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Differences in Perspectives between Islamic and Conventional Insurance: An Argumentative Analysis based on Risk-sharing and Risk-transfer Concept

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Abstract

This article presents an argumentative analysis comparing conventional insurance and Takaful, a segment of the Islamic finance system. The objective of the study is to evaluate both systems from justice, economic, risk, moral, and refund policy perspectives. It focuses primarily on Takaful, a risk-sharing insurance that is considered more viable than conventional insurance in terms of demonstrating compliance with the five sample indicators. Despite some limitations, the study argues in favor of Takaful because its limitations are mostly individual, not institutional in nature. There is a significant and higher growth of Takaful than conventional insurance, and it has the potential to become a significant player in the global insurance market. The research adds significant value to the existing literature on Islamic finance and insurance through its evaluation of Takaful and conventional insurance.

Keywords

Islamic Insurance, Takaful, Conventional Insurance, Islamic finance

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İslami ve Konvansiyonel Sigorta Arasındaki Perspektif Farklılıkları: Risk Paylaşımı ve Risk Transferi Kavramlarına Dayalı Bir Analiz

Öz

Bu makale, İslami finansın segmentlerinden İslami sigorta, yani Tekafül, ve konvansiyonel sigortayı karşılaştıran bir analiz sunmaktadır. Çalışmanın amacı, her iki sigortacılık uygulamasını ekonomi, risk, ahlak ve geri ödeme politikaları perspektiflerinden değerlendirmektir. Çalışma esas göstergeler üzerinden Tekafülün sınırlılıklarının uygulamanın değil uygulamacıların kısıtları olduğunu tartışmaktadır. Hem İslami hem de konvansiyonel sigortanın birbirinden yararlanabileceği öne sürülmektedir. Tekafülün konvansiyonel sigortaya göre önemli ve daha yüksek bir büyüme potansiyeli vardır ve küresel sigorta piyasasında önemli bir oyuncu haline gelebilir. Araştırma, değerlendirmeleri bakımından İslami finans ve sigortacılık alanındaki mevcut literatüre önemli bir katkı sağlamaktadır.

Anahtar Kelimeler

İslami Sigorta, Tekafül, Konvansiyonel Sigorta, İslami finans

Introduction

Risk is a common phenomenon in our daily life; everybody, no matter what they are up to, faces it in their daily activities, events, and cases. Though we have specific measurements for taking care of it, there is always a systematic risk that cannot be avoided. According to Jorion and Khoury (1995), risk is variability or volatility in unexpected outcomes. On the other hand, Johnson (1983) stated that "risk is an element of uncertainty as to whether an event occurs or not." The concept of risk is essential and vibrant because of the limitation of human beings—not knowing the future—which is one of Allah's incredible hikmahs or purposes to create. However, despite understanding the limitations, human beings constantly endeavor or want to know the future to obtain an idea about the future or alleviate the potential risks. This is where the term "insurance" has taken place to satisfy their keen desire to reduce the uncertainty of the future by choosing different insurance policies.

There are many financial instruments for insurance to alleviate the risk or uncertainty of different events and cases. However, due to various religious philosophies, not all individuals are prone to the same insurance policy structure. Although conventional insurance leads to the world insurance sector, Islam does not allow the systematic concept of conventional insurance for Muslims because of the presence of interest (*riba*), uncertainty (*gharar*), and gambling (*maisir*) in the system (El-Gamal, 2000; Ayub, 2003; Hussain & Pasha, 2011; Akhter & Khan, 2017). For these reasons, Muslims have introduced an alternative system of insurance called *Takaful*. Here, the study discusses and argues the concept of *Takaful* and conventional insurance from various points of view.

Allah ordains in the Holy Quran, " *O you who have believed, fear Allah and give up what remains (due to you) of interest, if you should be believers. And if you do not, then be informed of a war (against you) from Allah and His Messenger. But if you repent, you may have your principal – (thus) you do no wrong, nor are you wronged*" [2:278-279]. Many verses in the Quran and various Hadiths mention riba's prohibition and its severe punishments. These specific warnings from Allah (SWT) and His Messenger (PBUH) suggest that Muslims must not consume interest; in other words, they should have an interest-free economic and financial system. Islamic insurance (*Takaful*) is a riba (interest-free) financial instrument, whereas conventional insurance follows an interest-based concept. This opposite nature of Islamic insurance (*Takaful*) and conventional insurance has created a ground of different opinions, showing the study's significance. Numerous studies were conducted to evaluate *Takaful* and conventional insurance (Hussain & Pasha, 2011; Abdou et al., 2014; Akhtar, 2018; Almulhim, 2019), focusing on country or performance; however, none of the research considered the following argumentative points—i.e., justice, economic, risk, moral, and refund policy—that are selected by the current study. In addition, scrutinizing the systems through risk-sharing and transferring concepts makes the study different from the existing literature.

