



**PERCEIVED VALUES, AWARENESS AND  
ACCEPTANCE OF ISLAMIC INSURANCE IN  
TATARSTAN**

**BY**

**ANSAR VALIULLIN**

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

**IIUM Institute of Islamic Banking and Finance  
International Islamic University Malaysia**

**AUGUST 2017**

## **ABSTRACT**

Over the last decades, various aspects of Islamic banking and finance, especially Takaful has tremendous attention from various stakeholders in Tatarstan including the government, scholars and public opinion experts. This is in line with the aim of the Russian Federation towards making Tatarstan Republic the hub of Islamic banking and finance in its region. This research thus examines the level of awareness, perceived values and acceptance of the public towards Islamic insurance in Tatarstan. The study implemented Theory of Reasoned Action (TRA) to analyse the factors affecting Tatarstan citizens' intention to patronize Islamic insurance in Tatarstan. Relevant primary data were elicited from 210 respondents via a survey questionnaire. The data obtained was subjected to both descriptive and inferential statistical analysis using "Statistical Package for Social Sciences" (SPSS) and "Analysis of Moment Structure" (AMoS) computer software respectively. Specifically, AMoS was employed to perform Confirmatory Factor Analysis (CFA) and Structural Equation Modelling (SEM). The findings of the study indicated that the Tatarstan public has general awareness about Islamic insurance and is willing to patronize it. Subjective Norms and Perceived values were both found to significantly influence intention to patronise Takaful services in Tatarstan.

## خلاصة البحث

خلال العقود القليلة الماضية، لفتت قطاعات متنوعة من المصرفية والمالية الإسلامية انتباه العديد من أصحاب الشأن في جمهورية تارستان على أهميتها من ضمنهم الحكومة والعلماء وخبراء الشأن العام. يتماشى ذلك مع هدف الحكومة الروسية الفدرالية في جعل جمهورية تارستان الوجهة الرئيسة للمصرفية والمالية الإسلامية في المنطقة. هذا البحث يدرس مستوى الوعي، والقيم المدركة، والتقبل لدى الجمهور التارستاني. هذا البحث يطبق نظرية الفعل المعقول (TRA) لتحليل العوامل المؤثرة في نية مواطني تارستان المقيمين فيها لتعاملهم مع شركات التأمين الإسلامي (التعاوني). توصل الباحث على البيانات الأولية من خلال استبانات استطلاع الرأي التي وزعها على 210 من المستجوبين. حُلِّلت البيانات اعتماداً على منهجي التحليل الوصفي والتحليل الاستدلالي باستخدام برنامجي SPSS و AMoS على التوالي. بشكل أدق، أُسْتُخدم برنامج AMoS للحصول على تحليل العامل التوكيدي (CFA) وكذلك نمذجة المعادلة الهيكلية (SEM). تشير نتائج البحث إلى أن الجمهور التارستاني لديه وعي عام عن التأمين الإسلامي (التعاوني) ومستعد للتعامل مع من يقدم منتجاته. وخلصت النتائج كذلك إلى أن القيم المدركة والمعايير غير الموضوعية هي أشد العوامل تأثيراً على مدى تقبل الجمهور التارستاني وتعامله مع منتجات التأمين الإسلامي (التعاوني).

## **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 research paper for the degree of Master of Science (Islamic Banking and Finance).

.....  
Adewale Abideen Adeyemi  
Supervisor

This research paper was submitted to the IIUM Institute of Islamic Banking and Finance and is accepted as a fulfilment of the requirement for the degree Master of Science (Islamic Banking and Finance).

.....  
Syed Musa Alhabashi  
Dean, IIUM Institute of Islamic  
Banking and Finance

## DECLARATION

I hereby declare that this research paper is the result of my own investigation, 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.

Ansar Valiullin

Signature.....

Date .....

**INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA**

**DECLARATION OF COPYRIGHT AND AFFIRMATION OF  
FAIR USE OF UNPUBLISHED RESEARCH**

**PERCEIVED VALUES, AWARENESS AND ACCEPTANCE OF  
ISLAMIC INSURANCE IN TATARSTAN**

I declare that the copyright holders of this research paper are jointly owned by the student and IIUM.

Copyright © 2017 Ansar Valiullin and International Islamic University Malaysia. All rights reserved.

