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Takaful an Innovation to Contemporary Insurance

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Abstract

Limits to human reasoning prevent the prediction of future events is the main factor forcing us to buy insurance. By nature, human beings prefer to be safe and secure. However, there are no guarantees for absolute safety and security. Insurance was introduced to cover the financial loss in cases of misfortune. It provides monetary assistance to the policy holders according to the terms and conditions of the insurance policy. It is a noble concept; however, its practice is defective because the insurance operators engage in interest, uncertainty, gambling, and non-Shari'ah compliant investment. These practices make insurance unethical and unfair to the society. Unethicality is opposed by all religions. Thus, the objective of this paper is to highlight the involvement of prohibited elements of insurance practices and to suggest how to overcome the unethical elements of insurance by replacing them with Shari'ah complaint insurance i.e. Takaful. This paper is prepared based on library research and literature related to both insurance and Takaful is analysed thoroughly. Although Takaful is the modern name of ethical insurance, its practice started during the time of Prophet Muhammad (PBUH). It is based on the concept of mutual help and assistance for Takaful participants and fosters the practices of brotherhood and solidarity for the participants.

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1. Introduction

Uncertainty is the potential occurrence of favourable or unfavourable future events. It is the underlying ideal to our exposure to risk. The main solution to protect against the possibility of future financial loss is buying insurance (Htay & Salman, 2014). Insurance has become a common practise to suit the complex nature of contemporary lifestyles and business environments. In addition, the mandatory requirement from regulators and employers creates a high demand for insurance, especially general insurance (Hassan et al., 2018). Life, education, and health related insurance products have also become important because of increased costs for education and healthcare. Insurance is widely accepted as a risk transfer mechanism rendering financial assistance in times of need (Htay et al., 2015).

Insurance provide monetary assistance through a simple contractual arrangement between the insurer and the insured. Islam accepts this ideal but rejects some fundamental elements regarding how it is practised in the conventional system (Aziz et al., 2011; Salman et al., 2018). These prohibited elements are interest, uncertainty, gambling, and investment in non-*Shari'ah* compliant businesses and they are required to be avoided based on their unethicality and injustice on the society. Unethicality is discouraged not only in the teachings of Islam but also in the teachings of other religions such as Hinduism, Sikhism, Buddhism, Judaism, and Christianity (Salman and Htay, 2014 & Salman et al., 2015). Thus, the concept of insurance is excellent, but it has defects because of its practices (Kasim et al., 2016). Thus, the purpose of this paper is to highlight that *Takaful* is an alternative solution those seeking financial protection in the case of misfortune. *Takaful* can provide similar financial coverage to insurance and at the same time, it is free from the unethical business practices mentioned before.

This paper is organised in seven sections. Section two discusses insurance and its definitions and historical development. Section three focuses on the importance of insurance whereas section four examines insurance practices from the ethical perspective. Section five talks about Takaful its definitions and historical development whereas section six explains the validity of Takaful within the framework of Shari'ah, its models, products, and Takaful as a solution to insurance. Section seven concludes the paper.

2.0 Insurance, its Definitions, and Historical Development

There are a variety of definitions related to insurance from various standpoints and disciplines, including law, finance, economics, history, actuarial science, risk philosophy, and sociology. Some of the definitions are discussed as follows:

> *"As a contract under which one party (the insurer) accepts significant insurance risk from another party (the policy holder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder."* (International Financial Reporting Standard, 2004)
>
> *"Insurance is a financial arrangement that redistributes the costs of unexpected losses."* (Dorfman, 2008)
>
> *"Insurance is the pooling of fortuitous losses by transfer of such risks to insurers, who agree to indemnify insureds for such losses, to provide other pecuniary on their occurrence, or to provide other pecuniary benefits on their occurrence, or to render services connected with the risk."* (American Risk and Insurance Association, 1965)
>
> *"Insurance is based on the discovery of a useful social scientific principle, according to which after a small investment, individuals can be freed from incurring financial losses as a result of perils and accidents whose incidence can be measured fairly accurately in relation to large human groups."* (Siddiqui, 1984)

In our point of view, insurance can be defined as, "a product which bring the interested participants to create a fund under the management of the operator in order to provide financial assistance to the participants while taking care of the interests of all the related parties."

