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A COMPARATIVE STUDY: TAKAFUL AND CONVENTIONAL INSURANCE

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ABSTRACT

The Saudi Arabia insurance market is considered to be one of the largest and fastest growing markets in the Gulf region and a leading market in the entire Middle East and North African region. It is engaged in Islamic insurance and services by insurance companies. The Saudi insurance industry has become an important one to provide a brief history of Islamic insurance and to shed light on Takaful applications worldwide. This study was done to analyze the variation between Islamic Takaful insurance and conventional insurance in Saudi Arabia. This study was done based on quantitative method. For this work, the targeted sample population were members drawn from firms and organizations, bank customers and finance faculty students at Effat University. The size of the sample was 150 respondents. The data collection was done using survey questionnaire. Key findings of this work have shown that Takaful institutions are emerging in Islamic countries and that Takaful is preferred over conventional insurance.

CCS Concepts

• **Information systems**—Database management system engines • **Computing methodologies**—Massively parallel and high-performance simulations.

INTRODUCTION

Insurance plays a vital role in modern trade and trade, providing safety and security against accidents [1]. Commerce and business trade cannot develop without insurance and banking involvement. There are two main types of insurance: conventional interest-based insurance and banking systems, which cannot be adopted by Muslims because their system is contrary to Islamic law

(Shariah-compliant) [2]. The other type of insurance is Islamic insurance, or Takaful, which is the fastest growing area of the insurance market in the world [2]. Takaful insurance is an Islamic insurance policy based on the principle of cooperation between a group of individuals facing coherent risks and sharing the same collective consequences [3].

The global market for Islamic insurance (Takaful) is at an early stage of development based on some Islamic countries. It is concentrated mainly in Malaysia, Saudi Arabia, Kuwait, the UAE and Iran [4]. Takaful will be the main choice for Islamic countries in the near future because of the combination of financial efficiency and religious correctness that will make Islamic banking and financial products attractive to Muslims [5]. Takaful business has an explicit ethical structure that can be marketed to both Muslims and non-Muslims [6]. Abbas et al. [7] stated that insurance is a time-measured contract in which time is a basic element. Although both conventional and Takaful insurances generate profits for shareholders, they are different in many respects. Takaful companies can only invest in Shariah-compliant assets subject to local regulatory restrictions, while conventional insurance companies are restricted only by local regulatory restrictions [7].

Conventional insurance may be described as a contract by which the insurer undertakes (in exchange for the negotiated premium) to compensate the policyholder a sum of money (or its equivalent) on the occasion of a stated incident [8]. The event must have some element of uncertainty about it [8]. Modern conventional insurance contracts are not acceptable to Islam. Life insurance involves the use of certain elements which directly contradict the rules of Shariah. Conventional insurance companies normally place insurance funds in Riba / interest bearing instruments such as bonds and loans [9]. Conventional insurance is considered to be a type of gambling as the insured makes a bet on the loss and vice versa the same applies to the insurer [9].

The fastest-growing sector in the field of financial services is Islamic banking, which seeks to meet market needs [10]. Over 40 countries have a Muslim majority population and another 15 countries have Muslim minority communities whose businesses and families share the same value system [10]. First, the policyholders share in the profit and loss of the Takaful business, which is to share the insurance risk [11]. They do not give the risk to Takaful as in the case of a conventional shareholder insurance company. As a result, if the Takaful business makes a surplus, it is shared between the Takaful policyholders [11]. Second, the profit-based structure of Takaful companies is completely different from that of conventional commercial insurers. The central idea for all Islamic insurance models is to separate participants from shareholders' funds, since the role of the company is only to manage participant's funds on their behalf. Any Takaful company is usually referred to as a Takaful operator instead of an insurer. In the case of the Islamic model, contributions (premiums) on donation (Tabarru) should be paid in order to remove the Gharar element from the Takaful contract [12]. From the Shariah point of view, these two principles are considered to be essential elements, and all Islamic models must comply with these principles [12].

There are 51 companies and banks operating as a Takaful operator in the Kingdom of Saudi Arabia [13]. It can be observed that the applicable insurance policies in most of the banks comply with Islamic Sharia law in general. It has been reported that most banks in Saudi Arabia provide Takaful insurance with a full range of services, products and solutions, addressing needs and providing effective support [13]. In addition, it is necessary to identify the opportunities, regulations and challenges that Takaful faces as an Islamic insurance company compared to conventional insurance. Thus, this work was done to analyze the variation between Islamic Takaful insurance and conventional insurance in Saudi Arabia.

