

Takaful vs Conventional Insurance

KUALA LUMPUR, MALAYSIA, June 25, 2021 /EINPresswire.com/ -- What is [takaful](#)? What is the difference between takaful and insurance? To understand the difference between takaful and insurance, read along the article to know more

What does Takaful mean?

Takaful comes from the word “Kafalah” which means a guarantee. The whole concept revolves around this term, i.e., the idea of providing guaranteed protection and security to one another.

Takaful, which is sometimes referred to as Islamic Insurance, is a Shariah-compliant product comparable to insurance based on the principles of Tabarru’ (donation / contribution) and Ta’awun (mutual assistance). Participants can subscribe to takaful plans, such as fire takaful, general takaful, medical takaful, and more by contributing funds (Tabarru) to it. The contributions are collected into a pool, which is managed by a Takaful operator. The participants of the takaful plan agree to offer mutual assistance (Ta’awun) to each other.

Difference between takaful and conventional insurance

Check the points below to understand the difference between takaful and insurance:

Model

- **Takaful:** It follows a specific Shariah-compliant model, wherein any claim will be paid from the pool fund contributed by the participants.
- **Conventional Insurance:** It follows a risk-taking model, wherein the risk is borne by the insurance company and the claim is paid from the fund of the insurance company.

Objective

- **Takaful:** The participants contribute funds into a takaful pool and mutually guarantee financial assistance to each other.
- **Conventional Insurance:** An individual buys insurance coverage from an insurance company solely as a personal security plan.

Uncertain Factors

- Takaful: As it is based on the Shariah-compliant concept, the participants are clearly informed where the fund is invested in the Shariah-compliant avenue and how the profits are distributed.
- Conventional Insurance: It includes elements of Al-gharar or uncertainty, as the policyholders are not informed or kept aware of how the profits are shared and where the funds are invested.

Interest

- Takaful: The takaful entity must follow an interest-free system by ensuring that the funds are not invested in assets that charge interest (Riba).
- Conventional Insurance: Conventional insurance can invest in assets that bear interest.

Surplus Distribution

- Takaful: Any surplus that occurs from the invested funds is distributed to the participants and the Takaful operator.
- Conventional Insurance: Any surplus or profit that occurs is shared only within the insurance company.

There are several takaful products that you can choose for yourself and your family. Some even offer [Haj benefits](#) that provide security to your family, if you succumb to an unfortunate event while you are on your Haj pilgrimage. It is also worth to note that you can subscribe to a takaful plan and even become a Takaful contributor even if you are not a Muslim.

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