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THE POTENTIAL MARKET OF ISLAMIC INSURANCE (TAKAFUL) BUSINESS IN INDIA

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ABSTRACT

Various reports in recent years have pointed out at Takaful as one of the growing commodities of the Islamic finance industry. Two important regions, the Gulf Cooperation Council (GCC) states and South East Asia (Malaysia), are practicing it rigorously. There are three major factors behind these developments: - (1) The financial liberalization and the growth of Islamic finance (2) The search of investment and product finance in the emerging Asian economies (3) The increasing awareness of the growing Asian Muslim population about Islamic finance and its various products like Takaful and Sukuk.

In the context of the above background this research paper aims to focus on the prospect of the Islamic insurance industry in one of the emerging Asian economies, India. With the changing dimensions of the Indian economy and market, the possibilities of practicing Takaful in India are increasing. However, we know at present, there is no room for Islamic Banking within the present regulatory framework in India. Speculating upon the application and practice of Takaful in this scenario would seem like day-dreaming. Till now the researchers have done substantial amount of work in this direction but to the best of the author’s knowledge, no report has come up with any practical solution to this problem under consideration. The Indian Insurance Act does not stipulate any separate provision for such practice. Unlike the other available literature on the topic, this research paper is based on the discussion and reviews of the leading conventional insurance practitioners in the Indian insurance Market. So this entire discussion revolves around the question: What is the practical solution to this problem? This research paper aims to draw a road map through which Takaful can be introduced in the Indian subcontinent and practiced successfully as a product available for all.

KEYWORDS: Insurance, Islamic Insurance, Cooperative Society, Emerging Economy, Development

INTRODUCTION

Financial prudence and financial resilience are valued characteristics of any economy. From the Great Depression of 1928 to the Euro zone Crisis of 2011 and the Asian Crisis of 1997-98 to the Financial Recession of 2008, perpetuated by sub-prime mortgage lending, all are outcomes of a trend of cavalier financial transactions governing business, employees, customers and the public at large. The blame for providing a fertile ground for such transactions is usually laid on the doors of Capitalism and the need to allow „animal spirits‟ to take over the economy, many a times foregoing the larger interest of society. Where financial farsightedness at the level of governments is indispensable, financial prudence at the level of the individual or business entities too is necessary and the means to achieve it become the prerogative of such entities. Insurance over the last century has become a pillar of financial stability laying the foundation for unbridled economic progress. Institutionalization of insurance from a market service to mandatory government imposition in the form of car insurance and marine insurance has only further strengthened the case of insurance as a cornerstone of economic progress.

The possible occurrence of the events in our day to day life which can lead to severe social, physical and financial loss cannot be tamed but the best we can think of is to mitigate their consequences by sound planning. Since insurance discourses the two most interrelated emotions of mankind i.e. fear & hope, it becomes the most essential tool for the society and it should be treated as welfare oriented mechanism rather than trade or profit oriented[1]. *Adam Smith* in "*Wealth of Nations*" argued that insurance should not be compared to or considered as trade because the profitability quotient between insurance and trade may vary where as the sole purpose of insurance is to provide mental peace & security against loss, thus profit is a secondary issue[2]. However, it has been proved to be a boon for commerce and trade.

Its significance for commercial activities had been acknowledged by *United Nations Conference on Trade and Development* (UNCTAD) in the first session of 1964, that a comprehensive insurance and reinsurance mechanism is crucial for the economic growth of any country[3]. The basic insurance mechanism involves individuals or policyholders paying a fixed amount of premium at regular intervals in a common fund from where the money can be withdrawn to pay out the claims to the victims of any undesired event which is covered under the insurance policy. *Obaidullah*[4] says that a society or country without an insurance institution would be deprived of the uncounted benefits that may impede its overall growth. It helps in stabilizing the markets by providing financial assistance in the crucial times and turns as a counter force in the most devastating times of the human history. *Terri Vaughan*[5], during the 39th general assembly of *The Geneva Association in* Washington D.C., mentioned the role play of insurance during the year of *The Great Depression* where it was a prime source of stability. And if insurance can outperform such a grave situation, it can play a much more crucial role for the trade and industry in future[6].

