

International Center for Education in Islamic Finance



Chartered Islamic Finance Professional (CIFP) Part II

TK2002 - Takaful and Actuarial Practices

Project Paper:

Takaful Product vs. Insurance product

Case study: Motor Policy

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Abstract

This paper discusses the difference between takaful product and conventional insurance product especially general takaful and insurance in terms and provisions of contract, market comparison, performances, market demand and methods of distribution, major issues and challenges of each product in selected country. Finally the paper develops some kind recommendations as to changes to the takaful contract which can enhance the demand or popularity of the targeted product in the market. In order to achieve this objective, the study looks through the different legal documentations of both takaful and conventional insurance contracts specifically motor product.

Keywords:

Takaful, conventional insurance, product, contract, Shari'ah, takaful operator, insured, policyholder, insurer

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1.0 Introduction

Historically Takaful is not a new concept as it had been practiced by the Muhajirin of Mecca and the Ansar of Medina following the hijra of the Prophet (SCW) over 1400 years ago. Takaful is an insurance concept in Shari'ah whereby a group of participants mutually agree among themselves to guarantee each other against a defined loss or damage that may inflict upon any of them by contributing as tabarru' or donation in the takaful funds. It emphasizes unity and co-operation among participants. The source for supporting Takaful comes from the Holy Qur'an and the Sunnah. As the contract of takaful contains the element of mutual co-operation, the contract is a binding contract both to the operator as well as the participant under the law of contract and Shari'ah

Allah SWT precisely explains in the Qur'an the human being should help each other when they are in danger or need help. And there are a lot of verse in Qur'an that encourages human being to help each other, these verse are, Surah Al Maidah (5): 3, Surah Al Maidah (5): 3.

Islam is not against the concept of insurance itself but against some of the means and methods that are currently used in conventional insurance. Islamic religion welcomes Takaful, because Islamic religion is very clear religion and it talks about many different aspects of life. Therefore, in order Islam accept Takaful, it should be free from any element that is prohibited, such the elements of Riba (interest), Maisir (gambling) and Gharar (uncertainty), though elements of Gharar may be forgivable depending on the circumstances.

Conventional insurance, in comparison, is not permissible in Islam that it contains three elements contradictory to Islamic Shari'ah. Conventional insurance contains riba in two situations¹:

¹ *Takaful Industry*. Retrieved from <http://www.mei.edu/content/malaysia-and-gcc-countries-fertile-ground-further-expansion-takaful-industry>

- No equality between insured's installments and insurer's compensation
- Receives profit from its involvement in riba-related transactions

The approach is to buy an insurance policy whereby an insured will transfer his risk to the insurance company which in exchange of a premium accepts the responsibility of indemnifying the insured in case the risk insured for materializes. This method of risk mitigation has been declared to be haram by most Muslim scholars as it contractually contains haram elements such as riba , gharar and maysir.

The fundamental difference between takaful and conventional insurance is rooted from the type of contract adopted. Conventional insurance adopts bilateral contracts, i.e., payment of premium in consideration of payment of compensation in the event of defined loss. Takaful is based on tabarru' (donation) contract which is unilateral in nature. All takaful participants mutually insure one another based on the spirit of brotherhood, mutual help and mutual indemnity².

2.0 Paper Focus (Scope)

The paper is to focus on only the similarity of and difference between the two systems – Islamic insurance and conventional insurance specially general insurance and general takaful contracts and products in terms of coverage, general conditions, clauses, warranties and exclusions in the legal documentation related to motor scheme of both systems as it is better to first make a general overview of both systems - Islamic insurance and conventional insurance coverage, for example Malaysia as the lead of Islamic insurance (takaful) as well as the application and use of two systems already existed in this country.

