TPL Life
Window Takaful Operations

An Introduction to Takaful

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TOWARDS UNDERSTANDING TAKAFUL

Definition of Risk: A source of danger; a possibility of incurring loss or misfortune.

The possibility of a premature death, a life-altering disability, or loss of any material possession like a house or a car through fire and theft is a risk all too real to be ignored or left unaddressed. These risks involve significant financial losses that could leave entire families destitute and businesses insolvent in a single blow. Insurance has been the modern way of mitigating these risks through a process of risk transference in exchange of premiums, but not without reservations. Whereas, insurance itself is commendable, its mode of conduct and contract has been a subject of opposition within the parameters of Shari'ah due to the presence of Riba, Gharrar, and Qimar.

Shari'ah View of Risk:

To mitigate risk in order to eliminate or reduce the severity of financial losses is not a recent innovation, and there are ample evidences available in Islamic history in favor of it, for instance:

I. **Dhaman Khatr Al-Tareeq**, is when any person personally guarantees another that a particular road is safe to travel and that the liability of any financial losses that might incur along the way is on him; effectively, this is a case of risk transference but without any involvement of fees which makes it acceptable.

II. **Dhaman Al-d'ark**, is when any person assures another with personal guarantees to influence the sale by telling the buyer that the guarantor would be responsible for the loss, if the purchased item proved to be faulty. So, in the event of a financial loss, that person (the buyer) has the option to either demand full repayment from the seller or from the guarantor.

III. **'Aqila** , is when in some situations, the payment of Diyat to the victim's family is made obligatory on the members of the community and not on the murderer. Effectively, risk is distributed amongst and shared between them as a result.

IV. **Aqd Muwala'at** , is when any person embrace Islam at the hand of another and then pact an agreement with him or with any third that he will be the inheritor of his wealth after his death, and that all liabilities for his wrongs will be upon him.

All the above-mentioned risk management techniques are based on the principles of brotherhood and mutual solidarity and are in conformance with Shari'ah. Given the importance and need for risk mitigation in today's day and age, the Ulema, after due deliberation of the pre-existing system (of Takaful), have decided in favor of it as an alternative to conventional insurance on account of its avoidance of Riba, Gharrar, and Qimar in the risk mitigation process.

The Definition of Takaful

The word Takaful originates from the Arabic language and means "joint or mutual guarantee".

The system of Takaful is based on the principles of brotherhood, mutual solidarity, and Taburru which is encouraged by the Shari'ah. In our society, we have varying implications of Takaful: the joint-family system for one and co-operative societies for another in which risks and financial losses are distributed amongst the participants and help is mutually extended to each other in times of need on the principle of Ta'awun. Exactly the same happens in Takaful, where participants pool their recourses so that they might be able to help each other in the time of need.

Takaful vs. Tawakkul:

Insurance or for that matter even Takaful is considered by some to be against the Islamic concept of Tawakkul. This belief is actually based on a misunderstanding and therefore not true, for Takaful does not suggest rejecting or abandoning the means or resources, but instead to use various agencies while leaving the outcome to Allah Almighty's Will. This is what Takaful stands for, and which was also sanctioned by Prophet Muhammad (peace be upon him) in a Hadith where he directs the Bedoiun in the following words having seen him leaving his camel untied considering this as being Tawakkul on Allah Almighty:

> "A companion of the Prophet (peace be upon him) asked: 'O Prophet of Allah! Should I tie my camel and then entrust Allah or should I leave the camel untied and then entrust Him?' The Prophet (peace be upon him) replied: *'Don't leave your camel untied; instead first tie the camel and then put your Tawakkul on Allah.'"*
> *This event is recorded in Tirmizi as well as in various other books of Hadiths. (2441)*

In retrospect we also find that Prophet Muhammad (peace be upon him) and his Companions took medicine in times of illness thus confirming the argument that employing necessary means and resources does not contravene the belief of Tawakkul. It is mentioned in a Hadith:

> "It is narrated by Hazrat Usama bin Shareek that a Companion of Prophet (peace be upon him) Rizwanullah Alaihim (RA) inquired Prophet Muhammad (peace be upon him): 'Should we take medicine (when we get sick)?' Prophet Muhammad (peace be upon him) replied: 'O People of Allah! Yes, get treatment for your illness because Allah Almighty has made available the remedies of all illnesses except that of old-age.'"*(Mishkat 388/2, Ref: Ahmed, Tirmizi, Abu Dawood)*

Similarly, the Shari'ah, also commands us to leave behind wealth and property for our families to spare them the disgrace of begging for it from others.