ECONOMIC GROWTH AND INSURANCE

Insurance, as an institution fuels the growth of financial services by facilitating credit facilities for business & industry[7]. *Ward and Zurbruegg*[8] pointed out insurance as a key source to sponsor financial intermediation. *Skipper* highlighted the contribution of insurance to economic growth. He pointed out that insurance (1) stimulates financial steadiness and removes all apprehensions (2) can be a good replacement for government safety programs (3) accelerates commercial activities (4) utilizes savings (5) is competent in handling risk (6) can provide a better allocation of resources[9]. However, it is interesting to note that the overall contribution of insurance to the society, economic growth and development is less explained and examined. It appears to be the major reason behind the negligence towards this industry.

The significance of insurance to the modern society is immense as insurance expedites a number of economic activities and it increases the overall size of the economy by enlarging various commercial sectors which automatically

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1 Risk and Insurance Mechanism, p 5.

2 Adam Smith, *The Wealth of Nations*. (An electronic classical series publication developed by Jim Manis, 2005) 93-94. http://www2.hn.psu.edu/faculty/jmanis/adam-smith/wealth-nations.pdf (Retrieved July 1, 2014).

3 Outreville 2013 pdf, pg 71

4 Md. Obaidullah, *Introduction to Islamic Finance* (India: IBF Net Pvt. Ltd., 2008), 119-20.

5 *Terri Vaughan is the CEO of National Association of Insurance Commissioners (NAIC)*

6 Social and Economic Value of Insurance, A Geneva Association Paper, p. 20

increases employment opportunities. In the view of prominent scholars, a sound insurance mechanism is a sign of economic growth[10]. Insurance companies along with mutual and pension funds have become the leading institutional investors and their impact on economic growth will increase rapidly due to globalization and the changing scenario of the commercial and social world. The inclination of other financial sectors towards insurance points out the possible role it can play in the growth and development of commerce and trade (Rule, 2001).

Prominent scholars like *Viattas;* 1998 and *Catalan and Al;* 2000 elucidate that the development of financial markets is interrelated with the development of insurance services as it pumps huge cash inflows into the system on a long term basis. Pension funds and insurance companies (also described as contractual saving activities) are being highlighted as the major institutional investors contributing to financial market development. Institutional investors" development indirectly impacts other financial intermediaries and may encourage professionalism in other corporate sectors. Thus, apart from efficient risk management, insurance helps in overall enhancement of the economy[11].

SIGNIFICANCE OF INSURANCE FOR DEVELOPING ECONOMIES

The above discussion shows how insurance can help in accelerating economic growth. It helps in opening up the markets in developing economies where there is present a low level of insurance penetration, thereby, huge potential for insurance sector. *Michael Diekmann*[12] during his address to *The Geneva Association* said that the annual number of calamities and catastrophic

Events have doubled since the 1980s. Total fatalities reached over 3.3 million between 1970 & 2010. *United Nations Global Assessment Report* 2015 on disaster risk revealed that India is bearing an average annual economic loss of $9.8 billion due to disasters. *The Global Assessment Report* (GAR) 2015 urged the Asian countries in particular to take primary steps like investments and insurance, otherwise the development process of these emerging economies may get hindered[13]. The *World Bank* is also taking steps to be able to manage post-disaster situations like the one after the Japan earthquake; the G20 countries made serious commitments towards supporting preventive measures. The *World Bank* is also aiming to engage the insurance industry in designing a risk-sharing mechanism through which these developing economies can be facilitated. Another way through which insurance can help these developing countries is by investing in their infrastructure development. *Skipper* inquires "in spite of the fact that these developing countries contain more than 75 per cent of the world's total population; the percentage of insurance premium from the region remains low"? (Skipper, 1987). However, a few of these developing economies have an established domestic insurance market, *India* being an example; but the demand of insurance is still lagging behind.

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[7] Grace and Barth (1993)

[8] Ward, D., and R. Zurbruegg, 2000, Does Insurance Promote Economic Growth?