3.0 Differences and similarities

Similarity of functions between the insurance and takaful products cannot be denied and should be expected given that the concept of mutually helping each other, which is found in insurance, is also a concept applauded by Islam. For instance, both auto takaful and auto insurance offer the same services to motorists, that is a policy that insures the policyholder

² S. Weber (2012), "Takaful: more than just green shoots", Islamic Finance News, February 2012.

for a claim against the insurer/ Takaful operator for bodily injuries or death caused to other persons, as well as loss or damage to third party property caused by their vehicle or to their own vehicle due to an accident. The first is known as third party cover and the latter a comprehensive or first party covers.

However, from the conceptual and operational perspective, many differences were noted between takaful and insurance. These are mainly due to elements found in an insurance contract that are prohibited in any Islamic transactions like interest (*riba*), uncertainty (*gharar*) and gaming *maysir*). Hence, takaful products, including the auto takaful, are designed to function as any typical insurance product, but operated differently, to avoid the prohibitive elements³.

In general takaful policies, for example, the policyholder is known as a participant simply because he participates in contributing a sum of money to a general fund in the form of participative contribution or *tabarru'*. A participant, in fact, does not pay the takaful operators for the financial risk transferred to them but agrees that the money will be used to mutually help each other (participants), should any of them suffer a loss. The takaful operators act as managers who will manage the fund either in distributing the fund to the necessary benefactor or in investing any fund surplus after re-takaful, reserves and claimant activities. The latter necessitates that the participant should also enter into a contract of *mudharabah* (profit sharing) with the operator, where the operator is the entrepreneur, when the contract is signed or the operator acts as a manager for the fund if contract of *wakalah* is employed.

In other words, in auto takaful, motorists become the participants of a fund where each of them has agreed to mutually help each other financially (from the fund formed), should any of them suffer a loss because of an accident involving their vehicles.

Apart from the differences in the underlying concepts, both the participants and the auto insurance policyholder do actually pay out some amount of money, known as contributions

³ *Shariah Journal*, Vol 16 No.1 (2008), 75-88

or premiums, to the auto takaful/insurance operators. Also, both would be given discounts known as Non-Claimant Benefit (NCB) or Non Claimant Discount (NCD) if they do not make any claim against the takaful/insurance operator over the period of the policy.

The only other difference would be that at maturity, any participant who did not make any claim during the period of takaful is entitled to a share of the fund's surplus, which also includes the fund's investment profit, if any, if the *mudharabah* contract is employed, or a cash gift, if the *wakalah* contract is employed. By contrast, the auto insurance policy holders are not entitled to any of these⁴.

4.0 Types of Business (Products)

4.1 Islamic System

In Malaysia, the takaful businesses carried out by the takaful operators are divided into Family Takaful business (Islamic life insurance) and General Takaful business (Islamic general insurance).

The family takaful plan is a combination of long-term investment and mutual financial assistance scheme. Examples of covers available under family takaful business are as follows⁵: -

- Individual family takaful plans
 - Mortgage
 - Health
 - Education
 - Travel
 - Family plan
 - Waqf
- Group plan
 - Group family
 - Group medical
- Annuity
 - Employees provident fund

⁴ www.bmdynamics.com ISSN: 2047-7031

⁵ THE ISLAMIC WAY OF INSURANCE, ZAINAL ABIDIN MOHD. KASSIM MERCER ZAINAL CONSULTING SDN. BHD, MALAYSIA

- retirement

The general takaful scheme is purely for mutual financial help on a short-term basis, usually 12 months to compensate its participants for any material loss, damage or destruction that any of them might suffer arising from a misfortune that might inflict upon his properties or belongings. The contribution that a participant pays into the general takaful fund is wholly on the basis of tabarru'. If at the end of the period of takaful, there is a net surplus in the general takaful fund, the same shall be shared between the participant and the operator in accordance with the principle of al-Mudharabah, provided that the participant has not incurred any claim and/or not received any benefits under the general takaful certificate.

- Fire Takaful Scheme
- Motor Takaful Scheme
- Accident/Miscellaneous Takaful Scheme
- Marine Takaful Scheme and
- Engineering Takaful Scheme.