"It is better to leave your heirs wealthy rather than poor and asking others for their needs."(Bukhari, 383:1)

This is the true concept of Tawakkul: employing the available agency to our best of ability and leaving the outcome to Allah and every chosen strategy resulting in preventing or easing certain circumstances are thus in conformity with this concept.

Reference of Takaful in Holy Quran & Sunnah

Takaful is not a recent invention. In fact, its reference is available in the Holy Quran and Sunnah. The reference is in connection with the divine commandment for brotherhood and mutual solidarity which is exactly what Takaful stands for.

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It is mentioned in the Holy Quran:

"Cooperate with one another in matters of righteousness and piety." (Surah Maida: Aayat No.2)

Similarly, it is also mentioned:

"Muslims are brothers to one another." (Surah Hujurat: Aayat No.10)

- *"The believers, in their affection, mercy and sympathy to each other, are like the body, if one of its organs suffer and complains, the entire body responds with insomnia and fever." (Hadith Muslim: 4685)*

What is expected from us is that we should cooperate amongst ourselves and become pillars of strength and support for each other in times of difficulties and misfortunes. This is what Islam teaches us, and by following this commandment we can promote the concept of brotherhood in the world, and similarly mutual cooperation, and mutual solidarity. This is exactly what Takaful stands for. In Takaful too, participants extend their support to each other in times of financial misfortunes.

In the sixth year of the Hijri date, the Prophet Muhammad (peace be upon him) made a pact with the Jews of Medina which is generally known as the 'Meethaaq-e-Madina'. Various clauses of it are extensively mentioned throughout Islamic History and also in various books of Sunnah.

This pact was based on the principles of brotherhood and mutual solidarity and as such one of the clauses states that "every member will have to pay just compensation for their respective tribe", meaning that the responsibility of freeing the slave will be on the shoulders of those to whose tribe the slave will belong.This is a prime example of the concept of brotherhood and solidarity in Islam.

Such kinds of pacts have been existent during the rule of the Caliphs as well, though not by the name of Takaful. However the spirit of Takaful has always been there: different people through community-pooling help create a common fund which is used to benefit them in times of need.

Therefore, there is no doubt about the permissibility of Takaful given that is functioning on the principles of brotherhood and mutual solidarity and with sincerity.

The Modus Operandi of Takaful

The shareholders firstly would create a Waqf Pool in order to initiate the Takaful activities. Because they had been the ones to establish this Waqf they are called the Waqif, whereas the ownership of the Waqf is transferred to Allah Almighty. People are able to benefit from it for their risk mitigation purposes after acquiring a membership of this Waqf Pool which is legally referred to as the Participants' Takaful Fund or PTF.

The Shareholders thereafter formulize certain conditions for the Waqf which will form the basis of its operations. Based on the Fiqh ruling, these conditions are judged to be as effective and valid as if they would have been laid out by the Shariah itself. This means that the Waqif, by virtue of its legal position, can therefore stipulate that financial benefits may only be provided to those who contribute to the Waqf Pool. The relationship of the participant and the Waqf on the other hand is merely a relationship of an Aqd-e-Tabarru.

The contributions paid by the participants are recognized as Taburru'at and not as Waqf, and in fact become the property of the Waqf. This is akin to the charity we give to any other Waqf; the charity given is not considered as Waqf but simply as a donation. This means that the participants immediately loose their right of ownership, therefore the laws pertaining Zakat and even the Inheritance law won't apply here. As mentioned earlier, these contributions become the property of the Waqf with immediate effect and thus benefits from it need to be according to the conditions sanctioned by the Waqif, such as utilizing these contributions for the payment of claims, for example. Hence, it is the Waqf Pool which compensates for the participant's loss and not the Takaful Operator.

The funds available in the Waqf Pool are invested in Shari'ah Compliant business avenues. Any profits realized from these investments are returned to the Waqf thereafter.

