Resolving Controversial Issues and Setting Goals for Islamic Insurance: An Evaluation of Takaful Companies of Brunei

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Abstract

This paper briefly addresses the current status of different issues raised in the Islamic insurance literature. It then attempts to define and suggest a set of idiosyncratic goals for Islamic insurance companies within the overall objectives of an Islamic socio-economic and financial system. Finally, the paper investigates the working of takaful companies of Brunei Darussalam to examine their achievements in this respect and suggests directions for future policies for their considerations.

1. Introduction

A survey of literature on Islamic insurance shows that the subject has reached a level of maturity and some of the questions raised against the very concept of insurance by earlier Islamic religious scholars has been successfully answered. The debate on such questions was conducted on the general premise that any institution developed by non-Muslims could be adopted by Muslims if it benefits them in different spheres of life, and does not involve a transaction that is repugnant to the teachings of Islam.

There now seems to be an agreement that the basic problem with conventional insurance is that a significant portion of the companies’ assets are based on *riba*. The only other issue on which there seems to be a noteworthy controversy is the permissibility of life insurance. Later in this paper we make an attempt to address the issues raised on this somewhat contentious subject. We would argue that it is now time to resolve this issue with convincing arguments and put all efforts to make the concept and practice of Islamic insurance clear, to both Muslims and non-Muslims, for its future growth and contribution to Muslim societies.

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Other than the issue of life insurance, a pertinent question is about the organization of an insurance company. It appears that apart from the issues of *riba* and life insurance, an objection against conventional insurance is its organizational setup. For example, it was asked how an individual or group of individuals could be allowed to insure another set of people against calamities.\(^1\) It was, therefore, suggested that an Islamic insurance company must be set up by the very people (or with their collaboration) who need insurance cover against any mishap. This brought the concept of Islamic insurance nearer to that of mutual insurance companies developed in the west during the nineteenth century, although the use of simpler versions of the same could be traced back as far as 3000 BC.\(^2\) Later in this paper we will elaborate on some aspects of this issue and conclude that the main problem could be related to distributive justice, supposedly the foremost concern of Islamic economics and finance.\(^3\)

As *riba* remains the most troubling subject of conventional insurance from an Islamic perspective, the availability of *riba*-free assets and their suitability for insurance companies is a crucial issue for an Islamic insurance system. The paper briefly overviews the current status of Islamic banking that is expected to provide non-*riba* assets suitable for Islamic insurance companies.

Finally, this paper looks at the practices of the Islamic insurance companies of Brunei Darussalam and examines their achievements in the light of the issues raised in the above paragraphs.

### 2. The Controversy over Life Insurance

In the western tradition, a life insurance policy is a contract whereby an insurer agrees to pay a designated recipient a specified sum of money on the occurrence of a certain event. The three basic plans are term, whole life and

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\(^1\) For example see Monzer Kahf (1994), p. 34. He argues that *Shari’ah* prohibits earning any return or profit by guaranteeing somebody else’s responsibility.

\(^2\) Like Arabs in the Middle Ages, over 5000 years ago, in China, insurance was seen as a preventative measure against piracy on the sea. Nearly 4,500 years ago, in the ancient land of Babylonia, traders used to bear risk of the caravan trade by giving loans that had to be later repaid with interest when the goods arrived safely. In ancient Rome, burial clubs were formed to cover the funeral expenses of its members, as well as help survivors monetarily. In India, the term Rig Veda suggests that a form of "community insurance" was prevalent around 1000 BC and practiced by the Aryans (Smith, 2004, p. 1). Prophet (SAW) allowed the pre-Islamic institution of *Aquila* (a form of insurance) to continue.

\(^3\) For a discussion of objectives of an Islamic economic system, please see (Siddiqui, 2001).
endowment insurance. With term, a fixed sum is payable if the insured dies within a specified period; with whole life, the sum is payable on death whenever it may occur. For endowment insurance, the insured receives a fixed sum at the end of a specified period if he or she is still alive; otherwise a designated recipient receives the amount at the time of the insured’s death.⁴

A number of objections are raised against the practice of life insurance. Among others, Nejatullah Siddiqi (2000) and Masum Billah (undated) have convincingly refuted these objections. According to Masum Billah, in the context of life insurance generally the following objections are raised:

1. “It is contrary to the principle of Tawakkul. In an insurance policy, the insured puts a trust on the insurer to protect him against an unexpected loss instead of putting his trust on All-Mighty Allah (SWT). Such practice is against the principle of Tawakkul as every believer is obliged to put his own trust (Tawakkul) on Allah (SWT.) only. Allah (SWT) says to the effect:

"... but on Allah (SWT) put your trust (Tawakkul) if you have faith...."⁵

2. “It is contrary to the principles of Mirath and Wasiyah. This is because in a life insurance policy the nominee(s) is (are) an absolute beneficiary(s) over the policy after the demise of the insured, in which the nominee(s) deprived the heirs of the deceased from their legal rights based on the principles of Mirath and Wasiyah."⁶

3. “Some Muslims and even some Islamic scholars claim that a life insurance policy means to ensure one’s life against death and such practice is unlawful. Allah (SWT) justifies to the effect:

"... Verily the knowledge of hour is with Allah (SWT). It is He who sends down rain and He who knows what is in the wombs nor does anyone know what it is that he will earn tomorrow, nor does anyone know in what land he is to die. Verily with Allah (SWT) is full knowledge and He is acquainted (with all things)..."⁷

⁴ Goldstein, p. 5.
⁵ Masum Billah.
⁶ ibid
⁷ ibid.
4. “An insurance policy stands towards ensuring one’s wealth and property. In the light of the Shari’ah, a transaction which guarantees protection of other’s property is said to be invalid except in three situations: fear for unjust enrichment; fear of losing one’s property; and fear of one’s property being destroyed or perished. This view was upheld by Shaikh al-Azhar Zal al-Haqq in denying the validity of life insurance policy.”

In our opinion, some objections against the practice of life insurance were raised because of the very use of the terminology “life insurance”! The term seems to imply that the insurance companies are insuring policyholders against their death! This is indeed never the case and Islamic insurance or takaful companies have rightly replaced the terminology of life insurance with family takaful to remove this confusion.