4.2 Conventional System

As often heard about various types of insurance policies without really understanding, what they are and more importantly, what they protect. The truth is, there are two main types of insurance, namely life insurance and general insurance which covers different aspects in the life.

Life insurance is an insurance coverage that pays out a certain amount of money to the insured or their specified beneficiaries upon a certain event such as death of the individual who is insured. The coverage period for life insurance is usually more than a year. So this requires periodic premium payments, either monthly, quarterly or annually. The risks that are covered by life insurance are:

General insurance provides variety products and services for individuals, as well as for small and large businesses through its agent and brokers distribution network. Examples of main product covers available under general insurance business are as follows: -

- Motor insurance
- Fire/house owners/householders insurance
- Personal accident insurance
- Medical and health insurance travel insurance⁶

4.3 Terms and provisions in Islamic insurance system

Takaful contracts can be generally considered contract of adhesion because the insurer draws up the contract and the insured has little or no ability to make material changes to it. This is interpreted to mean that the operator bears the burden if there is any ambiguity in any terms of the contract. Prospects usually see the contract only after they have joined the scheme.

Takaful contracts are also considered unilateral in nature, meaning that only the operator makes legally enforceable promises in the contract. The participants is not required to pay the contributions, but the operator is required to pay the benefits under the contract if the participants have paid the contributions and met certain other basic provisions.

Provisions in the takaful certificate may be of different types such as general provisions, contribution provisions, fund provisions and ownership provisions. The following are examples of some of these provisions⁷.

4.3.1 Provisions

4.3.1.1 General Provisions:

- The contract
- Incontestability
- Modification
- Freedom from Restrictions
- Age and Sex
- Proof of Age

⁶ THE INSTITUTE OF COMPANY SECRETARIES OF INDIA

⁷ Takaful and Actuarial Book and slide

- Currency and Place of Payment

4.3.1.2 Contribution Provisions:

- Certificate Years and Anniversaries
- Payment
- Change
- Grace period
- Contribution Clause

4.3.1.3 Fund Provisions

- Shari'ah –Approved Funds
- Valuation of Funds

4.3.1.4 Ownership Provisions

- The owner
- Change of Ownership
- Assignment
- The Nominee
- Revocation of Nomination

4.4 Terms and provisions in Insurance (Conventional) Policy

The conventional insurance policy is a contract concluded by mutual agreement between the policyholder and the company. The following are examples of some of general terms and conditions⁸:

1. Subject, scope and territory of insurance cover
2. Inception of insurance cover
3. Conclusion and period of policy
4. Scope of obligation to perform
5. Limitation of obligation to perform
6. Payment of insurance benefits; submission of supporting documents
7. Expiry of insurance cover
8. Premium payment

⁸ Australian Journal of Business and Management Research Vol.1 No.8 [23-28] | November-2011

- a. Premium adjustment
 - b. Amendments to the General Terms and Conditions of Insurance
- 9. Obligations
 - 10. Consequences of non-fulfillment of obligations
 - 11. Claims against third parties
 - 12. Set-off
 - 13. Notifications and declarations of intent
 - 14. Limitation period/Place of jurisdiction

5.0 Motor Vehicle Insurance (Conventional)

The insurance companies have different insurance policies towards works and contacts even if they are from or in the same country⁹.

5.1 Bases of the contract

The policy and the provisions set out below form the subject matter of the contract, which is governed by country system, for instance the motor policy from insurance company in Switzerland country, (Non-Islamic Law). In order to make the General Terms and Conditions easier to read, masculine personal pronouns are used throughout. Of course, these terms also apply to women and to legal entities.

5.2 General provisions

5.2.1 Contract terms

The insurance commences on the day stated in the policy. If proof of insurance was issued, insurance cover corresponding to the minimum statutory level will apply for third-party claims from the date specified therein. If the application is rejected, the insurance cover terminates three days after the policyholder receives the notice. The premium is paid on a pro-rata basis for the term of the provisional cover. The contract is for the term mentioned in the policy and is subsequently extended for successive terms of one year unless a contracting party has received at least three months' prior notice of termination. If the term of the contract is less than one year, it terminates on the expiry date stated in the policy.