No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below

1. Any material contained in or derived from this unpublished research may be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.
3. The IIUM library will have the right to make, store in a retrieved system and supply copies of this unpublished research if requested by other universities and research libraries.

By signing this form, I acknowledged that I have read and understand the IIUM Intellectual Property Right and Commercialization policy.

Affirmed by Ansar Valiullin

.....  
Signature

.....  
Date

*This research is dedicated to my parents*

*Kamil Valiullin and Nuraniya Valiullina*

## ACKNOWLEDGEMENTS

All praises belong to Almighty Allah, The Most Gracious, The Most Merciful, the lord of the world. I am thankful to Allah (S.W.T) who has favored me of pursuing a Master's degree, and for granting me the blessings, strength, persistence and the endurance to complete my studies successfully.

I would like to express my deepest gratitude to my family. I thank them for their love, care and unwavering support throughout my entire life. I also thank them for giving me opportunity to obtain knowledge and for being an ultimate source of motivation while pursuing my studies.

I certainly would like to convey my gratitude to my supervisor, Assoc. Prof. Dr. Adewale Abideen, for his guidance, patience and valuable comments and advice throughout the duration of this research.

Among others are the respondents of my survey and all those who have helped me during my data collection. This appreciations would not be completed without expressing my profound gratitude to the IiBF lecturers and students for their guidance, assistance and support. May Allah (S.W.T) bless you all in this world and hereafter. Ameen.



## TABLE OF CONTENTS

Abstract .....	ii
Abstract in Arabic .....	iii
Approval Page .....	iv
Declaration .....	v
Copyright Page.....	vi
Dedication .....	vii
Acknowledgements .....	viii
List of Tables .....	xi
List of Figures .....	xii
<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>1</b>
1.1 Background of Study .....	1
1.2 Problem Statement.....	3
1.3 Objectives of the Research .....	4
1.4 Research Questions.....	5
1.5 Significance of the Study.....	5
1.6 Scope of the Study .....	6
1.7 Plan of the Study.....	6
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>8</b>
2.1 Introduction.....	8
2.2 Background of the Country .....	8
2.3 Insurance Market in Russia .....	9
2.4 Islamic Insurance .....	10
2.4.1 Definition and Concept of Islamic Insurance .....	10
2.4.2 Shari'ah Compliance.....	11
2.4.3 Differences Between Islamic and Conventional Insurance .....	12
2.5 Global Consumer Awareness about Takaful .....	13
2.6 A Theoretical Framework of the Research.....	15
2.7 Modified Model .....	19
2.8 Variables Specification.....	20
2.8.1 Independent Variables.....	20
2.8.2 Dependent Variable.....	21
2.9 Research Hypotheses .....	22
2.10 Chapter Summary .....	23
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>24</b>
3.1 Introduction.....	24
3.2 Research Design .....	24
3.3 Population .....	25
3.4 Sample Procedure .....	25
3.5 Types and Source of Data.....	26
3.5.1 Questionnaire .....	26
3.5.2 Distribution .....	27
3.5.3 Questionnaire Language .....	27

3.6 Statistical Tool and Procedures of Data Analysis.....	28
3.6.1 Descriptive Statistics.....	29
3.6.2 Structural Equation Modelling.....	30
3.6.3 Confirmatory Factor Analysis Approach.....	31
3.6.3.1 Model Specification.....	31
3.6.3.1.1 Awareness.....	32
3.6.3.1.2 Perceived Values.....	32
3.6.3.1.3 Attitude.....	32
3.6.3.1.4 Subjective Norms.....	32
3.6.3.1.5 Intention to Perform.....	33
3.7 Chapter Summary.....	33
<b>CHAPTER FOUR: DATA ANALYSIS &amp; INTERPRETATION.....</b>	<b>34</b>
4.1 Introduction.....	34
4.2 Respondents' Demographic Profile.....	34
4.3 Descriptive Statistics.....	37
4.3.1 Awareness.....	39
4.3.2 Perceived Values.....	41
4.3.3 Attitude.....	42
4.3.4 Subjective Norms.....	43
4.3.5 Intention to Perform.....	44
4.4 Exploratory Factor Analysis.....	45
4.5 Measurement Model.....	47
4.5.1 Assessment of Validity in the Confirmatory Factor Analysis.....	50
4.6 Structural Model.....	52
4.7 Chapter Summary.....	54
<b>CHAPTER FIVE: CONCLUSION, RECOMMENDATION, LIMITATION AND SUGGESTED AREAS OF FUTURE RESEARCH.....</b>	<b>56</b>
5.1 Introduction.....	56
5.2 Summary of the Research.....	56
5.3 Discussion of Major Findings.....	58
5.4 Contribution of the Study.....	60
5.4.1 Contribution to the Industry.....	60
5.4.2 Contribution to Body of Knowledge.....	60
5.4.3 Contribution to Policy Makers.....	61
5.5 Limitation.....	61
5.6 Recommendation.....	62
5.7 Summary of the Chapter.....	63
<b>REFERENCES.....</b>	<b>65</b>
<b>APPENDIX I: SURVEY QUESTIONNAIRE.....</b>	<b>69</b>
<b>APPENDIX II: QUESTIONNAIRE IN RUSSIAN LANGUAGE.....</b>	<b>72</b>