When the historical development of insurance is reviewed, it can be traced back to the Babylonian era around 1,750 B.C. During this time, Mediterranean maritime traders in Babylon required protection from the money lenders by giving an additional amount in addition to the loan principal in the incident of damage or loss from the sinking of the ship and loss of goods from burglary and bad weather. The first insurance policy was the Code of Hammurabi. The Phoenicians adopted the Bottomry contract around 1,600 to 1,000 B.C. The

Greeks also implemented the Bottomry agreement for sea trade around 4 B.C. followed by the Romans. In 1000 B.C., The Rhodian Sea Law and the principle of contribution can be traced. During this time, the purpose of the involvement is to provide assistance if the ship is caught in the storm and the cargo is threatened. The Rhodian Sea Law is the most ancient principle governing commerce by sea. Around 3,000 B.C., property insurance became popular in China. The agreement at that time required that the protecting partner compensates the owners of the ship and goods in the case of loss (Alhabshi et al., 2012).

During the ancient era, the farmers of China used to send their crops to the marketplace on boats. Due to certain unavoidable issues, the farmers decided to distribute their products into numerous boats to avoid disaster. The basic concept of insurance for property came into existence around 3000 BC (Vaughan, 1996; Sudin & Wan Norsofiza, 2009). In the case of marine insurance, it started with Chinese merchants (Vaughan, 1996) since men had been were fascinated by sea travel and hence sought protection from the dangers posed by the sea. It is widely practised by the merchants and money lenders in 1800 BC as stated in the Code of Hammurabi[§] (Sudin & Wan Nursofiza, 2009) and it involved interest.

According to Sudin and Wan Nursofiza (2009), Vaughan (1992), and Azman (n.d.), marine insurance can be considered form of modern insurance. They state that it appeared during the 13th century in Italy and spread to other European countries and later to England through Italian merchants. Modern fire insurance can be traced to 1591 in Germany (Sudin & Wan Nursofiza, 2009; Vaughan, 1992). However, the Great Fire of London in 1666 became the starting point for the need of fire insurance (Azman, n.d.). Also during this 15th century, life insurance was introduced when a group of guaranteed sponsors in London started issuing a life insurance policy at value of £400 for year coverage and in 1699, the Society for the Assurance of Widows and Orphans was considered the first insurance company established in London (Sudin & Wan Nursofiza, 2009).

In the society, people lived closely together with their families and communities in rural locations in which their necessities and requirements were fully protected through mutual support and cooperation among themselves. Nevertheless, the subsequent change from rural to urban life led individuals to begin facing multiple risks and dangers as society started to grow and issues related to life and trade started to become increasingly complex which cannot be addressed by mere mutual protection from the families and tribes. As a risk management tool, insurance has been practised in various forms and methods from very early civilisations. The foremost objective of insurance is to distribute liability among the concerned parties through mutual cooperation 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).

In the modern world, for most people and businesses, insurance is the most practical method of handling a major pure risk (Zariah & Hendon, 2009). Through insurance, the risk will be transferred to the insurance company by paying the premium (Sharma, 2009; Zariah & Hendon, 2009; Vaughan, 1996; Redja, 2011). Zariah and Hendon (2009) and Dorfman (2005) further explain insurance as a contractual arrangement whereby one party agrees to compensate another party. This is done through purchasing an insurance policy by the party who has the loss exposure and transfers it to the other party who is willing to accept the loss against the payment of premiums. Due to selling and buying activities, the sale and purchase policy became the main underlying contract for commercial insurance, then all premiums, profit, or surplus gained from investment activities belong to the insurance company (Engku Rabiah & Hassan Scott, 2008).

3.0 Important Role of Insurance

Insurance has developed as a procedure of protecting the interest of people from financial loss. It can be used as a risk management tool for exposure of our daily life activities as well as that of business activities. Moreover, it has a significant contribution to the general economic growth of the community as a mechanism of mobilising funds in the economy.

Insurance can provide complete financial protection against loss for specific incidents. For instance, in life insurance, the beneficiaries can claim upon the death of the insured or insured can claim if the term is expired. Due to that insurance arrangement, the beneficiaries are not left with financial burden, but they are paid for the claims. Life insurance motivates savings and encourages the habit of well-planned and well organised savings along the premiums. The insured has a responsibility to pay the premium punctually and

[§] The Code of Hammurabi is a well-preserved Babylonian law code and it consists of 282 laws.

he cannot be withdrawn simply before the expiry of the term. Insurance operators give an individual complete shelter against unusual losses caused by any of the threats. At the country level, life insurance encourages the economic growth of the nation. To expand the economic growth of the nation, insurance offers massive support and protection against loss of goods and property, and it manufactures more capital for more wealth. It gathers the capital from the insured and makes use of the capital for the progress of the nation. Therefore, insurance encounters all the essential needs and demands for the economic growth of the nation.