For this reason, the main objective of the study is to constructively discuss the nature of *Takaful* and conventional insurance from justice, economic, risk, moral perspective and refund policy. Later, the discussion develops some argumentative points to show the better insurance system between *Takaful* and conventional insurance. In order to do that, it elucidates the overview of both conventional and Islamic insurance by providing contemporary scenarios of these two systems.

The remainder of the paper is organized as follows. Section two provides an overview of *Takaful* and conventional insurance. Section three discusses the main motive of the paper by providing the arguments between *Takaful* and conventional insurance from various perspectives, e.g., justice, economic, risk, moral or ethical, and refund policy. Finally, section four concludes by summarizing the paper and providing final remarks and recommendations.

Takaful and Conventional Insurance

Concept of Islamic Insurance (Takaful)

Takaful derives from the original word *'Kafala'* or *'Takafala',* which means to assure or rather to assure each other. It is primarily based on the concepts of *Ta'awun* (mutual assistance), and *Tabarru'* (gift or donate), wherein the amount is shared among a group of people willingly. The idea of *Takaful* is legitimized through the Quran and Sunnah. Traditionally, it was practiced in ancient Arab, by the name of Al Aqilah, from which the idea of *Takaful* originated. Besides, *it* relates to the commonplace exercise of Asabiyya, a form of tribal cohesion or solidarity. The prophet (PBUH) authorized this idea while alive (Ali, 2017).

Takaful is based on cooperation and donation. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines *Takaful* as "*a process of agreement among a group of persons to handle the injuries resulting from specific risks to which all of them are vulnerable*" (AAOIFI, 2017: 687). Besides, the Islamic Financial Services Board (IFSB) defines Takaful as "*a mutual guarantee in return for the commitment to donate an amount in the form of a specified contribution to the participants' risk fund, whereby a group of participants agree among themselves to support one another jointly for the losses arising from specified risks*" (IFSB, 2019: viii). Furthermore, Saudi Arabia's

Takaful Act 1984 (2008) defines *Takaful* as "*a scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose*" (Rafay, 2019: 686). It also states, "*Takaful* business means a business of *Takaful* whose aims and operations do not involve any element which is not approved by the Shariah" (Al-Salih, 2014). In a broad sense, *Takaful* is mainly an Islamic insurance scheme developed and operated based on a specific set of parameters that are carefully guided by the principles of Shariah (Nahar, 2015). It is based on risk-sharing, not risk transfer.

Takaful is classified into two types: i) General *Takaful* and ii) Family *Takaful*. General *Takaful* is a short-term insurance policy contract where one party (*Takaful* participant) pays the amount—in other words, contribution to a fund that the other party does not own—and another party (operator) is responsible for managing the fund. On the other hand, Family *Takaful* is a long-term insurance contract where most participants consider this policy for their future long-term needs, e.g., education of children, or death[1]. Generally, this type of policy is strictly for life; some insurance companies may offer education funds as a fringe service.

Why Islamic Insurance (Takaful)?

As mentioned earlier, the concept of *Takaful* was practiced in ancient Arab by the name of Al Aqilah. Noticeably, *it* is related to Asabiyya's (a form of tribal solidarity) customary practice. The prophet (PBUH) approved this concept while alive (Ali, 2017). Therefore, the practice of it is quite common in Muslim society. There are significant reasons for the *Takaful* industry to be an integral sector in the financial sphere. Among many reasons, one of the fundamental reasons for the revival of the *Takaful* industry is its necessity among Muslim Ummah in the social, economic, political, and personal spheres. A narration from John Louis Esposito's (1999) writing justifies the necessity of *Takaful* quite blatantly. According to the author, "*The indices of Islamic reawakening in personal life are many: Increased attention to religious observances (mosque attendance, prayer. fasting), proliferation of religious programming and publications more emphasis on Islamic dress and values. The revitalisation of Sufism (mysticism). This broader-based renewal has also been accompanied by Islam's reassertion in public life: An increase in Islamic oriented governments, organisations, laws, banks, social welfare services and educational institutions*" (Esposito, 1999: 10). The zenith of these revived and revitalized efforts to pursue Islam in the economic sphere resulted in establishing Islamic banks and Takaful companies in different corners of the Islamic world (NuHtay, Hamat, Ismail & Salman, 2015), even in the non-Islamic world.