The Role of the Company in Takaful System

The company or the operator serves as the Wakeel or the Manager of the Waqf Fund and charges a 'Wakala fee' for it. This fee is paid from the Waqf Fund. As the Wakeel, the Operator must invest the funds available in the Waqf Pool in Shari'ah-compliant businesses for profits on the basis of "Mudharabah". Since the Operator is the Mudarib (working partner) and the Waqf Fund is the Rabul-ul-Maal (sleeping partner), any profits made from the investments are shared between the two on pre-defined percentages.

Income of the Waqf Pool

1. Contributions paid by the participants
2. Claim payments received from Re-Takaful Operators
3. Profits made from investing the funds available in the Waqf Pool
4. Qard-e-Hasana, paid by the Operator in an event of any Deficit
5. Miscellaneous donations to the Waqf Pool

Expenses of the Waqf Pool

1. Claim payments
2. Re-Takaful payments
3. Wakala Fee of the Operator
4. Operator's percentage in the investment profits made
5. Portion of surplus which is distributed to the participants
6. Repayment of Qard-e-Hasana
7. Any donations paid on the recommendation of Shariah Advisor/Shariah Board

Type of Takaful

There are two classes of Takaful:
1. Family Takaful
2. General Takaful

Family Takaful or Life Takaful

The participants of Family Takaful mitigate their risks pertaining to their lives by acquiring a membership of the Waqf Fund. In addition to the protection element, participants can also use Family Takaful for their investment needs through another Fund called the Participant's Investment Account (PIF). A point to remember is that in General Takaful there is no PIF. Family Takaful functions thus:

1. Contributions received are first credited to the PIF which is used to buy Shari'ah-compliant investment
fund units for the participants.

NOTE: The amount available in the PIF belongs to the participants and on which the Islamic rulings of Inheritance and Zakat is applicable.

2. From PIF, units are allotted for the Participant's Takaful Fund (PTF) or the Waqf Fund.
3. The units from the PIF are received by the PTF in the form of Taburru. The amount is different for each participant since it is based on their age, health, occupation, and lifestyle.
4. The amount available in the PIF, after meeting various expenses (such as participant's medical check-up), is used by the Operator in the capacity of the Wakeel, under the supervision of the Shari'ah Board, for investment purposes.
5. The Operator charges a fixed Wakala fee (which is not related to investment profits and is called Wakalatul-Istismar) for the services rendered in investment management the fee is paid from the PIF.
6. Investment profits are shared between the Takaful participants.
7. The Waqf Fund compensates for any mishap to the life of a Takaful participant.

In a nutshell: the contributions received from the participants are bifurcated into two separate accounts for two different purposes, into:

a) Participant's Investment Fccount (PIF) for investment purposes;