In the case of general insurance like fire insurance, the financial support is provided against loss or damage from fire, destruction etc. Insurance delivers calmness, discards panic, stress, worry, anger, and relieves the mind of an individual concerning future events. It promises to repay the losses from various risks to reduce the financial burden of the insured. Insurance also provides the financial security for the people who buy insurance against their loan. In case the insured dies, the policy can be used to pay back the outstanding loan balance from the insurance claim and there will be no financial burden left on the beneficiaries.

Insurance assists employers reduce their financial burden. The employers can buy insurance to claim damages incurred due to the accidents of employees in the work place. Insurance takes care of the safety and welfare of the employees by transferring the burden of the employers to the insurance operators. Moreover, the group insurance can have a variety of products such as sickness benefits and pensions. It is an uncomplicated and easy procedure for employers to manage their financial risk and support the welfare of the society by having group insurance. In addition, the other important elements of insurance are encouraging foreign trade by providing financial security against trade threats, resolving the foul of unemployment, creating employment opportunities in the country, eliminating the loss on damage, destruction, or disappearance of property of goods, and providing tax advantages for life insurance premium payments.

4.0 The Ethical Perspective of Current Insurance Practices

The concept of insurance is excellent, however some of the ways it is practices makes it unfair to the society. These unethical issues in the practice of insurance are due to the involvement of interest, uncertainty, gambling, and investment in non-*Shari'ah* compliant businesses and activities. Because of that, insurance is prohibited in Islam (Htay & Salman, 2015).

Interest can be defined as an extra amount needed to pay by the borrower in addition to the principal amount borrowed (Htay & Salman, 2013). Latin philosophers formally deemed usury and monetary interest mutually unfair. Similarly, Moududi, who is known as the father of the progressive Islamic economists, mentions that interest is absolutely forbidden because all types of interest are unreasonable and socially unfair. He further states that interest denotes excess wealth and an addition to the principal (Karim, 2010). According to Margrit Kennedy, Keynes and Adam Smith quoted by Karim (2010), interest is a serious disease like cancer in our society and community.

Conventional insurance practice is purely based on the element of interest regardless of whether it is life or general insurance. The main objective of the insurance company is to generate interest income by investing its funds in traditional investment instruments. The policy holders have to pay surcharges if they fail to pay their premium on time. Moreover, when life insurance policy reaches its maturity or death claim, the amount payable under such a policy is much more than the amount received by the mean of premium.

Uncertainty is one of the elements of conventional insurance practice because it gives birth to ambiguities and uncertainties. Under an insurance contract, the insured has to pay a premium in order to make claims depending upon the occurrence of a defined loss or mishap. On the contrary, if there is no mishap or loss during the contractual period, the insured get neither claims nor the premium paid (Zuriah & Hendon, 2009). Thus, paying the premium by the insured does not guarantee any payment of claims to the insured. From an insurer's point of view, when any misfortune afflicts the insured, the insurer needs to pay the claims and it will be a loss for the insurer while and a gain for the insured. Hence, element of uncertainty in the insurance practice makes it of a gambling nature, i.e. possibility of occurrence which varies from zero to infinity (El-Gamal, 2000).

Gambling refers to a situation where a person assumes unnecessary risk by entering into a transaction where the chance of gain is less or fear of loss is more (Zuriah & Redzuan, 2009). Many Islamic proponents dislike the concept of insurance and said it should be rejected, as it is a form of gambling. This is because gambling is purely a business of chance and literally means acquiring or gaining something easily without any adversity (Ezam Shah, 2011).

The insurance policy could not survive without the element of gambling. In general insurance, if there is no claim made by the insured, certainly he could lose the premium paid. In contrast, when the insured makes claims, he will probably submit claims more than the premium paid. In the second situation, there is a chance where an insurance company faces a deficit budget if the claim amounts are higher than its contributions. Many proponents think that human life value in life insurance should not be calculated as a wager (Qaiser, n.d).

