



INDICATORS OF TAKAFUL AWARENESS AMONG
KUWAITIS

BY

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A research paper submitted in fulfilment of the requirement
for the degree of Master of Science in
Islamic Banking and Finance

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ABSTRACT

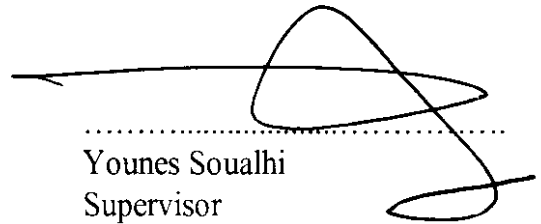
This research examines the awareness of takaful among Kuwaitis. It endeavours to determine any significant differences and conformities between demographic variables and the four aspects of awareness concerning general information, the features of takaful, shari'ah compliances and motives of takaful. The research adopted a quantitative research design. Descriptive, t-test, ANOVA and discriminant were employed to analyze the data collected via questionnaires. The research sample consisted of a total of 640 Kuwaitis from which 52% of the participants have not heard of takaful despite the existence of 12 takaful operators in Kuwait. More than 60% of the participants were unsure as to how a portion of their contributions would be invested, i.e. would it be shari'ah compliant or not. In addition, two-thirds of the respondents were unaware that they were eligible to receive part of the surplus, if any. This research offers context specific indicators for the development of takaful in Kuwait and highlights the areas in which the industry can develop.

خلاصة البحث

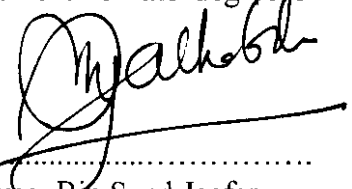
يسعى هذا البحث لاستكشاف مدى وعي الكويتيين حول التكافل. كما يهدف إلى تحديد أي المفارقات أو المطابقات ذات الدلالة بين المتغيرات الديموغرافية وأربع جوانب أخرى والتي هي: الوعي عن المعلومات العامة، والوعي حول مميزات التكافل، والوعي حول المطابقة للشريعة، والدوافع للتكافل. أما بالنسبة لطريقة البحث، فقد تم استخدام طريقة البحث الكمي، والذي تم من خلال توزيع الإستبانات. وقد أجاب على الاستبيان قرابة 640 كويتي و كويتية . ومن أبرز النتائج التي تم التوصل إليها فإن أكثر من النصف من المجيبين لم يسمعوا بالتكافل، بالرغم من وجود 12 شركة تكافل تعمل في الكويت. كما أظهرت النتائج أن أكثر من 60% من المجيبين غير متأكدين حول كيفية استثمار الشركة لمساهمتهم من جوانب عدة كمطابقته للشريعة من عدمها مثلاً. بالإضافة غلى ذلك فإن قرابة الثلثين لا يدركون ما إذا كانوا يستحقون الحصول على مردود من الفائض حال توفره أم لا.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion; it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a thesis for the degree of Master of Science in Islamic Banking and Finance.


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This research paper was submitted to the International Institute of Islamic Banking and Finance and is accepted as a fulfillment of the requirement for the degree of Master of Science in Islamic Banking and Finance.


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DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Ahmad F D Z R Alshammari

Signature 

Date..... 23/6/2014

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In the name of Allah the Most Gracious, Most Merciful and praise be to Allah, the Cherisher and Sustainer of the worlds for allowing the completion of this work. I would also like to convey my sincere Salam to His Messenger and Prophet, Muhammad (SAW).

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Although those who assisted me in some measure are too numerous to mention individually, no words can express my appreciation for their moral and academic contributions. They have been important sources of positive support during times of difficulty faced in this academic journey. However, special mention should be made of K.Alhadithie, O.Altwijry, T.Bakhrebah, R.Boey, M.Saeed, S.Nadwi, M.Hassan, A.Ahmed, M.AlhadiM.Abushareah, M.Aydemir, A.Hassan and U.Khurshid who were instrumental in guiding me throughout the duration of this research that culminated in a successful submission.