5.2.2 Temporal and geographical scope

⁹ Motor insurance, Asia's growth engine

The insurance policy is valid for damage or loss caused during the contract term. In the case of transport by sea, the cover shall not be interrupted if the place of departure and the destination both lies within the local area of validity. If the registered owner of the vehicle leaves the country and moves abroad or if he registers the vehicle abroad, the insurance cover shall expire at the latest at the end of the insurance year in which this change comes into effect. At the request of the policyholder, the contract may also be cancelled beforehand, albeit no earlier than the date on which the previous license plates are deposited.

5.2.3 Change in premiums, deductibles and compensation limit

The insurance company may alter premiums and deductibles at the beginning of a new insurance year, notifying the policyholder of such changes at least 25 days before the end of the current insurance year

5.2.4 Premiums and premium refund

In the absence of any agreement to the contrary, the premium is fixed per insurance year and is payable in advance no later than the first day of the agreed month of expiry. The first premium is due for payment against invoice, though not before the commencement of the insurance term. If the premiums are not paid on the respective due date, the company sends the policyholder, at his own expense, a written reminder calling upon him to make payment within 14 days on pain of the consequences of failing to do so.

5.2.5 Change of registered user/owner

If there is a change in the registered user/owner of the vehicle, the rights and duties under the insurance policy shall automatically pass over to the new registered user or owner. However, the contract shall expire automatically if the new vehicle registration document is issued on the basis of another insurance contract. The company shall reserve the right to rescind the contract in writing within 14 days of being informed of the change of registered user.

5.2.6 Change in the level of risk

If a material circumstance communicated in the application or in some other way changes in the course of the policy term, the policyholder must inform the insurance company of this in writing without delay. An increase in risk justifies the company in raising the

premium for the residual term of the contract, making its continuation conditional on supplementary conditions, or giving 30 days' notice of cancellation within 14 days of receiving the report. The policyholder enjoys the same right of cancellation if agreement cannot be reached on the premium increase.

5.2.7 Duties of care and obligations

The insured person is subject to a duty of care requiring him to take appropriate measures to protect the insured items from the risks covered.

5.2.8 Breaches of duties of care and obligations

In the event of culpable breaches of statutory or contractual regulations or obligations, the payment obligation does not apply and compensation can be reduced to the extent that these affect the occurrence, the extent or the demonstrability of the damage unless the insured person can show that there was in fact no such effect.

5.2.9 Insured vehicle/Replacement vehicle

The insurance policy shall cover the vehicles named in the policy document. The policy cover shall apply to the replacement car which is used temporarily in place of the insured car, with the latter car's license plates, provided the requisite official permission for this is in place, and provided the replacement vehicle is of comparable value. If the policyholder has comprehensive insurance, it shall apply on a partial cover basis for the replaced vehicle, however, should the vehicle be involved in a collision if fully comprehensive cover exists, this level of cover shall only apply if the loss event does not occur on a road serving as the public highway. If the temporary replacement vehicle is used for more than 30 consecutive days, the registered user shall be required to inform the company immediately. If he neglects to do so or if he fails to seek official permission to use the replacement vehicle, the company's obligations under this policy shall cease.

5.2.10 Replacement plates

The insurance policy only covers vehicles named in the policy document which are fitted with the replacement plates. Where the vehicle does not have license plates, the policy shall only cover damage which occurs on a road which does not serve as the public highway. If simultaneous use is made of the two vehicles on roads which are open to public traffic and

damage occurs, the company's obligations under this policy shall cease. If the company is required to cover the loss under the third-party only policy by virtue of the Road Traffic Act, it shall be entitled to seek recourse from the policyholder and the insured person¹⁰.