[9] Skipper Insurance in the General agreement on trade in services (2001)

[10] UNCTAD (1964), Outreville (1990), Skipper (1997)

[11] Sawadogo, Relwende, and Samuel Guerineau. "Does Insurance Development Affect the Financial Markets in developing countries?." (2015): 17. (Chicago- bibliography)

[12] "Insurance in the Developing Economies-Building Resilience and Supporting Growth" Michael Diekmann https://www.genevaassociation.org/media/828321/ga2013-gar-diekmann.pdf

Limitations

The key term in insurance is risk" or shared risk". Both insurer and policyholder may get affected by the insured event but the degree may vary. So the whole system of insurance should be fair to both the parties; risk should be properly accessed and actuarially calculated. Unfortunately, the goal of common good and social wellbeing is badly conveyed and poorly understood by the common people. Over the years, a sentiment of distrust and disbelief has developed between the policyholders and the insurance companies. So the concept of shared risk and the idea of solidarity have taken a back seat and a give-and-take relation has taken prominence. Now the premiums are considered as down payment for a future service. (Wurmli, 2011) in his article on, "*The Invisible Hand of Insurance*" points towards the negligence and lack of planning of the insurance industry He says that insurance companies are way behind banks in terms of their contribution to the society and their operational clarity. Insurance companies are less focused on their publicity and they maintain a low profile which does not attract the customers. *Wurmli* believed that insurance companies could not communicate and assure the clients about the positive impact of insurance on society as a whole and he found that policymakers failed because their policies were inadequate for the masses. Thus the lack of clarity about insurance resulted in increasing misinterpretation and created a biased reputation of insurance among the common man.

INDIAN INSURANCE INDUSTRY: A SNAPSHOT

The development of the Indian economy accelerated due to the economic reforms of 1991 & those post-2000. These economic reforms played a crucial role but the graph of economic development has looked rather uneven. From 1996 to 2012 the GDP growth rate averaged at 1.6 per cent, which was at a maximum of 6.1 per cent in 2010 and a minimum of -1.4 per cent in March 2004. India is the second most populous country and forecasted to be the 3rd largest economy by 2050 overtaking United Kingdom, Japan, Germany and Brazil. However, the inconsistent performance of the Indian economy and ongoing issues show that the government should revise its policies. The major reason behind this dawdling is poor infrastructure development and investment spending. The balance of payment is negative as the imports are increasing rapidly and insurance, in spite of being a resilient long term investment provider, remains overlooked. Right now in India, insurance can be used well for boosting economic growth.

However, the Indian insurance industry itself appears to be in a state of flux. In spite of the market reforms, strong measures have to be taken to improve upon its future growth and stability. Constantly rising cost, slowing growth and weakening distribution is taking a toll on the industry as is evident from the fact that the life insurance segment observed a steep decline of around 10 per cent in FY 2012, the first such decline since liberalization (when market opened to foreign and private insurers). The Indian insurance market is under-penetrated although there has been a crawling increase in penetration. It is mostly low savings, lack of financial awareness among the masses and the constantly changing regulatory environment which further propel uncertainty in the market. According to *Swiss Re's* sigma study on world insurance 2013, India dropped by one point and stood at 15th position, in terms of premium volume. The penetration also plunged to 3.9 per cent from 4 per cent in 2012. However, the global insurance industry grew by 1.4 percentage points in 2013.

[13] http://timesofindia.indiatimes.com/india/Disasters-cost-India-10bn-per-year-UN-report/articleshow/46522526.cms

The Indian share of the global market declined to 1.58 per cent in 2013 from 1.80 per cent in 2012. As of now, there are 24 life insurance, 28 general insurance and 1 reinsurance companies present in the Indian market. Almost 8-10 existing companies are in the process of increasing their foreign direct investment (FDI) to 49 per cent. 5 reinsurance companies will be entering the Indian insurance market by March-April 2016. With the growing economy and population the potential of insurance expansion is huge and a revised 49 per cent FDI limit is now permissible which can lead the way for the international insurance giants to enter the market and explore possibilities. Life Insurance Corporation of India (LIC) is the domestic market leader and General Insurance Corporation of India (GIC Re) is the sole reinsurance company. The life segment ranked 9th and non-life 19th among the 156 countries in terms of premium in FY 2011.

To enhance the market size of the insurance industry, it is mandatory to develop customized solutions for the clients while maintaining transparency to create trust among the policyholders and potential customers. Similarly, the regulators need to improvise on good governance, effective distribution, customer centric policy-making and innovation. Compared to other developing and advanced economies, the Indian insurance market still has a lot of growth potential and scope. An increasing workforce, increased awareness about various finance products, the need for a secure future and a huge uninsured population can become positive points for insurers aiming to explore the Indian market.

