

Analytical Study Of Shariah Status Of Insurance And Its Impacts On Society

**Dr. Muhammad Imran¹, Dr. Muhammad Asim ul Hassan², Dr. Muhammad Husnain³,
Dr. Muhammad Sajad Malik⁴, Manzoor Ahmad⁵, Muhammad Tariq⁶**

¹*Chairman / Associate Professor, Departments of Islamic Studies, The Islamia University of Bahawalpur.*

²*Lecturer Department of Islamic Studies, the Islamia University Of Bahawalpur.*

³*Assistant Professor, Division of Science and Technology, University of Education, Township Lahore ORCID ID: <https://orcid.org/0000-0001-8225-0967>*

⁴*Assistant Professor, Department of Islamic Studies, Division of Islamic and Oriental Learning, University of Education, Lahore, <https://orcid.org/0000-0002-0883-5913>*

⁵*M.Phil Scholar, Department of Islamic Studies, the Islamia University Of Bahawalpur.*

⁶*M.Phil Scholar, Department of Islamic Studies, the Islamia University Bahawalpur.*

Abstract

This abstract provides a concise overview of Takaful, an Islamic alternative to conventional insurance. Takaful operates on the principles of cooperation, mutual assistance, and risk-sharing, while adhering to Shariah law. Participants contribute funds into a common pool, which is used to compensate any participant who experiences a loss. This abstract highlights the key features of Takaful, its impact on society, and the challenges it faces. It also offers suggestions for strengthening Takaful and promoting its growth.

Keywords: Takaful, Islamic insurance, cooperation, mutual assistance, risk-sharing, Shariah compliance, social welfare, economic stability, ethical finance, challenges, suggestions, growth.

Introduction:

In technical terms, it is a form of risk management in which the insured entity transfers the value of a potential loss to another entity in exchange for a small monetary compensation. This compensation is called premium. In simple terms, it is like paying a lump sum to an institution to protect oneself against a possible future loss. Thus, when something unfortunate happens, the insurer helps you through the situation.

Shariah covers various areas, including acts of worship (such as prayer and fasting), personal ethics, dietary laws, inheritance, marriage and divorce, and financial transactions. It serves as a moral and legal framework for Muslims, helping them live in accordance with Islamic principles.

Concept of Islamic Insurance (Takaful):

Islamic insurance, also known as Takaful, is an alternative form of insurance that operates in accordance with Islamic principles. It follows the principles of mutual cooperation, shared responsibility, and risk-sharing, while also adhering to Shariah law. Takaful is designed to provide financial protection and assistance to its participants in a way that complies with Islamic ethical and legal standards.¹

In conventional insurance, policyholders pay premiums to an insurance company, which then assumes the risk and provides compensation in the event of a covered loss. In contrast, Takaful operates on the principle of participants contributing funds into a common pool, which is used to compensate any participant who suffers a loss. The funds are managed according to Shariah-compliant investment principles.

Takaful emphasizes the concepts of mutual cooperation and solidarity among participants. It avoids elements such as interest (riba), uncertainty (gharar), and gambling (maysir) that are considered prohibited in Islamic finance. Takaful can cover various areas such as life insurance, health insurance, property insurance, and general insurance.²

Islamic scholars and financial experts work together to develop Takaful products that comply with Shariah principles. These products are regulated by Shariah boards to ensure they meet the required standards. Takaful has gained popularity in Muslim-majority countries and among Muslims living in other parts of the world as an alternative to conventional insurance.³

Literature Review

The literature on Takaful, or Islamic insurance, encompasses a range of scholarly works, research papers, and industry reports. Here are some key themes and topics that have emerged from the literature:

Conceptual Framework: Many studies provide an overview of the principles and concepts underlying Takaful. They explore the fundamental differences between Takaful and conventional insurance, emphasizing the concepts of cooperation, solidarity, and risk-sharing in Takaful.

Shariah Compliance: Several works delve into the Shariah compliance aspects of Takaful. They examine the specific features and structures of Takaful contracts to ensure compliance with Islamic principles, such as the prohibition of interest (riba), uncertainty (gharar), and gambling (maysir).

Risk Management and Underwriting: Research on Takaful often focuses on risk management and underwriting practices. It explores the development of innovative risk management techniques tailored to Takaful,

including the assessment of risk, pricing, and policyholder surplus management.

Performance and Financial Analysis:

Numerous studies analyze the financial performance and viability of Takaful operators. They assess key financial indicators, such as profitability, solvency, liquidity, and efficiency, comparing Takaful with conventional insurance.

