Encyclopedia of Islamic Insurance, *Takaful* and *Retakaful*

By Mohd Ma'sum Billah, Ezzedine Ghlamallah *and* Christos Alexakis
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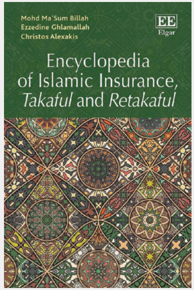

From the beginning of the 20th century, studies on Islamic finance—as an alternative to interestbased capitalist finance—have been conducted, particularly in Egypt and Malaysia. However, Islamic finance gained an institutional identity only after the 1970s. During these years, petrodollars accumulating in the oil-rich Arab countries of the Gulf helped establish the first Islamic financial institutions. Later, their numbers rapidly increased in other countries. While these institutions operating in accordance with Islamic financial methods have increased in numbers, new financial methods and products have been developed in tandem. One of these products is *takaful*, a Sharia-compliant version of conventional insurance. In their work titled *Encyclopedia of Islamic Insurance: Takaful and Retakaful*, Mohd Ma'sum Billah, Ezzedine Ghlamallah, and Christos Alexakis discuss different dimensions of *takaful* in all its aspects.

The book consists of eight chapters and a dictionary section. The first four chapters address the concept of *takaful* in detail. The fifth and sixth chapters discuss two different types of *takaful*. The seventh chapter covers current issues related to *takaful* and issues related to governance and marketing. The last chapter focuses on *takaful*'s religious basis and the differences between *takaful* and conventional insurance.

The first chapter begins with the origins of *takaful* and a detailed definition of the concept. *takaful* is an insurance agreement based on the mutual accord and cooperation of the involved parties. The most important feature that distinguishes *takaful* from conventional insurance is the element of cooperation (participation). Here, the authors emphasize the concepts of *al-mudharabah* (profit and loss sharing) and *al-tabarru* (donation) (pp. 1-2). These two concepts in the Islamic finance sector form the basis of *takaful*. Today, 15 different forms of *takaful* are practiced in countries such as Egypt, Malaysia, and Lebanon (pp. 26-34).

The second (and the largest) chapter of the book presents an extensive regulatory framework that stretches from the Islamic foundations of *takaful* to the principles of incorporation. After explaining the conditions for a *takaful* contract, the authors explicate its sources in Islamic law (*fiqh*). The Qur'an, *Sunnah*, *ijtihad*, customs, and the works of religious scholars who excel in the subject matter are the sources that played a role in the emergence of *takaful* and the formation of its boundaries (pp. 57-66). Although *takaful* is one of the Islamic finance products available today, one group of religious scholars sees *takaful* as a practice incompatible with *Sharia*. The most important argument of this group is that insurance practices cannot be without interest and that interest is impermissible under any circumstances. The group of scholars involved in these discussions does not consider Islamic life insurance, which is another type of *takaful*, permissible either (pp. 66-67).

The third chapter explores the fundamental and practical differences between *takaful* and conventional insurance. The Qur'an and *Sunnah* are the principal sources upon which *takaful* is founded. And the most important difference that distinguishes *takaful* from conventional insurance is the religious dictum on which it is based (p. 138). The different principles on which the two types of insurance are predicated naturally and directly affect the relationships between the insurer and the insured, namely 'interest' in conventional insurance transactions and 'mutual assistance' in *takaful* (p.144). The next chapter addresses issues related to companies operating in the *takaful* sector and the rights of individuals benefiting from *takaful*.

The fifth chapter scrutinizes the most controversial issue associated with *takaful*: Family *takaful*, or 'Islamic life insurance.' The reason behind this controversy is that life insurance in the conventional insurance sector relies on concepts non-compliant with Islamic principles. The authors define Family *takaful* as a product based on the al-*mudharabah* technique—like *takaful* for individuals (p. 234). Yet when life insurance products in conventional insurance and *takaful* are compared, the individual is not the beneficiary in *takaful* practices, in contrast to conventional insurance (p. 237).

Retakaful is discussed in the sixth chapter. It is the Islamic alternative to reinsurance applied by insurers to mitigate risk in conventional insurance. *Retakaful* is the process of reinsuring the insured risk of *takaful* companies through other companies in order to prevent large losses and to make more profit. *Retaka-*

ful is a practice derived from its equivalent in conventional insurance. It is permissible in Islamic finance based on the principles of *dharurah* (necessity) and *maslahah* (general interest). In this practice, it is critical to make sure the transaction is interest-free and prevent companies from facing a great risk (p. 258).

The seventh chapter discusses the current challenges in takaful practices. Different practice models of takaful are utilized in different countries and practice conditions may vary (p. 286). Criteria such as the status of Islamic financial institutions, consultancy and *fatwa* committees and whether there are research and development departments also affect *takaful*. One of the high points in this chapter is the determination that it is quite difficult for *takaful* companies to manage risk without *sukuk* (interest-free financial certificates offered to companies and governments), which is also an Islamic finance product (p. 287). One of the problems *takaful* companies face in terms of governance and incorporation is that some countries do not allow insurance companies with participation accounts. However, with more than 16 million Muslims, Europe has become an essential market for *takaful* companies (p. 311). The last chapter consists of a databank that discusses some of the concepts examined in the book in greater detail.

Authors, who set out to clarify some confusing concepts and misunderstanding about *takaful* and to unfold its differences from the conventional insurance (introduction chapter) handles the subject quite comprehensively. Thanks to using proper and simple concepts related to Islamic finance issues in their book, the authors make the subject easier for those who are interested in the topic. Moreover, the authors explain the differences between *takaful* and conventional insurance more precisely from both theoretical and conceptual perspectives. By containing the different views of different religious leaders on the *takaful*, the book also contributes someone to obtain useful information about the religious dimension of the issue. But as opposed to writers' success in terms of making the topic more understandable, in some context, they wander from the subject inconceivably in their book. Unfortunately, in this case, the readers sometimes can find themselves in different matters which don't have any link with the topic they read at the moment. For example, in the first part of the book, when someone reads the topics related to the origin and development of *takaful*, he or she can unnecessarily also meet some information about risk management in *takaful* which is completely different from the subject. Also, the book might have taken a holistic approach to some key issues like; how *takaful* has grown numerically from past to present in the countries and, which countries are they and how situations are going on in those countries. In short, despite all these shortcomings it would not be an exaggeration to say that the *Encyclopedia of Islamic Insurance: Takaful and Retakaful* is a very useful resource for understanding the concept of *takaful*.