KEY ISSUES & HIGHLIGHTS: INDIAN INSURANCE INDUSTRY

The Indian insurance industry has come a long way since it was tightly regulated and monopolized by a few public sector insurers. Following the establishment of *Insurance Regulatory and Development Authority* (IRDA) in 1999, the domination of the public sector insurers terminated. Such a shift from the usual brought drastic changes in the industry and opened the doors for international players. Competition, product innovation, distribution channels and with higher supervisory standards, a new era of Indian insurance industry began[14]

The total insurable population of India is expected to grow to 750 million by 2020[15]. As a result of this, life insurance, which is the second most desired financial instrument in India, is estimated to contribute almost 35 per cent of the total savings in the coming years. However, the emphasis on the non-life segment is comparatively meagre. The potential of insurance industry is assessed, through insurance penetration and density, worldwide. Life insurance penetration in India is expected to increase to 5.0 per cent by 2020 as compared to 4.0 per cent in 2013. Life insurance penetration has constantly been increasing since early 2000. The non-life segment remained constant in terms of change. From 0.56 per cent in 2001, it moved to 0.70 per cent in 2013, which is nominal[16]. In respect of purchasing insurance, India is among the lowest spending nations in Asia. The major reason behind the relatively low level of insurance density is the higher population growth rate and moderate growth of insurance. However, privatization had a positive effect on the growth quotient of insurance density but the gap between both life and a non-life segment is glaringly evident.

[14] http://www.icpr.itam.mx/papers/SinhaSwissRe.pdf

[15] http://www.lfymag.com/admin/issuepdf/29-32_Insurance_FFYJuly14.pdf

[16] IRDA Annual Report 2013

It is not surprising though that insurance penetration in India is much lower than the major Asian economies like *Hong Kong, Japan, South Korea, Taiwan, Malaysia* and *Singapore*. For 2012,

India's penetration for life was 3.2 per cent, which was below 3.7 per cent, the world average. Non-life, 0.8 per cent, was way behind the world average, 2.8 per cent. Nonetheless, India is ahead of *China, Pakistan* and *Sri Lanka*. According to the latest study of *Swiss Re*, penetration slipped to 3.3 per cent in 2015, which is the lowest since 2005-06. On the other hand the global penetration was 6.2 per cent in 2014, almost twice as much. The overall growth in premiums is also nominal. In the year 2012, life insurance premiums accounted for almost 80.2 per cent of the total premium amount and non-life segment had a small share of 19.8 per cent[17]. It is evident that these two segments are not developing equally and the non-life segment remains less addressed by the policy makers. However, the non-life segment of the Indian insurance industry carries huge potential. The growing population is an opportunity itself where the majority is still uninsured.

ISLAMIC INSURANCE *(TAKAFUL)*

Insurance helps individuals and economic units to reduce their risk. If we discuss the scope of risk management or insurance in Islam, a plethora of arguments and discussions can be gathered, a common stand being any man-made protection from risk is against Islam. It is a misconception and an insured person does not seek to change the will of the Almighty or try to do something un-Islamic. Seeking to minimize the effect of risk lies very much in consonance with Islamic rationality. For that we remember the story of a person who came to visit the Holy Prophet from a far off place. The Prophet asked him if he had tied his camel. He replied, *No, I trust in God'*. The Holy Prophet said „*trust in God but tether your camel first'*. The aforementioned narration is proof of Islam upholding a practical approach in everyday life which is in conformity with the laws of Sharia wherein righteousness and justice remain paramount.

The term "***Takaful***" is an infinitive noun which is derived from the Arabic root verb ***kafal or kafala***, meaning „to guarantee or bear responsibility for". It is meant to help the victims of any undesired event through a common pooling fund. In other words *Takaful* is a pool of individual contributions to pay a defined loss totally complying with the *Shariah* laws. The basic concept of *Takaful* is a combination of two (1) *Tabarru* (donation) and (2) *Mudarabah* (Profit and loss sharing) contracts. In *Takaful* contract participants agree to pay a sum as their contribution (*Tabarru*) for those in need and invest the rest of the amount in *Shariah* compliant commodities or business and share the profit as per the agreed ratio.

Fisher (2002) called Islamic insurance a system based on unity, harmony of population and mutual justice, designed to provide mutual financial aid to the group members in case of specific need. All members of the group mutually agree to pay an average amount to achieve the common goal of welfare and security. The principle on which it is grounded is that it must comply with *Shariah* law. Though the concept of conventional insurance looks similar, however, *Takaful* does not function on the lines of conventional profit making.