## LIST OF TABLES

Table 2.1	Comparison between Islamic and conventional insurance	13
Table 4.1	Respondent's Demographic Profile	36
Table 4.2	Codification of Statements of the Questionnaire	38
Table 4.3	Descriptive Statistics	39
Table 4.4	Awareness Level of the Respondents' toward Islamic Insurance	40
Table 4.5	Perceived Values regarding Islamic Insurance among Tatarstan People	41
Table 4.6	Attitude toward Islamic Insurance among Tatarstan People	42
Table 4.7	Subjective Norms toward Islamic Insurance among Tatarstan People	43
Table 4.8	Intention to Patronize Islamic Insurance among Tatarstan People	44
Table 4.9:	Factor Loading Matrix	46
Table 4.10	Goodness-of-Fit Statistics of the Final Measurement	48
Table 4.11	Model Validity Measures	51
Table 4.12	Proof of No Validity Concern	51
Table 4.13	Regression Weights	54
Table 4.14	Summary of Hypotheses Testing	54

## LIST OF FIGURES

Figure 2.1	TRA Framework	17
Figure 2.2	TRA Framework with External Variables	19
Figure 2.3	Modified and Proposed Theoretical Framework	20
Figure 4.1	Measurement Model	49
Figure 4.2	Structural Model	53

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 BACKGROUND OF STUDY**

Security is a primary aspect in human life that is naturally often sought. Investigating human and wealth protection therefore, is not only congruent with the fundamental principles of the Shari'ah but also a continuing concern of all generation. Man's nature is to love and take care of his life, family and wealth. This fact is clearly stated in the holy Qur'an:

“Beautified for people is the love of that which they desire - of women and sons, heaped-up sums of gold and silver, fine branded horses, and cattle and tilled land ...” (Qur'an, 3:14).

Hence, possible risk or hazard which might be faced by man motivates him to look for ways of protecting himself against such harm. Risk control basically involves mitigating the risk by reducing the possibility of losses or avoiding the risk completely. However, many risks cannot be avoided, but almost all risks can be mitigated. The need for protection and mitigating risk was a primary concern of early Muslims as well. Historically, Islamic Insurance has been accepted in the second century of Islamic era by Arab Muslims. Since Arabs were early traders, they often used to face different types of risk in their usually long journey via the caravans thus incurring significant losses in the process. In order to be protected, therefore, the early Muslims subscribed to the concept of mutual co-operation. They set up fund, which was used to compensate those who suffered losses (Ali, 2015).

In contrast, the history of modern day Islamic Insurance institution is relatively short but quite dynamic. Its dynamism is apparently due to the fact that trade volumes

are quite bigger now and the chain of economic transactions involves multiple stakeholders with diverse interests. The market for Islamic insurance thus has shown dramatic growth since its first establishment in 1979 in Sudan. Total number of Islamic Insurance providers by end of 2014 reached 308 institutions with total assets of \$ 33 Billion with double digit average global growth of 24.5 % (Thomson Reuters, 2015). However, specifically in Tatarstan as the Russian federation hub of Islamic finance, and in all Russia generally, Islamic Insurance is not yet implemented. This is notwithstanding the fact that Russia is home to 20 million Muslims.