According to Masum Billah, an insurance policy does not supersede the will of Allah (SWT). In such a policy, particularly in a life insurance policy, it is not the aim to ensure and determine one’s life or death; nor does one intend to determine the future material luck of one’s dependents. A life insurance policy also does not connote the idea of the assured trying to protect his life from death against the will of Allah (SWT). An insurance policy also does not mean that the insured is determining his future financial capacity. A policy, whether it is general or life, simply means that both the insurer and the insured have entered into a contract of insurance, and mutually agree for a compensation or security against an unexpected tragedy. Such a concept is, of course, in line with the Islamic principles whereby Islam encourages the Ummah to strive hard in overcoming difficulties in their lives. The Prophet (SAW) said to the effect:

"... Narrated by Abu Huraira (R) the Holy Prophet (SAW) said: Whosoever removes a worldly grief from a mu'min, Allah (SWT) will take away from him one of the grieves of the hereafter. Whosoever alleviates a needy person, Allah (SWT) will alleviate from him in both the world and the hereafter....”

\[8\] ibid.
\[9\] ibid.
In our opinion, it is unnecessary to claim that the primary intention of insurers in life insurance agreements (or for that matter any insurance) is to remove a possible grief from a person. Insurers are clearly motivated to gain a fixed remuneration and/or a share in the profits or surplus of the underlying business and there is nothing wrong in that motive. Similarly, the policyholders of an insurance company participate primarily for their own interest and there is nothing wrong with that intention either. They understand and willingly accept the fact that if they do not face any calamities, their premium could be used to make payments to those who may incur losses. For them, buying insurance provides a sense of security worth paying the premium. In the case of an endowment life insurance, the accumulated premium keeps growing with the addition of returns from investments. Although, under the Islamic insurance or *takaful* schemes, the yearly rate of profits will be variable, it is expected that the average rate of profits over the insurance period would be positive.

It is unjustified to claim that by buying life insurance, a person puts his trust (*tawakkul*) on the insurer. It is an attempt to make provision for his heirs in case something happens to him. This becomes possible because many other people like him have similar desires, who agree to join hands in their own interests with the expectation that only some of them may face death. The following *Hadith* is a clear proof of this claim.

"The Holy Prophet (SAW) told a Beduin Arab who left his camel untied, trusting to the will of Allah (SWT), tie the camel first then leave it to the will of Allah (SWT)..." ¹⁰

Let us have a deeper look at what is fundamentally involved in a life insurance agreement. When a person purchases an endowment life insurance policy (the most general form of life insurance), he agrees (to save and) to make periodic payments (premiums) to an insurance company for a specified period of time; in order to receive a certain amount of money at the end of the term of the policy. In a term life insurance, it is possible that an individual may not be saving any amount for a life insurance company. He may instead be paying a yearly premium to the company and his heirs may get a substantial amount if he dies in that year; the same as a house owner may get a substantial amount of money from an insurance company in case his insured house is destroyed.

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¹⁰ Ibid.
by fire. The fact that the transaction and the underlying agreement are not similar to gambling should be very clear: an insured person does not wish to die. Rather he and his heirs pray for his health and well being. They normally do everything to keep the person healthy. The main goal is not to become rich quickly but to leave something for the family if the person dies during the insured period.

There are many other individuals who are involved in similar contracts, purchasing policies with varying terms and values from the company. Each one of them is primarily interested in saving for the future, for himself and for his family members. This is purely an act in their self-interest and an act that should be, in our opinion, Islamically permissible. The following *Hadith* is a clear proof of its acceptability:

Narrated by Saad bin Abi Waqqas (R): The Holy Prophet (SAW) said: “It is better for you to leave your offspring wealthy than to leave them poor asking others for help...."

Masum Billah emphasizes that life insurance policy does not contravene the principles of ‘*Mirath*’ and ‘*Wasiyah*’. In a life insurance policy, the nominee(s) is nothing more than a trustee, as held by the supreme court of Pakistan. The nominee is under an obligation to receive the benefits over the policy on behalf of the heirs of the deceased (assured) and distribute the benefits among the heirs of the deceased in accordance with the Islamic principles of *Mirath* and *al-Wasiyah*.\(^{11}\)

Masum Billah also refers to Al-Zarqa, Al-Alwan and Adil Salahi in supporting the view that the nature of a life insurance policy is similar to that of a retirement pension scheme which is generally regarded acceptable by *Ulema*.\(^ {12}\)

There is however, some difference between life insurance, specially the term life insurance, and pension schemes. In a term life insurance it is possible to buy a life insurance on a year-to-year basis the same as an automobile insurance or fire insurance for a year. In case the person dies, his nominee would get the face value of the insurance coverage. If he remains alive he

\(^ {11}\) ibid.
\(^ {12}\) Ibid.
would lose the premium. Hundreds and thousands of people buy such insurance and pay a premium not because they want to die and get unlawful money from others through the insurance company, but to arrange something for their heirs in case they face death. All the participants in this scheme are happy to live on and do not mind that their premium has gone to families who lost their bread earner or caretaker. In this regard, in our opinion, there was no need to introduce the terminology of tabarru in takaful literature. Any contribution made to a fund by a person so that he could himself be a beneficiary (the probability of which is more or less similar to that of any other participant) could not be termed a donation. This unnecessarily invites criticism by the detractors of the Islamic economic and financial system.

The people who manage these companies, make investigations about the people being insured and the claims being made, and invest available funds prudently and efficiently, should be eligible to get fixed salaries and / or a share in the surplus. The management of insurance companies could be formed in different ways. Managers of insurance companies could be hired (as mudaribs, using the Islamic terminology) by the very people or their representatives who pay the premium. Alternatively, these managers can establish an insurance management company and offer their services as mudaribs. Similarly, another group of people seeking profits can provide funds through buying shares to run a stock insurance company. In the following sections we will argue that while all these arrangements could be Islamically permissible, the choice of an organizational setup should be made in accordance with the goals of Islamic insurance.

Another point worth mentioning here is that although there are other modes of savings available, life insurance, like pension schemes, are generally constructed for longer terms. These schemes are also relatively less flexible compared to other savings alternatives such as mutual funds and fixed savings deposits in allowing the policyholders to withdraw their accumulated savings without any penalty. Similarly, long-term bonds, another mode of saving, are bought and sold in the secondary markets, whereas savings with insurance companies cannot be negotiated in any secondary markets; making them less liquid. These long term saving arrangements through life insurance policies allows insurance companies to make long term investments and get relatively higher rates of return. The provision that, in case of the death of a policyholder, an endowment life insurance company would pay to the heirs
the full amount of his insurance policy is also an incentive to make serious commitment for long-term savings.

The primary goal of conventional stock insurance companies is to maximize profits for its owners (equity holders). On the other hand, in principle, the policy holders own mutual insurance companies. All other things equal, the policyholders should be relatively better off by joining a mutual insurance company. However, the existence of both types of the companies for a very long period of time proves that ‘other things’ may not always be equal. Obviously, the first thing that naturally comes to mind is the issue of equity and efficiency. Any movement towards mutualization of a stock insurance company or a demutualization of mutual insurance to a stock insurance company must be related to equity and efficiency. Islamic insurance or *takaful*, must be required to run under such an organizational and regulatory framework that it naturally moves toward achieving both equity and efficiency.

Kathy Smith points out that in the United States, it wasn't until 80 years after 1840 - when for the first time the concept of insurance got prominence - that life insurance really took off in a big way. The key to its success was reducing the opposition from religious groups in that country (Smith, p. 2). The concept of *takaful* and *family takaful* is becoming more and more popular and acceptable. It is hoped that the remaining objections will soon come to an end, the focus and energies of both theoretician as well as the practitioners will now be shifted to set the goals of an Islamic insurance system and suggest ways to achieve these goals.