Conventional/modern insurance contains the elements of *Gharar* (Uncertainty), *Maisir* (Gambling) and *Riba* (Usury) which do not fall in line with the principles of *Shariah* (Bhatty, 2001). Therefore, to provide an alternative to conventional insurance, Islamic scholars have established a new concept of insurance and a platform for those who want to invest in economic activities within the sphere of Islamic principles.

[17] http://www.business-standard.com/article/finance/insurance-penetration-at-a-near-10-year-low-115062401243_1.html
http://www.lfymag.com/admin/issuepdf/29-32_Insurance_FFYJuly14.pdf

COMPARATIVE ANALYSIS OF *TAKAFUL* AND CONVENTIONAL INSURANCE

Table 1

	Islamic Insurance (*Takaful*)	Conventional Insurance
Benefits	All benefits are paid from the policyholders‟ fund under mutual Assistance.	Payments are made from the Conventional insurance company.
Premium	Contributions paid in Islamic insurance are divided into donation (*tabarru*) and (*mudarabah*) savings.	Premium paid by the policyholder creates an obligation against the insurer like in a sale and purchase of a Commodity.
Operations	Procedure and operations in a *Takaful* contract must fall within the precincts Of *Shariah*.	Here the operational mechanism must fulfill the laws & regulations of the National insurance body.

Table 2

	Islamic Insurance (*Takaful*)	Conventional Insurance
Company	In a *Takaful* contract, it is a *Takaful* operator who acts as a manager, trustee and an entrepreneur.	In a modern insurance contract, the relationship between an insurer and policyholder is on a one to one basis.
Shariah	As it is forbidden by Islamic laws, *Takaful* does not indulge in unlawful practices like al-*riba, al-gharar, al- maisir* etc. *Takaful* practices are designed on the basis of *mudarabah, tabarru* and *Shariah* justified elements.	In conventional insurance the presence of these unlawful elements, is certain and even in mutual insurance the probability of the presence of *riba, gharar,* and *maisir* is very high.
Profit	In *Takaful*, underwriting profits are distributed among policyholders‟ and shareholders earn their profit by investing shareholders capital plus by The expenses paid to them by policyholders for two things: i) Organization *Takaful* business on behalf of policyholders and ii) Handling the investment of policyholders‟ fund.	Underwriting profits are not given to Policyholders. Shareholders profit is calculated on underwriting profit plus return on investment.
Investments	Policyholders fund should be invested In any *Shariah* approved asset or commodity and must comply with the laws of the state.	In conventional insurance, there is no compulsion in investment like *Takaful* but it should meet state insurance laws and regulations.
Policyholders' Fund	Policyholders fund is managed by shareholders but belongs to Policyholders only.	All funds, policyholders‟ plus shareholders‟, belong to the insurance Company.
Principles, Protocols & Regulations	*Takaful* operations and products must be *Shariah* complaint and are subject to *Shariah* supervisory board, state bylaws And insurance regulations.	Operations & products in conventional Insurance only fulfill the company Regulations and laws of the state.
Participants	There are three participants in a *Takaful* contract, shareholders, policyholders and the *Takaful* operator.	Conventional insurance business is only between insurance company and policyholder.
Loss & Deceit	In such case, the *Takaful* operator (*wakeel*) provides interest free loans to participants in the form of *Qard al- Hasana.*	Conventional insurance company covers the risk in this case.

Table 3

	Islamic Insurance (*Takaful*)	Conventional Insurance
Re-insurance	*Takaful* insurance may seek reinsurance from any conventional re-insurance company because of the scarcity of re *Takaful* companies.	There is a remote possibility of a conventional insurance company seeking re-insurance from any re- *Takaful* company.
Mutual cooperation & human welfare	The ultimate goal behind these activities is spreading mutual cooperation among people so that it will lead to human welfare.	Proponents of conventional insurance argue that it is an economic institution which also addresses human welfare, but if a policy lapses before the insured event the insuree does not get the policy value, therefore chancing up the benefits that accrue from a policy lapse for an insurance company. The scenario of an insurance company taking Advantage of the lack of appetite for risk in an individual in comparison to that of an insurance company becomes evident, which is not uncommon.