[1] Islamic Financial System: Principles and Operations, Book, 2nd Edition, International Shari'ah Research Academy for Islamic Finance (ISRA), 2016,

Concept of Conventional Insurance

As a preliminary step to discuss conventional insurance, making a few explicit distinctions between insurance and hedging is necessary.. Hedging is broadly considered a completely different tool of finance from insurance, although both serve similar objectives. Insurance is defined as a risk management approach or action taken to compensate for the effects of an adverse event such as fire or accident. Hedging, on the other hand, is a strategy of investment to safeguard the investment from losses. By using hedging, the risk of loss is alleviated by sacrificing the potential for gain. However, in insurance, a premium is paid to eliminate the risk of loss and maintain the earning potential (Al-Salih, 2014).

According to Pfeffer and Klock (1974), "*Insurance is a device for the reduction of uncertainty of one party, called the insured, through the transfer of particular risks to another party, called the insurer, who offers a restoration, at least in part, of economic losses suffered by the insured*" (n.d.). A historical consensus regarding the origin of basic insurance practice pointed at the year 4000 B.C. among Egypt and Mesopotamia's traders. However, the written concept of insurance rules and regulations began in the era of Hammurabi, the fourth king of Babylon (1782-1682 B.C) (Kamis, 2010).

Generally, a conventional insurance contract forms by considering five elements (Khan & PricewaterhouseCoopers, n.d.) that must exist in a contract. First, like any other contract, two parties are necessary in an insurance contract—for example, party A and party B. Second, an agreed premium should be present in the contract. Here, the insured party agrees to pay an agreed premium to the insurer to bear the risk. Third, the insured party should pay an amount to cover specified losses. Fourth, the mentioned specified potential loss(es) ought to have a distant likelihood of occurring. Finally, the policyholder or insured party ought to have an interest in what is being insured—e.g., the policyholders could be the owner of the item that they are insuring.

Global Market Size of Insurance

Synopsis of the Global Conventional Insurance Industry

In the aftermath of the devastating COVID-19 outbreak, almost all sectors, including insurance, of the global economy have been severely affected. The Swiss Re Institute report (No 6/2023) states a 2.2% annual growth in total global real premium over the next two years in insurance industry, a figure slightly below the pre-pandemic trend of 2.8% observed in 2018–2019. However, this forecast represents an improvement from the average of the past five years (2018–2022) at 1.6%. While the industry experiences a recovery in profitability and narrowing underwriting gaps due to increased investment returns driven by higher interest rates, this estimation indicates that the industry may not attain its cost of capital in major markets in 2024 or 2025.

The non-life insurance sector faces challenges with a surge in claims frequency and severity despite economic inflation declines. Estimated natural catastrophe insured losses were expected to strick USD 100 billion in 2023, marking the fourth consecutive year and the sixth since 2017 (inflation-adjusted). The Property and Casualty (P&C) segment was anticipated to see 3.4% real premium growth globally in 2023, surpassing the forecast for 2024–25 (2.6%). Health premiums are expected to return to growth at 1.5% in 2024–25 (2023E: –0.6%). In life insurance, higher interest rates boost demand for savings-type products, support bulk annuity transfers, and are projected to enhance profitability in 2024 and 2025. Life premium growth is forecasted at 2.3% on average for 2024–25 (2023E: 1.5%).

Synopsis of Islamic Insurance (Takaful)

According to the "Takaful Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast 2023-2032", the global takaful market reached a noteworthy benchmark in 2023, amounting to US$ 33.6 billion. IMARC Group predicts even more robust growth in the future, estimating that the market would reach US$ 74.0 billion by 2032. This projected rise is driven by a number of causes, with a compound annual growth rate (CAGR) of 8.9% predicted between 2024 and 2032, including the growing number of Muslims worldwide, customers' increasing knowledge of Islamic finance, encouraging governmental policies, continuous technological improvements, and the general economic growth of Islamic nations.