In addition, both in general and life insurance, the insurance funds are invested in interest-based instruments (Qaiser, n.d). Normally, the traditional insurers deposit their money in conventional banking, invest in the interest-bearing bond, alcohol, and non-halal elements etc. This is not acceptable in Islam and it is considered *haram* activities. Moreover, the insurers underwrite certain policies which are against the *Shari'ah* such as providing insurance for the interest-bearing conventional bank, night clubs, and alcohol manufacturing businesses. Apart from the unethical issues related to interest, uncertainty, gambling, and investment in non-*halal* businesses, the insurance industry has other unethical issues which are related to delay in claims and settlement, over charging premiums with unfair underwriting processes, risk transferring from the insured to the insurer, creating unethical business environment, and lack of transparency in disclosure.

5.0 Takaful, its Definitions, and Historical Development

Similar to insurance, *Takaful* has a few definitions some of which are stated below.

> *"Takaful" means an arrangement based on mutual assistance under which Takaful participants agree to contribute to a common fund providing for mutual financial benefits payable to the Takaful participants or their beneficiaries on the occurrence of pre-agreed events*; *(*Islamic Financial Service Act, 2013).
>
> *"Islamic insurance is an agreement between persons who are exposed to risks to protect themselves against harms arising from the risks by paying contributions on the basis of "commitment to donate" (iltizam bi al-tabarru). Following from that, the insurance fund is established, and it is treated as a separate legal entity (shakhsiyyahI' tibariyyah) which has independent financial liability. The fund will cover the compensation against harms that befall any of participants due to the occurrence of the insured risks (perils) in accordance with the terms of the policy"* (AAOIFI'S Shari'ah Standard, 2007).
>
> *"Takaful is the Islamic counterpart of conventional insurance and exists in both Family (or "Life") and General forms. Takaful is derived from an Arabic word that means joint guarantee, whereby a group of participants agree among themselves to support one another jointly for the losses arising from specified risks. In a Takaful arrangement the participants contribute a sum of money as a Tabarru' commitment into a common fund that will be used mutually to assist the members against a specified type of loss or damage. The underwriting in a Takaful is thus undertaken on a mutual basis, similar in some respects to conventional mutual insurance. A typical Takaful undertaking consists of a two-tier structure that is a hybrid of a mutual and a commercial form of company – which is the Takaful operator (TO) – although in principle it could be a pure mutual structure."* (Islamic Financial Services Board, 2009).

In addition to the definitions provided by the prevailing standards, several researchers have defined what Takaful is. According to Salman et al. (2015), the contemporary concept of Takaful can be explained as the concept of providing financial assistance to the participants as a basis of mutual help, brotherhood, and solidarity if the participants face misfortune. Thus, it could be assumed that Takaful is an alternative to the conventional insurance and its primary objective to protect the participants based on the ethical and moral foundations and does not seek to maximise profit. According to Usmani (2007), Billah (2003), Htay and Salman (2013), and Zariah and Hendon (2009), *Takaful* is an Islamic insurance grounded by the principles of donation (*Tabarru'*) and mutual cooperation (*Ta'awun*). In this case, by creating a common pool contributed by the participants, the risk is shared collectively by group members to protect each other against a defined loss (Ab Rahman, 2009; Zariah & Hendon, 2009; Htay & Salman, 2013). In a basic way, Takaful provides a similar function to insurance and yet does not contain elements of *riba*, uncertainty, and gambling.

If the history of Takaful is examined, it can be traced back to Prophet Muhammad (PBUH). The concept of *Al-Aqīlah* was established by the Prophet (PBUH) in the decision given in a dispute among two women from the tribe of *Huzail*. The notion and concept of *Takaful* initiated from the idea and concept of *Aqīlah* and it has been experienced since the Prophet's (PBUH) through to the present day. The concept of *Aqīlah* and its practice has been sustained by the companions of the Prophet (PBUH). The second caliph of Islam, *Sayyedana Umar (rz)* created a *diwan* (committee) of *Mujahideen* (collectors) in A.D 634. The people under this committee provided mutual help to contribute blood money for manslaughter committed by somebody from their own society.

