Takaful: A Western Coming of Age

Camille Paldi explains the benefits of Takaful for Westerners.

BARCELONA, SPAIN, November 30, 2014 /EINPresswire.com/ -- CEO of FAAIF Camille Paldi recently gave an explanation of takaful or Islamic insurance to a curious European audience at the Mediterranean Week of Economic Leaders Islamic Finance Summit in Barcelona, Spain. Paldi notes that Europeans are generally receptive to Islamic finance concepts as Islamic finance replicates many concepts also found in the Bible and Torah and can generally be considered as a form of Holy Book finance. In addition, Islamic finance may act as a source of innovation and diversification in the conventional economy, attracting new sources of funds from ethical investors into Europe and producing new investment opportunities thereby stimulating the European economy and generating new sources and forms of trade. In addition, in terms of takaful, Paldi clarifies that in fact takaful is very similar to conventional mutual insurance and cooperative forms of insurance already widely used in shipping and construction.

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Paldi explains that the purpose of Takaful or this Holy Book insurance system is not profits, but to uphold the Qu'ranic, Christian, and Jewish principle of "bear ye one another's burden." Therefore, in contrast to conventional insurance, takaful is not a contract of buying and selling where a party offers and sells protection and the other party accepts and buys the service at a certain cost or price. Rather, it is an arrangement whereby a group of individuals each pay a fixed amount of money and compensation for losses of members of the group is paid out of the total sum. The takaful pool is invested into Shariáh compliant funds, the return on investment, which is paid into the fund and then distributed to the participant according to the takaful agreement. In addition, the funds remaining in the takaful fund upon maturity of the policy are distributed back to the participants after deduction of the charges due to the operator and according to the type of takaful management model utilized by the fund.

Paldi explains that a conventional insurance company speculates on risk by making an assessment of the risk and then pre-determining profit based on the estimated payout versus the premium. It is in a sense gambling with one's health. In contrast, Takaful is a scheme of mutual protection that exists amongst the participants making them both the insurer and the insured, which is a concept promoted by all of the people of the Holy Books.

Paldi reveals that in conventional insurance, riba (interest) occurs as the amount of money received by the insured, either on the occurrence of the insured event or upon maturity of the policy may be more or less than what is actually paid by the insured. For example, an accident may occur immediately after the insured makes the first payment requiring a payout or he or she may make all the payments without any accidents happening, never receiving any compensation back from the insurance company during the duration of the policy. Furthermore, since the payments are deferred, the compensation paid, which is greater than the instalments paid by the insured may constitute surplus riba (riba al fadl) and credit riba (riba al-nasiah). Secondly, the profits of conventional insurance companies result from riba related transactions. In addition, conventional insurance contracts contain gharar (uncertainty) in that the subject-matter of the contract is not certain until the insured event has taken place. The amount being paid by the two parties is not known at the time of execution of the contract.

In a conventional insurance contract, the policyholder agrees to pay a certain premium sum in consideration for the guarantee of the insurance company that they will pay a certain sum of compensation in the event of a valid claim. However, the policyholder is not informed of how much compensation the company will pay him or her or how the amount shall be derived. Paldi sums up that in conventional insurance, policyholders are gambling by betting premiums on the condition that the insurer will make payment contingent upon the circumstance of a specified event. On the other hand, the insured does not get anything from his premiums if the insured event does not happen at all. The aim of the conventional insurance company is to maximize profit based on gambling with the participants health. Camille Paldi says that takaful is an innovative alternative of insurance, a system of risk-pooling based on donation, which promotes people over profit. Camille Paldi can be reached at camille@faaif.com.

Camille Paldi
FAAIF
+971569500562
email us here