Governance and Regulation: The literature also addresses governance and regulatory frameworks for Takaful. It examines the role of Shariah boards in ensuring compliance, the regulatory environment, and the challenges in harmonizing Takaful practices across different jurisdictions.

Research Methodology

The research methodology employed in studies on Takaful varies depending on the research objectives and scope. Common research methodologies observed in Takaful studies include:

Qualitative Research: Qualitative research methods, such as interviews, case studies, and focus groups, are often used to gain insights into specific aspects of Takaful. These methods allow researchers to explore participants' perspectives, experiences, and decision-making processes.

Quantitative Research: Quantitative research methodologies involve the collection and analysis of numerical data. Researchers may employ statistical techniques to analyze financial data, performance metrics, and market trends related to Takaful. Surveys and questionnaires are also used to gather quantitative data from participants.

Comparative Analysis: Comparative research methodology is frequently employed to compare Takaful with conventional insurance. It involves analyzing and contrasting various aspects, such as financial performance, market penetration, customer satisfaction, and

regulatory frameworks, between Takaful and conventional insurance models.

History of Takaful in Islam:

The concept of Takaful finds its roots in the principles of cooperation and mutual assistance that have been part of Islamic societies since the time of Prophet Muhammad. While formal Takaful institutions as we know them today emerged in the 20th century, the underlying principles of Takaful have a long history in Islamic societies.⁴

During the time of the Prophet Muhammad, a form of mutual assistance known as "Aaqilah" existed, where individuals would come together to support each other in times of need or tragedy. This tradition continued in various forms throughout Islamic history, with communities organizing mutual aid societies and pooling resources to provide assistance in cases of fire, flood, or other calamities.⁵

In the modern era, the first formal Takaful institution was established in Sudan in 1979, known as the Islamic Insurance Company of Sudan. This marked the beginning of the institutionalization of Takaful as a distinct form of insurance based on Islamic principles. Since then, Takaful has experienced significant growth and has become a prominent feature of the Islamic finance industry globally.⁶

Need of insurance

This is the question on everyone's mind. Do I really need protection? Life is full of surprises. One needs to be prepared for the worst that can happen to you. It helps you to feel safe and calm. There can be many reasons where you may need help, such as serious illness, natural disaster, unexpected death of loved ones, etc. In such situations, being properly insured can provide significant support to your financial situation. Thus, one should choose the right type of protection according to their needs.⁷

Types of Insurance

1. Life Insurance Life protection is one of the traditional forms of insurance, designed to protect you and your loved ones against an unexpected calamity or calamity. It was initially designed to protect the income of families. But since then, it has changed from just a safety measure to an option for wealth preservation. Tax planning. Life cover requirement is calculated on various factors like number of dependents, current savings, financial goals etc.⁸

2. Any type of coverage other than general insurance life falls under this category. There are many different types of insurance that cover almost every aspect of your life depending on your needs:

a. Health insurance covers your medical and surgical expenses that may arise during your lifetime. Generally, health insurance provides cashless facilities in registered hospitals.

The translation of "Medical Insurance" is: Medical Assurance, Insurance is also called "Bima" in Hindi, so the translation will be "Tibi Bima". There is an agreement between the common man and the insurance company to indemnify the loss due to the payment of a fixed amount in case of an unknown loss, the fixed amount is paid in lump sum or in instalments, it is called premium.⁹

If a person wants to insure his life, the procedure is that the doctor of the insurance company assesses his life that this person is physically able to live for such a period, say twenty years. After this is satisfied, a contract is concluded between the insurance company and the insured. The insured pays the sum insured to the insurance company by dividing it into annual instalments. After a specified period, the amount is returned to him or his family subject to conditions and some additional amount is given along with the principal amount at a fixed rate of percentage. This amount is called bonus.¹⁰

Scholars' Views about Takaful:

Scholars' views on Takaful vary based on their interpretations of Islamic principles and their expertise in Islamic finance and jurisprudence. While there may be some differences in opinion, the majority of scholars generally support the concept of Takaful and consider it a viable alternative to conventional insurance. Here are some key perspectives put forth by scholars:

Shariah Compliance: Scholars emphasize the importance of adhering to Shariah principles in Takaful operations. They assert that Takaful should avoid prohibited elements, such as interest-based transactions and uncertainty, and ensure that risk-sharing and cooperation are at the core of its operations.¹¹

Social and Ethical Dimensions: Scholars highlight the social and ethical dimensions of Takaful. They view Takaful as a means to promote solidarity and mutual assistance within the Muslim community and emphasize its potential for poverty alleviation, social welfare, and economic stability.¹²

Governance and Transparency: Scholars stress the need for effective governance and transparency in Takaful operations. They emphasize the role of Shariah boards in providing oversight and ensuring compliance with Islamic principles. Scholars also advocate for clear communication and transparency in disclosing Takaful contracts and financial statements.¹³

Innovation and Development: Scholars encourage innovation and the development of Takaful.