6.0 Motor Vehicle Takaful (Islamic insurance)

Motor takaful proposal format, below, is published by eTiQa Takaful Company in Malaysia as one of the largest and most economically advanced Bank. In comparison, there is no a big difference among the two policies (Islamic and Conventional system), they often differ in how to make wording only¹¹.

¹⁰ Policies and Developments, Journal 2013

¹¹ Global Takaful Insights 2014, Market updates

Case Study: eTiQa Takaful Company



Motor Takaful Proposal Form

Important Notice

- Pursuant to Section 28, Takaful Act 1984, you are to disclose in this Proposal Form, fully and faithfully all the facts, which you know or ought to know, otherwise the Certificate issued may be void.
- Your attention is drawn to Section 25 of the Takaful Act 1984, no cover can be granted until the contribution has been paid in accordance with the Regulations issued under this Section. Any person who fails to comply with this Section shall be guilty of an offence and shall on conviction be liable to a fine not exceeding RM500,000.00.
- It is hereby understood and agreed that if the vehicle shall at the time of happening of any loss or damage (be it partial / total loss) be covered for a sum less than its market value then, the insured shall be considered as being its own takaful operator for the difference and shall bear rateable proportion of the loss accordingly. Provided that this clause shall not apply unless the market value at the time of loss exceeds the covered value by 10%.
- It is an offence under the law Republic Singapore to enter the country without extending Passenger Liability Cover to your motor Takaful.
- In line with our Group's strategy to promote usage of technology and to help preserve the country's natural resources, we no longer print the full certificate wordings. Do visit www.etiqa.com.my for the full certificate wording. Printout may also be obtained from our offices nationwide or from our agents.

Individual Proposer		Company Proposer	
Title		Company Name	
Name			
MyKad No.		Company Registration No.	
Army / Police / Passport No.		Date of Company Registration	
Gender	Date of Birth		
Marital Status <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Divorced <input type="checkbox"/> Widowed		Contact Person	
Occupation		Nature of Business	
Phone No. (Mobile/House/Office)		Fax No.	E-Mail
Correspondence Address			
Postcode	Town	State	

To be filled by Individual Proposer only

Education Level	<input type="checkbox"/> Primary	<input type="checkbox"/> Secondary	<input type="checkbox"/> Diploma	<input type="checkbox"/> Bachelor Degree
	<input type="checkbox"/> Master	<input type="checkbox"/> Doctorate	<input type="checkbox"/> Professional	
No. of children in family (please indicate the number)	<input type="checkbox"/> 0 - 12 years	<input type="checkbox"/> 12 years to 18 years	<input type="checkbox"/> 18 years +	
Monthly Household Income	<input type="checkbox"/> Up to RM1,500	<input type="checkbox"/> RM1,501 - RM2,500	<input type="checkbox"/> RM2,501 - RM5,000	<input type="checkbox"/> RM5,001 - RM8,000
	<input type="checkbox"/> RM8,001 - RM15,000	<input type="checkbox"/> RM15,001 - RM20,000	<input type="checkbox"/> RM20,001 +	



Details of Coverage Required

Period of Takaful		from		to		
Use of Vehicle	Private Car		Commercial Vehicle		Motorcycle	
	<input type="checkbox"/> Social	<input type="checkbox"/> Carrying Goods	<input type="checkbox"/> Private hire	<input type="checkbox"/> C Permit <input type="checkbox"/> A Permit <input type="checkbox"/> Bus	Tonnage _____ Tonnage _____ Passengers _____	<input type="checkbox"/> Single Rider <input type="checkbox"/> All Rider <input type="checkbox"/> Private Use
	Make & Model		Cubic Capacity		Proposer's Driving License	
					<input type="checkbox"/> Learner (L) / Probation (P) <input type="checkbox"/> Full	
Seating capacity		Year Manufactured		Vehicle No		
Engine No.		Chassis No.		No. of Claims for the past 3 years		
Registration Card No		Date of Vehicle Purchased		Vehicle Purchase Price		
Place where vehicle is usually garaged		<input type="checkbox"/> Within fenced up compound	<input type="checkbox"/> Roadside	<input type="checkbox"/> Others		
Safety Features		<input type="checkbox"/> Airbag (If Yes, number _____)		<input type="checkbox"/> ABS Braking System		
Anti-Theft Devices		<input type="checkbox"/> Gear or steering lock <input type="checkbox"/> GPS / Tracking and recovery system		<input type="checkbox"/> Immobiliser <input type="checkbox"/> Factory fitted		