METHODOLOGY

For this work, quantitative research method has been used. Research has analyzed trends in the insurance industry in the Kingdom and explored public preferences and understanding between Takaful and conventional insurance. The hypotheses that were tested in this work were H1 and H2, where H1: there is an emergence of Takaful institutions in Islamic countries, and H2: there is a preference for Takaful above conventional insurance. In this work, the targeted sample population consisted of members drawn from firms and organizations, bank customers and finance faculty students at Effat University. The size of the sample was 150 respondents. In this work, data collection was done using survey questionnaire. The questionnaire was designed using Google forms and was distributed through Whatsapp and Gmail account. The collected data were analyzed in terms of basic statistics and were presented in graphical form.

RESULT AND DISCUSSION

Questionnaire Analysis

The respondents were subjected to several questions related to the variation between Islamic Takaful insurance and conventional insurance in Saudi Arabia. The outcome of each questions is presented in this section. The respondents were asked whether there is a need to mitigate the insurable risk that an individual cannot escape or avoid? Based on Figure 1, 16.70 % of the respondents strongly agreed, 49.30% of the respondents agree, 26.00 % were neutral, 6.00% of the respondents disagree and 2.00 % strongly disagree.

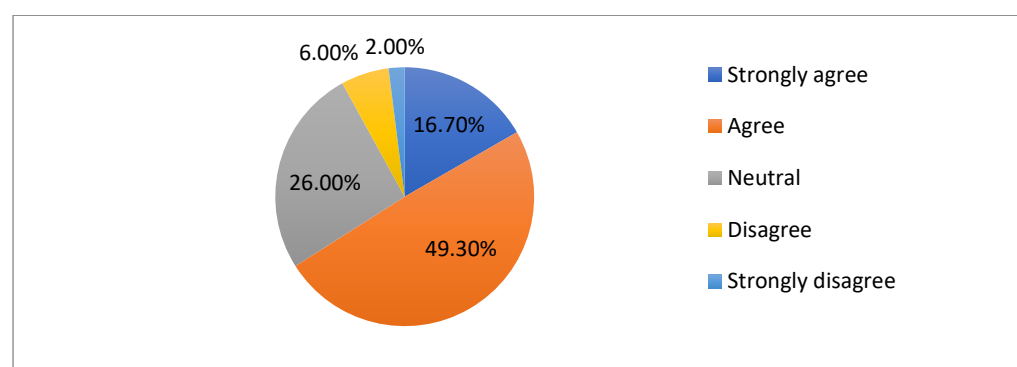


Figure 1. There Is A Need to Mitigate the Insurable Risk

The respondents were asked whether they knew the difference between Takaful and Conventional insurance. Based on Figure 2, 7.40 % of the respondents strongly agreed, 51.70 % of the respondents agree, 26.80 % were neutral, 11.40 % of the respondents disagree and 2.70 % strongly disagree.

The respondents were asked whether Takaful and conventional insurance cover an excessive Gharar and are therefore not acceptable from an Islamic point of view. Based on Figure 3, 8.70 % of the respondents strongly agreed, 48.70 % of the respondents agree, 26.70 % were neutral, 12.70 % of the respondents disagree and 3.20 % of the respondents strongly disagree.