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TABLE OF CONTENTS

Abstract.....	ii
Abstract in Arabic	iii
Approval Page.....	iv
Declaration.....	v
Copyright Page.....	vi
Acknowledgments.....	vii
List of Tables	x
List of Figures	xi
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.2 Kuwait under the Scope	2
1.2.1 Banking Market.....	3
1.2.2 Capital Market.....	4
1.2.3 Takaful Market.....	5
1.3 Problem Statement	6
1.4 Research Questions	7
1.5 Research Objectives	7
1.6 Significance and Contribution of the Study	8
1.7 Organization of the Research.....	8
CHAPTER TWO: LITERATURE REVIEW	10
2.1 Introduction.....	10
2.2 Why do we need <i>Takaful</i> ?.....	10
2.3 <i>Shari'ah</i> Basis.....	12
2.4 Definition and Concept of Takaful	14
2.5 Models of Takaful.....	15
2.5.1 The Wakalah Model	16
2.5.2 Mudarabah Model	19
2.5.3 The Hybrid Model.....	21
2.5.4 The Waqf Model:	23
2.6 Product Classification	25
2.7 Comparison between <i>Takaful</i> and Insurance.....	25
2.8 Samples of Awareness of <i>Takaful</i> over the World	27
2.8.1 Pakistan.....	27
2.8.2 Singapore	28
2.9 Conclusion.....	29
CHAPTER THREE: RESEARCH METHODOLOGY	30
3.1 Introduction.....	30
3.2 Development of the Research Questions.....	30
3.3 Research Design.....	32

3.3.1 Data.....	32
3.3.2 Research Sample	33
3.3.3 Statistical Methods	34
3.4 Conclusion.....	35
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS	36
4.1 Introduction.....	36
4.2 Background of Data	36
4.3 Statistical Methods.....	37
4.4 Profile of Respondents	37
4.5 Findings	39
4.5.1 Frequency Table.....	39
4.5.2 T-Test Analysis	46
4.5.3 ANOVA Analysis.....	54
4.5.4 Discriminant Analysis	61
CHAPTER FIVE: SUMMARY OF THE RESEARCH, LIMITATIONS & SUGGESTIONS FOR FUTURE RESEARCH	68
5.1 Summary of the Research.....	68
5.2 Limitations of the Research.....	72
5.3 Suggestions for Future Research	72
BIBLIOGRAPHY	73
APPENDIX 1.....	75
APPENDIX 2.....	77
APPENDIX 3.....	79
APPENDIX 4.....	82
APPENDIX 5.....	84
APPENDIX 6.....	86
APPENDIX 7.....	88
APPENDIX 8.....	91
APPENDIX 9.....	93
APPENDIX 10.....	95
APPENDIX 11.....	97
APPENDIX 12.....	100
APPENDIX 13.....	102
APPENDIX 14.....	104
APPENDIX 15.....	106
APPENDIX 16.....	109
APPENDIX 17.....	111

LIST OF TABLES

<u>Table No.</u>		<u>Page No.</u>
2.1	Comparison between Takaful and Conventional Insurance	26
4.1	Profile of Respondents	38
4.2	Frequency Table	40
4.3	Awareness on General Information of <i>Takaful</i> based on Gender	46
4.4	Awareness on Features of Takaful based on Gender.	47
4.5	Awareness on <i>Shari'ah</i> Compliance of Takaful based on Gender.	48
4.6	Intention to Adopt Takaful Products (Motives of Takaful) based on Gender.	49
4.7	Awareness on General Information of Takaful based on Marital Status	50
4.8	Awareness on Features of Takaful based on Marital Status.	51
4.9	Awareness on <i>Shari'ah</i> Compliance of Takaful based on Marital Status.	52
4.10	Intention to Adopt Takaful Products (Motives of Takaful) based on Marital Status	53
4.11	Awareness On General Information	54
4.12	Awareness On Features of Takaful	57
4.13	Awareness on Compliances of <i>Shari'ah</i>	58
4.14	Motives of Takaful	60
4.15	Awareness on General Information	62
4.16	Awareness on Features of Takaful	64
4.17	Awareness on Compliances of <i>Shari'ah</i>	66
4.18	Motives of Takaful	67

LIST OF FIGURES

<u>Figure No.</u>		<u>Page No.</u>
2.1	Structure of Wakalah Model	17
2.2	Structure of Mudarabah Model	20
2.3	Structure of Hybrid Model	22
2.4	Structure of Waqf Model	24
3.1	Stastical Method	34

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

There was a time when all Muslim countries were colonized by the West, namely by countries such as Britain, France and Italy. This colonization process occurred over decades. By the 1970s, all colonised Muslim countries gained independence except Palestine, which is still under the Israeli occupation. This clearly indicates that Muslims did not have the capacity and ability to make decisions in the past. Furthermore, independence marks the greatest national achievement for any country; thus, not having the capability to achieve it over a long period of time would be a cause for concern.