Name of Authorised Driver

	1st Driver	2nd Driver	3rd Driver
Full Name			
MyKad / Army / Police / Passport No.			
Date of Birth			
Years of Driving Experience			
Occupation			

No Claim Discount (NCD)

Previous Insurer/ Takaful Operator	Previous Policy/ Certificate No
Vehicle No	NCD Entitlement
Period of Insurance/ Takaful	Claim Free Years

Hire Purchase Details

Finance Company	Branch
-----------------	--------

Cover Type

Type of Coverage	<input type="checkbox"/> Comprehensive	<input type="checkbox"/> Third Party Only	<input type="checkbox"/> Third Party Inclusive of Fire & Theft
Total Sum Covered			
Additional Coverage	<input type="checkbox"/> Legal Liability To Passenger (LLTP)	<input type="checkbox"/> Legal Liability of Passenger (LLOP)	
	<input type="checkbox"/> Strike, Riot and Civil Commotion	<input type="checkbox"/> Flood	
	<input type="checkbox"/> Radio / Cassette RM _____	<input type="checkbox"/> Windscreen RM _____	
	<input type="checkbox"/> All Drivers (applicable to company only)	<input type="checkbox"/> NCD Relief	

Details of Coverage Required

Period of Takaful		from			to		
Use of Vehicle	Private Car		Commercial Vehicle			Motorcycle	
	<input type="checkbox"/> Social		<input type="checkbox"/> C Permit Tonnage _____			<input type="checkbox"/> Single Rider	
	<input type="checkbox"/> Carrying Goods		<input type="checkbox"/> A Permit Tonnage _____			<input type="checkbox"/> All Rider	
	<input type="checkbox"/> Private hire		<input type="checkbox"/> Bus Passengers _____			<input type="checkbox"/> Private Use	
Make & Model				Proposer's Driving License			
Cubic Capacity				<input type="checkbox"/> Learner (L) / Probation (P)			
				<input type="checkbox"/> Full			
Seating capacity		Year Manufactured		Vehicle No			
Engine No.		Chassis No.		No. of Claims for the past 3 years			
Registration Card No		Date of Vehicle Purchased		Vehicle Purchase Price			
Place where vehicle is usually garaged		<input type="checkbox"/> Within fenced up compound		<input type="checkbox"/> Roadside		<input type="checkbox"/> Others	
Safety Features		<input type="checkbox"/> Airbag (If Yes, number _____)		<input type="checkbox"/> ABS Braking System			
Anti-Theft Devices		<input type="checkbox"/> Gear or steering lock		<input type="checkbox"/> Immobiliser			
		<input type="checkbox"/> GPS / Traking and recovery system		<input type="checkbox"/> Factory fitted			

Name of Authorised Driver

	1st Driver	2nd Driver	3rd Driver
Full Name			
MyKad / Army / Police / Passport No.			
Date of Birth			
Years of Driving Experience			
Occupation			

No Claim Discount (NCD)

Previous Insurer/ Takaful Operator	Previous Policy/ Certificate No
Vehicle No	NCD Entitlement
Period of Insurance/ Takaful	Claim Free Years

