

# Permissible risk in takaful



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Although many researches done to overcome the issues in Tactful, there are still arises the issue of permissible risks in Tactful. The famous issue regarding permissible risks in Tactful is whether the risks that will accept by Tactful operator are the same as in conventional insurance or not. There is also a question whether Tactful can cover the risks from mixed activities such as hotels, entertainment and so on. Because of lack of information and study, there is also the perception among many Muslims on whether insurance is permissible under Islam tenet with regards to the key issues of Shari compliance and purification.

Furthermore, the concept of Tactful still could not fully understand by some Tactful operator. The question that still lies in many Muslims is “ what is the difference between Tactful and insurance”. In simple words, it can be said that the concept of Tactful is still hazy to some Tactful operator. Therefore, the purpose of this study is to help people to clarify some issues regarding Tactful especially permissible risks in Tactful. The problem that led us to do research in this topic is that all risks in Tactful are permissible according to Shari?

This review will help to provide some insight about Tactful and invitational insurance. It will focus on comparison between risks in both Tactful and conventional insurance, screening process, risk on property, and so on. The basic idea of Tactful is mutual cooperation to protect any of the members from unexpected future material risk. For example, if one of the members experience fire in their house which will damage their property, Tactful will help the member by using Tactful fund contributed by all members as basic element in Tactful is mutual indemnity. In the world that we live now, many

unexpected thing can happen, include the one that can give damage or harm to us. In other words, there are many risks that one has to face in their life since the moment they were born until they die. For example, since we were born, we may face the risk of sickness, risk of death, risk of involving in car accident, risk of natural hazards and so on. Actually, risk can be classified into pure risk and speculative risk. Pure risk is a situation where there is a chance to loss or not loss. It is unavoidable. For example pure risk includes death, illness or accident.

This is the risk which everyone must face in business. On the other hand, speculative risk can be defined as a category when the risk is taken; here are possibilities of loss or gain. Speculative risks can be said as gambles. All speculative risks decision is made as conscious choice and that means it is controllable. Examples of speculative risks are gambling and investment of stock. Therefore, only pure risk is allowed in Tactful or insurance because the aim of Tactful is to help members who experience loss. As speculative risk is a gambling, it is strictly prohibited to take speculative risk in Tactful.

Risk as defined by Knuckle, means the possibilities that the outcome of our efforts from a process will not achieve its goal. On the other hand, according to Reeked, risk management is a process of determine the likelihood of losses which may face by organizations or companies and finding the best way to treat the challenges. 2 To make it clear, uncertainty and risk are not equal at all. Risk is the weighing potential costs to a particular idea or activity. Uncertainty is the inability to calculate risks or benefits. In simple words, risk is the possibilities of the unwanted things to occur that will happen in any business transaction.

Whilst, uncertainty is an element of unclear which will led to confusion of others. Based on studies conducted by, Mud Shril Materials, Mood Faddish Abdullah, Ye Chunk Ping, Sit Husbanding Abiding, Mainsails M. Zinnia, Hard M. All, Faro Allan, and Hashish Yuccas in article A Study on Tactful and Conventional Insurance Preference: The Case of Brunet, they said it is a natural phenomenon in any society that anyone is exposed to all sorts of risk. Risks may occur to many aspects such as one's life, property, or even business venture.

These risks may affect one's lives in society which may be devastating and shattering. The effect from this risk is that they may leave their dependents behind. As a Muslim, e should know that Islam encourages the act of taking precautionary on in Arabic words, ' satire' against any risks. To avoid risk, one has to strive hard to avoid from being inflicted by any ill luck, and at the same time be fully prepared. Therefore, there comes tactful, with the purpose to uphold, among participants, shared- responsibilities on the basis of mutual co-operation to protect each other against any unexpected risks.

In addition, in Tactful, risk is not exchanged between participants and Tactful operator because operator is not selling and participant is not buying any risk coverage (Omar and Atwood, 2009). Operator just act as a manager of the fund on behalf of the participant. Therefore, operator is not undertaking risk, but the risk is actually distributed among the participants who agreed to jointly assume the risk (Hussy, 1996). Unlike Tactful, risk in conventional insurance is exchanged between the policyholder and insurance company.

