

PROSPECTS OF ISLAMIC INSURANCE IN INDIA

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ABSTRACT

Life and risk cannot be separated however it can be minimized through insurance. It is the main reason why insurance plays significant role in our daily life. Insurance is a policy between the insured and insurer to provide the benefits in the case of misfortune of the insured. However, from the Islamic perspective, insurance contract contains the prohibited elements such as interest, uncertainty and gambling. This calls for an alternative insurance, i.e. Islamic insurance, suitable for both Muslims and non-Muslims. Many Muslim and non-Muslim countries have introduced Islamic insurance. India is ranked in the third highest Muslim population country after Pakistan and Indonesia. Thus, the potential growth of Islamic insurance is high and this paper highlights the prospects of Islamic insurance in India.

1. Introduction

Risk is part and parcel of our daily life and we have been trying to find out the way to protect ourselves in the case of misfortune. That is the reason why insurance came to play an important role in our life. The foremost objective of insurance is to distribute liability among the concern parties through mutual co-operation and understanding. By this the uncertain risks can be avoided and a victim can be saved from such dangers.

The first insurance policy appeared in ancient times on a Babylonian obelisk monument with the code of king Hammurabi carved into it. The Hammurabi code was one of the first forms of written laws. There has been no evidence of any opposing view (Billah, 2001). Actually, there was a steady improvement of the thought and philosophy of assurance in various states. Even the Muslim educated society felt the need for insurance. They cannot ignore the fact that they live; trade and communicate with open global system. And on the other hand is their spiritual sensitivity and principle. This sector consequently looks towards *Ulama's* for guidance. But keeping with religious principles and beliefs, they discuss the matter and declare a "*Fatwa*" as insurance is un-Islamic (Billah, 2007).

Hence, there is a need to start alternative insurance system which is based on the principles of Islam. Keeping an account consequential Muslim population all over worldwide and due to Islamic renaissance endeavor need for Shari'ah based insurance has become more urgent and this effect huge business capacity. Islamic finance gave birth to a new term in trade and commerce that is known as "Takaful". Takaful is an Arabic term it means "guaranteeing each other" or joint guarantee. The very idea of Tabarru is the core of Takaful system which is purely without the elements of uncertainty and gambling (Nasser & Jamil, 2011).

2. Development of Insurance In India

The history of insurance in India started in 1818. Insurance in its advanced form primarily reached in India through a British Company called the Oriental Life Insurance Company in 1818, followed by the Bombay Assurance Company in 1823, and the Madras Equitable Life Insurance Society in 1829. They assured the lives of Europeans living in India. The first insurance company that sold policies to Indian with "fair value" was the Bombay Mutual

Life Assurance Society starting in 1871. The first general insurance company, Triton Insurance Company Limited was set up in 1850. For the next 100 years; both life and non-life insurance were limited mostly to the wealthy living in large metropolitan areas (Sinha, n.d.).

At the beginning of the nineteenth century insurance company mushroomed. In 1912, Life Insurance Companies' Act and Provident Fund Act were passed to administer insurance. The life Insurance Companies Act, 1912 made it essential that the premium rates more set by an actuary. Nevertheless it demeans, criticizes but still survived as discrimination between India and Foreign concern (Sinha, n.d.).

The year 2000 was considered as turning point in the events of insurance in India. After 50 years of state monopoly, the market was to private insurers. Thus, India life insurance market billowed from us\$9 billion in gross premium in 2000 to US\$52 billion in 2007. It is mushrooming with the rest of the large Asian markets and we could presume it to become Asia's third-largest insurance market (Stephan & Joseph, 2009).

The non-life insurers underwrote premium of 42,576 crore (425.76 billion) in 2010-11, in contrast 34,620 crore (346.20 billion) in 2009-10 archiving a growth of 22.98 percent against growth of 14.06 percent in the former year. In the non-life lines of business, the Health is division constantly rising in terms of its share to the total non-life premium. The share of health increased further to 23.35 per cent in 2010-11 (21.12 percent in 2009-10 and 20.06 per cent in 2008-09) (IRDA, Annual Report, 2010-2011).

At the end of 2010-11, the numbers of insurance companies arose to 48 comprising of 23 life insurers, 24 non-life insurers and a re-insurer. Edelweiss to Edelweiss Tokio Life Insurance Company was bestowed registration in the year 2011-12, raising the total number of insurance companies to 49 as at end of September 2011 (IRDA, Annual report, 2010-11).