In principle, life insurance is a very useful scheme through which a citizen can secure his and his children's financial future. Only so much is true. Keeping this aspect in mind, the general scholars have declared it permissible, even Imam Ahmad Raza Khan has also declared it permissible.¹⁴

Proposed insurance arguments and their critical evaluation:

The proponents of insurance give the following arguments in favour of insurance.

In this way, the wealth of a person is also preserved and increased.

The world is a place of events. In case of accidents, the loss can be compensated.

It is difficult for a poor man to save money under all circumstances. A small deposit in the form of an insurance policy helps orphans and widows and comes in handy during difficult times.¹⁵

It is a servant of humanity system whose aim is to help the poor and the needy. Islamic Shari'ah places great emphasis on cooperation and takaful in community life, so insurance is a legal and organized form of takaful.

After the death of a person, financial assistance is given to his survivors.

In case of accident, human capital is protected.

Amendments applicable to the existing system of insurance:

The insurance company invests its capital on the principle of participation and mutuality.

If the person who has paid two or three instalments and does not pay the remaining instalments, his money shall be returned, but the expenses shall be calculated from him, and if the insurance bidder dies at any stage after paying one instalment, then according to the contract, the company shall be fully insured. The amount is bound to be paid to the legal heirs of the deceased as is the case today.¹⁶

The insurers should be declared as shareholders by the insurance company and their capital should be declared as shares and the average profit generated by their shares should be given to them. However, the company can set its own commission and formulate it. Insurance

companies should be taken over by the government.¹⁷

Insurance and insurance be it of life or property or business, since there is no interest, gambling etc. directly in it and the insurance holder does not enter into any contract with the company in which any illegal situation is created, then according to us this business is actually useful. And it is legally permissible. The issue remains that where do these companies invest the premier's funds? So it is obvious that this investment can be in accordance with Shariah principles in legitimate projects like agriculture, trade, industry etc. and also in the fields of usury, gambling and obscenity, which are forbidden. Now it is up to the respective companies to differentiate between legitimate and illegitimate. Insurance holders are not directly involved in any wrongdoing. May Allah make it easy for us to completely abolish the usury system and adopt the Islamic economic system, so our definite opinion is that the insurance scheme is very useful and permissible in Shari'ah.¹⁸

Impacts of Takaful on Society:

Social Welfare and Solidarity: Takaful promotes the principles of cooperation and mutual assistance within society. It fosters a sense of solidarity, encouraging individuals to support and protect each other. Takaful contributes to social welfare by providing financial protection to participants in times of need, helping them recover from losses and reduce the burden on individuals and families.

Economic Stability: Takaful plays a role in promoting economic stability within communities. By sharing risks and pooling resources, Takaful helps mitigate the financial impact of unexpected events such as natural disasters or accidents. This stability contributes to the overall well-being of society and can have a positive impact on economic growth.¹⁹

Poverty Alleviation: Takaful can serve as a tool for poverty alleviation and financial inclusion. By providing affordable and accessible insurance coverage, Takaful extends protection to individuals and businesses that may have otherwise been excluded from conventional insurance. This helps vulnerable segments of society manage risks and safeguard their assets, contributing to poverty reduction and economic empowerment.

Ethical and Responsible Finance: Takaful operates in line with Islamic ethical principles, which prohibit practices such as interest-based transactions and gambling. By adhering to these principles, Takaful promotes responsible and ethical financial practices, fostering trust and confidence in the financial system. This ethical dimension of Takaful resonates with individuals seeking financial services that align with their religious beliefs.²⁰

Development of Islamic Finance Industry: Takaful has played a significant role in the development and growth of the broader Islamic finance industry. It has expanded the range of financial products and services available to Muslims, providing an alternative to conventional insurance. The growth of Takaful has spurred innovation and competition within the industry, leading to the development of new Shariah-compliant financial instruments and institutions.²¹

Overall, Takaful's impact on society is multifaceted, encompassing social, economic, and ethical dimensions. By promoting cooperation, solidarity, and responsible finance, Takaful contributes to the well-being of individuals, communities, and the broader Islamic finance ecosystem.

