



## **Risk Allocation in the Takaful Program**

Mohamed A. Elgari

The essence of the Takaful is mutual assistance and solidarity. This mutual assistance is expressed in common bearing of risk by all participants in the Takaful program.

This is the main difference between conventional and Islamic insurance. The question then: what is the role of the Takaful Company?

The Takaful company (the co-operative insurance institution) is merely an agent manager. The participants desire that the pool of risks (and contribution) they collecting own is managed in such away that justice amongst participants is served and stability and viability of the program is maintained. Therefore, they need expert advice on the principles of assessment of risks, collection and distribution of claims and actuarial matters. This is where the company becomes instrumental in the success of a Takaful program. But it remains that the company bears no insurance risks.

For its services, the company receives fees as a percentage of NAV of the pool of contributions and/or a share in the profit generated from investing the same and may also receives a portion of the surplus.

One may ask why then the Takaful Company need a sizeable capital. The answer is that, the Takaful Company remains liable in case of negligence or mismanagement. In such events company capital must be used to support the pool. Furthermore, since it is very difficult to re-assess the contribution to be paid in case the total funds in the pool are not sufficient to pay all the claims, the structure of Takaful included the possibility of lending the participants. This means an interest free loan is extended by the company to the pool (Takaful Fund), which is repaid from future contributions. Therefore the continuity of the Takaful program is assured.

In summary, a Takaful company, unlike conventional insurance, doesn't bear the insured risks and hence don't guarantee the payment of claims from its own capital. Rather they only manage them for the benefit of the participants.