The insurance practices focused on marine trade in the 14th to 17th century. Ibn Abedeen a Hanafi lawyer during the 19th century (1784-1836) became the primeval Islamic thinker to come up with the importance, general idea, and legal basis of an insurance contract (Klingmuller, 1969). He was the very first to have characterised insurance as a licensed organisation and since his time insurance practices have been founded on lawful and legal institutions, not based on customary practice. In the 20th century, Islamic scholars and jurists issued the *Fatawa* on the unlawful nature of conventional insurance. In addition, Takaful has been introduced as an alternative to conventional insurance (Billah, 2003; Kassar, 2008; Ezamshah, 2011; Alhabshi et al, 2012; Salman & Htay, 2014; Salman, 2014; Salman & Htay, 2014).

The Takaful industry is relatively new compared to conventional insurance in the contemporary economic environment. It has been offered since 1970s with the establishment of the Takaful company in Sudan in 1974. Since its inception, Takaful has seen positive growth in key markets such as Saudi Arabia, UAE, and Malaysia.

EY Global Takaful Insights (2013) highlights the number of Takaful operators in key *Takaful* market centres. According to this report, the total number of *Takaful* operators in the key market is 174 comprising of 34 in Saudi Arabia, 11 in Malaysia, 43 in GCC countries (excluding Saudi Arabia), 29 in ASEAN (excluding Malaysia), 12 in South Asia, 36 in Africa, and nine in the Levant. Family and medical Takaful are the major business lines in the markets, for instance, 80% in South Asia, 50% in ASEAN and 47% in MENA belongs to family and medical Takaful.

According to Global Takaful Insights (2014), the total global gross contribution of *Takaful* is estimated to reach US$14 billion in 2014 from an estimated US$12.3 billion in 2013. The *Takaful* growth has been continuously moderated since 2007 to 2014. ASEAN countries such as Malaysia, Indonesia, Brunei, Singapore, and Thailand are motivated by robust economies and continue to accomplish growth at 22% CAGR. The GCC7 countries (excluding Saudi Arabia) recorded progress of around 12%. Saudi Arabia cooperatives account for closely half (48%) of worldwide gross Takaful contributions. ASEAN countries, explicitly Malaysia and Indonesia, account for approximately one-third (30%) of entire gross Takaful contributions, followed by other GCC7 countries at 15%. Africa, South Asia, and Levant account for 7% of global Takaful contributions.

6.0 Validity of Takaful Within the Framework of Shari'ah, Its Models and Products
The word "Takaful" is not mentioned in the Qur'ān. However, its notion, idea, and concept such as mutual cooperation and helping the needy are encouraged in the Qur'ān, Hadith, and legal maxim. The fundamentals of Takaful are built on some verses of the Qur'ān as well as the sayings of Prophet Muhammad (PBUH). The following verses and sayings confirm the need of Takaful and its legality:

Basis of cooperation is originated in the verse: *"Help ye one another in righteousness and piety, But help ye not one another in sin and rancor…*" (Surah Al-Maidah, 2)

"Allah intends every facility for you; he does not want to put to difficulties…" (Surah Al-Baqarah, 185)

It was reported from the Prophet as thus: "*Allah will always help His servant for as long as he helps others*". (Narrated by Imam Ahmad bin Hanbal and Imam Abu Daud)

On the Basis of Mutual Protection, "*O ye who believe! Eat not up your property among yourselves in vanties: But let there be amongst you Traffic and trade by mutual good-will.*" (Surah An-Nisa, 29)

Prophet Muhammad says: "*By my life, which is in Allah's Power, nobody will enter Paradise if he does not protect his neighbour who is in distresses*," *(Narrated by Imam Ahmad bin Hanbal).*

There is also an Islamic authorised maxim (*Al qa'iadah al fiqhiyyah*) that is closely related to Takaful, which reads: "*Al- darar yuzul*" meaning: "damage or harm is removed." The maxim entails if any loss or destruction occurs, endeavour to recoup it. In this case, Takaful acts as a bridge between the insurer and the insured as the insurer puts his efforts to remove damage or harm by granting donation or coverage to the affected person (prey) or his family (Engku Rabiah & Hassan Scott, 2008).

The basic concepts and fundaments of Takaful are the same principles what Allah and the Prophet mentioned in the Qur'an and Sunnah. Permissibility of cooperative, mutual insurance stems from the fact that it is based on cooperation and donation rather than on exchange of contract.