During post-colonial times, the Muslim countries began to develop plans to develop their countries and free themselves from colonial influence. In fact, no one can deny that many Muslim countries are rich in natural resources, especially crude oil. For this reason, Muslim countries gained immense profit from manipulating their natural resources. However, many Muslim countries faced a large number of problems as the manner in which the economy was administered was contrary to Islamic law. This was one of the motivations that encouraged the Muslim world to establish a financial system that is *shari'ah*-compliant. The proposed Islamic financial system (IFS) has three main components, which are banking, capital market and *takaful*. Each component plays a big role in building a strong Islamic financial system.

This thesis briefly highlights the components in IFS that serve as the working foundations for Islamic finance. Firstly, the banking sector is considered the

foundation of the financial system. Its core function is to mobilize money from depositors or investors to borrowers. With regard to its implementation in the Muslim world in 1975, it marks the starting point in the banking sector, whereby the first Islamic bank – named the Dubai Islamic bank – was established in the United Arab Emirates. Secondly, the capital market, which can be classified in three markets are called stocks, *sukuk* and derivatives. The role of this market is to finance corporations, banks and governments through instruments that adhere to Islamic principles. Thirdly, *takaful* or Islamic insurance is the focus of this dissertation, especially in the context of Kuwait.

1.2 KUWAIT UNDER THE SCOPE

Kuwait is located in the Arabian Peninsula, specifically in the Gulf region. It is a Muslim country and its capital is Kuwait. At the end of 2012, the Public Authority for Civil Information issued official figures concerning the Kuwaiti demographics and population. For example, the population now is 3,784,263, which can be divided based on nationality – 1,204,316 are Kuwaitis while the remaining 2,579, 947 are of non-Kuwaiti origins. Hence, Kuwaitis make up 31.7% of the entire population. In addition, statistics have shown that a number of 302,189 Kuwaitis serve in the government sector while 82,334 work in private sectors. A total of 125,638 and 1,156,165 non-Kuwaitis are serving in government and private sectors respectively.

From the economic perspective, Kuwait is regarded as one of the richest countries in the world due to its vast supply of oil and petroleum. Oil and petroleum remains Kuwait's main source of export to this day. Unfortunately, Kuwait is a country that is largely dependent on its oil, in which it counts for 95% of the revenue (Badran, 2012). Furthermore, based on the report provided by the National Bank of

Kuwait (2013), the Gross Domestic product (GDP) foresees an increase of 3.2% and 2.5% in 2013 and 2014 respectively. Moreover, the report revealed that the percentage of inflation will approximately decrease to 3.5% in 2013 and 4% in 2014. However, the prediction of the Kuwait Finance House Research tends to be more optimistic than that of NBK's, in which the KFH Research estimates that the real GDP might increase to 4.5% to 5% in 2013 and in 2014 respectively. Besides, the National Bank of Kuwait (2013) issued an economic report that shows the estimation of Kuwait's budget in 2012/2013 will be between KD 11.9 billion to KD 14.4 billion before deducting the portion in funding for future economic plans – through subtracting this portion, there will be a remainder of KD 8.7 billion to KD 12.1 billion. The difference in the amount is due to the continuous change in oil prices. Kuwait's currency is the Dinar, which is considered the highest in currency value in the world. Furthermore, it is the only currency that is not pegged to the Dollar among the Gulf countries.

1.2.1 Banking Market

In the banking sector, the latest annual report issued by the Central Bank in March 2013 showed that Kuwait has 21 local and international banks. Firstly, the local banks can be categorized into five conventional banks, five Islamic banks and one specialized bank(providing conventional loans and Islamic financing). Secondly, the Kuwaiti market has 10 international or foreign banks, and only one of them operates based on *shari'ah*. It can be observed that the Islamic banking window does not entirely exist because it was not practiced since 2004 and the regulation's ban was issued by the Central Bank whose role is to regulate the banks. Previously, the Central Bank was regulating the investment companies along with the banks. However, investment companies have now been removed from the Central Bank's

administration to the capital market authority. Despite having a limited Islamic banking window, Al Mashora & Al Raya for Islamic Financial Consulting (2013) reported that the total asset of Islamic banks represent an approximate 39% of the total local banks. This is the highest percentage compared to the asset of Kuwait's neighbouring countries. It is hoped that the rise of inpercentage is contributed to by the growth of Kuwait's newly-established bank, namely the Warba Bank, which operates based on Islamic principles.