Hire Purchase Details

Finance Company	Branch
-----------------	--------

Cover Type

Type of Coverage	<input type="checkbox"/> Comprehensive	<input type="checkbox"/> Third Party Only	<input type="checkbox"/> Third Party Inclusive of Fire & Theft
Total Sum Covered			
Additional Coverage	<input type="checkbox"/> Legal Liability To Passenger (LLTP)	<input type="checkbox"/> Legal Liability of Passenger (LLOP)	
	<input type="checkbox"/> Strike, Riot and Civil Commotion	<input type="checkbox"/> Flood	
	<input type="checkbox"/> Radio / Cassette RM _____	<input type="checkbox"/> Windscreen RM _____	
	<input type="checkbox"/> All Drivers (applicable to company only)	<input type="checkbox"/> NCD Relief	

Details of Coverage Required

Period of Takaful		from			to		
Use of Vehicle	Private Car		Commercial Vehicle			Motorcycle	
	<input type="checkbox"/> Social		<input type="checkbox"/> C Permit	Tonnage	_____	<input type="checkbox"/> Single Rider	
	<input type="checkbox"/> Carrying Goods		<input type="checkbox"/> A Permit	Tonnage	_____	<input type="checkbox"/> All Rider	
	<input type="checkbox"/> Private hire		<input type="checkbox"/> Bus	Passengers	_____	<input type="checkbox"/> Private Use	
Make & Model			Proposer's Driving License		<input type="checkbox"/>	Learner (L) / Probation (P)	
Cubic Capacity					<input type="checkbox"/>	Full	
Seating capacity		Year Manufactured		Vehicle No			
Engine No.		Chassis No.		No. of Claims for the past 3 years			
Registration Card No		Date of Vehicle Purchased		Vehicle Purchase Price			
Place where vehicle is usually garaged		<input type="checkbox"/>	Within fenced up compound		<input type="checkbox"/>	Roadside	<input type="checkbox"/> Others
Safety Features		<input type="checkbox"/>	Airbag (If Yes, number _____)		<input type="checkbox"/>	ABS Braking System	
Anti-Theft Devices		<input type="checkbox"/>	Gear or steering lock		<input type="checkbox"/>	Immobiliser	
		<input type="checkbox"/>	GPS / Tracking and recovery system		<input type="checkbox"/>	Factory fitted	

Name of Authorised Driver

	1st Driver	2nd Driver	3rd Driver
Full Name			
MyKad / Army / Police / Passport No.			
Date of Birth			
Years of Driving Experience			
Occupation			

No Claim Discount (NCD)

Previous Insurer/ Takaful Operator	Previous Policy/ Certificate No
Vehicle No	NCD Entitlement
Period of Insurance/ Takaful	Claim Free Years

Hire Purchase Details

Finance Company	Branch
-----------------	--------

Cover Type

Type of Coverage	<input type="checkbox"/> Comprehensive	<input type="checkbox"/> Third Party Only	<input type="checkbox"/> Third Party Inclusive of Fire & Theft
Total Sum Covered			

Additional Coverage

<input type="checkbox"/> Legal Liability To Passenger (LLTP)	<input type="checkbox"/> Legal Liability of Passenger (LLOP)
<input type="checkbox"/> Strike, Riot and Civil Commotion	<input type="checkbox"/> Flood
<input type="checkbox"/> Radio / Cassette RM _____	<input type="checkbox"/> Windscreen RM _____
<input type="checkbox"/> All Drivers (applicable to company only)	<input type="checkbox"/> NCD Relief

7.0 Market Comparison (Motor Takaful vs. Motor Insurance)

According to Deloitte, the Way Forward for Takaful research report jointly conducted by INCEIF University, Henley Business School and sponsored by FWU, the global takaful insurance market exhibited double digit growth during 2007-2012 with worldwide gross takaful contribution reached USD18.3 billion.

Takaful is a fast growing industry with its core markets in the GCC and South Asia. In 2012, there were more than US\$10.9 billion in gross contributions worldwide and it served as a haven for consumers seeking Islamic Finance products. The market for those products and especially takaful, is mainly driven by KSA and Malaysia, and is expected to grow globally by 16% annually (2012 to 2017), compared to an average of 22% between 2007 and 2011. This would translate into more than US\$17 billion in annual gross contributions by 2015, with the Kingdom of Saudi Arabia making up close to half that figure.