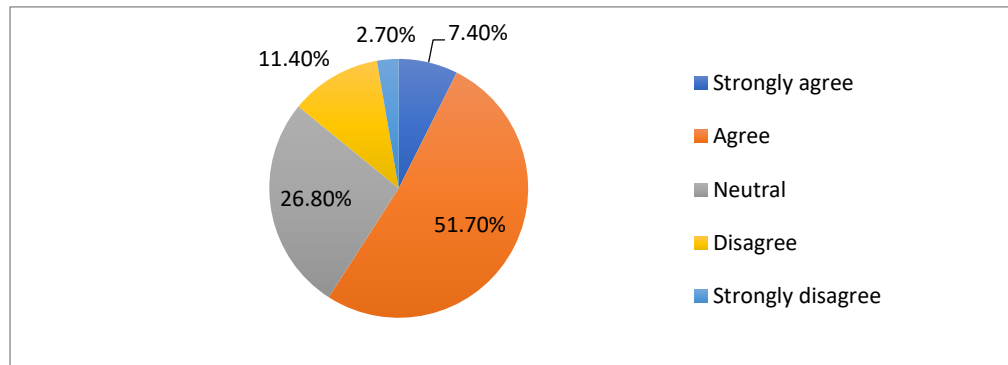


Figure 2. Know the Difference Between Takaful And Conventional Insurance

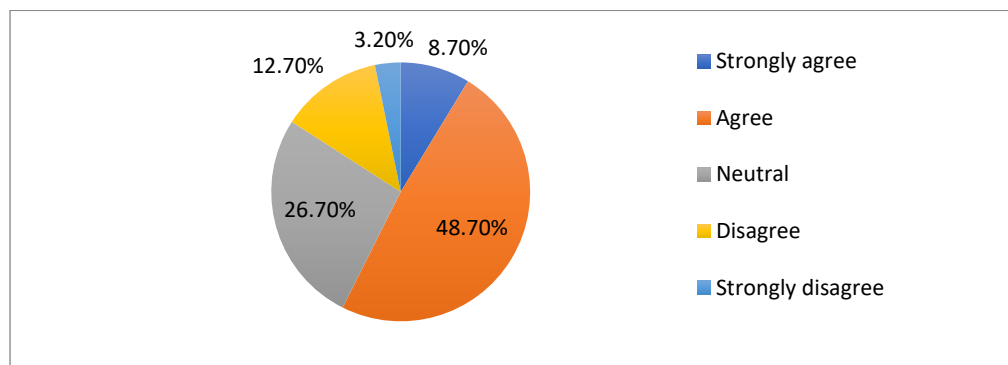


Figure 3. Takaful And Conventional Insurance Cover an Excessive Gharar

The respondents were asked whether only Takaful insurance is acceptable from an Islamic point of view, since it is based on donation and not on profit. Based on Figure 4, 6.00 % of the respondents strongly agreed, 52.70 % of the respondents agree, 28.00 % were neutral, 12.00 % of the respondents disagree and 1.30 % of the respondents strongly disagree.

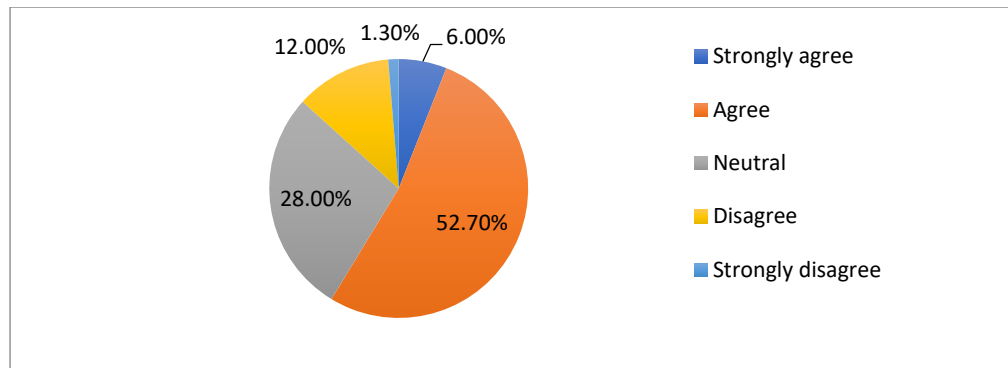


Figure 4. Takaful Insurance Is Acceptable from An Islamic Point of View

The respondents were asked whether there was no problem with profit-based insurance. Based on Figure 5, 4.50 % of the respondents strongly agreed, 54.70 % of the respondents agree, 26.70 % were neutral, 12.80 % of the respondents disagree and 1.30 % of the respondents strongly disagree.

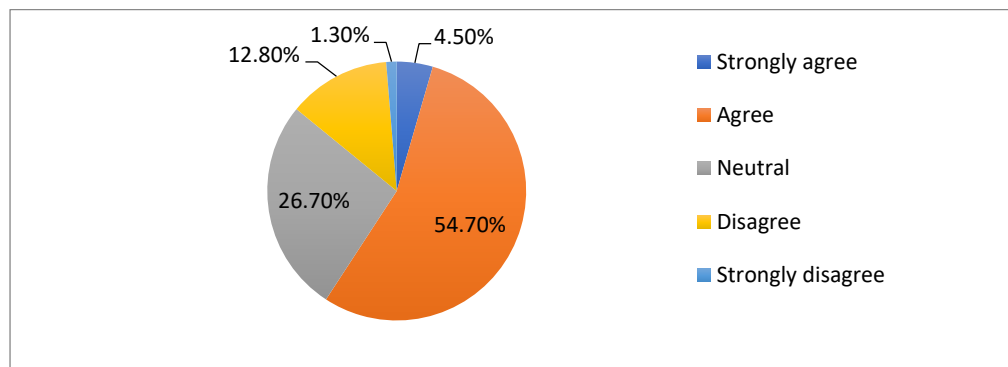


Figure 5. No Problem with Profit-Based Insurance

The respondents were asked whether Takaful and conventional insurance both collected interest to compensate those who suffered insurable losses. Based on Figure 6, 6.00 % of the respondents strongly agreed, 53.30 % of the respondents agree, 30.70 % were neutral, 8.70 % of the respondents disagree and 1.30 % of the respondents strongly disagree.