1.2.2 Capital Market

In 2010, Kuwait started to arrange and regulate the capital market by establishing the Capital Markets Authority after the approval of Kuwait's parliament of the project and it began operations in 2011. Capital markets have different fields and each is tried and tested in order to evaluate its performance. The annual report of the Central Bank for the fiscal years 2011 and 2012 reported that the number of investment companies that are *shari'ah*-compliant are a total of 51 companies out of 95 – that means the percentage of *shari'ah*-compliant companies is approximately 53.6%. However, Alvi (2012) illustrated that the portion of *sukuk* issuance in each country – from 2001 to the first quarter of 2012 – has shown that Kuwait had issued only 0.70% of the total issuance. This percentage equals to USD 2,355 million in total. In addition, Habbas, Abdullah, & Marliere (2012) pointed out that Kuwait has an insignificant presence in the *sukuk* market whereby Kuwaiti companies issued only nine international issuances during the first decade of the twenty-first century. Interestingly, it has been observed that there is no company issuing domestic *sukuk* in Kuwait. It has been deduced that the culprit to this predicament is in the fact that the sum of value of *sukuk* must not exceed the capital of the company.

1.2.3 TAKAFUL MARKET

The *takaful* market is the focus of this research. In essence, Kuwait has been licensed for the management of 34 insurance companies, of which 22 are Kuwaiti companies and the rest are foreign entities. These companies can be classified based on their operations which are either in adherence with the *shari'ah* or otherwise. Of the total, 12 are *takaful* companies while 22 are conventional insurance companies, based on the latest list released in 2013 by the Kuwaiti Ministry of Commerce and Industry. However, Kuwait is still considerably weak in this respect, compared to other Gulf countries in the insurance sector in general and particularly in *takaful*. This is due to the fact that it does not pay enough attention in developing the *takaful* market since it is still dependent on the regulation of insurance that was issued in 1961. However, it is hoped that the government will establish a new law for insurance that contains a specific section for *takaful* (A.M.best, 2013). Al-Marzouq (2012) presented some of the statistics related to the insurance sector in the second Kuwait international insurance forum. He revealed that the size of the insurance market is miniscule, with the amount of premiums reaching only to KD 184.2 million while claims made amounted to KD 104.1 million. This indicates that the percentage of claims to premiums was approximately 56.5% in 2010. Additionally, 80% of the premiums were allocated for general insurance. Globally, this amount of premium represented less than 0.02 % globally. In comparison with other Gulf countries, Kuwait only makes up for approximately 5% of the total number, while the United Arab Emirates has a total of 43% and 34% is controlled by the Kingdom of Saudi Arabia.

1.3 PROBLEM STATEMENT

In reality, each person faces countless risks. Life presents us with a set of predicaments and more often than not, a person may find himself occasionally stuck in a worst case scenario. *Takaful* or Islamic insurance plays a vital role in attempting to provide financial assurances for times of difficulty (AlJarf, 2004). However, the importance of *takaful* is not only limited to the individuals but also it is noticeable that insurance and Islamic insurance have given us a strong example in the economy, as the last financial crisis has provides us a tangible example whereby the *takaful* industry remained relatively resilient against the global financial crisis.

Apart from that, the importance of *takaful* is derived from the products which are provided by the *takaful* companies. There are various *shari'ah* compliant products designed to protect human beings from the risks. These products can be classified to the major categories named general and family *takaful*.

Takaful can be used as an instrument to measure the economic conditions of a country in addition to constituting a tool for social welfare. Many conferences, forums and researches have investigated technical and *shari'ah* aspects in the *takaful* market. Unfortunately, there are few researches that have been conducted to examine the awareness of *takaful* in countries with Akhter & Hussain (2012) studying Pakistan and Maysami & Williams (2006) studying the case of Singapore. Thus far, based on the researcher's knowledge, no such study has focused on examining the awareness of *takaful* in Kuwaiti society. This research therefore examines the understanding of Kuwaitis concerning the concept and operation of *takaful*. In addition, the study measured the extent to which Kuwaitis understand their responsibilities toward the fund because they are participating in the *takaful* fund through a *tabrru'* contact in which they do not have the right to claim the contribution, Furthermore, they might be

asked to support the fund in the case of deficit while the operator's role is to manage and invest the fund.