Life insurance is permissible in case of emergency:

There are a few reports regarding the institutions established in the name of life insurance or life insurance.

Almost all of our banking business is interest driven. Government, semi-government or private companies, institutions or individuals raise capital from people. To motivate them, they offer rewards, bonuses and promises of huge sums of money in case of accidents, collect capital from people and lend the same amount to big businessmen or manufacturers at high interest rates for business. From the interest they get from there, they also meet their expenses and from the remaining amount they pay money to the account holders in the name of bonus etc. It is obvious that all this business is based on the principle of interest, so it is absolutely forbidden.²²

Public welfare is included in the duties of the Islamic government, that is, the first duty of the Islamic government is to fulfil the needs of its residents for life, housing, food, education, treatment, clothing, etc. That this principle is Muslim in Western countries and in some socialist countries, but unfortunately, those who give the principle have failed to fulfil this responsibility in the name of Islam and the rulers who are called Muslims are in denial of this principle. Turn away from all this system of economy based on interest?

Insurance of valuable papers and documents

During the sea journey, traders used to collect money among themselves with the title that if someone had an accident, his loss would be compensated from it, its date is said to be 1547. Life, Property, Limb, Valuable Document, Credentials and Liability are insured, here is a discussion about medical insurance.

Today, on the one hand, there is an abundance of diseases, on the other hand, the treatments are becoming expensive, the cost tolerance is unbearable for every person. Especially, the cost tolerance is indescribable in diseases of the upper organs and cancer, etc.; Hence the practice of medical insurance; But the "capitalist system" reigns in the world, the nature of interest dominates every aspect of the

economy, thinkers think only from the point of view of interest. Interest forms only come forward; Although there is obviously an aspect of co-operation, it is for this reason that there is hardly any form of insurance that does not involve either or both of these; The same applies to medical insurance; Therefore, under normal circumstances, medical insurance is illegal; Because if the disease occurs within the limited period, the money is received with interest and if the disease does not occur, the deposit is not returned and thus the definition of gambling is true.²³

The solution to medical insurance is not to identify the halal in prevailing situations, or to adopt the haram through tricks; Rather, scholars, national leaders and well-wishers should sit together and find an alternative form, it is not difficult to prepare an alternative through national organizations, some non-Muslim leaders in South India have established free medical institutions and they are open to all religions Treat one for free; While the concept of the hereafter in their religion is very vague and like a mirage, still they run large-cost institutions with the support of the wealthy people of their religion. and has a proud courage to help the helpless; Therefore, it is necessary that there should be an organization of Muslims that would provide treatment for these diseases absolutely free to the needy and arrange to save Muslims from death. After all, religious madrasas are providing absolutely free education to fulfil the religious need or not? Are the national organizations working for the benefit of the nation by spending a lot of money or not? If considered, insurance alternatives may come up. The work is certainly difficult; But not impossible.²⁴

Application to Government

If possible, it should also be thought about requesting the Government of India to cooperate with the public without taking the premium amount, in this case there is no problem even if the amount of cooperation is less, it will remain within the realm of halal.²⁵

A form of mutual cooperation

It is also possible that named Muslims get together and collect money in the name of medical cooperation and it is decided that all those collecting will be treated with the collected money, regardless of the amount spent.²⁶

Shariah status of medical insurance

In medical insurance there is both interest and gambling; Therefore, in normal circumstances, its use is illegitimate, it is used more than the collected installments which are interest and the money is not returned if one does not fall ill within the specified period; Therefore, the aspect of Tamlik Ali Khattar is dominant in gambling. The cooperative aspect is not at all in private companies and there is some in government; But because of the premium collected initially, it also comes under the ambit of interest; Hence there is illegitimate cooperation.²⁷

Legally Compulsory Medical Insurance

If medical insurance is required due to legal compulsion, it is covered; But it's forced. There is a rule in Al-Ishbah and Nazair: Ma abbihi lil liljarurat ytaqadbaru biqadriha.

That is: What is brought into the realm of justification due to compulsion is considered limited within the limits of that compulsion.

And if it is the turn of usufruct in the event of a condition, then it is permissible for the person who is forced to benefit more than the accumulated amount, and for those who are able to obtain more benefit than the accumulated amount. It is not permissible (²⁸) and if it is used, it will be necessary to give charity of that amount.