As the policyholder pay premiums to the insurance company, the risk is transferred to the insurance company and as a counter values, policyholder will get peace of mind. If anything happen to the policyholder, insurance company will pay claims to him/her or his/her relatives. This is supported by one author. He said that insurance is a tool for the reduction of risk of one party, who is known as insured through the transfer of particular risks to another party, called the insurer, who offers some restoration, or can be called insurance (Prefer, 1956). Risk in Tactful can be divided into two which are permissible risk and non- permissible risk. Permissible risk means the risks that are allowed for the participants to take by Shari that do not include prohibited element. On the other hand, non-permissible risk in Tactful is the risk that are prohibited or not following Shari constraints. Investment nowadays is one of the way to get rich but also one of the quickest ways to get bankrupt. The higher the risk, the higher the return that investor will get.

Because of that, lot of people invests their money into other company in order to make a profit. For a Muslim, they are also allowed to invest their money but the company they want to invest must be free from prohibited element and activities because Islam does not allow its follower to gain a profit from prohibited thing. We can see the prohibition based from the width by Jabber bin Abdullah who reported hat the Prophet Muhammad S. A. W forbade the sale of wine, swine, and idols. Scholars agreed that Muslim is not allowed to participate in any activities that consist of prohibition element.

While prove from AY Quern is Sarah al-Minus verse 51 states that Muslims are commanded to participate in good things and work for righteousness As we all known, it is hard to found companies that follow the Shari guideline.

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According to the Securities Commission Malaysia (SC), more than 60% of all companies listed on Bursa Malaysia are considered “ mixed companies” where their business activities consist of Shari compliant and non-compliant transactions. Thus, Muslim scholars introduce Shari stock screening to help Muslims invest their money on a Shari compliance company.

What is Shari Stock Screening? Shari stock screening can be defined as process of determining whether a stock or security that issued by a company is a Shari compliant or not. Any company that wants to be announced as Shari compliance must not involve with impermissible activities and prohibited element. Shari stock screening help by providing choice of Shari compliance stock to Muslims investor. Relating Tactful with Shari stock screening There are two reasons that make Shari stock screening important to Tactful: 1 .

When a company applying to be one of the participant, tactful operator need to examine that company activities whether it is involve with impermissible activities or not. Tactful operator cannot let the company become the participant if they involve with prohibited activities such as selling wine to people because their activities contradict with Shari For example, if a company that wanted to join Tactful contract is making a profit from gambling, allowing them to be a participant is orbited. 2.

Rather than letting the Tactful fund idle while waiting any claim from the participant, tactful operator will invest it. As the profit will be shared based on agreed contract, the fund must be invested into the company that is clean from any prohibited element. These two reasons show that tactful

operator need the information from Shari stock screening in order to make decision to allow the applying companies to become a participant in tactical contract and in investing the fund. There are a lot of council such as DOD Jones Islamic Market Indexes (DIG), the

FETES Global Islamic Index Series, (FETES), and Standard & Poor (S&P) Shari Index Series that provide screening process in international level, while in Malaysia, stock screening is provided by Shari Advisory Council (SAC) of The Securities Commission Malaysia (SC). Shari stock screening procedure consists of two stages in order to identify the company stock either it is Shari compliance or onto. As the two stages that any company need to pass is quantitative and qualitative stages. Quantitative Stage It is phases that company main revenue and profit is being checked by SC (Security

Commission) based on the benchmark that has been set. The screening starts with the assessment on company main activity or production.

Information will be gathered by SC from the company annual reports, questionnaires and interviews conducted with the company management. If the companies activities are not contradict with the Shari principles, it will be classified as Shari compliant securities. On the other hand, companies will be classified as Shari non-compliant securities if their main activities are involved with: (a) Financial services based on interest (b) Gambling and gaming c) Manufacture or sale of non-hall products I.