In short, when a comparison is made to motor takaful and motor conventional insurance, for example Malaysia and India, especially in Islamic and non-Islamic system there may be difference in market operations performance and growth according to the following:

- In Malaysia, the insurance penetration rate is almost 1.8%, motor premium amount, in conventional system , is USD\$2b while predicted growth is 12% (BMI via OneSource, Motor insurance , Asia's growth engine)¹²
- Motor Takaful exhibits strong growth, consistently outpacing the growth in the conventional General Insurance market, although Takaful is still only 13% of the combined Motor market¹³.

8.0 Marketing or Distribution channels

Takaful industry at beginning was relating to synergy business from Islamic Banks and government-related business, being less competitive to the conventional counterpart. But

¹² Deloitte, the Way Forward for Takaful research report jointly conducted by INCEIF University, Henley Business School and sponsored by FWU

¹³ Bank Negara Malaysia Annual Insurance/Takaful Statistics, Financial Years 2007 to 2013

with more players entering the takaful market, the competition increased and now more companies are using a variety of distribution channels.

The takaful business is retail-based, and it has lack of identification of most effective forms of distribution. In fact, the commonly used channels are branches, agents and Islamic Banks known as Bancatakaful. This is the most preferred mode of distribution, followed by agency-based distribution. In Malaysia takaful companies use six main distribution channels, which are:

- Retail and corporate agencies;
- Bancatakaful;
- Corporate direct channels;
- Brokers;
- Direct marketing channels, although it is less prevalent.

For motor vehicle products, there are a number of takaful operators in Africa such as Kenya offering Shari'ah compliant takaful products from basic motor takaful products to complex pension schemes such as takaful umbrella fund. Companies distribute their products through registered brokers and agents¹⁴.

As conventional insurance businesses compared to Islamic insurance, the performed mode distribution is agents and brokers as well as Banc assurance. It was noticed that agents are more effective in penetrating non-Muslim customers and in expanding both Family and General Takaful products.

9.0 Issues and Challenges

There are major challenges and issues in takaful operations:

1. Shari'ah issues

1.1 Recognition and interpretation

2. Regulatory issues

2.1 Lack of standardization

3 Market issues/challenges

3.1 Competition

¹⁴ The way forward for Takaful, the same

3.2 Contribution /premium amount

3.3 Lack of awareness

3.4 Distribution

3.5 Short time (but without violating the borders of Shari'ah)

10.0 Conclusion & Recommendation

In this short study we have learned about Islamic insurance industry - family takaful products and general takaful products in general but in particular motor policy of both Islamic and conventional systems as well as their performances and also terms and conditions of their contracts. This paper made the comparison to the market and the increase in the financial system in takaful and insurance industry of both classes and found that there is more economic growth in Islamic insurance. Finally as seen in this paper there are some example issues and challenges of ever standing in the industry in general and in order to achieve unity and inclusive approach it need to rapidly develop one strategic plan investigate the roots of takaful concept to come out with new business ideas and one global Shari'ah and regulatory standard that can boost and spread the takaful spirit as a mutual-assistance concept.

Recommendation

Takaful is very important to the human being, every person wants to be insured in order to recover when they face loses. Natural disasters and catastrophes always have negative impact the life of the human being. In order to recover these all problems, human being should have at least some saving in their hands.

The challenges and issues that facing Takaful industry is not new it means they have been since long time and most of the challenges are disagreements between scholars and shariah boards. To my personal recommendation, this needs to be seen and come up with entirely solution with one standard by Shari'ah scholars, model to practice in order to develop Takaful industry. Besides, Riba (interest), Maisir (gambling) and Gharar (uncertainty) should be eliminated from Takaful industry. As a result, I conclude the recommendations, it is good to put too much effort all the following area such as education, payment rate, and area of investment and employee and customer care and awareness.

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