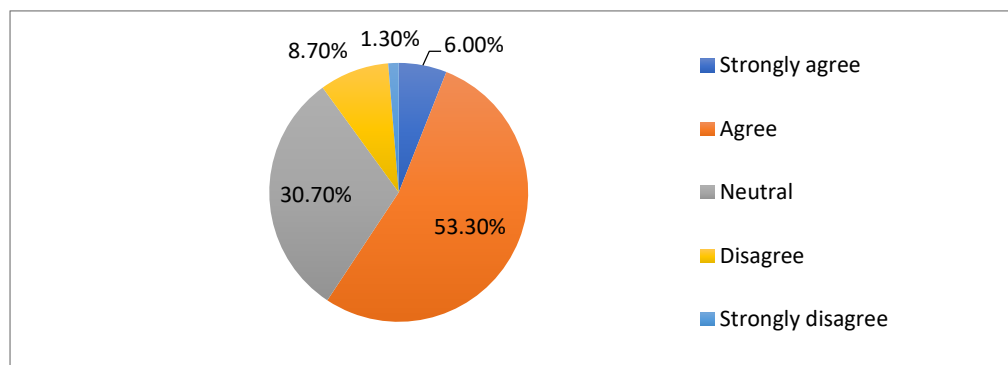


Figure 6. Takaful And Conventional Insurance Both Collected Interest to Compensate Those Who Suffered Insurable Losses

The respondents were asked whether Takaful was free from the elements of Gharar (ambiguity), Riba (interest) and Maysir (gambling). Based on Figure 7, 6.00 % of the respondents strongly agreed, 52.30 % of the respondents agree, 26.60 % were neutral, 14.10 % of the respondents disagree and 1.00 % of the respondents strongly disagree.

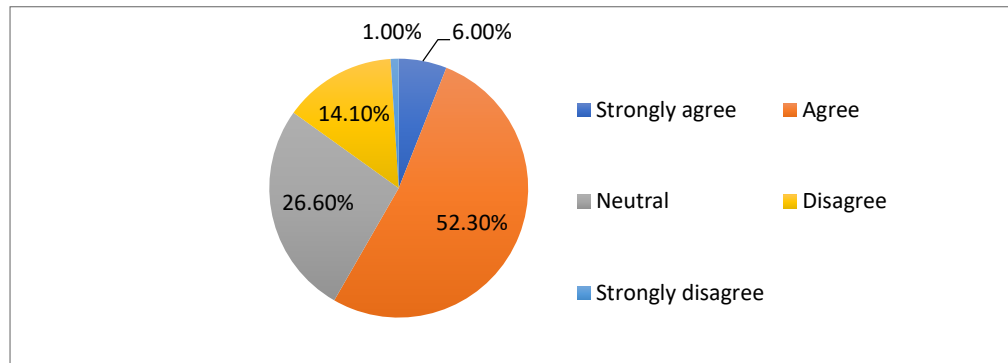


Figure 7. Takaful And Conventional Insurance Both Collected Interest to Compensate Those Who Suffered Insurable Losses

The respondents were asked whether conventional insurance is more efficient than Takaful insurance. Based on Figure 8, 5.40 % of the respondents strongly agreed, 54.10 % of the respondents agree, 25.70 % were neutral, 13.50 % of the respondents disagree and 1.30 % of the respondents strongly disagree.

