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Takaful Models

Introduction:

Takaful is a social system that complies with Sharia principles. It is structured into two types: For-profit and not-for-profit.

Among the models that can be used are: Mudarabah, Wakalah, Waqf and mixed or hybrid model.

In the Mudarabah model, one party, that is the participant or the policyholder, provides the capital (fund), he is then Rab Al-Mal. The other party, that is the operator, provides labor and effort. He is then Al Mudarib.

Profits are shared between both parties (Mudarib and Rab Al-Mal) on a predetermined and pre-agreed ratio which can be 50/50 or 60/40 or 70/30 or more or less according to both parties' agreement.

The Mudarib (operator) manages the Takaful operations in return for a share of surplus on underwriting and a pre-agreed share in the profits.

In case of loss, the Takaful fund (participants' fund), which is Rab Al-Mal, bears the whole loss and the Mudarib does not take any risk in sharing losses, only his labor and efforts are gone.

In case of deficit in the risk pool, the Takaful operator is bound to provide an interest- free loan (qard Hasan) to the pool which is to be repaid in case of surplus. Participants may also be required additional payments.

Any administrative expenses related to the investment are born by the Mudarib, whereas general and administrative expenses of the entire business are charged to the participants' fund.

Surplus is shared between participants and Takaful operator on a pre-agreed ratio.

So, the operator gains returns through a pre-set share in the profits and a pre-set share of the underwriting surplus.

The Wakalah-based model is another model used in the Takaful industry. The operator acts as an agent of the participants and receives in return a pre-set remuneration that may be a fixed amount or a percentage of the contributions collected.

Policyholders make contributions as Wakalah fees and Tabarru (donation) credited to the participants' fund. The shareholders' fund is managed separately from the participants' fund.

The Wakeel invests the participants' fund into sharia compliant assets. Income generated less fees adds to the participants' fund. At maturity, an incentive may be paid from the surplus to the operator as Wakeel.

To overcome Gharar (uncertainty), Mudarabah and Wakalah models are based on Tabarru (donation).

Operating expenses are charged to the participants' fund, whereas the investment activities expenses are charged to the shareholders' fund.

The Waqf model emerged in Pakistan and South Africa. Waqf is a public endowment operated on a not-for-profit basis. Waqf fund can ever last even after the death of participants. Contributions are fully donated (Hiba) and become the sole property of Waqf. Operations are similar to Wakalah model.

The mixed or hybrid model is a mixture of Waqf and Wakalah to enable participants to employ the Takaful operator instead of being their own managers. The Wakeel collects donations for the Waqf fund, manages the underwriting operations and invests the participants' fund. He is therefore entitled to a defined fee and share as a Mudarib in the income generated by investing the participants' fund. Wakalah contract is used for managing the fund and Mudarabah contract is used for investing the fund.

In Mudarabah, the operator, as Mudarib, can share in any operating surplus as an incentive for managing underwriting on behalf of the participants. The Takaful fund belongs to the participants and not the operator. Should there be any loss; the operator loses effort and labor.

The Wakalah model on the other hand distinguishes between the Takaful fund and the Takaful operator. The Wakeel charges a management fee related to the level of performance. The Takaful operator does not share in the underwriting results. All operational costs are reported to policyholders' fund.

Compared to the above-mentioned models, Waqf is a non-profit model. Such a model is more compatible with the concept of Takaful since it is created for the sole purpose of cooperation.

Similarly Tabarru model is non-profit and contributions herein are treated as full donation, so no returns are given to promoters, nor to policyholders. However, these two models have limitations and cannot therefore be competitive in the market.

Conclusion:

Every model has its advantages and disadvantages and none can be distinctive from the others. For instance, Mudarabah model is considered better for investment aspects of Takaful fund, while Wakalah model is considered better for the risk-sharing features in Takaful operations.

So, a mix of the two models would be perfect. A hybrid model emerging from a mix of Mudarabah and Wakalah would be the best model to follow.

What matters most for a Muslim, who is keen on preserving his religion and keeping away from prohibited deeds, is to see Sharia compliant products offered almost in every Muslim country.