Processing, producing and marketing alcoholic drinks ii. Supplying non- hall meat like pork iii. Providing immoral services like prostitution, pubs and disco (d) Conventional insurance (e) Entertainment activities that is non-

permissible according to Shari (f) Manufacture or sale of tobacco-based products or related products For a mixed company, scholars agree to classify them as Shari Compliance Company as long as the contributions from non-permissible activities are not exceeding the benchmark that has been set: Qualitative stage On this stage, SC measures from the public perception and image of the company.

For example is Hotel, as hotel activities that involved with night clubs and bars give a bad perception to the community. It cannot be classified as Shari compliant. Risk rating process in family tactful is similar with the conventional life insurance. Differences between these two are in the screening of risks to ensure Shari compliance. In order to calculate how much contribution applicant need to paid, underwriting and risk rating process is needed. In rating a risk, there are several actors that have been taken into consideration in order to ensure fairness, equity and solvency of the fund. Those factors are: 1.

Age It is important to rate a person based on age because the older the person, the greater the likelihood of death. While most young lives generally have good health. Scholar agreed with the operator, that age is needed to rate a risk. 2. Gender The probability shows that male have a shorter life span than female. Because of that, male applicants need to pay higher contribution. This point is arguable from the view of scholars. 3. Physical Build Mostly applicant being rated by the operator based on the weight chart that that indicate the average weights for various heights and ages. If a person is overweight, they are prone to any disease.



If a person is underweight, they are lack of resistance to infection. 4. Medical History This factor also is needed in underwriting risk. Operator gets the information from medical test conducted and applicant latest medical statement. Some disease that suffered by applicant will not be covered by Tactful. 5. Personal History The applicant lifestyle, habit and other dangerous hobby being rated by operator in order to know how much the contribution applicant must pay. Other than that, operator also looks on the consumption of substance that brings harm to applicant such as tobacco to rate the risk. . Family History Family history been assessed from three angles. First is heredity, which is transmission of cell characteristics from one generation to another. Second, average of longevity of the family, operator looking on the span of life of the family. Last is the impact of family environment which includes exposure to infection and other risks. Scholars don't agree with this factor. 7. Financial Status Checking the income of applicant is need to be assessed by the underwriter because to avoid any contradiction with Shari and to avoid any risk to the pool. . Occupation Because there are lot of occupation that can be considered hazardous, this factor being assessed by the underwriter. There are occupations which make an individual prone to accidents, bring harm to health condition. Having prohibited occupation such as bartenders is not allowed to be covered by Tactful. UNDERWRITING RISK Here, I will explain a little bit about those risks. First is underwriting risk. Underwriting risk in insurance involves measuring risk exposure and chose how much premium will be charged against the risk.

So, Job of underwriter is to do risk evaluation and also evaluate exposures to potential client. For example, they are the ones who decide how much

coverage client should receive, how much they should pay for the coverage, or also whether to accept the risk and insure them. In Tactful, although it is allowed to have underwriting risk, it still has to follow Shari requirements.

Therefore, Shari requirements in accepting underwriting risks are as follows:

1. To make sure the acceptance, validity and enforceability from Shari point of view.
2. To make sure that any risk that will be accepted not against Shari principles.
3. Fulfill the goals, objective and mission of Tactful operator to be Shari compliant business entity.
4. Do not contradict with religious requirement of Muslims in line with their belief and faith. If the product contradict with the Shari law, then the product is not permissible as it will give negative effects to our life in here and Hereafter. There are some impacts if the product does not follow Shari constraints. The impacts are:
  1. It will against the command of Allah. As Muslims, we know that anything that against the command of Allah is a sin, therefore it is not good for us especially life in Hereafter.
  2. There is possibility of cancellation of the company's registration. When Shari law is not followed, the company may be cancelled its registration by highest authority such as IFS or Bank Engage Malaysia (BAN).
  3. Restricted from Allah's Barbara and blessing. As a Muslims, we must afraid if we do not get Allah's Barbara or blessing. This is because it means we will only get Allah angriness when we did not follow Shari law.
  4. Business reputation will go down. This is because everything is under the authority of Allah.

If He does not allow the business to have good reputation, then the business will get poor reputation. Therefore, when we do something, we must set our intention to please Allah and to get His blessing.