3. Goals of Islamic Insurance

After rebutting all the objections against the concepts of insurance including that of life insurance, the next pertinent question is what should be the objectives and goals of Islamic insurance? Indeed, changing the name of general insurance to *takaful* and that of life insurance to *family takaful* should be welcome, but it is only a change in name and not in substance.

If we look at Islamic insurance as a subset of an Islamic economic and financial system, its goals could be defined accordingly. Siddiqui (2001) stresses that the aim of an Islamic economic system is to: (a) collectively (often possible only through the agency of the government) implement the
command of the Creator and His Apostle; (b) provide an environment where it
becomes convenient for individual Muslims to follow Islamic injunctions. He
further emphasizes that manifestation of these two primary goals, inevitably
leads to provision of socio-economic justice in the society. In the context of
Islamic insurance or takaful, the avoidance of riba and the requirement that
policyholders be put at the centre stage by adopting an appropriate
organizational setup, are primarily means of providing social justice in the
society. Let us now look at these issues in more detail.

3.1 Provision of Non-Riba Assets for Insurance companies, and Islamic
Banking

There is a consensus that Islamic insurance business must avoid all
transactions that involve riba. Indeed many takaful companies claim that they
are already complying with this requirement by: (i) having a sharing
arrangement with their policyholders, and only dealing with Islamic banks and
other Islamic financial funds that are Shari’ah compliant for investment. This
way they are partly putting the onus of removing riba from business
transactions on other Islamic financial institutions. To some extent, their claim
seems to be justified.

However, for many people, the performance of Islamic banks in eliminating
riba has been far from satisfactory. The choice of specific modes from
permissible modes of finance by Islamic banks has kept them almost identical
to conventional banks at least in substance. This is especially true for Islamic
banks which have decided to use bai-al-einah on a significant scale. A
murabaha can be changed to bai-el-einah, if the identity of the vendor is not
different from the client; the bank purchases the commodity from its client on
a spot basis and sells it back to the client on a deferred payment basis at a
cost-plus price.\textsuperscript{13} However, even Islamic banks that have avoided bai-el-einah,
their use of debt like financing such as murabaha, bai bithamin aajil, and
ijara wal iqtina on a large scale has not brought any significant result of which
they could be proud of. The one thing that it has promoted is a level of
consumerism such that even in a relatively rich country like Brunei
Darussalam, a huge fraction of the population is heavily and problematically
indebted.

\textsuperscript{13} Obaidullah, (p. 103)
While some Muslims question the permissibility or desirability of debt-like financing used by Islamic banks, there are those who even argue whether the definition of *riba* includes commercial interest. As the issue of *riba* is critically important and requires a clearer understanding, we would like to have a further look at some of the arguments.

### 3.2 Dealing further with the issue of *riba*:

It could be true that during the Prophet’s (PBUH) time, many victims of the practice of *riba* were poor consumers, but there is strong justification to claim that a number of them were traders who took loans for businesses. According to Al-Salus, the fact is that much of the *riba*, which was used in pre-Islamic Arabia, was indeed for commercial and business financing. Furthermore, in those days, a debtor could return less than the amount of the loan if he decided to pay back before the stipulated time, another form of injustice. The following verse of the Qur’an can be referred to help make this point and to show that the practice of *riba* could also be harmful to the creditors (or depositors in our time):

> O ye who believe!  Fear God, and give up what remains of your demand for *riba*, if you are indeed believers.  If you do not, take notice of war from God and its Apostle: *but if you turn back, you shall have your capital sums: deal not unjustly, and you shall not be, dealt with unjustly.*  If the debtor is in difficulty, grant him time till it is easy for him to repay.  But if you remit it by way of charity, that is best for you if only you knew. (2: 278-80)

(Translation by Yusuf Ali; my italics).

According to Mahmoud El-Gamal, the meaning of the underlined sentence in Arabic given by Al-Tabari (who refers to Abu Jafar, Ibn Abbas and others) is more accurate and could be translated as “if you turn back, then you should collect your principal, without inflicting or receiving injustice” (meaning without increase or diminution, as both an increase or a decrease of the amount returned relative to the amount lent would be considered injustice).

In our time, an injustice is inflicted on bank depositors when they are paid a relatively small fraction of the income generated through utilizing their funds, and it becomes especially unfair during an inflationary period. The prohibition of *riba* is, therefore, not only to discourage exploitation of the debtors, but any

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15 Please see El-Gamal (2001), p. 3.
Another related point that we would like to emphasize is that one of the goals of Islamic teachings in any sphere of life is to promote desirable behaviour among all concerned parties. In the case of Islamic banking, the three parties are: (i) depositors (ii) bank owners and their managers, and (iii) traders, producers and others who use banks’ funds. Elimination of bank interest through the application of profit and loss sharing financing would not only generate a better income distribution pattern (one of the most important goals of Islamic economics and finance\textsuperscript{16}), but also lead to produce a more reasonable and justifiable attitude individually and when dealing with each other.

To replace the practice of interest by commercial banks, religious scholars and Muslim economists called for the establishment of an Islamic banking system based on profit and loss sharing modes of financing. Over the last three decades there has been a mushrooming growth of Islamic banking and a remarkable increase in their deposits. However, most Islamic banks are heavily dependent on ‘debt like’ modes of financing for their earnings and the whole enterprise of Islamic banking seems to be mired with widespread confusion, less than convincing arguments, and further confusion! The majority of the contemporary religious scholars and Muslim economists treat extra earnings from \textit{bai muajjal}\textsuperscript{17} (over and above the profit that could be made through cash price) permissible, and allow its unlimited use by Islamic banks. The original proponents of Islamic banking, for whom Islamic banking always meant \textit{profit and loss sharing} banking, have gone into the background. The most prominent players in the field are the members of the \textit{Shari’ah} Boards of different Islamic banks. Their main function is to give verdict on the validity of Islamic banking products that are largely based on juristic rulings of the past. They seem to be less concerned about the ultimate effect of their rulings in the contemporary Muslim economies.

\textsuperscript{16} Indeed this goal has to be achieved not only through financial markets but also Islamic reforms in the markets for other factors of production i.e., labour, land and entrepreneurs. For a discussion on this issue we would like the readers to refer to my article, Siddiqui (1996).

\textsuperscript{17} Throughout this paper, \textit{bai muajjal} is used to refer sale on credit with a price higher than the cash price.
It is important to emphasize that the benefits of Islamic banking could not be realized unless profit sharing modes of finance become the dominant methods of financing. These benefits, among others, include better average returns (than exists presently) to the depositors of Islamic banks, and meaningfully higher than the prevailing rate of inflation. Thus, avoidance of *riba* by *takaful* companies should be a source of better returns to their investments and consequently to their policyholders. A discussion of how Islamic banks may move toward “profit and loss sharing Islamic banks” is discussed in Shamim Siddiqui (2005).