COOPERATIVE RISK SHARING & ISLAMIC INSURANCE

The main features of a cooperative insurance include self-responsibility, democracy, equality, solidarity, honesty, openness and care for others. *Takaful* is based on the concept of mutual cooperation and risk sharing (Usmani, 2007; Zuriah & Redzuan, 2009). Mutuality and cooperative risk sharing are the two most important pillars of Islamic Insurance. As in *Takaful*, in a cooperative system, policyholders pay premiums with the intention of it being a donation to those who will suffer losses. They are eligible to receive any surplus observed due to the investment of the fund and they also make up for any deficit. The amount of premium of each policy differs due to the degree of risk involved.

Sheikh Mohammad Ahmad suggested that, “Cooperation should be the basic idea of insurance, as recognized in Islam. It should be encouraged on a national scale, in the form of old age, health, accidents and unemployment insurance and it should be backed by the government so the entire nation will collectively sponsor those who are in need. Apart from the premia, *Zakat fund* of the government be utilized to take care of the rest. This way it will be very similar to the „*National Insurance Scheme*‟ in England which covers all economic risks of all, from cradle to grave. The difference between the two is the investment in interest bearing commodities which is forbidden as per *Shariah* rules”. A system of insurance must be drawn based on human welfare whereas the modern system of insurance is, on many occasions, found wanting as per these requirements of the Islamic Laws. Many Muslim writers in recent years have deliberated on how modern/conventional insurance contains unlawful *(Haram)* elements.

Ancient Arab tribes and the companions of the Holy Prophet used to practice this system named as “***al-Aqilah***”. “***Al-Aqilah***” was a cooperative system like an annual common pooling fund, used to help the victims of any kind of misfortunes like murder, theft or accident. For example, under the customs of ***al-aqilah,*** it was mutually agreed among the tribes that if a person is killed unintentionally by a person of the other tribe, the accuser’s paternal relatives will take the responsibility to make a mutual contribution for the purpose of paying the blood money to the victim‟s relatives (Billah, 2003). The sole purpose of this type of concept was to enhance mutual cooperation and brotherhood in the society.

Many historians have narrated that the concept of cooperation was practiced in the 2nd century Anno Hegirae by the traders of the time and later the concept was adopted by the Europeans and called “Marine Insurance”. In the business terminology the concept of mutual cooperation is called “*Takaful Al-Tijari*”. In the 19th century Hanafi lawyer Ibn-Abidin became the first Islamic scholar to introduce the concept, meaning and legal entity of an insurance contract. There has been a difference of opinion among Islamic scholars related to the acceptability of insurance, whether it is „*haraam*" (unlawful) or not. In 1985, the Grand Counsel of Islamic Scholars in Saudi Arabia named the *Majma al-Fiqh* approved *Takaful* system as an alternative form of insurance which was in consonance with Islamic *Shariah*. This system was approved by the Grand Counsel as a system of cooperation and mutual help for the good of society. It is worth mentioning that the first *Takaful* Company was established in Sudan in 1979.

Since the first *Takaful* Company was established in 1979 in Sudan, today *Takaful* is offered by 239 global *Takaful* operators world-wide and majority of the operators belong to GCC states. As of now the GCC states dominate the business, after which Southeast Asia and Africa are the biggest markets.

From the current level US$12 billion, the global business is expected to touch US$20 billion in 2017 & US$25.5 billion by the end of 2020. It is rapidly growing in Africa where in between 2006 to 2012; almost 101 new operators initiated their operations. According to „*Global Takaful Market Report*" 2014-18, the key vendors of global *Takaful* market are *Dubai Islamic Bank*, *PJSC*, *Kuwait Finance House*, *KSC* and *Malayan Banking Berhad*

Problems & Challenges

The biggest challenge that the global *Takaful* industry is facing right now is that it is a pool of 239 newly established operators less than 15 years old of which 47 per cent are less than 5 years old. It is an emerging market with an inexperienced workforce and cut-throat competition. Another hurdle in the growth has been that these operators have been unable to draw the majority of the population into their fold and they have failed somewhere to meet the expectations of the common man, even in Muslim majority countries. An insurance penetration which is less than 2 per cent in the GCC states stands proof to this argument.