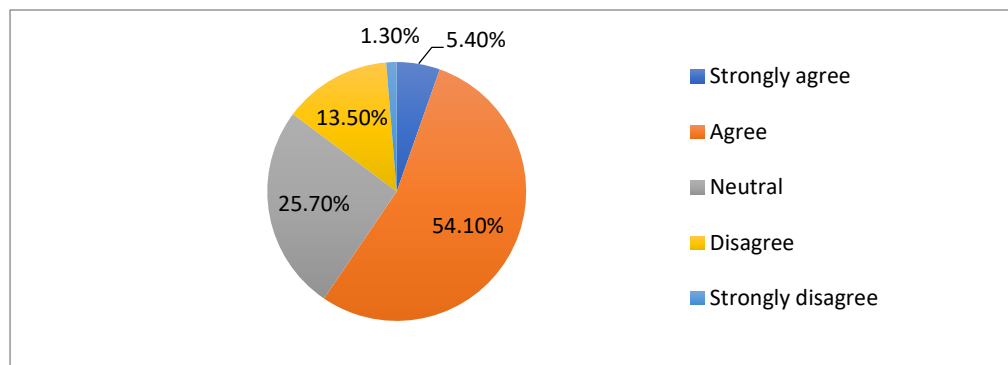


Figure 8. Conventional Insurance Is More Efficient Than Takaful Insurance.

The respondents were asked whether all Takaful models are Shariah compliant and are effective ways to mitigate insurable risks. Based on Figure 9, 4.10 % of the respondents strongly agreed, 51.40 % of the respondents agree, 30.40 % were neutral, 12.80 % of the respondents disagree and 1.30 % of the respondents strongly disagree.

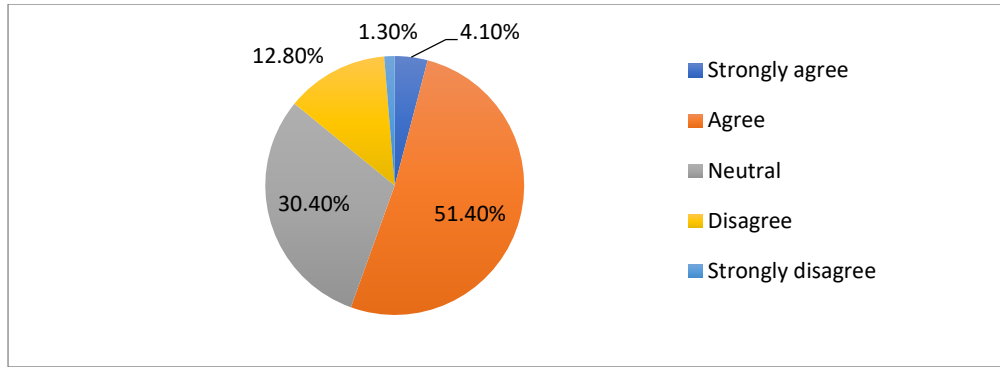


Figure 9. Takaful Models Are Shariah Compliant

The respondents were asked if there are a number of Takaful insurance models that the customer is aware of. Based on Figure 10, 3.70 % of the respondents strongly agreed, 53.00 % of the respondents agree, 28.90 % were neutral, 13.40 % of the respondents disagree and 1.00 % of the respondents strongly disagree.

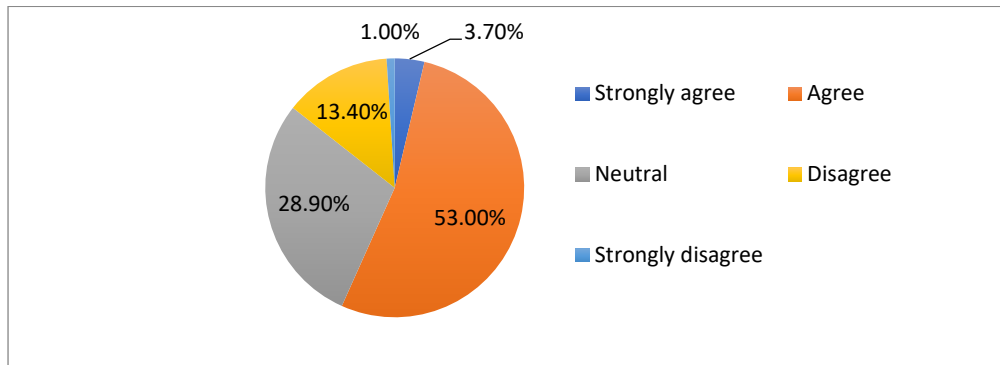


Figure 10. There Are A Number of Takaful Insurance Models

The respondents were asked whether the Wakalah Takaful insurance model is the best model for both the insurer and the insured. Based on Figure 11, 5.00 % of the respondents strongly agreed, 45.00 % of the respondents agree, 30.90 % were neutral, 18.10 % of the respondents disagree and 1.00 % of the respondents strongly disagree.

