

# Islamic Banking and Takaful

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Ahmad Azam Othman  
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Mohammad Azam Hussain



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3rd Edition

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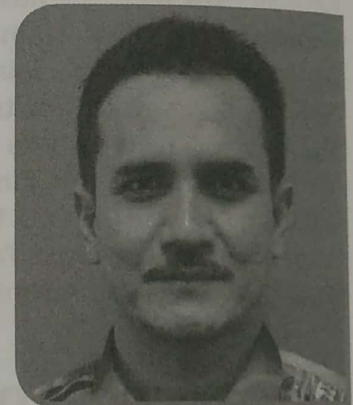
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## 7 Takaful (Islamic Insurance)

Insurance protection is one of the main financial necessities of life because people nowadays are more vulnerable to risk and uncertainties. Death, disability, injury, illness or destruction of property due to calamities can happen to anyone at any time. It is clear that insurance cannot prevent these events from happening; but it can provide financial assistance to reduce the burden of the losses resulting from the occurrence of such contingencies. Although the basic idea of insurance embodies the elements of co-operation and mutual help which are encouraged by Shariah, its application has been a controversial and much disputed subject among Muslim scholars. They have debated about the legal status of the insurance contract in Islamic law. The majority of them perceived that it contains the elements of *gharar* (uncertainty), *maysir* (gambling) and *riba* (usury) which are prohibited by the Shariah. Pursuant to the intense debate for and against the legality of commercial insurance, an insurance arrangement known as takaful was introduced to fulfil the needs of Muslim society for a Shariah compliant insurance scheme.

### DEFINITION AND FEATURES OF TAKAFUL

Takaful is an infinitive noun (*masdar*) which is derived from the Arabic root word '*kafala*' meaning to guarantee. Linguistically, the word takaful means joint liability or solidarity.<sup>228</sup> The term takaful is based on the word *ta'awun* which means co-operation or mutual assistance.<sup>229</sup> Technically, takaful refers to a mutual guarantee or assurance arrangement among a group of people facing the same risk or danger of incurring losses to contribute a certain sum of money which will be used to compensate any member of the group who incurs such losses.<sup>230</sup> In the legal perspective, takaful is statutorily defined as

<sup>228</sup> Rohi Baalbaki. (1995). *Al-Mawrid: A Modern Arabic-English Dictionary*, 7th ed. Beirut: Dar Al-'Ilm li-Malayin, p. 358.

<sup>229</sup> Ibid, p. 335.

<sup>230</sup> Syed Othman Alhabshi, Kamaruddin Sharif, Shaikh Hamzah Abdul Razak and Ezamshah Ismail. (2012). *Takaful: Realities and Challenges*. International Centre for Education in Islamic Finance (INCEIF) Petaling Jaya: Pearson, p. 58.