In terms of its economic viability, Islamic insurance has good prospects for growth in Tatarstan. This is given that it is among the group of Russian regions with high level of social and economic developments. Authoritative and well-known economic journals Forbes, PwC and Ernst & Young in 2011, claimed that Tatarstan is considered as the best region in Russia for both doing business and investment. The Republic of Tatarstan is ranked among Russia's top ten regions in terms of the gross regional product (GRP) with 1,833 billion roubles of GRP in 2015. Economic growth has been stable for the past decade with the exception of a recession in 2009 due to global financial crisis (Federal State Statistics Service of Russian Federation, 2017).

Due to its huge economic potential, it is expected that the presence of Islamic Insurance in the Republic will provide a positive ground for the citizens on expanding their businesses in a way that builds business protection and resilience in the event unforeseen risks, and also in a manner that aligns with the religious inclination of the predominantly Muslim population. According to the Mohseni-Cheraghrou (2015), Global Financial Inclusion (Global Findex) in their data pointing out that many nations with Muslim majority population are suffering from voluntary financial exclusion because of their religious principles. This may be a fair interpretation of

high rate of financial exclusion in Tatarstan where though the population is dominated by Muslims, yet having no insurance coverage perhaps due to lack of access to the Islamic Insurance services. At present, only conventional insurance is available and enjoys limited patronage only on compulsory products such as car insurance. Such low patronage may not be a reflection of the lack of need for Islamic insurance but may be due to the non-Islamic nature of the available conventional alternative.

This view although often expressed in commentaries and conceptual write-ups does not have any empirical proof. As such, the dearth of such empirical proof provides a lacuna and a motivation to investigate people's perception regardless of the availability of Islamic Insurance in Tatarstan. This research focuses on studying the feasibility as well as analyzing whether people are aware and willing to use Islamic Insurance in the republic. Since more and more Muslim and non-Muslim countries are accepting Islamic products, current study becomes crucial to extending same to Tatarstan to elicit its potentials among prospective clients in a Muslim minority country such as Russia, especially Muslim majority part of Russia, Tatarstan.

## **1.2 PROBLEM STATEMENT**

Conventional insurance was declared prohibited by OIC Fiqh Academy in 1985. The prohibition was based on three elements: (a) riba, (b) gharar and (c) maysir. However, in all aspects of life people are surrounded by risk. No matter what people do, risk is always present. According to most countries' regulation, motor vehicle insurance and bancassurance are not avoidable. In Russia, constitutionally, bancassurance is not compulsory; however Motor vehicle insurance is required and avoiding to having it deprives a person from driving a vehicle, which is considered as unattainable.

Therefore, the non-existence of Islamic Insurance leaves the Muslims with no choice than to use conventional insurance.

Coming up with a Shari'ah compliant alternative, therefore is expedient especially from the feasibility point of view based on empirical academic research. Muslims in Russia are minorities, but majority of the people in Tatarstan are Muslims. Despite being predominantly Muslims, the first Islamic banking institution have just opened there recently and Islamic insurance is still not yet available in the country. With the Muslim population becoming more and more aware about their financial needs and religious requirements, it is imperative that the public's perception on the value, awareness, and acceptance is assessed. This is especially crucial to complement recent forward steps towards Islamic Finance and Banking initiated by the Tatarstan government.

### **1.3 OBJECTIVES OF THE RESEARCH**

The main objective of this research is to empirically investigate the feasibility of Islamic insurance operation in Tatarstan based on perception of the Tatarstan public regarding their awareness, perceived value, and acceptance of Takaful. The following specific objectives are also pursued:

1. To explore the level of awareness of Islamic Insurance among Tatarstan citizen's.
2. To investigate the level of acceptance among Tatarstan people about Islamic Insurance.
3. To examine the role of Tatarstan citizens' perceived values on acceptance of Islamic insurance institution in Tatarstan.



4. To assess the role of people's awareness about Islamic Insurance on their acceptance of Islamic insurance institution in Tatarstan.

#### **1.4 RESEARCH QUESTIONS**

Sequel to the specific objectives above, the following research questions are answered in this research:

1. What is the level of awareness of Islamic Insurance among Tatarstan people?
2. What is the level of acceptance of Islamic Insurance among citizens of Tatarstan?
3. What is the role of people's perceived value of Islamic Insurance products on the acceptance of Islamic Insurance institutions in Tatarstan?
4. What is the role of people's awareness of Islamic Insurance on their acceptance of Islamic Insurance institutions in Tatarstan?