Although, unlike the conventional insurance companies for whom *riba* is not an issue, *takaful* companies are in a better position to invest in equity-based assets, but they would prefer to avoid excessive risk in their infancy. One can expect that as they grow in size and maturity, both Islamic banks and *takaful* companies should be able to hold increasing levels of equity-based assets to get rid of *riba* or *riba-like* transactions in reality.

### 3.3 Preferred Organizational Setup for Islamic Insurance:

After *riba*, another important issue is the organizational form of Islamic insurance companies. The two existing models of conventional insurance could be termed as stock insurance and mutual insurance companies.\(^{18}\) A mutual life insurance company is a company with no common shareholders, and instead is owned by its policyholders who share in the company's surplus earnings. In some countries, policyholders with voting rights (who agree to take the downside risk of the company) elect all members of the board of directors. Unlike the stock insurance companies that are legally owned by their shareholders, a mutual company has no access to common stock. Its managers are supposed to work like *mudaribs*, for the benefit of the policyholders sharing the profits/surplus of the company.

*Takaful* concepts are similar to cooperative and mutual insurance principles with added restrictions on investments, made in Islamically permissible ways, and with more flexibility in capital formation (Patel, p. 8). Commercialization of *takaful* has, however, produced several types of Islamic insurance, each reflecting a different experience, environment and perhaps a different school

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\(^{18}\) A mutual life insurance company is a company with no common shareholders and for which all members of the board of directors are elected by the policyholders. A mutual company has no access to common stock.
of thought (Patel, p. 9). One thing, however, is clear: Islamic insurance companies must be required to make their policyholders at the center stage. Although the takaful companies are supposedly working on the basis of mudarabah, the ratio of surplus given to the policyholders is exclusively determined by the management. Similarly, policyholders have hardly any role in companies’ portfolio decisions. As discussed earlier, there could be three different ways to form an Insurance company:

i) Managers could be hired as mudaribs by policyholders or their representatives and be paid fixed salaries and/or a share in the surplus generated through premium and investments.19

ii) A group of individuals can establish an Insurance Management Company and offer their services as mudaribs to potential policyholders, and could suggest alternative surplus sharing arrangements.

iii) Another group of people could form a stock insurance company, select its managers and provide insurance services to possible policyholders. The goal of the company would be to maximize profits for its shareholders.

We would like to emphasize that the third option should not be termed technically un-Islamic provided that insurance companies formed as stock companies avoid riba. The shareholders could be seen as individuals who provide initial funds to establish an insurance company and share the surplus or profits. However, as their main goal is to maximize profits for the shareholders, the policyholders’ interests are secondary to them and the issue of distributive justice comes into the picture. The same may be the case if an insurance company is established by one individual (or by a company as its subsidiary as has been the case with all three Islamic insurance companies of Brunei Darussalam) who runs the company on his own, controlling the surplus

19. Abdul Wahab et al (2007) raise the issue of application of mudarabah to the surplus created through premiums (over cost of claims, reinsurance, etc. but excluding the payment to mudaribs). As no business activity is involved, the surplus cannot be treated as profits and hence the mudarabah arrangement could be questionable from Shari’ah point of view. In their opinion, the wakala model of takaful (more widely used in the Middle East) avoids this problem but still has features that have distributive implications. They provide some useful solutions to the wakala model that could overcome Shari’ah objections.
sharing ratio and making all investment decision himself. However, the benefit of having a mutual Islamic insurance company is that it would remove the need to pay profits to the stock holders who are paid mainly because of their initial contribution through the purchase of shares. Mutual Islamic insurance companies should be favored for their potential to provide distributive justice in the economy. The problem of the provision of an initial amount needed to start an insurance company could be solved by requiring the newly establishing companies to raise money through Islamic banks on a profit and loss sharing basis for the initial few years. Alternatively, governments of Muslim countries could establish a fund especially for this purpose.

4. Mutual Insurance Companies: What Can We Learn from their Experience?

It would be interesting to mention the case of Quebec, a province of Canada. The origins of mutual life and health insurance companies in Quebec are fraternal benefit societies and the co-operative movement, which has been called "an economic system whereby individuals are part of democratic associations they own equally and, where individuals obtain goods and services they need at cost prices." These origins characterize Quebec insurance companies and help explain the differences between Quebec life and health insurance companies and their Anglophone counterparts. The fraternal benefit societies and the co-operative movements often developed in reaction to the excesses of capitalism and are based on solidarity and mutual assistance20 (Goldstein, p. 7, my italics).

Several points are important to note here; mutual insurance companies could be seen as cooperatives that try to offer insurance service at cost price and avoid excesses that are normally present in a capitalistic profit seeking institution. In our opinion this is an important view that could be shared by takaful companies. Whether a mutual insurance or a takaful company achieves this goal would depend on its organizational setup and actual working and performance. Goldstein observes that for all practical purposes, neither shareholders in large corporations nor policyholders in large mutual companies have any practical mechanism available for playing a meaningful

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20 This is a point of view that seems to have been accepted by the Quebec National Assembly. However, American legislators have always been convinced that mutual companies are capitalist in nature (Goldstein, p. 7)
role in the selection of management or participating in corporate governance matters. The boards of directors of both types of large organizations are largely self-perpetuating bodies which make decisions with very little shareholder/policyholder influence (Goldstein, p. 7). Because of this both of them could be seen as capitalistic in nature.

Goldstein notes that in the United States, many demutualizations were brought on by financial problems. In some cases, it happens that management does not wish to retain the mutual form, preferring forms of compensation, comparable to stock option plans in some private companies. The need for regulations can differ depending on the situation of the mutuals and on the reasons for the push to transform. He suggests that in every case, regulatory measures should be fair and equitable (Goldstein, p. 7).

Goldstein also mentions that it should be borne in mind that, although there are differences in the products offered by mutual insurance companies and stock insurance companies, the main differences between them are related to voting rights and the level of dividend participation provided for the contract obtained through purchase of an insurance policy (Goldstein, p. 7).

When they buy a participating policy, policyholders acquire, along with specified benefits, certain rights that are not transferable, these include: the right to borrow against the cash value of the policy; the right to dividends, if and when such dividends are declared by the board of directors; and, on a winding up in the case of an insolvency, the right to rank ahead of any creditors of the company and also to rank ahead of shareholders in a stock life company. A non-participating policy gives the holder no right to participate in the distribution of the surplus (Goldstein, p.5).

Goldstein also notes that above all, the chances for successful transformation of a company are related to its initial health and to the motives for transformation. Whatever the legislative or fiscal context, success in transformation is more likely for a healthy company than for an unhealthy one. When a company has difficulties, access to capital becomes critical to the ongoing operations (Goldstein, p. 10).

A number of mutual companies in the West have decided to go for demutualization, mainly to raise funds. Before they are allowed to do that the regulatory authorities have to see the desirability of such a move primarily to
safeguard the interests of different types of policyholders. Regulatory authorities of Muslim countries can get useful insights from a thorough and continuous study of the mutualization / demutualization process in the West. It would help them in formulating and/or reformulating their own regulations governing their *takaful* companies in light of the goals of Islamic insurance and the actual existing practices of these companies.

