah* scholars on the factors being used in the process of selection and risk rating for individual participants to a family *takaful* pool. As has been seen above, the findings are very interesting and give us a good insight of the level of exposure of *shariah* scholars to the underwriting practice and also highlight their concerns pertaining to the underwriting factors. That is why we made several recommendations to various stakeholders in order that action is taken to remedy the situation. It is hoped that this study would act as a catalyst for others to do more research on the underwriting aspects in *takaful* so that the industry may have a reliable underwriting framework which can be applied across board and which is *shariah* compliant.

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