#### **1.5 SIGNIFICANCE OF THE STUDY**

This study is very important for many reasons. First of all, to the researcher's knowledge there is no such empirical study that has been conducted on the subject matter so far in the Tatarstan context. Since there is no Islamic insurance in Tatarstan, no other researchers have touch this topic. This makes this topic new and unique and worth doing. This study thus aims to contribute on developing Islamic insurance products based on peoples need in Tatarstan.

The findings of this study is envisaged to be beneficial to the management of Insurance companies and banks in developing effective strategies for making decision

in introducing and expanding the presence of Islamic insurance in the Republic of Tatarstan. This study also provides a source of reference to future studies in similar field from other regions in exploring the prospects and challenges of Islamic Insurance. It might be useful to researchers and academicians for a better understanding about potential customers of Islamic Insurance in Tatarstan.

This study also helps Islamic banks to do better marketing and to develop new products such as bancassurance, which will suit the needs of people in Tatarstan. By knowing what is the opinion and view on Islamic insurance, banks can thus develop better products.

Lastly, the outcome of this study is envisaged to help influence policy makers in Russia to motivate banks and financial institutions to get involved in Islamic banking and finance. Perhaps the government may be motivated to give some support and subsidies for the companies who are interested in doing Islamic insurance.

## **1.6 SCOPE OF THE STUDY**

This research paper's scope focuses on the perceived values and awareness of Islamic insurance among the citizens in the Republic of Tatarstan. Current study also evaluates the degree of future acceptance of Islamic insurance by Muslims and non-Muslims in the republic. This is, however, without prejudice to the relative importance of other aspects of Islamic banking and finance in Tatarstan region of Russia.

## **1.7 PLAN OF THE STUDY**

This research is divided into five chapters and it is structured as follow: first chapter, which is the introductory chapter focuses on subsections like problem statement,

objectives and research questions as well as the significance of the study. Chapter two is the literature review. It consists of review on Islamic insurance, global consumer awareness and theoretical framework adopted. Third chapter of research paper discusses the methodology adopted to conduct the current paper. Fourth chapter includes results and discussion. Final chapter of this research provides conclusion, recommendation and limitation of the study as well as suggested areas of future research.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

This chapter has several key aims. First aim is to provide a brief background of Tatarstan. This is followed by a brief discussion about insurance market in the country. Thereafter, the definition and Shari'ah compliance of Islamic insurance that make it different from the conventional insurance are highlighted. In addition is a review of the previous studies that measured the awareness of Islamic insurance in different countries. Next, the chapter discusses theoretical framework of the research and which theory have been used in current paper. This is followed by the proposed modified model that aims to fit the theory. Lastly, variables specification and research hypothesis are discussed.

#### **2.2 BACKGROUND OF THE COUNTRY**

A key aspect of any research, especially on awareness about establishing a new financial instrument for a particular country is to know the country's background. Therefore, it is important to briefly profile Tatarstan and its economic system.

The Republic of Tatarstan is a part of the Russian Federation. It is located in the central part of Russia where the Kama and the Volga rivers meet together. Its territory spans around 290 kilometres North to South and 460 kilometres West to East, and size is close to the size of Sri Lanka. The capital city of Tatarstan is Kazan, which is one of the oldest cities of that region. Tatarstan borders with eight regions of the Russian Federation. The country is very rich in natural resources, especially in crude

oil and natural gas. Main languages spoken in Tatarstan are Russian and Tatar (Invest Tatarstan, 2017).

The population of the Republic of Tatarstan numbers around 3.861 million and comprises representatives of 173 ethnic groups; these include Tatars (53.2%), Russians (39.7%), Chuvashes, Udmurts, Mordva, Mari, Ukrainians, Bashkirs and others. About 76.1% of Tatarstan residents live in urban areas (Federal State Statistics Service of Russian Federation, 2015).

