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B.Com Honours | Semester VI | Calicut University

ISLAMIC INVESTMENT AND INSURANCE

Course Code: COM6EJ312 • Module 3 Notes

Module III: Islamic Insurance (Takaful)

Covers conventional insurance objections (Riba, Gharar, Maysir), Takaful concept & principles, Tabarru (donation) risk-sharing pool, Takaful models (Wakalah, Mudarabah, Hybrid), and Re-Takaful.

Unit 9: Conventional Insurance Basics & Shariah Objections

Shariah Objections: Conventional commercial insurance is declared invalid by Islamic scholars due to *Gharar* (Uncertainty of payout event/amount), *Maysir* (Gambling on premiums vs claims), & *Riba* (Investing funds in interest-bearing bonds).

Unit 10: Islamic Insurance (Takaful) & Operational Models

Takaful Principles: Mutual cooperation (*Ta'awun*) & donation pool (*Tabarru*). Participants contribute premiums as donations to a shared risk pool to assist members facing losses.
- **Wakalah Model:** Operator manages pool for fixed agency fee (*Wakala Fee*).
- **Mudarabah Model:** Operator shares investment profit derived from risk pool reserves per agreed PSR ratio.

Unit 11: Reinsurance vs Re-Takaful & Risk Transfer

Re-Takaful: Islamic alternative to conventional reinsurance. Protects primary Takaful operators against catastrophic risk under Shariah-compliant risk-sharing pooling principles.

Practical Case Framework 1 (Conventional Insurance vs Takaful Operational Matrix): Compare operational attribute, Conventional Commercial Insurance, and Islamic Takaful.

Conventional Insurance vs Takaful Comparison Table:

Operational Attribute	Conventional Commercial Insurance	Islamic Insurance (Takaful)
Legal Nature of Contract	Risk transfer contract (Sale of risk)	Mutual guarantee & donation contract (Tabarru)
Ownership of Insurance Pool	Shareholders own insurance fund & profits	Participants own risk pool; operator manages as agent
Underwriting Surplus Handling	Retained 100% by company shareholders	Distributed back to policy participants or donated

Practical Case Framework 2 (Wakalah vs Mudarabah Takaful Operational Models Matrix): Compare Takaful model, operator fee structure, underwriting surplus distribution, and deficit funding rule.

Takaful Operational Models Reference Table:

Takaful Model Type	Operator Compensation Structure	Risk Pool Deficit Resolution Rule
Wakalah Model (Agency Basis)	Upfront fixed Wakalah Fee % on contributions	Operator provides Qard Hasan (Interest-free loan)
Mudarabah Model (Profit Sharing)	Agreed PSR % share of investment returns	Deficit covered by future underwriting surpluses