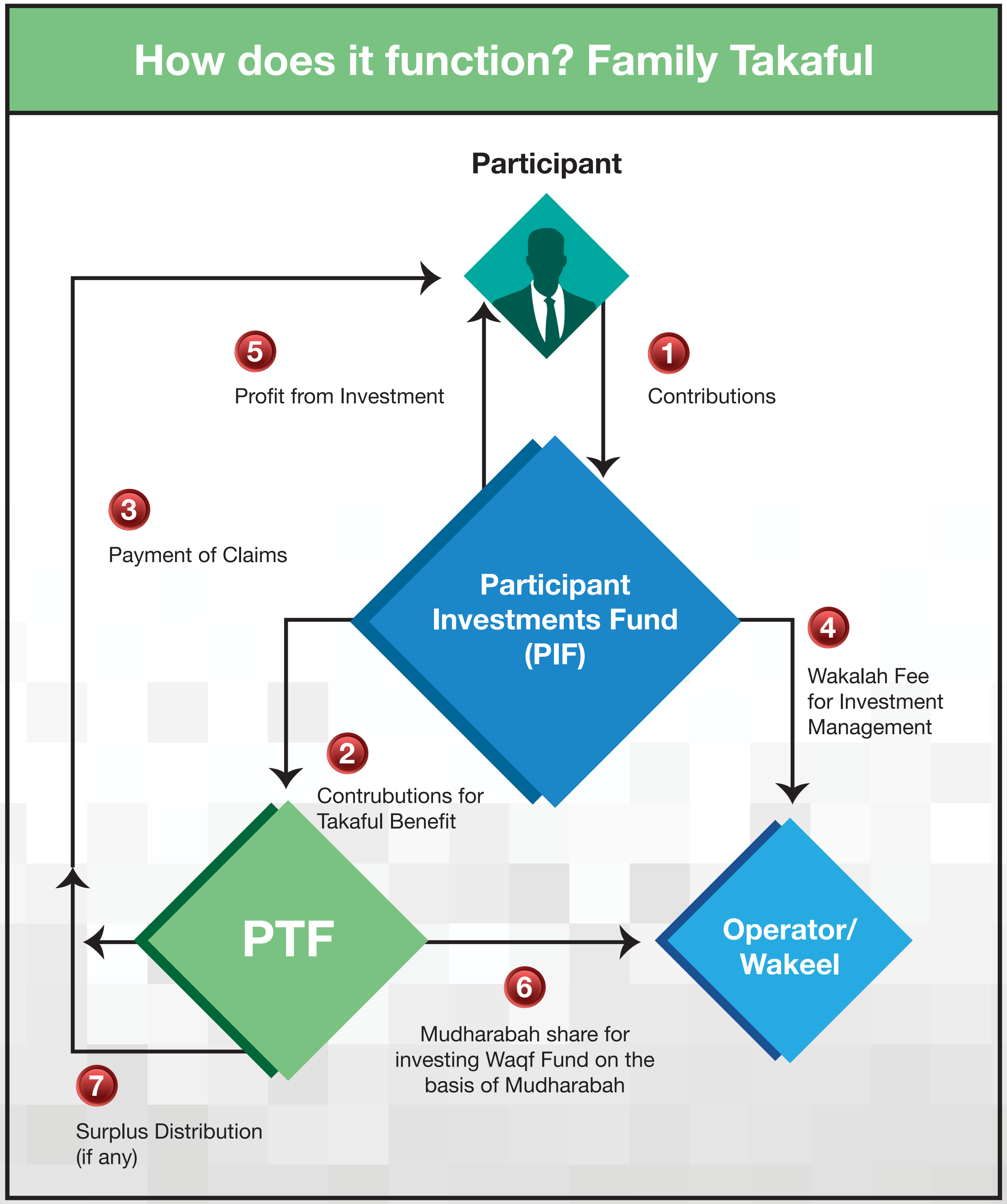
and

b) Participant's Takaful Fund (PTF)—in the form of Taburru—for risk mitigation purposes.

At the end of every year, after having paid all claims and meeting all expenses, any surplus remaining in the Waqf Fund may be distributed amongst the Participant's as per the recommendation of the Shari'ah Board. Surplus is paid only to those participants who did not file any claims in the calendar year.

In an event of a Deficit, without increasing the Wakala fee, the Operator extends a Qard-e-Hasana to the Waqf Fund.

Following is the Business Model for Family Takaful:

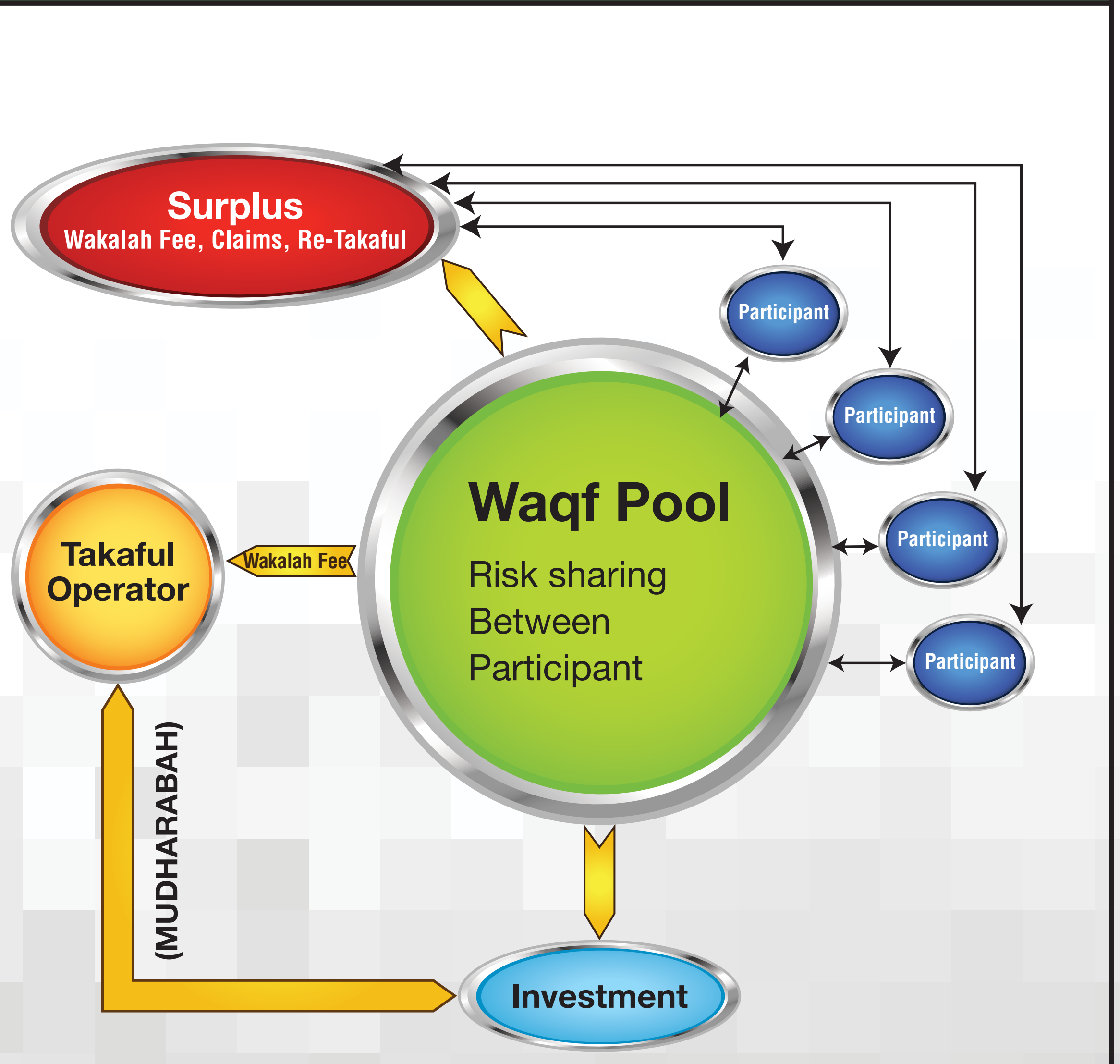


General Takaful

In General Takaful, the Waqf's memberships are assigned to those who need to mitigate risks to their assets like airplanes, motors, and houses etc. In an event of any defined loss to the asset, the Waqf Pool compensates. The company sets up the Waqf Pool, manages it, invests the fund available in the pool in Shari'ah-compliant businesses, and charges a fixed Wakala fee in return. Furthermore, the Waqf Pool is also the Rabul-ul-Maal (sleeping partner) and the company acts as the Mudarib (working partner) and any profits made from the investments are shared between the two on pre-defined percentages.

Following is the Business Model for General Takaful:

How does it Function? Waqf Pool



The Difference Between Takaful and Conventional Insurance

SECTION	TAKAFUL	CONVENTIONAL INSURANCE
Nature of Contract	Takaful is a Tabarru' based contrac	Whereas, Conventional Insurance is a contract of Compensation (Aqd Mua'wza)
Strategy	Sharing of Risk	Transferring of Risk
Contribution/ Premium	The Contribution paid to the Waqf belongs to the Waqf; the Operator is not the owner of this amount.	Whereas, the premiums paid by the insured belongs to the insurance company
Investment	Shariah compliant investment	Equity/debt-no restrictions
Underwriting Profits	No provision for underwriting profit	Insurance companies will make profit if the claims are lesser than the premium
Re-Takaful Commissions/ Claims/Surplus	Belongs to the Waqf; the Operator is not the owner of this amount	Belongs to the insurance company
Underwriting Policy	Underwriting techniques + Shariah framework of Halal and Haram	Only Underwriting techniques
Claims	Payable from Participant's Takaful Fund (Waqf Fund)	Payable from overall fund of the company
Surplus	Could be given to the Participants	Belongs to Company Shareholders
Deficit	Qardh-al-Hasan is given to the Participants Takaful Fund	Financed from shareholders fund i.e. company
Salvage/ Recoveries	Belongs to Waqf Fund	Belongs to the Insurance Company
Shariah Supervision	A Shari'ah Board/Advisor is an integral part of any Takaful setup which supervises the investment activities of the company.	Whereas, in conventional insurance, no such kind of supervision takes place, nor is there any law concerning it

About TPL Life Insurance Ltd.

