

INSURANCE

Conventional Insurance

Are conventional insurance contracts permissible in Shariah?

Abu Hurayra (Allah be well pleased with him) said, "The Messenger of Allah (Allah bless him and give him peace) prohibited sales of 'whatever a pebble thrown by the seller hits' and sales in which there is gharar (contractual uncertainty leading to dispute)." (Muslim) Insurance is a contract between two parties in which an insured party pays an insurance premium in order to secure a compensatory payment by the insurer in the event of loss or damage to an insured entity. The contractual uncertainty inherent to insurance renders all forms of insurance buying, selling, dealing and investing unlawful. An investment is a cooperative effort combining labor and capital inputs to create goods, services and profits, while undertaking shared risk. Insurance is not an investment because there is nothing in which to invest. Insurance trades in risk; but risk is just a measure, not a saleable commodity.

Compulsory Insurance

What does the Shariah say about compulsory forms of insurance in some countries?

As for the sin of compulsory forms of insurance in some countries, namely automobile, medical, property, and the like, the sin devolves to the one making the law. In many countries auto, property and personal insurance, among others, are legal requirements. One avoids these to the extent legally possible, but pays the amount necessary to fulfill the minimum legal requirement; the ones imposing the laws, not the ones forced to comply, ultimately bear the burden of having contravened the Shariah. If one is legally obligated to purchase insurance, it is permissible to exceed the minimum legal insurance requirement if this means paying a lower insurance premium (e.g. one purchases comprehensive insurance instead of third party insurance because it is less expensive even though it provides more coverage), but it would be impermissible to exceed the minimum legal insurance requirement if this means paying a higher insurance premium (e.g. one purchases comprehensive insurance and third party insurance in order to receive fuller coverage); the general principle being that one purchases the minimum legal requirement of insurance at the minimum cost to oneself.

Working For Insurance Company

May I work for an employer whose primary business is insurance?

It is unlawful to work for an employer whose primary business is insurance (even if one does not participate directly in the transactions), unless one has absolutely no other means of supporting

one's dependents (such as selling the excess of one's saleable wealth or accepting work at a low-paying job), in which case one may remain with the unlawful work as long as one is actively looking for another source of income and seeking Allah's forgiveness and help in the process.

Purchasing Healthcare Insurance

Is it permissible to purchase healthcare insurance, keeping in view high healthcare costs?

It is not permissible to purchase insurance when one is not legally obligated to purchase insurance (e.g. for property, goods, travel); though healthcare costs in some countries are so high that scholars now permit one to purchase medical insurance provided there is no social healthcare program in one's country (e.g. United States), though scholars still deem healthcare insurance impermissible in those countries that provide social healthcare programs (e.g. Canada). It is permissible to receive the benefits, including cash payment, of a health insurance plan if one's employer or government offers the plan as a part of their policy.

Insurance Claim On Compulsory Insurance

May I obtain any monetary benefits on compulsory insurance?

If one is legally obligated to purchase insurance, it is an obligatory condition that if the policyholder receives any monetary benefits from the insurer, the total payments that exceed the total premiums paid to the insurer (i.e. during the entire policy period, adding premiums paid for other insured items as well) must be distributed in charity; this excess amount constitutes riba because there is an unequal exchange of money (in the form of premiums) for money (in the form of monetary compensation); the principle being that the monetary relationship between the two parties (i.e. the insurer and the policyholder) must be equalized. In the event of a mishap, the aggrieved party is entitled to the current market value of the entire loss *directly* from the party at fault, with no intermediary (e.g. insurer) paying either party for insured losses; if the intermediation of an insurer is a legal requirement, it is permissible for the aggrieved party to take payment from the insurer.

Insuring Cash, Cheques And Trade Bills

Is it lawful for the bank to insure valuable property, like sums of cash, cheques and trade bills against fire, theft, loss or destruction?

It is permissible to insure such items on the condition that the amount of Takaful coverage is commensurate with the amounts of the trade bills and cheques etc, actually maintained in the safes of the bank so that the benefit payments to be made by the Takaful company are kept in proportion to the actual amount of loss and no more.

Insuring Buildings

Is it permissible to insure buildings against fire?

It is lawful to insure buildings against fire so long as the benefit payments are commensurate to the amount of actual damage.

Indemnity Insurance For Banks

Is it permissible for the bank to seek indemnity insurance policy covering risks such as theft, cash in transit, fraud, forged documents, valuables and the like?

It is permissible for the bank to seek Takaful against the types of losses mentioned so long as the amount of repayment does not exceed the amount of actual loss or damage.

Automobile Insurance

What is the Shariah ruling with regard to automobile insurance?

Automobile Takaful is lawful provided the benefit paid out to the insured is equivalent to the amount of actual damage and not more.

Insuring A Client's Payments

Is it lawful for the bank to seek coverage from an insurance company for the payment of a client's installments within the limits of actual losses incurred as a result of the client's inability to make scheduled payments?

Insurance for payments owed by a client is a form of suretyship or kafalah for debt. In this case the surety is the insurance company and since it is given in return for an insurance premium it is unlawful to seek, as suretyship may only be given without charge.