Despite the overall gains and projections of higher and stable rate of growth, the fact that *Takaful* industry is going through a rough patch cannot be overlooked. Less emphasis on product planning, lack of innovation, poor distribution, complex regulatory and legal framework and no attention towards technical training of the staff is gradually slowing down the pace of growth. The question remains, what can be done to resolve these issues? So far the growth journey of Islamic insurance industry has been rapid, but its time for it to be more rewarding and stable. Through merger & acquisition activities, potential markets should be targeted.

Now the industry experts are making new policies, reframing the regulatory framework and publicizing *Takaful* among the masses, but is there a way through which the expertise of conventional insurance can be used to strengthen the *Takaful* industry? Is there a platform where conventional and Islamic insurance can work together? And how can *Takaful* operators target not only the Muslim population but the other communities too?

SCOPE OF ISLAMIC INSURANCE THROUGH INSURANCE COOPERATIVE SOCIETY

In the above discussion, the significance of insurance for the developing economies has already been discussed. India is among the fastest growing economies. Insurance, one of the biggest institutional investors, can elevate the growth of the Indian economy and help India become a developed nation. Now the question here is that, India already has a fully functional and operational insurance mechanism, but is it successful in providing insurance cover to all? Why is the penetration level so low? India is itself providing skilled insurance professionals to other countries, so lack of trained insurance professionals can be ruled out as a reason for low penetration levels.

The efficiency, innovation and effectiveness of the Indian insurance system are unable to attract the huge population of India. In the above discussion, the shortcomings and the apprehensions of Islamic insurance have already been revealed. Now, this research paper is an initiative to generate an answer to all these questions. My research is based on the premise that even though at present *Takaful* cannot be introduced due to legal restrictions but its good practices can be immediately offered to the Indian public through the concept of insurance cooperative society in which both the concepts, of sharing of risk and of investing in ethical companies passing muster from the point of view of Shariah, hold water.

At present the *Indian Insurance Act* contains a provision through which *Takaful* can be practiced. It is *Insurance* through *Cooperative Society* which is similar to *Takaful*. Takaful business itself is a cooperative effort[18]. To begin with we can incorporate the good practices of *Takaful* in India through the means of insurance cooperative society. With the positive development and successful implementation of this system of insurance, consequently the practices of *Takaful* in their entirety can be brought forward in India. Currently, Arab oil producing nations are facing some challenges in their economy due to low crude oil prices and hiccups in big infrastructure projects besides rapid advances made in the harvest of alternative sources of energy.

Conversely, India allows 49 per cent FDI (Foreign Direct Investment) which is an open invitation to global conglomerates as there is no insurance cooperative society in India yet and the Arab *Takaful* market players can enter the Indian insurance market through the medium of insurance cooperative society. *SEWA* (Gujarat) is internally following the practices of insurance in their cooperative society but in an informal way. The dynamics are changing and many positive symptoms are at work, such as:

- Majority of the people are inclined towards Islamic finance and its products.
- Indian government is also looking for more investment capital.
- Positive indications are visible for the expansion of *Takaful*
- Profit & Loss sharing is not the current financial intermediation except in cooperative credit society where micro credit can be invested on different projects as per the RBI guidelines.
- Financial institutions in India still cannot invite *Takaful* clients or investment for *Takaful* purpose, which involves profit & Loss sharing instruments.
- In this paper, it has been argued that *Takaful* contributions can be obtained by cooperative credit society and as per the prevailing law can be invested into equity based financing.
- *Sahulat, All India Council of Muslim Economic Upliftment Ltd. and SEWA* is some of the organizations, working on the lines of introducing *Takaful* through mutual cooperation in India.
- Many cooperative societies are successfully working in India like the dairy giant *Amul.*

Murray D. Lincoln has deeply examined the cooperative insurance system. He says that insurance should be nothing but a cooperative project, a common ground for common people to unite (Lincoln, 1937). He quoted the *Ohio Farm Bureau Federation,* established in 1919 as an excellent example for the development of a cooperative model for insurance and business. During the year of keenest competition and the great depression they managed to make remarkable profits. These cooperators established their own *Mutual Automobile Insurance Company*, by which they controlled their investments. Cooperators in *Ohio* proved the success of this concept. On the similar grounds, *Takaful* can operate from the platform of cooperative insurance in India, through the medium of insurance cooperative society. The foremost stress in Islamic insurance is on social welfare in business creation and less focus is laid upon wealth maximization. It proves that Islamic insurance is nothing but cooperative form of insurance which is *Shariah* compliant.