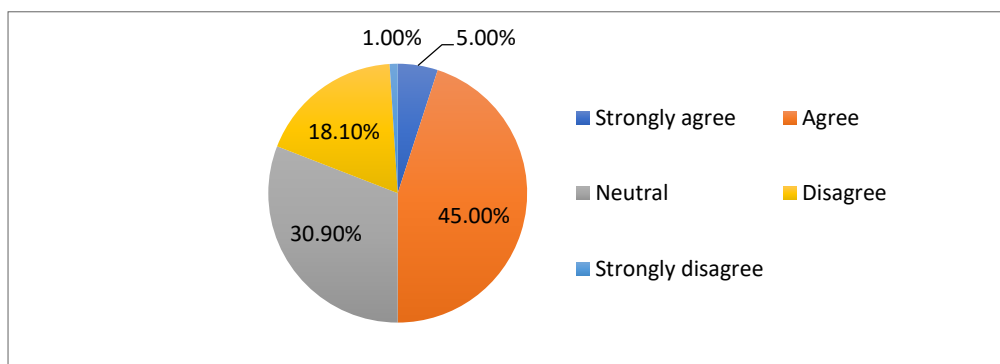


Figure 11. Wakalah Takaful Insurance Model Is the Best Model for Both the Insurer and The Insured

The respondents were asked whether the Mudarabah Takaful insurance model is the best model for both the insurer and the insured. Based on Figure 12, 3.80 % of the respondents strongly agreed, 47.70 % of the respondents agree, 34.90 % were neutral, 12.60 % of the respondents disagree and 1.00 % of the respondents strongly disagree.

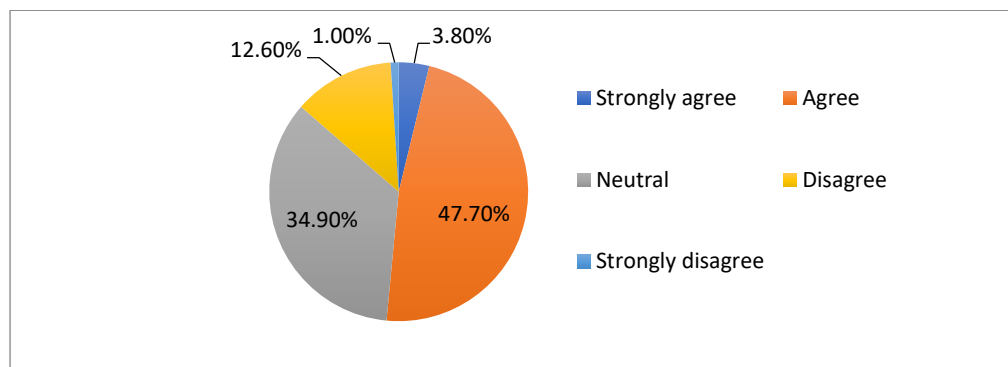


Figure 12. Mudarabah Takaful Insurance Model Is the Best Model for Both the Insurer and The Insured.

The respondents were asked whether the Waqf based Takaful insurance is more Shariah compliant than the other models. Based on Figure 13, 12.00 % of the respondents strongly agreed, 46.00 % of the respondents agree, 20.00 % were neutral, 19.30 % of the respondents disagree and 2.70 % of the respondents strongly disagree.

The respondents were asked whether the all-Takaful models have the same effect on the customers. Based on Figure 14, 4.80% of the respondents strongly agreed, 50.00 % of the respondents agree, 26.00 % were neutral, 17.90 % of the respondents disagree and 1.30 % of the respondents strongly disagree.

The respondents were asked whether the Takaful insurance is more efficient than conventional insurance. Based on Figure 15, 2.30 % of the respondents strongly agreed, 50.00 % of the respondents agree, 25.30 % were neutral, 22.20 % of the respondents disagree and 0.40 % of the respondents strongly disagree.

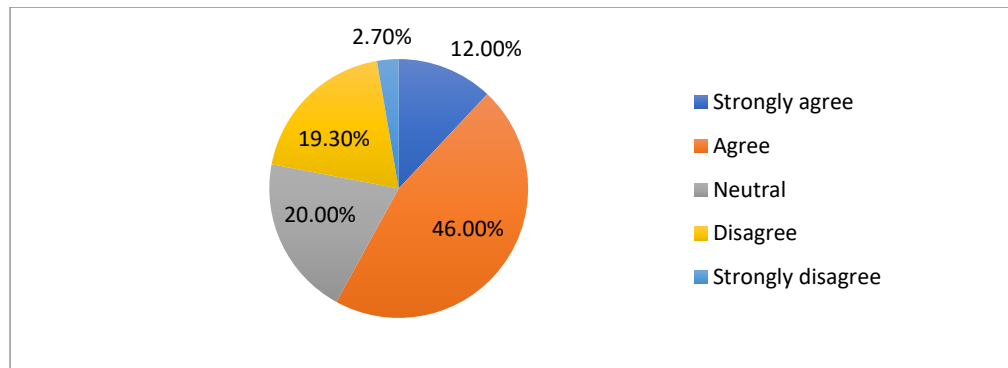


Figure 13. Waqf Takaful Insurance Is More Shariah Compliant Than the Other Models