Good governance, no corruption, transparency and proper accounting could make a mutual company efficient and beneficial for the masses and especially the poor in the economy. The same must be true for *takaful* companies. It has been observed that as the co-operatives or mutual companies grow, they become less effective in servicing the poor. The government can play a role in encouraging establishment of *takaful* companies by providing the initial capital. As many mutual companies in the West have gone through the process of demutualization, the access to capital has been the major reason for conversion to a stock company, the governments of Muslim countries can also provide necessary funds to avoid demutualization of mutual *takaful* companies. This should be done on a case-by-case basis whenever a genuine reason is given by an existing *takaful* run by honest and efficient *mudaribs*.

One of the reasons mutual insurance companies were established was that they required little initial capital and most of the funds were provided through premiums (Murphy, p.3). If necessary, the government may be able to provide some additional funds at initial stages of the establishment of a *takaful* company. This would allow competent and experienced individuals to use their expertise in insurance by setting up *takaful* management companies and act as *mudaribs*. Goldstein’s analysis of the issues raised in relation with demutualization of mutual insurance companies in Canada gives many insights about the working of mutual insurance companies. *Takaful* companies may face similar issues in the future as they become larger and their managers/owners become less interested in the welfare of the policyholders. *Takaful* companies largely setup as subsidiaries of other stock companies have hardly engaged their policyholders as real participants or owners of the company as normally practiced by real mutual companies in the West.

It is also important to observe that while demutualization is more common in the United States, most of the large insurance companies in Canada are mutual insurers. A deeper comparative study of these and other western countries could provide many insights for the nascent *takaful* industry.
5. The Relevance of Insurance to Poor Muslim Communities
The success of pro-poor microfinance institutions has led to the recognition that poor people can and want to save. While both savings and credit facilities are integral in assisting the poor overcome unforeseen loses, their benefits are limited to the capacity of the individual to save or make repayments. When bad conditions and their consequences persist for several years, such as drought and flooding, then the use of savings as protection is constrained. In addition, high risk of illness, death and disability of the breadwinner makes outstanding loans difficult to pay (See Patel pp. 3-4 and the references given there).

It can be concluded that insurance is an effective mechanism for reducing the vulnerability of the poor from the impacts of disease, theft, disability, and other hazards as well as safeguarding the productive use of savings and credit facilities. In developing countries the need for a safety net is much greater, particularly at the poorest levels where vulnerability to risk is much greater and there are fewer opportunities available to recover from a large loss. The primary function of insurance is a risk transfer mechanism to provide peace of mind and protect against losses (Patel, p.4).

Insurance penetration in Muslim countries is low because of low GDP per capita and other things such as: lack of technical capacity, corruption, weak contract enforcement, consumer skepticism and under-developed financial systems (Patel, p. 5). Patel correctly observes that micro-insurance with genuine cooperative principles run by honest people could really serve the poor (Patel, pp. 13-14).

Removal of all misconceptions and genuine objections against different types of insurance products and an Islamic insurance system that treats the interests of its policyholders as its supreme goal, will go a long way in helping Muslim communities all over the Muslim world.

6. Takaful Companies of Brunei Darussalam
Brunei Darussalam is a small Southeast Asian sultanate with a population approaching 400,000. It is situated at the tip of Borneo Island surrounded by the two eastern provinces of Malaysia and the South China Sea on the north. It runs under the political philosophy of Malay Islamic Monarchy. Around 75% of the population is Muslim.
Table 1 shows the contribution of the insurance sector to the economy of Brunei. It can be observed that although its contribution to the economy is still under 2%, in recent years it has been growing at a significant pace.

The country established its first Islamic bank in January 1993, by converting what was known as International Islamic Bank of Brunei to Islamic Bank of Brunei. This bank is technically a public limited bank with government holding the majority shares and with that, its administration. The bank followed the Malaysian model of Islamic banking at its inception and by and large has remained on that course. In May 1993, it opened the first takaful company of the country as its subsidiary. Another financial institution of the country, Tabung Amanah Islam Berhad (TAIB) started its operation in 1992 as a cooperative savings institution helping the Muslim population in saving money to perform Haj. It was allowed to open its takaful company “TAIB Insurans Islam” in 1993. Another financial institution under the government Development Bank of Brunei was converted to Islamic Development Bank in 2000 as a public limited company. The government remained the majority share holder and kept the control of its administration. This Islamic bank was also allowed to open its own “IDBB Takaful” which worked in similar pattern as the other two older takaful companies. Recently IBB and IDBB have been merged to become Bank Islam Brunei Darussalam (BIBD).

6.1 Structure of Conventional and Takaful Insurance

The three takaful companies today form the Islamic insurance market that competes with 18 other conventional insurance companies in the country. These are made up of 9 locally incorporated conventional insurance companies, 6 companies as branches of foreign companies and 3 as underwriting agencies operating through locally incorporated companies. Out of the 18 conventional insurance companies only three of them are life insurance and they are all branches of foreign companies.

6.2 Performance (Premium Collection)

Conventional Insurance Companies

The total gross premium collected by conventional insurance companies increased by 8.1% from B$85.5 million in 1996 to B$92.4 million in 1997 (Table 2). However in 1998, the amount declined by 26.6% to B$67.9 million.
and declined further by 20.2% to B$54.2 million in 1999. At the end of 2004 the total amount of contribution was B$47.6 million, only a little more than half of the amount received in 1996 (see Table 3).

As in the previous years, the insurance category which collected the most premium was motor insurance. This was due to the legal requirements stipulated under the Road Traffic and Motor Vehicle Acts for all motor vehicles to be covered by insurance and at the same time, the number of motor vehicles had increased. The decline in the total collection for workers’ compensation and contractors’ all-risk insurance in 1998 compared to that in 1997 was mainly due to the decline in the construction activities in the country throughout the period. However, the emergence of Islamic insurance is really having an adverse effect on the total contribution received by the conventional insurance companies. It is a common observation in Brunei Darussalam to see many non-Muslims who were initially quite skeptical about Islamic insurance buying general insurance policy from *takaful* companies.

Overall, the locally incorporated conventional insurance companies collected the most premium compared to that collected by the branches of foreign companies and 3 underwriters.\(^{21}\)

**Takaful Companies**

The total premium of participation collected by *Takaful* IBB Berhad and *Takaful* TAIB Sendirian Berhad increased by 25.6% from B$10.5 million in 1996 to B$13.2 million in 1997. The amount increased further by 85.4% to B$24.5 million in 1998 and 2.9% to B$25.3 million in 1999 (Table 4). These increases were indicative of the public awareness and interests towards *takaful* protection based on the profit-sharing concept (*mudarabah*), which is not offered by conventional insurance.\(^{22}\) At the end of 2004 the total premium received by *takaful* companies stood at B$36.3 million (Table 5) a more than threefold increase compared to 1996.