TPL Life Insurance Limited is one of the group Companies of TPL Corps (Formerly known as TPL Holdings) which has diversified investments in various industries. The company was formerly known as Trakker (Pvt.) Ltd. which transformed into the current holding company by transferring all of its assets & liabilities to previously known TPL Holdings (Pvt.) Ltd back in 2009.

TPL Life provides innovative life and health insurance products, based on international standards and tailored to cater to the divergent needs of Pakistanis. Our mandate is to operate efficient health insurance systems and to deliver quality & affordable medical care for all. Our core strength lies in our innovative and one of its kind Life & Health insurance solutions and our indispensable team of seasoned professionals - who are dedicated to innovate Pakistan's Life and Health insurance industry.

TPL Life Insurance Ltd. exploits its opportunities and within a very short time, TPL Life received the approval for Window Takaful Operations from Security and Exchange Commission of Pakistan (SECP). Initially, the TPL Life has launched Group Health and Group Family Takaful products for its corporate clients. Apart from the corporate products, TPL Life has various product offerings for the retail customers with variable sum assureds including accidental insurances, term-life insurance, individual health insurance etc.

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Takaful Glossary

1. Aqd-e-Tabarru:
Those contract in which a person is made the owner of something without any consideration.

2. Aqd-e-Muawaza:
Those contract in which a person is made the owner of the corpus or the usufruct against some consideration.

3. Benefits:
Takaful benefits on death of any participant or maturity of his membership.

4. Contribution:
The amount payable by a participant to an operator under a Takaful membership.

5. Gharar:
Uncertainty, hazard, chance or risk.

6. Kafala:
To guarantee, to take care of one another's needs.

7. Mamlook-e-Waqf:
The assests of Waqf (a legal person).

8. Mudaraba:
Is a kind of business arrangement in which one party provides the investment while the other offers his labor; profits are mutually shared on predetermined ratios.

9. Mudarib:
A working partner.

10. Muwakkil:
Who appoints a wakeel /representative.

11. Participant:
Person(s)/organisation(s) who deposit by the way of Tabarru in the Waqf fund.

12. Participant's Investment Fund (PIF):
The investment pool of participants.

13. Participant's Takaful Fund (PTF):
Also known as Waqf Fund, which provides financial support at the occurrence of pre-defined losses.

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Also known as Waqf Fund, which provides financial support at the occurrence of pre-defined losses.

14. Participant's Membership Documents (PMD):
Means the documents detailing the benefits and obligations of the participant.

15. Qimaar:
Also known as Maysir (Gambling); those commutative agreements in which there is a definite loss for one party and a gain for the other.

16. Qard al-Hasna:
Interest free loan.

17. Riba:
In literal terms, Riba means "excesses". In the Holy Quran, Riba is purported as any excess or increase against which there is no consideration.

18. Riba_Alfadal:
The increase in homogeneous exchange transaction.

19. Riba_Alqardh:
A loan with predefined interest.

20. ReTakaful:
Shariah-compliant ReTakaful company which provides cover to Takaful pool on the basis of Mudaraba and Wakalah .

21. Surplus:
Remaining profit of Waqf pool after deduction expenses.

22. Sum covered:
The amount which is given to the beneficiary on participant's death.

23. Shariah Advisory Board(SAB):
The council of Muftyan e Karam which guides Takaful companies as per Islamic laws.

24. Shariah Guideline:
Regulation approved by the Shariah Advisory Board.

25. Takaful Operator:
An organization/company that acts as an operator/manager of Takaful fund.

26. Tawakkul:
After doing own efforts, putting trust and dependence on ALLAH (SWT).

27. Wakalah fee:
Waqf pool's operating fee.

28. Wakala-tul-Istismar:
The fee of investment management.