The most wide spread religions in the Tatarstan republic are Islam and Orthodox Christianity. As an official religion the Sunni Islam has been adopted as early as 922 in the Volga Bulgaria. Currently, it is professed by a majority of Tatars and Bashkirs (Ministry of Industry and Trade of the Republic of Tatarstan, 2010). In the region, since 1992, Islamic affairs is administered by the supreme body of Muslims, called “Religious Muslim Board of the Republic of Tatarstan” (MRB RT). It plays a vital role among Tatarstan’s Muslims especially in uniting Muslim religious organizations of Tatarstan, increasing the spiritual potential and strengthening the moral foundations of the Muslim community in the republic. MRB RT is also responsible for creating a strong moral and spiritual foundations and achieving interfaith and interethnic peace and harmony in the society (MRB RT, 2017). Under the auspices of the MRB RT regulation, Zakat, Waqf fund, Haj and Halal committee are operated. MRB RT also consults in many aspects with the Centre of Partnership Banking in Kazan through its Shari’ah board which has 15 members (CPB, 2017).

### **2.3 INSURANCE MARKET IN RUSSIA**

Insurance market in the Russian Federation indicated significant growth over the last years due to high demand. Notable is the growth recorded especially in the life

insurance sector, because of increased consumer awareness. According to National state registry record, 562 insurance entities are currently operating in the Russian Federation. Where 399 of them are insurance organizations, 12 mutual insurance societies and 151 insurance brokers (Overview of Insurance Market in Russia, 2015). In the Russian Federation, asset size of insurance organizations in 2015 was 28,882 million US dollars (IMF, 2016). Life and non-life insurance premiums in 2014 according to International Insurance Fact Book (2016) was 25,738 million US dollars, which is only 0.54% of the total volume of world insurance premiums, despite the fact that the country is among the world's leading countries in terms of GDP (International Insurance Fact Book, 2015). This fact represents a huge potential for conventional and Islamic insurance market to develop its performance level in the country.

## **2.4 ISLAMIC INSURANCE**

### **2.4.1 Definition and Concept of Islamic Insurance**

Islamic Insurance which also called Takaful has been introduced as a Shari'ah compliant alternative for conventional insurance. Main purpose of Takaful is to provide indemnity and protection against loss or hazard for their holders which can be industries and individuals. Islamic Insurance in fact is a joint guarantee arrangement among group of participants based on mutual agreement to compensate each other in the event of a defined loss.

The word, Takaful is derived from root "Kafala" which means: "to take responsibility to care for someone and provide for him, as in guardianship of an orphan" (ISRA, 2010). Concept of Takaful based on Qur'anic verse, ahadith and Islamic legal maxim is encouraged by the Shari'ah. For instance, Surah Maidah, verse

2, encourages a person to help (ta'wun) another who is in need (Qur'an, 5:2). Several ahadith also urges people to remove hardship from others.

According to Section 2 of the Malaysian Takaful Act 1984:

“Takaful is a scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose”.

The AAOIFI's Shari'ah standard 26 (2) of 2015 gives following description:

“Islamic Insurance is a process of agreement among a group of person to handle the injuries resulting from specific risks to which all of them are vulnerable. A process, thus initiated, involves payment of contributions as donation...”

#### **2.4.2 Shari'ah Compliance**

Islamic and conventional insurance have same objectives towards policy holders, however they are essentially different in their operation. Conventional insurance concept implies selling and buying relationship with customer whereby exchange for a premium risk transfers and becomes responsibility of policy insurer. This method of risk mitigation is considered as Shari'ah non-compliant by many Islamic scholars due to the fact that it contains haram elements such as riba (interest), gharar (uncertainty) and maysir (gambling) (IFS ISRA, 2016; Engku, 2008).

In this regard, the Islamic Fiqh Academy at the Organization of Islamic Conference, at its meeting in Jeddah, Saudi Arabia, on December 22-28, 1985, decided that:

First: 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 (haram) according to Shari'ah.

Second: 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. Similarly, is the case of reinsurance based on the principle of cooperative insurance.

Third: The Academy invites the Islamic countries to work on establishing cooperative insurance institutions and cooperative entities for the reinsurance, in order to liberate the Islamic economy from exploitation and put an end to the violation of the system which Allah has chosen for this Ummah.

#### **2.4.3 Differences between Islamic and Conventional Insurance**

Many studies have drawn a line between Islamic and conventional insurance, and clearly defined their differences. Table below clearly shows root of problems of conventional insurance and alternatives presented by Islamic insurance that compliance with Shariah (Islamic Financial System, 2015; Abdulrahman, 2013).