*Takaful* companies were also active in introducing new products in line with current developments. These positive developments indicate the *takaful* companies’ drive to further expand the market of Islamic financial products.

\(^{21}\) Government of Brunei: 8\(^{th}\) Development Plan, p. 119.

\(^{22}\) Ibid, p. 120.
and their capabilities to compete with established and experienced conventional insurance companies.\textsuperscript{23}

As all the \textit{takaful} companies in the country work in almost identical fashion, we would like to scrutinize the working of the oldest and largest among them i.e., \textit{Takaful} Islamic Bank of Brunei or \textit{Takaful} IBB as it is popularly known. As mentioned earlier this \textit{takaful} is a subsidiary of IBB and hence exclusively owned by it. The bank appoints its managers and makes all decisions pertaining to any surplus or profit made by the \textit{takaful}. Figures 1 & 2 broadly show its working.

It is clear that if the profit share ratio between the management of IBB \textit{Takaful} and its policyholders remains at 50:50 for general \textit{takaful} and 70:30 for family \textit{takaful} (30\% for management), the amount received by management in absolute terms would keep growing. On the other hand, it is more likely that the cost of managing the \textit{takaful} may not increase proportionately due to economies of scale.

Table 6 shows the trend of premium collected by IBB \textit{takaful} for family \textit{takaful} whereas Table 7 reveals the premium received on different categories of general \textit{takaful}. Like the other two \textit{takaful} companies, IBB also offers only participatory endowment life insurance with the names of family \textit{takaful} and family mortgage \textit{takaful} policies. It can be seen that while the growth in premium collected by Family \textit{Takaful} has remained substantial, the total premium collected for general \textit{takaful} has been declining since 2000. This could be a result of the establishment of IDBB \textit{Takaful} in 2000 which also offers identical products.

Apparently, many Muslims in Brunei Darussalam are still not convinced about the complete or unquestionable permissibility of life insurance or family \textit{takaful} schemes. Every year many students in our Islamic economics class have raised questions about the permissibility of life insurance. If convinced beyond any doubt, we can expect a huge growth in family \textit{takaful} contribution. A more aggressive campaign by all concerned can change the situation and could have a positive effect on the otherwise not so impressive savings behavior of the Muslim population in this country.

\textsuperscript{23} Ibid, p. 120.
Table 8 shows the amount of surplus/profit made by IBB *Takaful* between 1994 and 2002. The monthly rate of *mudarabah* for policyholders of IBB *Takaful* for 2002 is given in Table 9. These *mudarabah* rates show what percentage of the premium paid by a policy holder of a general *takaful* will get back if his/her policy expires during a particular month. For example, suppose someone had insured her car for one year in March 2001 by paying a premium of 400 dollars, in March 2002 she could get back 33.02 % (132.08 dollars) in cash or could use the amount for her next year’s insurance.

Table 10-A and 10-B reveal the total premiums received, total claims paid, and values of the assets held by *takaful* and conventional insurance companies during years 2002 and 2004. It is quite interesting to note that for both the *takaful* and conventional insurance companies, the differences between the total premiums received for the non-life insurance category, are huge. For example, in 2002 the total non-life insurance premium received by the three *takaful* companies was more than B$16 million whereas the total payments made against insurance claims was only B$1.4 million. Therefore the total premium was more than 11 times of the total claims. This ratio decreased to 6.5 and 5.2 in the next two years but is still quite high.\(^{24}\)

In 2002 the difference between non-life insurance premium and claims for *takaful* companies was B$14.6 million (Table 10-A). Even after paying back an average of 35 % *mudarabah* to the subscribers (i.e., B$16.037 x 0.35 = B$5.61 millions), the difference remained at B$10.42 million. This is a substantial amount relative to the claims made during the year for non-life insurance. Furthermore, the amount would somewhat increase if we also consider the income earned on these surpluses during the year. As one would expect, the value of their assets in the non-life category have doubled in the four years ending 2004 (please see Table 10-A).

The Muslim population has generally moved away from the conventional insurance companies because: (i) *takaful* companies are seen as Islamic financial institutions (ii) the effective cost of insurance is generally lower and

\(^{24}\) It will be an interesting study to investigate the reasons behind this decreasing ratio. Intuitively, it appears that this may be related to the characteristics of the new customers seeking *takaful* products, and also to the nature of the new products offered in the non-life insurance category.
(iii) the overall services provided by these *takaful* companies have been improving.

All the three *takaful* companies claim that as subsidiaries of respective Islamic banks they are not required to reveal any details of their investment portfolio and returns on those investments to their policy holders. Similarly, the trend of expenditure on management is also kept confidential. Furthermore, as discussed earlier, although the difference between the amounts of premium received against different categories of insurance and their cost of management may be increasing, there is no indication of any plan to change the sharing ratio in favor of the policyholders.

*Takaful* companies of Brunei Darussalam have definitely managed to capture a sizable share of the insurance market of Brunei. We hope that by being more transparent about their activities (sharing more information with their policyholders on all relevant issues) and treating their policyholders as shareholders will certainly improve their popularity and achieve the goals of Islamic insurance.

7. Concluding Remarks

We think that it is now time that we settle all controversial issues against the concept of insurance, especially those related to so-called life insurance. More emphasis should now be given to clearly stating and assigning the goals of Islamic insurance companies, suggesting appropriate organizational structures, and coming up with a *modus operandi* for them that is fair. The outcome of the entrance of Islamic insurance to world finance should be a degree of relief for the policyholders and a good name for our beloved religion Islam.

Moving in this direction will certainly remove any remaining skepticism about the concept of insurance among the Muslim masses and especially amongst the low income groups. Their increased participation will not only improve their economic conditions, but also provide the necessary savings needed in many capital-scarce Muslim countries.
Resolving Controversial Issues and Setting Goals for Islamic Insurance: An Evaluation...