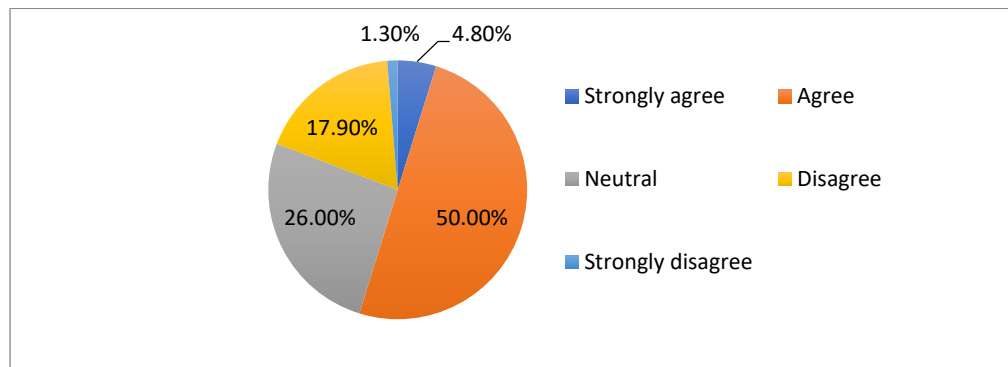


Figure 14. All Takaful Models Have the Same Effect on The Customers

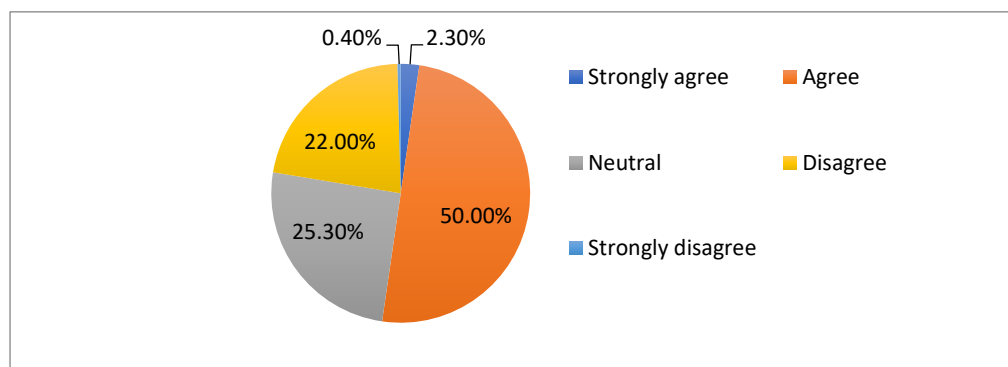


Figure 15. Takaful Insurance Is More Efficient Than Conventional Insurance

The respondents were asked whether conventional insurance can be Islamized by freeing its investment from Riba (interest) only. Based on Figure 16, 5.00 % of the respondents strongly agreed, 47.30 % of the respondents agree, 28.40 % were neutral, 18.20 % of the respondents disagree and 1.10 % of the respondents strongly disagree.

The respondents were asked whether Shariah's compliant insurance business can meet the total insurance needs of modern household / business customers. Based on Figure 17, 5.00 % of the respondents strongly agreed, 47.30 % of the

respondents agree, 28.40 % were neutral, 18.20 % of the respondents disagree and 1.10 % of the respondents strongly disagree.