5. Invalidation of contract.

To make the contract valid, everything must be according to the Islamic teaching or Shari law. Therefore, if the product is non-Shari compliance, it will invalidate the contract. 6. Non-hall income. As long as tactful product follow the Shari constraints, it is permissible to adopt invitational insurance principle and actuarial skills in underwriting.

For example, all conventional principles such as insurable interest, subrogation, proximate lost, indemnity, utmost good faith, and contribution also includes in Tactful principle. Besides, conventional insurance principles in determining risk also allowed in Tactful. Example of this determining risks are being definable, probable of happening, non-catastrophic, a large number of homogeneous, measurable and lawful. For the risks that are allowed in Islam, there are some characteristics for it. The characteristics are: 1. Risks are permitted by Shari.

There are many risks that are permitted by Shari. Of course, the risks that are permitted do not involve the prohibited elements such as ribs', gharry and massif. 2. Risks not forbidden by the Shari or not give harm to mamma. Risks that are forbidden and give harm to mamma such as risk relating to drugs, alcohol are not permitted. 3. Risks which can secure public interest. For example, risks which can secure public interest include risks relating to construction of schools, mosques and so on which can give benefit to people. 4. Risks which give good reputation.

Risks which will give bad image to either the participants or Tactful operator are not permitted such as risk relating to gambling center. On the other hand, there are also risks which are rejected. Rejected risks are the risks that

are prohibited by the Shari. These risks include: 1. Risks involving ribs'. 2. Risks involving gambling. 3. Risks involving liquor. 4. Risk involving element of shirk. 5. Risks on producing impermissible goods or goods that will bring harm to the community. 6. Risks relating to musical instruments. 7. Risks on non-permissible activities that contradict with the Shari.

For example, risks on non-permissible activities include entertainment activities which beyond Shari limitation, working in liquor factories, entertainment centers, discos, and so on. 8. Risks relating to tobacco goods. 9. Risks that bring bad image to tactful operators as an Islamic financial institution. 6 In case for risks for mixed activities or products, there are certain restrictions regarding to this issue. For this issue, the risk is allowed; however, the non- permissible portion needs to be excluded by insurance companies subject to the following requirements: 1.

The portion must be less than 5% for non Shari compliant activities or products such as ribs', gambling, liquor, pork, rental payments from prohibited things, sale of liquor and tobacco. 2. Must not exceed 20% for hotel and resort operations, conventional share trading and stockbrokers. 3. If the requirements above could not be achieved, the risk cannot be accepted. 4. Core activities of the risk owner are important to considered benefit to the Muslim (mishmash mamma) and the non-permissible elements are very small in the firm. It must be noted that screening process is not the benchmark for Tactful operator to accept the risk or not. This is because screening process is a benchmark for a profit of a company whether it is Shari compliant or non-Shari compliant. However, screening process still can be a tool for Tactful operator to manage the participant's risks. According to <https://assignbuster.com/permissible-risk-in-takaful/>

Malaysian Securities Commission Guidelines, there are some criteria that not fit Shari compliant. Among them are: 1. First criterion: The primary activity of the conventional financial institutions is based on ribs. . Second criterion: The company whose main activity is gambling such as casino. 3. Third criterion The company whose do the production and sale of goods and services that are prohibited in Islam, including: -processing, producing and marketing alcoholic drinks -supplying non-hall meat like pork -providing immoral services like prostitution 4. Forth criterion This criterion tells the primary activity of the company is gharry such as conventional insurance trading. 8 Not all risks on property can be covered in Tactful. There are some exceptions regarding to this risk.

For example, based on Property Insurance Tactful Coverage Plan by Standard Chartered, they make some exceptions regarding the risks on property. Standard Chartered stated that the Tactful operator will not accept any risks on property of the participants in respect of: 1. (a) Electrical or mechanical breakdown or derangement of plant, machinery or equipment, (b) Deterioration of property due to temperature changes or humidity or failure or inadequate operation of air-conditioning, cooling and heating system, (c) Subsidence, ground heave, landslip, erosion, settling or cracking.