References


Obaidullah, Mohammed (2005) Islamic Financial Services, Scientific Publishing Center, King Abdulaziz University, Jeddah, Saudi Arabia


## Appendix

### Table 1: Contribution of Insurance Industry at GDP of Brunei Darussalam (Millions Brunei $)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount at Current Prices</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>122.6</td>
<td>1.7</td>
</tr>
<tr>
<td>2000</td>
<td>126.4</td>
<td>1.7</td>
</tr>
<tr>
<td>2001</td>
<td>117.0</td>
<td>1.6</td>
</tr>
<tr>
<td>2002</td>
<td>135.0</td>
<td>1.8</td>
</tr>
<tr>
<td>2003</td>
<td>160.0</td>
<td>1.9</td>
</tr>
</tbody>
</table>

*Source: Brunei Darussalam Statistical Year Book, 2003.*

### Table 2: Total Gross Premium Collection of Conventional Insurance companies 1996-2000 (BS)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor</td>
<td>45,593,169</td>
<td>47,584,112</td>
<td>39,076,747</td>
<td>29,220,436</td>
<td>NA</td>
</tr>
<tr>
<td>Fire</td>
<td>14,593,436</td>
<td>14,992,407</td>
<td>13,469,390</td>
<td>11,061,059</td>
<td>NA</td>
</tr>
<tr>
<td>Workers Compensations</td>
<td>8,115,288</td>
<td>7,330,175</td>
<td>5,454,891</td>
<td>3,760,699</td>
<td>NA</td>
</tr>
<tr>
<td>Bond</td>
<td>1,874,045</td>
<td>1,604,264</td>
<td>874,625</td>
<td>2,383,558</td>
<td>NA</td>
</tr>
<tr>
<td>Contractors All Risks</td>
<td>2,831,752</td>
<td>2,645,730</td>
<td>631,060</td>
<td>1,449,877</td>
<td>NA</td>
</tr>
<tr>
<td>Public Liabilities</td>
<td>893,976</td>
<td>999,000</td>
<td>878,837</td>
<td>1,055,707</td>
<td>NA</td>
</tr>
<tr>
<td>Others</td>
<td>11,248,641</td>
<td>17,345,363</td>
<td>7,474,707</td>
<td>5,225,350</td>
<td>NA</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>85,510,307</strong></td>
<td><strong>92,429,051</strong></td>
<td><strong>67,860,257</strong></td>
<td><strong>54,156,726</strong></td>
<td>NA</td>
</tr>
</tbody>
</table>

*Source: Financial Institution Division, Ministry of Finance, Brunei Darussalam*
Table 3: Total Gross Premium Collection of Conventional Insurance Companies (B$ '000)

<table>
<thead>
<tr>
<th>Insurance Category</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor</td>
<td>26,137.9</td>
<td>24,571.8</td>
<td>20,636.7</td>
<td>24,741.1</td>
</tr>
<tr>
<td>Fire</td>
<td>9,225.7</td>
<td>9,123.7</td>
<td>17,046.6</td>
<td>13,782.4</td>
</tr>
<tr>
<td>Marine, Aviation and Transit</td>
<td>1,329.9</td>
<td>2,102.5</td>
<td>1,045.9</td>
<td>1,629.8</td>
</tr>
<tr>
<td>Others</td>
<td>12,175.7</td>
<td>10,270.3</td>
<td>11,048.8</td>
<td>7,431.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>48,869.2</strong></td>
<td><strong>46,068.3</strong></td>
<td><strong>49,778.0</strong></td>
<td><strong>47,558.1</strong></td>
</tr>
</tbody>
</table>

Source: Financial Institution Division, Ministry of Finance, Brunei Darussalam

Table 4: Total Gross Premium of Takaful Companies 1996-1999

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor</td>
<td>2,142,564</td>
<td>2,246,494</td>
<td>15,950,685</td>
<td>12,542,449</td>
<td>NA</td>
</tr>
<tr>
<td>Families</td>
<td>8,202,810</td>
<td>9,615,510</td>
<td>5,950,284</td>
<td>9,908,763</td>
<td>NA</td>
</tr>
<tr>
<td>Fire</td>
<td>128,174</td>
<td>185,085</td>
<td>1,580,108</td>
<td>1,659,833</td>
<td>NA</td>
</tr>
<tr>
<td>Accidents</td>
<td>32,960</td>
<td>95,625</td>
<td>564,283</td>
<td>607,083</td>
<td>NA</td>
</tr>
<tr>
<td>Others</td>
<td>712</td>
<td>48,769</td>
<td>411,486</td>
<td>437,117</td>
<td>NA</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10,507,220</strong></td>
<td><strong>13,191,483</strong></td>
<td><strong>24,456,846</strong></td>
<td><strong>25,155,245</strong></td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Financial Institution Division, Ministry of Finance

Table 5: Total Gross Contribution of Takaful Companies, 2001-2005 B$ '000)

<table>
<thead>
<tr>
<th>Insurance Category</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor</td>
<td>10,814.4</td>
<td>12,768.5</td>
<td>22,022.2</td>
<td>28,918.7</td>
</tr>
<tr>
<td>Fire</td>
<td>1,735.5</td>
<td>2,005.5</td>
<td>2,222.4</td>
<td>2,909.8</td>
</tr>
<tr>
<td>Marine, Aviation and Transit</td>
<td>4.4</td>
<td>0.8</td>
<td>883.6</td>
<td>2,510.3</td>
</tr>
<tr>
<td>Others</td>
<td>1,068.5</td>
<td>1,262.3</td>
<td>1,299.2</td>
<td>1,921.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13,622.8</strong></td>
<td><strong>16,037.1</strong></td>
<td><strong>26,357.4</strong></td>
<td><strong>36,260.6</strong></td>
</tr>
</tbody>
</table>

Source: Financial Institution Division, Ministry of Finance
Table 6: Premium Collection by IBB for Family *Takaful* and Family Mortgage *Takaful*

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Family Plan and Mortgage</th>
<th>Group Family <em>Takaful</em></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year Ended 30th June 1994</td>
<td>1,468,607.16</td>
<td>34,329.05</td>
</tr>
<tr>
<td>Year Ended 30th June 1995</td>
<td>2,051,967.85</td>
<td>83,40.35</td>
</tr>
<tr>
<td>Year Ended 30th June 1996</td>
<td>3,430,049.09</td>
<td>138,660.13</td>
</tr>
<tr>
<td>Year Ended 30th June 1997</td>
<td>2,587,538.62</td>
<td>204,946.32</td>
</tr>
<tr>
<td>Year Ended 30th June 1998</td>
<td>2,174,703.13</td>
<td>299,760.56</td>
</tr>
<tr>
<td>Year Ended 30th June 1999</td>
<td>1,827,270.22</td>
<td>307,337.03</td>
</tr>
<tr>
<td>Year Ended 30th June 2000</td>
<td>2,081,215.74</td>
<td>688,241.77</td>
</tr>
<tr>
<td>Year Ended 30th June 2001</td>
<td>1,674,853.36</td>
<td>646,576.18</td>
</tr>
<tr>
<td>Year Ended 30th June 2002</td>
<td>1,749,262.30</td>
<td>826,174.70</td>
</tr>
</tbody>
</table>