1.4 RESEARCH QUESTIONS

- To what extent are Kuwaitis aware of *takaful* and the *takaful* market?
- What are the significant differences or conformities on awareness of *takaful* through demographic factors (i.e. gender, age, status, education, religion background)?
- What are the significant differences or conformities on features of *takaful* through demographic factors?
- Is there any significant differences or conformities on *shari'ah* compliance of *takaful* through demographic factors?
- Is there any significant differences or conformities on intention to adopt *takaful* products through demographic factors?

1.5 RESEARCH OBJECTIVES

- To identify the differences or conformances on awareness of *takaful* through demographic factors.
- To examine the significant differences or conformances on features of *takaful* (e.g. surplus, investment and distribution) through demographic factors.
- To examine the significant differences or conformances on *shari'ah* compliance of *takaful* through demographic factors.
- To ascertain the significant differences or conformances on intention to adopt *takaful* products through demographic factors.

1.6 SIGNIFICANCE AND CONTRIBUTION OF THE STUDY

Since *takaful* fulfils the requirements of the *shari'ah* and provides protection to mitigate the risks for individuals and enterprises, this field requires more research and it can be said that it is lacking in many aspects. Contributing to this topic might be useful to researchers and academicians for a better understanding about *takaful* in Kuwait.

Additionally, this research may be valuable to regulators to inform them about the role of *takaful* in enhancing stability in the market. In this regard, Habbas (2012) referred to the legislation in Kuwait whereby it does not seem sufficient to motivate the Islamic financial system, including *takaful*. Furthermore, it will be observed that Kuwait lacks in Islamic laws governing *takaful*. As such, this research may encourage the introduction of new legislation.

Another category that may perhaps gain benefit from this study would be the investors. The *takaful* market is somewhat new, which also means many opportunities.

Thus, the researcher aspires to add to the existing yet minimal body of literature on the studies of *takaful* in Kuwait. It is time to create public awareness of the drawbacks of insurance since it is linked with elements that are prohibited in Islam.

1.7 ORGANIZATION OF THE RESEARCH

This thesis is structured into three different chapters, each of which discusses different aspects of the research:

The first chapter contains various categories that aim to serve as an introduction to the research. It will include the background of the study that covers the profile of Kuwait on various aspects. Moreover, it details the problem statement,

research questions and research objectives of the study. Furthermore, the significance and contributions of the study are highlighted. This chapter concludes with the organization of the research.

The second chapter comprises of multiple studies in enriching and supplementing this dissertation. This chapter provide a sufficient understanding of *takaful*. In addition, the definition, *shari'ah* basis and models of *takaful* are g elaborated. Furthermore, the chapter includes a comparison between conventional insurance and *takaful*. The literature review includes studies related to the awareness and organization of *takaful* in different countries.

The third chapter discusses various issues related to the research methodology. This chapter provides an introduction, development of research questions, research design consisting of data, research sample and statistical methods.

The fourth chapter represents the findings of the research. This chapter illustrates the background of the data and statistical method. This is followed by the profile of respondents and a discussion of the findings prior to the concluding chapter

The last chapter presents a summary of this thesis and highlights the main points of each chapter, along with its limitations while making suggestions for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter provides the information necessary to understand the vital components of this research within the correct context. It consists of the definition, concept, *shari'ah* basis and models of *takaful*. This is followed by a comparison between *takaful* and conventional insurance. The researcher then reviews the previous studies conducted to measure the awareness of *takaful* in different countries.

2.2 WHY DO WE NEED TAKAFUL ?

It can be seen that the global economy has not been stable for the last few decades. Clearly, this case applies to all countries and each country has different causes for its economic erosion. History bears examples of a series of enormous economic instability, namely the Great Depression in 1929, the Asian Financial Crisis in 1997 and the Global Financial Crisis in 2007, among other crises that more or less affected every part of the world in more ways than one. To emphasize this point, the research examines the latest financial crisis that occurred in 2007 and appears to be persistent to this day. The spark of the crisis began in the United States and it affected the Middle-Eastern and Gulf regions, and has also spread to the Asian and European continents. Generally, these evidences lead to concern with the risk-management industry and insurance markets because they are designed to mitigate the risks of fluctuations in the economy.