The insurance company pays the cost of the treatment to the hospital or to the patient

Sometimes, when an illness occurs, the "medical insurance company" gives the cost of treatment directly to the specified hospital, and does not give it to the patient who takes the insurance, this situation is also not permissible; Because the possession of the hospital is in the order of the possession of the patient, it is as if the hospital is the lawyer of the patient and the possession of the lawyer is called the possession of the client.²⁹

And if it is given directly to the patient, then it is also illegal, that is, if the patient has the means, it is not permissible to take this extra money, he can only take the amount that he has collected.

Some countries require medical insurance for employees; But sometimes the amount of premium is deducted from the employee's salary and sometimes the companies collect the premium on their own behalf, so the order of both the cases will be different. That is, if it is deducted from the salary of the employee according to his will, then the definition of interest will be valid on it and the usufruct will be invalid and in case of payment by the company, the definition of interest will not be valid on it; therefore, the utilization will be permissible for the employee.³⁰

Medical package of hospitals

Nowadays, medical packages are issued by certain hospitals for a specified period and the people who accept this package pay a specified amount, sometimes in installments sometimes in lump sum, if a person falls ill, the hospital bears all the medical expenses. And if he doesn't get sick, that money sinks, it doesn't get back. The above is also of usury and gambling; therefore it is invalid.³¹

Medical insurance for the poor by Government

Nowadays, governments take medical insurance from the poor for a small amount and

give them a card, through which they are entitled to be treated by certain doctors here and in certain hospitals. Regarding this, it is said that the Shari'ah has made many provisions for the poor and needy. Therefore, there is no doubt in its justification; While the treatment is really beyond the reach of the fakir.³²

Takaful Complications:

While Takaful operates on the principles of cooperation and risk-sharing, it also faces certain complexities and challenges. Some of the complications associated with Takaful include:

Shariah Compliance: Ensuring strict adherence to Shariah principles can be challenging, as interpretations may vary among scholars and jurisdictions. Takaful operators need to navigate complex legal and regulatory frameworks to ensure their practices align with Islamic principles.

Operational Structure: Designing an operational structure that reflects the principles of Takaful while meeting regulatory requirements can be complex. Takaful operators need to establish efficient systems for risk assessment, underwriting, and claims management, while also managing participant contributions and investments in a Shariah-compliant manner.

Product Development: Developing innovative and diverse Takaful products to meet the evolving needs of customers can be a challenge. Takaful operators need to strike a balance between providing comprehensive coverage and ensuring profitability, all within the constraints of Shariah principles.³³

Risk Management: Managing risks in Takaful can be complicated due to the absence of historical data and standardized risk models. Takaful operators must develop robust risk management frameworks and employ sophisticated techniques to assess and mitigate risks effectively.

Awareness and Education: Building awareness and educating the public about the concept and benefits of Takaful is crucial. Many potential participants may not fully understand the principles and workings of Takaful, which can hinder its growth and acceptance.

Conclusion:

Takaful is an Islamic alternative to conventional insurance that operates on the principles of cooperation, mutual assistance, and risk-sharing. It is designed to comply with Shariah law, avoiding elements such as interest (riba), uncertainty (gharar), and gambling (maysir). Takaful participants contribute funds into a common pool, which is utilized to compensate any participant who suffers a loss. Takaful promotes social welfare, economic stability, and responsible finance within Muslim communities.

Suggestions and Recommendations

Strengthen Shariah Governance: Takaful operators should establish robust Shariah governance frameworks, including independent Shariah boards, to ensure compliance with Islamic principles. Regular audits and reviews should be conducted to maintain the highest standards of Shariah compliance.

Enhance Product Innovation: Takaful operators should focus on developing innovative and tailored products that meet the evolving needs of customers. This includes expanding coverage options, introducing micro-Takaful products, and exploring new areas such as digital Takaful to enhance accessibility and affordability.

Collaborate with Scholars and Research Institutions: Takaful operators should collaborate with Islamic scholars and research institutions to address the challenges and complexities specific to Takaful. This can help develop standardized frameworks, risk models, and guidelines that promote uniformity and consistency within the industry.

Promote Awareness and Education: Takaful operators should invest in public awareness campaigns and educational initiatives to increase understanding and acceptance of Takaful among potential participants. This can be achieved through seminars, workshops, and collaborations with educational institutions and religious organizations.

Foster Regulatory Support: Governments and regulatory bodies should create an enabling environment for Takaful by implementing clear and supportive regulatory frameworks. This

includes developing specific regulations for Takaful, ensuring fair competition with conventional insurance, and providing incentives for Takaful operators.

By addressing these suggestions and recommendations, Takaful can overcome its complications and continue to grow as a vital component of the Islamic finance industry, promoting financial inclusion and ethical financial practices.

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