3. Definition of Takaful

The term *Takaful* is defined by an Arabic term which means joint guarantee or guaranteeing each other (Mahmoud, 2008). It stems from the *Kafala* that means to take care of one's needs. *Takaful* is a network of Islamic insurance based on the principle of *Ta'awun* (mutual cooperation) and *Tabaru* where the risk is shared collectively by members of a policy holder (Usmani, 2007). *Takaful* settlement adopts the elements of mutual cooperation, shared liability and joint indemnity among the policy holders through the formation of a common pool subscribed out of their assets as contribution (Zuriah & Redzuan, 2009). According to section 2 of the Malaysian *Takaful* Act 1984:

"*Takaful*" means a scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose;

3.1 Origin of Takaful

The insurance idea was conceptualized prior the time of the Holy Prophet Mohammed (s.a.w.) and has ever since moderately blossomed until the starting of the 19th century, when a Hanafi lawyer Ibn Abidin (1784 –1836) became the primeval Islamic philosopher to come up with the importance, general notation or idea and legal basis of an insurance agreement. Ibn Abidin was affiliated to the school of law that respected Abu Hanifa as its divine leader (Klingmuller, 1969). We are able to observe today the establishment and function of a number of Islamic Insurance corporations in both Muslim and non-Muslims countries.

3.2 Concept and development of Takaful

The general notion or idea of Takaful welcome the elements of mutual protection and shared liability as a society could not save or secure without these elements. Similarly the concept 'Aqilah' which is adopted into Islamic concept through the judgment of the Prophet (s.a.w) Aqilah is nothing but payment of blood money or diyyah under the Arab tribal custom and it has been practiced since Prophet times (Engku Rabiah & Hassan Scott, 2008).

During the ancient periods Arab tribes followed a practice called 'Aqilah'. For example, if any associate of the tribes was murdered by a member of another tribe the heir of the victim would be paid an amount of blood money as indemnity by the close kin of the murderer. Those close kin of the killer known as 'Aqilah' were presumed to pay blood money (Billah, 2003).

Consequently the basic practice of 'Aqilah' was that the early Arab tribes should be willing to arrange financial contribution on behalf of the murderer to pay indemnity to the heir of the victim. Such willingness is to create monetary contribution that should be equivalent to the premium in insurance practice. On the other, hand the

compensation re- cooped under at Aqilah should be equivalent to the compensation of present insurance practices as it is a type of financial security for the heir against an unpredictable death of the prey or victim

4. Prospects of Islamic Insurance in India

Based on The World Takaful Report 2011, the global unconventional insurance contributions grew by 31% in 2009 to US\$7 billion as of 2011. The opportunities in core markets also suggest a US\$12 billion industry by 2011. It is also seen that the global gross unconventional insurance contributions reached US\$7 billion in 2009, and continue to boast healthy growth. Having this significant growth achieved by the unconventional insurance industry motivates us to introduce unconventional insurance in India.

India is a multi-linguistic country; the sacred feature of it is 'unity in diversity'. In present era it is progressing itself in every sphere of life. It has a great potential market to serve to its large population of 1.38 billion out of which the Muslim population is 13% and the world Muslim population is 10.9 which is quite considerable figure. It is estimated India would be the most populated country by the year 2025 (Pavithra, 2008).

The distinctive features of Takaful (Islamic Insurance) make it so appealing even to non- Muslims. Takaful operations have not yet started functioning in India. It has examined the huge potential; and reliance life has come out with Shari'ah based code though it is not a Takaful product. This indicates Takaful would be launched in India in the future. Insurance Regulatory and Development Authority of Indian Act (IRDA) should think in terms of developing the required regulatory framework for Takaful (Islamic insurance).

Islamic Insurance will unambiguously ameliorate the deplorable condition of the poor and marginalized segments of society. Takaful products which comply with Islamic law are becoming increasingly popular, not only in the Gulf countries and far eastern states like Malaysia, Indonesia, Brunei, Singapore and Thailand but also in other developed markets such as the United Kingdom, Australia and United States of America. Therefore is a huge potential market in India for Islamic Insurance products.

In addition, Islamic Insurance is becoming a hot and sizzling sector in India and other parts of Asia, many institutes have started to provide Islamic Finance courses, Hyderabad-based Institute of Islamic Banking and Finance (IIBF) and Knowledge Network India Pvt. Ltd. (KNI), Gurgaon are among the few institutes which provide online Islamic Banking and Takaful Insurance Courses. Thus, it is possible that this might be the starting stage to offer the Islamic insurance products later.

India with a 15% Muslim population, the highest in a non-Islamic country and third highest in the world offers huge opportunities to exploit. The size of the market is very large as the Indian population is above one billion and Muslim population itself is above 15 million and majority of them, in the name of religious faith, are looking for Shari'ah based Insurance.

It is pertinent to mention here that Islamic Insurance is not meant for Muslims only, but non-Muslims may also avail the benefit of it. And it is feasible to have a dual Insurance system based on Shari'ah along with a conventional one.

5. Conclusion

In sum, Islamic insurance is widely offered in many Muslim and Non-Muslim countries. This product is not only for Muslims but also for non-Muslims and thus, it will widen the existing insurance market. India has a better position to introduce because of its high Muslim population, economic growth and insurance revenue. Therefore, the Indian government should not miss this opportunity. Insurance Regulatory and Development Authority of Indian Act (IRDA) should think in terms of developing the required regulatory framework for *Takaful* (Islamic insurance).

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