*Source: Brunei Darussalam Statistical Year Book, 2003.*

Table 7: Premium Collection for General *Takaful*

<table>
<thead>
<tr>
<th>Financial Year End</th>
<th>Total</th>
<th>Fire</th>
<th>Motor</th>
<th>Accidents</th>
<th>Miscellaneous</th>
<th>Marine</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B$</td>
<td>B$</td>
<td>B$</td>
<td>B$</td>
<td>B$</td>
<td>B$</td>
</tr>
<tr>
<td>June 1994</td>
<td>3,410,068.49</td>
<td>515,969.17</td>
<td>2,749,748.50</td>
<td>92,563.75</td>
<td>51,787.07</td>
<td>0</td>
</tr>
<tr>
<td>June 1995</td>
<td>5,642,278.06</td>
<td>683,168.35</td>
<td>4,823,139.41</td>
<td>84,078.00</td>
<td>51,892.30</td>
<td>0</td>
</tr>
<tr>
<td>June 1996</td>
<td>8,776,611.13</td>
<td>952,110.19</td>
<td>7,552,809.04</td>
<td>158,759.39</td>
<td>112,932.51</td>
<td>0</td>
</tr>
<tr>
<td>June 1997</td>
<td>10,989,904.53</td>
<td>984,543.70</td>
<td>9,723,643.48</td>
<td>213,516.20</td>
<td>68,201.15</td>
<td>0</td>
</tr>
<tr>
<td>June 1998</td>
<td>15,305,550.21</td>
<td>1,401,283.01</td>
<td>13,149,642.00</td>
<td>532,352.25</td>
<td>222,272.95</td>
<td>0</td>
</tr>
<tr>
<td>June 1999</td>
<td>14,082,938.62</td>
<td>1,474,372.75</td>
<td>12,025,051.06</td>
<td>445,278.27</td>
<td>138,236.54</td>
<td>0</td>
</tr>
<tr>
<td>June 2000</td>
<td>12,359,048.01</td>
<td>1,435,685.97</td>
<td>10,155,249.53</td>
<td>519,471.45</td>
<td>246,734.67</td>
<td>1,906.39</td>
</tr>
<tr>
<td>June 2001</td>
<td>10,656,830.92</td>
<td>1,374,748.55</td>
<td>8,501,613.93</td>
<td>578,754.83</td>
<td>199,708.31</td>
<td>2,005.30</td>
</tr>
<tr>
<td>June 2002</td>
<td>9,440,478.61</td>
<td>1,423,483.23</td>
<td>7,443,892.76</td>
<td>332,785.91</td>
<td>239,507.46</td>
<td>809.25</td>
</tr>
</tbody>
</table>

*Source: Brunei Darussalam Statistical Year Book, 2003.*
Table 8: Profit After Tax and Zakat of IBB Takaful 1994-2002

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year Ended 30th June 1994</td>
<td>$53,851.00</td>
</tr>
<tr>
<td>Year Ended 30th June 1995</td>
<td>$789,277.33</td>
</tr>
<tr>
<td>Year Ended 30th June 1996</td>
<td>$1,033,610.02</td>
</tr>
<tr>
<td>Year Ended 30th June 1997</td>
<td>$800,511.79</td>
</tr>
<tr>
<td>Year Ended 30th June 1998</td>
<td>$376,642.63</td>
</tr>
<tr>
<td>Year Ended 30th June 1999</td>
<td>$2,110,976.84</td>
</tr>
<tr>
<td>Year Ended 30th June 2000</td>
<td>$936,213.65</td>
</tr>
<tr>
<td>Year Ended 30th June 2001</td>
<td>$1,006,252.10</td>
</tr>
<tr>
<td>Year Ended 30th June 2002</td>
<td>$1,701,299.68</td>
</tr>
</tbody>
</table>

Table 9: Rate of Mudarabah for General Takaful 2002

<table>
<thead>
<tr>
<th>Month</th>
<th>Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>29.91</td>
</tr>
<tr>
<td>February</td>
<td>30.35</td>
</tr>
<tr>
<td>March</td>
<td>33.02</td>
</tr>
<tr>
<td>April</td>
<td>34.95</td>
</tr>
<tr>
<td>May</td>
<td>34.91</td>
</tr>
<tr>
<td>June</td>
<td>35.00</td>
</tr>
<tr>
<td>July</td>
<td>38.00</td>
</tr>
<tr>
<td>August</td>
<td>38.00</td>
</tr>
<tr>
<td>September</td>
<td>38.00</td>
</tr>
<tr>
<td>October</td>
<td>39.00</td>
</tr>
<tr>
<td>November</td>
<td>40.00</td>
</tr>
<tr>
<td>December</td>
<td>40.00</td>
</tr>
</tbody>
</table>
Table 10-A: Premium, Claims and Assets of *Takaful* Companies (B$’000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Premium</th>
<th>Gross Claim</th>
<th>Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non Life</td>
<td>Life</td>
<td>Non Life</td>
</tr>
<tr>
<td>2000</td>
<td>15,144.9</td>
<td>13,388.4</td>
<td>1,296.0</td>
</tr>
<tr>
<td>2001</td>
<td>13,622.8</td>
<td>11,437.9</td>
<td>1,299.5</td>
</tr>
<tr>
<td>2002</td>
<td>16,037.1</td>
<td>10,454.4</td>
<td>1,401.3</td>
</tr>
<tr>
<td>2003</td>
<td>26,357.4</td>
<td>9,971.7</td>
<td>4,034.7</td>
</tr>
<tr>
<td>2004</td>
<td>36,260.1</td>
<td>14,171.9</td>
<td>6,907.0</td>
</tr>
</tbody>
</table>

*Source: Financial Institution Division, Ministry of Finance*

Table 10-B: Premiums, Claims and Assets of Conventional Insurance Companies (B$’000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Premium</th>
<th>Gross Claim</th>
<th>Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non Life</td>
<td>Life</td>
<td>Non Life</td>
</tr>
<tr>
<td>2000</td>
<td>58,654.4</td>
<td>54,895.0</td>
<td>26,869.4</td>
</tr>
<tr>
<td>2001</td>
<td>48,869.2</td>
<td>65,306.2</td>
<td>18,999.5</td>
</tr>
<tr>
<td>2002</td>
<td>46,068.3</td>
<td>67,224.6</td>
<td>23,971.5</td>
</tr>
<tr>
<td>2003</td>
<td>49,778.0</td>
<td>97,213.8</td>
<td>12,363.5</td>
</tr>
<tr>
<td>2004</td>
<td>47,558.1</td>
<td>61,525.6</td>
<td>28,643.0</td>
</tr>
</tbody>
</table>

*Source: Financial Institution Division, Ministry of Finance*
Figure 1

Diagram showing the flow of funds in a Takaful company. The diagram includes:

- Takaful Contribution of Participant: BS 1000
- General Takaful Fund
- Investment by Takaful Company
- Profits from Investment: (E.g. $200)
- General Takaful Fund
- Claims and Operational Costs: (E.g. $900)
- Surplus: ($300)
- Participants: ($150)
- Company: ($150)
Figure 2

TOTAL CONTRIBUTION  
(E.g. $1,000)

TOTAL FAMILY TAKAFUL FUND  
($1,000)

PSA (2.0%)  
$20

PA  
$980

ALL FAMILY TAKFUL FUNDS  
(1,000)

GAINS FROM INVESTMENTS  
E.g. $70

Profit Sharing (70:30)

ARTICIPANT  
70%=$49

TOTAL AMOUNT IN PSA  
$20+$0.98+$20.98

COMPANY  
30%=$21

TOTAL AMOUNT IN PA  
$980+$48.02  
=$1028.02