The Client's Insurance Of Murabaha Goods

Is it permissible for the client to have the goods he pledges to purchase by way of a Murabaha through the bank, insured at his own expense?

It is not lawful for the client to insure the goods at his own expense since the goods are the property of the bank. It is only permissible that he insure them in the capacity of the bank's agent with the understanding that he will recover the amount spent on insurance from the bank either by means of credit to his account or by having it deducted from the price of the goods in the Murabaha.

Accepting Benefits Greater Than Actual Loss

Is it permissible to accept insurance benefits greater than the amount of actual losses incurred based on the annual payment of premium covering a greater loss than the one experienced?

It is not lawful to accept benefits greater than the amount of actual losses incurred based on the annual payment of premium that insures a greater loss than the one suffered. According to Islamic law, insurance benefits received must be commensurate to the amount of actual loss undergone.

Returning Benefits In Excess Of Expenses

When the goods for a Murabaha deal are completely damaged or lost the Takaful company pays the bank a benefit equal to the value of the goods plus ten percent. Is it permissible to accept this excess and may it be used to pay for legal expenses?

It is lawful for the bank to use the benefits paid out to it by the Takaful company to make a direct payment for expenses associated with the insured goods or through its client as an agent on its behalf. The remaining amount if any must be returned to the Takaful company.

Market Or Replacement Value

In the case of receiving Takaful benefits for goods lost in a fire, is it permissible to seek the market value of the goods on the day they were destroyed or their replacement value?

The insured is entitled to receiving benefits equal to the actual amount of damage experienced based on the market value of the goods on the day of the accident or fire.

Entitlement To Policy Benefits

Is it permissible for a person to receive benefits for the value of his car that has been destroyed in an accident even though he is in the process of making some remaining payments for the price of the car?

It is lawful for the person to receive benefits for the value of the destroyed car since ownership was transferred to him without his putting up any collateral. However, in the event that the person who purchased the car previously granted the bank the right to reserve any amount coming into its possession, then the amount of benefit transferred from the Takaful company to the bank falls under the ruling of a guarantee in which the remaining payments are to be made on time unless a new agreement is concluded.

Returning Excess Collected For Premiums

Takaful insurance is purchased for a project to construct headquarters for a certain amount of premium giving coverage for labour and materials etc. Additional contracts are concluded with subcontractors for safety, electricity, air-conditioning and elevators based on the agreement that they will pay a part of the insurance premiums for the project each in proportion to the value of their work. In the event that the amount collected from them is greater than the cost of the premiums to be paid is it lawful for the bank to keep the excess amount?

It is not lawful for the bank to keep any amount in excess of the premiums to be paid; it must be returned to the subcontractors.

Insuring For More Than Value

Is it permissible to seek Takaful insurance for the value of goods plus 10% in order to include shipping expenses in addition to the cost of premiums?

Takaful coverage is not lawful for an amount greater than the actual value of goods. It should be a sum that represents actual value, inclusive of expenses.

Does Client Have The Right To Determine Coverage

Is it permissible for the client in a Murabaha to determine the sort of Takaful coverage the goods are to receive, particularly when he wants to exclude coverage that raises the price of the premiums when such coverage might be important to the bank?

The client is not in a position to determine the type of coverage that will be sought for Murabaha goods purchased through the bank.

A Fee For Guaranteeing Operation

What is the Shariah ruling with regard to an agreement with a vendor in which he is required to

inspect new cars for the bank and guarantee their operation for a certain period of time in return for charging a certain fee?

It is lawful that a fee be paid to a vendor for the inspection of the cars and their repair when they break down. On the other hand, an agreement that a certain amount will be given to him for guaranteeing any damage sustained by each car during a period of time in addition to his pledging to repair the same is a contract for something undefined and therefore invalid.

Commission For Finding Clients

Is it lawful for the bank to receive a commission for Takaful policies based on the number of policies taken out by clients having purchased cars through the bank?

It is lawful for the bank to receive a brokerage fee for serving as an intermediary between the client and the insurance company. This fee is linked directly to the amount of the bank's effort, ascertainable through the insurance documentation.

Transferring A Right To Benefits

Is it lawful to transfer a right to benefits from a Takaful insurance plan to the purchase pledger at the conclusion of a Murabaha sales contract?

It is lawful to transfer a right to benefits from a Takaful insurance plan to the purchase pledger at the conclusion of a Murabaha sales contract, where he also serves as the bank's agent in settling accounts with the insurance company. Once the damage or loss to the goods if any is recompensed, the client does not require recourse to the bank and may deal directly with the Takaful company alone.

Islamic Alternative To Conventional Insurance

Conventional banks offer insurance premium financing, what is the Islamic alternative to such a service?

Conventional insurance is not permissible. Islamic cooperative insurance or Takaful is a possibility but offered as a stand-alone product.

Permissibility Of Health Insurance

Does health insurance provided by a mutual or non-profit organization fall under Takaful and therefore permissible?

Whether an insurance arrangement is mutual or non-profit does not make it Islamic. What makes Takaful Shariah-compliant is the overall structure which must adhere to specific guidelines such as those outlined in AAOIFI's Shariah Standard on cooperative insurance