- Both cooperative insurance society and *Takaful* are based on the concept of providing service rather than profit making.
- The sole purpose is mutual help not competition
- Self-help instead of dependence
- Clarity in intention
- Equal treatment to both the parties

Therefore, those who want to work together with common economic interest can form a co-operative society. Similarly, in *Takaful* people come together to pool their assets so that they can be used to cover the risk on one hand and earn some profit on the other. However, the investment of funds is subject to Shariah rules. In the form of an insurance cooperative society where the paid up capital is INR 100 Cores, like-minded people can introduce *Takaful* because the two major objections in conventional insurance are risk transfer and investment. Within the existing setup, through an insurance cooperative society, these issues can be handled as there is no specific regulation in the Insurance Act of India governing the choice of avenues available to an insurance cooperative society for investment of its proceeds, besides risk can be easily shared.

Thus, insurance cooperative society can be the much deserved breakthrough paving the way for *Takaful* in the Indian market in the reigning regulatory atmosphere.

CONCLUSIONS

In August 2000, *IRDA* opened up the insurance market for private players in India. Foreign companies were allowed ownership of 26 per cent which has now been raised to 49 per cent. The most significant effect of this change was on the insurance penetration which jumped to 3.4 per cent in 2011 from 2.15 per cent in 2001 for the life segment; although the change may not seem enormous, however, keeping in view the increase of population over the decade, it appears to be an indication towards change happened due to the new market entries. If through insurance cooperative society we can engage these big *Takaful* players to enter the Indian insurance market, we may get great response and also the growing Indian Muslim population can make use of it as the offering would comply with their religious requirements.

After China, India is the fastest growing economy in the world and certainly is an attractive destination for foreign direct investment (FDI). FDI in the Indian insurance industry holds the potential to increase the overall growth of the industry. In 2006-07 the FDI inflows in the service industry (financial and non-financial) were almost 30 per cent of the total inflows.

FDIs Can:

- Increase the insurance penetration in both urban and rural markets
- Pump liquidity to the system for the inclusive growth of India
- Can create a balanced development plan for both life and non-life segments
- Create opportunities for much needed product innovation by the introduction of foreign players, who would bring renewed expertise in the technical knowhow.
- Lead to competition in the reinsurance sector as GIC Re is the sole reinsurer in India throwing ample opportunities for foreign players to enter the market.

FDI in insurance sector can be utilized to establish an insurance cooperative society, through which *Takaful* can be offered. The major difference between both Islamic and conventional insurance is the investments and transfer of risk. These issues can be easily addressed through cooperative insurance society because there is no compulsion in the Indian Insurance Act for investments and risk is shared in cooperative insurance system as well. The advantage here is that the investment can be done in *Shariah* complaint commodities with the help of these foreign counterparts. M&A activities can play a key role here.

In early 2005 & 2009 *State Bank of India* and *Life insurance Cooperation* of India, initiated their efforts for examining *Takaful* as a viable product for the Indian market. Offering Shariah compliant products for almost 15 per cent of the population was the first step taken by these institutions. But, later on Reserve Bank of India declared *Shariah* compliant products unviable as per the current laws of the land. However, constant efforts are being made since then to make grounds for these offerings.

Recently *RBI Committee on Medium Term Path for Financial Inclusion* headed by Sh. Deepak Mohanty has released its report and recommendations on 28-12-2015 to increase financial inclusion in India. They emphasized the opening of interest free windows in banks. This research paper is also a small step towards the ultimate goal of initiating *Takaful* in India.

Initially an effort is being made to understand the role played by insurance for the economic development of any economy, especially the developing economies. It is found that insurance can play a key role in stabilizing the economic growth. It is a major institutional investor as it provides huge investments for long term projects. It is observed that in the dynamic scenario, the importance of insurance has also increased and developing countries like India have humongous potential for the insurance industry. In this paper, an attempt has been made to gauge the feasibility of equity based financing through the cooperative credit society. However, it has been argued that *Takaful* contributions can be obtained by cooperative credit society and as per the prevailing laws can also be invested into equity based financing. Thus, *Takaful* through insurance cooperative society can be practiced in India, which will facilitate access to a financial necessity such as insurance to not Muslims alone but to other communities as well.

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