Therefore, numerous resolutions were issued by Fiqh forums concerning the acceptability of cooperative insurance. Such resolutions contain, the resolution of the Islamic Research Academy of Al Azhar Al Shareef, the resolution of the Islamic Fiqh Academy of the World Muslim League referred to earlier, and the resolution of the International Fiqh Academy which state that the contract that respects the origins of Islamic dealings is the cooperative insurance contract which is based on donation and cooperation (AAOIFI Standards, 2007).

Frenz and Soualhi (2010) explain laboriously on four commonly used models in *Takaful* industry. These are (1) the pure *wakalah* model, in which Takaful operator receives pre-agreed, *wakalah* fee comprising both administration and investment fee, (2) the *mudarabah* model, based on classic profit sharing principles whereby Takaful operator is only entitled to the investment portion and underwriting surplus is returned to the participants, (3) the *wakalah-mudarabah* hybrid model, Takaful operator charges a *wakalah* fee from the Takaful contribution, underwriting profits are distributed to the participants and the investment profit is shared between Takaful operator and participants and (4) the *waqf* model, whereby the *Takaful* operator will be the manager of the *waqf* together with Takaful fund and entitle to get a fee for the *wakalah* management but the surplus is not returned directly by either the Takaful operator or the participants. These models are different from each other.

The choice of adapting the Takaful operating model depends on the regional acceptance, product design, marketing, and pricing and the *Shari'ah* rules governed by the *Shariah* Advisory Council. However, according to Frenz and Soualhi (2010), the *wakalah* model is widely used worldwide because it provides a fixed and steady income stream for the Takaful operator as the fee can be collected up- front and support acquisition cost. In Malaysia, most Takaful operators have opted for the *wakalah* contract as its business model. This type of contract employs *tabarru'* and *wakalah* contracts to govern the business.

Like conventional insurance, types of Takaful divided into family and general Takaful (Ab Rahman, 2009: 2008; Zariah & Hendon, 2009; Htay & Salman, 2013). Family Takaful is the counterpart of life insurance and it is longer term relationship. According to Zariah and Hendon (2009), family Takaful plans provide protection to the dependents in the event of premature death of participants. They further explain, as conventional life insurance, the objective of family Takaful is to encourage the participants to save through payment of contributions and earn investment profits through lawful manner. In Malaysia, family Takaful normally covers education, medical surgery, critical illnesses, permanent disability, mortgage protection etc. General Takaful is the counterpart of general insurance and it is joint guarantee on a short-term basis and designed to meet the needs for protection of individuals and corporate bodies in the event of loss and damage due to disaster, flood etc.

6.1 Takaful as a Solution

It is obvious that nowadays insurance has become a necessity rather a luxury. Overall, the growth of the insurance industry is tremendous due to employment and regulatory requirements, which force us to buy it. It is undeniable that insurance is useful since it can provide financial assistance to the policy holders although it involves unfair business practices. The factors which make insurance unethical are interest, uncertainty, gambling, and non-*Shari'ah* compliant investment. These elements are prohibited not only from the perspective of Islam but also from other religions.

Similar to insurance, Takaful can provide financial assistance while remaining free from the prohibited elements involved in the insurance practices. Takaful is also known as ethical insurance. It is based on the concept of mutual help and cooperation and it fosters solidarity and brotherhood among the participants. Takaful is not a religious product, but a commercial product. It is suitable for anyone, regardless of religion. Its importance and significant role in the finance industry is tremendous. It can be remarked that Takaful has a more value-added substance than insurance and it is the ultimate solution for anyone who is seeking financial protection for their potential misfortune.

7.0 Conclusion

This paper highlights that although insurance is a useful tool, it is not a complete and perfect mechanism for the society whereby people seek financial assistance when they are hit by misfortune. For insurance to be a perfect tool, it should be transformed into Takaful. Takaful is an insurance product which is free from prohibited elements such as interest, uncertainty, gambling, and non-*Shari'ah* compliant investment. These four elements are prohibited based on the unfairness resulting on the society. Because of that, Muslim scholars introduced the idea of Takaful and it is now widely spreading all over the world. Although the original idea of Takaful is started by Muslim scholars, it is a commercial not religious product and it is suitable for anyone. It is because not only Islam, but also other religions prohibit the unethical practices of insurance. It is expected that the readers of this papers will be benefited with insight to problems of insurance and knowing that Takaful is a practical solution to remove all unethical practices of insurance. The highlights of this paper will interest industrial players, investors, regulators, existing, and potential insurance policy holders or Takaful participants and researchers.

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