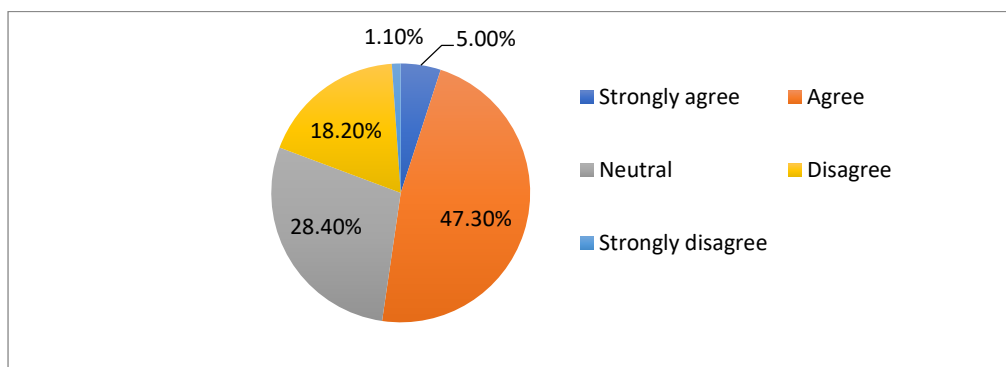


Figure 16. Conventional Insurance Can Be Islamized

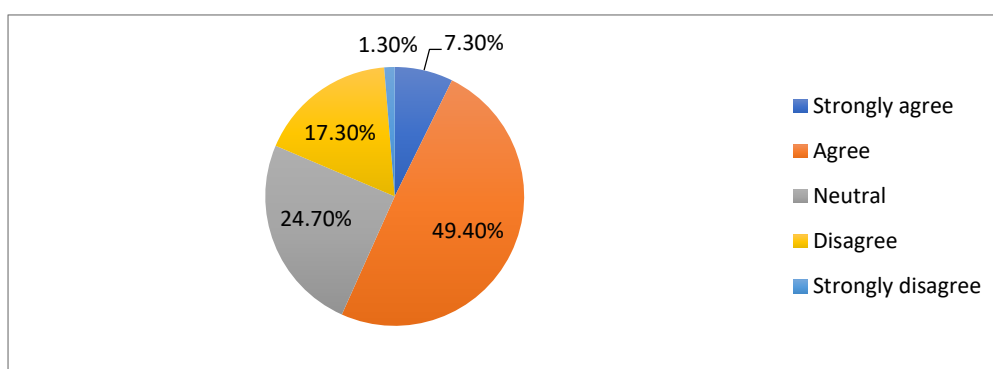


Figure 17. Shariah's Compliant Insurance Business Can Meet the Total Insurance Needs

OVERALL DISCUSSION

The answers to the questions, which measure the preference of people in Saudi Arabia for insurance models and the extent to which they know about both conventional and Islamic insurance, are found as follows. Most of the responses show that insurance is very important as it is necessary to mitigate insurable risks that cannot be avoided or avoided. While almost 58% of participants have information about Takaful Insurance and know the difference between Takaful and Conventional Insurance.

On the other hand, only 15% of the response disagrees that both the Takaful and the conventional insurances involve an excessive Gharar and are therefore not acceptable from an Islamic point of view. 68 per cent believe that only Takaful insurance is acceptable from an Islamic point of view, as it is based on donation and not on profit, and there is no problem with profit-based insurance.

Almost 60 % see that Takaful and conventional insurance both collect interest amounts to compensate those who suffer insurable losses and Takaful is free from the Gharar (ambiguity), Riba (interest) and Maysir (gambling) elements.

However, the minority agrees that Takaful insurance is more efficient than conventional insurance.

Furthermore, the results have shown that there are a number of Takaful insurance models that the customer is aware of and all Takaful models are Shariah compliant and are efficient ways to mitigate insurable risks. The Wakalah, the Mudarabah and the Waqf models of Takaful insurance are compatible with Shariah and have the same effect on customers.

In addition, the majority of respondents agree that the existing conventional can only be Islamized by releasing its investments from Riba (interest) only. Finally, the majority of the response shows that Shariah's insurance-compliant business can meet the total insurance needs of modern household / business customers. The findings of this work are consistent with the work of Rahman et al. [14] where it has been confirmed that insurance is very important and that the majority of Muslim users prefer Takaful insurance because of its Islamic structure. In addition, the work of Krasicka and Nowak [15] has confirmed that the majority of users feel that Takaful insurance is more well organized than conventional insurance and is consistent with the findings of this work. However, the use of both conventional and Takaful insurance depends on the preference of users.

CONCLUSION

This work has examined the variation between Islamic Takaful insurance and conventional insurance in Saudi Arabia. The findings have shown that Takaful has been recognized as an alternative service to conventional insurance, so Takaful models are free from prohibited elements such as gambling, Riba (usury) and uncertainty. In addition, majority of the respondents have deduced that Takaful insurance is more efficient than conventional insurance. Takaful has a higher preference over conventional insurance because policyholders can collect profits and create a pattern of savings through investment. For future work, the authors recommend carrying out correlation statistical analysis and obtaining more in-depth information on the subject.

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