Except: (I) Caused by fire, lightning, and explosion (this explosion shall not mean the bursting or disruption of turbines, compressors, transformers, rectifiers, switchgear and so on. It) Resulting in the occurrence of any events in (I) above. Then the Tactful operator will only accept the risks under the Terms of the Policy in respect of the resultant loss, destruction or damage. 2.

Loss, destruction or damage to: (a) Property of manufacture if the loss, destruction or damage is sustained while the property is being actually worked on and directly resulting from that specified work, (b) Property in course of construction or erection, (c) Boilers, economizers, turbines or other vessels, machinery or apparatus in which pressure is used or their contents resulting from their explosion or rupture, (d) Plant, chicanery or equipment during installation, dismantling or the stripping down and assembly in respect of any re-sitting operations, (e) Electrical equipment or wiring caused by electrical current (other than lightning) (f) Money, checks, bullion, negotiable instruments and securities of all kinds, (g) Animals, growing crops or standing timber, (h) Dams, reservoir, piers, wharves, Jetties, bridges or tunnels, However, the Tactful operator can accept the risks in respect of loss, destruction or damage to: (a) Documents, manuscripts and business books but only for the value of the materials s stationery together with the cost of clerical labor expended in writing up, (b) Computer systems records but only for the value of the materials together with the costs and expenses necessarily incurred by the participants in reproducing such records (excluding any cost or expense in connection with the production of information to be recorder therein). 3. A) consequential loss of any kind or description, (b) Loss resulting from dishonesty, fraudulent action, trick, device or other false pretense, (c) Loss resulting from theft unless accompanied by violence to persons or wreath of violence or forcible and violent entry to or exit from the premises, (d) Loss resulting from unexplained or mysterious disappearance or shortage revealed at any periodic inventory or shortages in the supply of materials or loss due to clerical or accounting error, (e)The cost of replacing or rectifying defective

materials, workmanship, design or defect or omission in design, plan or specification (f) Contamination, pollution, wear and tear, corrosion, vermin, fungus, rot, gradual deterioration, deformation or distortion, shrinkage, evaporation, loss of weight, hang in flavor, color, texture or finish or action of light, (g) The cost of normal upkeep or normal making good, (h) The freezing or solidification of molten material, 9 These are part of the coverage plan made by Standard Chartered.

There are still a lot of conditions that we not discuss in this paper. Here we can see that although they accept risks on property, but they still provide terms and conditions regarding the risks. There are some issues about risk that arise in Tactful. Three issues have been selected on this report to be discussed. The important of the issues to be discussed s to make us more understand about the risk that covered by Tactful. The first issues that will be discussed is “ as the characteristics of risk have not been thoroughly discussed in Tactful, Tactful operators face a challenge in analyzing each risk in their efforts to comply with the rules of the Shari.

For example, are the risks of a business which involves permissible and impermissible activities, such as a hotel which offers accommodation as well as bars and immoral activities, permissible? “ 10 How this issue arises, it is because the Tactful operators face a challenge in analyzing each risk in order not to contradict with Shari. Besides that, the characteristic of risk also has not been discussed in detail to ease the operator. The answer is based on the Shari screening process, if the business does not succeed on the screening process, it is not allowed for Tactful to cover the business. As have

been stated earlier, the screening process consists of two stages procedure, quantitative and qualitative.

And the business must pass these two stages of the screening process in order to be known as Shari compliance and to make them allowable to be covered by Tactful. Next issue is what is the Shari viewpoint in the selection and classification of risks for individual participants in family tactful? 11 The issues arise based on Dad statement “ the tests to examine the health status are not in line with the spirit of tuna’s or mutual cooperation”. Other than that, researches that has been conducted report that most scholars do not even know about the underwriting risk and risk rating process because they has not been exposed with the practice.

Most scholars conclude that the underwriting risk and risk rating reactive is permissible. It is important to maintain the solvency of the pool. Other reason for the answer of the issue is based on the recognition of prevailing local customs that is not contradicted with Shari. While in the risk rating, scholars opine that Tactful operator still can improve the risk rating process in order to reach the true spirit of Taiwan. It is because in some rating process is against with the true motive of Tactful. Such as, charging a different contribution rate because of gender is unacceptable. Rating a risk based on family history, scholars agreed that it should