The Muslim world is not exempted from the effects of the global economic crisis. The conventional insurance industry consists of elements that are prohibited in the Islamic transactions such as *Gharar*, *Maysir* and *Riba*. Such is the motivation to establish a new Islamic insurance (*takaful*) to guide the Islamic financial system away from such prohibited factors. The previous elements are the main elements that motivated the jurists to issue *fatwa* against conventional insurance. For example, the OICFiqh Academy issued decision "No 9/(2/9) " in 1406 H (22-28 December 1985) which it has few points regarding to insurance:

- *The commercial insurance contract with a fixed periodical premium, which is commonly used by commercial insurance companies, is a contract which contains major elements of deceit, which void the contract and, therefore is prohibited according to shari'ah.*
- *The alternative contract, which conforms, to the principles of Islamic dealings is the contract of cooperative insurance, which is founded on the basis of charity and cooperation.*

This prohibition is further explained (Alsaati, 2009):

- The contract of conventional insurance is an exchange contract that contains uncertainty (*Gharar*), whereby at the time of signing or conducting the contract, the subject matters (protection and premium) are not known. The basis for this prohibition is that *Abu Hurairah* reported that Prophet Muhammad (may peace be upon him) "forbade a transaction determined by throwing stones, and the type which involves some uncertainty" (*Sahih Muslim*, 3614). Based on the Maliki school, this element can be permitted, if it is used donation contracts. Additionally, this is the opinion adopted by contemporary scholars.

- The contract of conventional insurance has the element of *riba* that exists when the policy holder can get greater compensation than his premium. It is common that *riba* is prohibited in Islam as found in many verses in the Qur'an and *Sunnah*. An example of this would be (2:275), in which it says, " Allah has permitted trade and has forbidden interest ".
- The contract of conventional insurance has the element of gambling (*maysir*). This is due to the fact that both policy holder and company can win or lose. The policy holder can be indemnified more than the amount of the premiums. Therefore, he will be a winner in this situation while he will lose his premiums if he does not have an accident and this amount will be completely for the company. The Qur'an clearly prohibits gambling (5:90), "O you who believe! Intoxicants, gambling, Al-Ansab and Al-Azlam are an abomination of Shaitan's handiwork. So avoid that in order that you may be successful."
- Lastly, conventional insurance applies one of the taboos which is to consume other people's money without any right. For instance, the company takes the surplus if the policy holder does not cause any hazard. Indeed, the Qur'an alludes to this in verse 4:29 "O you who have believed, do not consume one another's wealth unjustly but only (in lawful) business by mutual consent ."

2.3 SHARI'AH BASIS

Shari'ah has many examples from the Qur'an and *Sunnah* that represent the principles of *takaful*.

In holy Qur'an (5:2) "And cooperate in righteousness and piety, but do not cooperate in sin and aggression. And fear Allah; indeed, Allah is severe in penalty".

Furthermore in Qur'an (3:103) "And hold firmly to the rope of Allah all together and do not become divided".

On the other hand, the *Sunnah* of the Messenger of Allah has multiple *hadiths* related to the principles and concept of *takaful*. Abu Musa, may Allah be pleased with him, reported that Allah's Messenger (may peace be upon him) said: "A believer to another believer is like a wall of bricks supporting each other." (*Sahih Muslim & Al-Bukhari*, 2753). Moreover, *Abu Hurairah* reported that Prophet Mohammad (may peace be upon him) said, "Allah will be supported the person if he supported his brother in Islam" (*Sahih Muslim*, 2699).

It is important to mention that the Islamic insurance contract is based on a donation contract whereby the commitment must be from both parties whereby participants must make *Tabbru'* or it is called *iltizam bi tabbru'* while the fund must compensate the participants during times of difficulty. AAOIFI (2010) stated that this transaction is measured by *Qiyas* based on the practice of *Al Nihd*. It is stated by *Ali* and *Ibn Masood* that, "A gift, if specially defined, is binding, whether received or not." However, *Abu Bakr* and *Omar* see that a gift does not become binding before possession. Thus, *Imam Malik* reconciles the both views that the prior view considers the contract is binding while the latter tries to use *Sad Aldraia* whereby it is narrated by *Ibn Abbas*: The Prophet said, "One who takes back his gift (which he has already given) is like a dog that swallows its vomit" (*Sahih Al Bukhari*: 762).

In addition, the Prophet praised the tribe of the *Ashairah* in more than one *hadith*. *Abu Musa* stated that the Prophet said about them: "If they were in a certain location and some fell short in their supply of food, they would get together, join what food every individual had, then distribute the sum equally among all of them." *Al-Hakim* related the Prophet, in praising them, said : "they are from me and I am from