As reflected in the Islamic Financial Services Board report (2023), the largest share of the *Takaful* contribution was captured by the general *Takaful* sector (82.6%), and family *Takaful* was the rest (17.4%). The ratios of *Takaful* in the Islamic finance sector regarding regions in 2022 were as follows: GCC (16.6%), MESA (5.9%), SEA (6%), and Africa (0.8%). Furthermore, the general takaful sector witnessed substantial increases in loss ratios across various markets. Notably, Türkiye reported the highest ratio at 99%, followed by significant rises observed in Saudi Arabia (22.8%), Bahrain (68.9%), Malaysia (60.7%), and Indonesia (32.7%). Conversely, the family takaful segment displayed diverse trends, with Indonesia leading in benefit ratio at 80.97%. Kuwait experienced a surge in loss ratio in 2021 (151%), followed by a significant decrease in 2022 (73.6%). Oman's benefits payout ratio decreased from 74.5% in 2021 to 45.5% in 2022, indicating improved underwriting performance.

Differences and Similarities between Takaful and Conventional Insurance

Each system or concept has a unique set of criteria that ensures its uniqueness. For this reason, a significant number of points can be drawn between the concept of *Takaful* and conventional insurance to portrait differences; among them, one of the major aspects that distinctively identifies or characterizes the concept of *Takaful* is its "*Shariah-compliant* " nature. *Takaful* is insurance that lies under Shariah compliance (Kamil and Nor, 2014); in other words, religious rules are embedded with it. On the other hand, conventional insurance is not obliged by any religious rules and regulations; instead, some human-made conditions are applied to it, in other words, the laws of the land. The following table summarises the prominent differences between *Takaful* and conventional insurance:

Table 1. Difference between Islamic and conventional insurance

Particulars	Islamic Insurance (*Takaful*)	Conventional Insurance
Benefits	It is paid from the accumulated fund of a related group under the mutual consent of members.	Paid from the company-owned fund.
Investment	The collected amount (fund) must be invested in assets or items free from any kind of interest (*riba*) and approved by Shariah. Alongside, the asset must lie under national insurance' regulations and laws.	The fund can be invested in any kind of asset or item as long as the assets or items do not contradict the national insurance regulations and laws.
Operation	The operation mechanism must follow the Shariah instructions, national insurance regulations, and laws.	Any kind of operation strategy is allowed as long as it complies with the regulations and laws of national insurance.
Profit	Underwriting profit is distributed to the insured. The shareholders' profit is earned from the return on the shareholder's capital investments and the expenses paid by the insured to the shareholders.	Underwriting profits are not distributed to Policyholders (except in mutual companies); shareholders' profit is generated from the company's underwriting profit plus any investment returns.
Premium	The amount which is paid as a premium is considered under both donation (*tabarru'*) and saving.	Paid premium creates an obligation against the insurer on a sale and purchases relationship.
Company	Company better known as an operator where it acts as a trustee, manager, and entrepreneur	Direct or one-to-one relationship between the company and policyholder
Shariah	The system does not allow any items or elements related to *riba*. *Takaful* is evolved around *mudarabah*, *tabarru,* and other *Shariah* compliance elements.	Conventional insurance has no *Shariah* rulings; it may even allow *riba*-related products. There is no restriction for that practice.
Policyholder or Insured fund	The fund is collectively owned by the insured and managed by the shareholders.	The overall fund belongs to the company; however, it is possible to retain asset separation for insurance between shareholders and the insured.
Regulation	In this system, operation procedures and products must comply with *Shariah* and national insurance regulations and laws.	Operation procedures and products must be in accordance with national insurance regulations and laws.
Approach to risk	It follows a risk-sharing approach	The system follows a risk transfer approach

Source: Mohammed Khan and PricewaterhouseCoopers

However, despite numerous differences, Takaful and conventional insurance similarities are undeniable. Some similarities are found in conventional insurance, which is also a concept applauded by Islam. For instance, according to Abukar Mohamed Jim' ale (2015), "*both auto takaful and auto insurance offer the same services to motorists, that is a policy that insures the policyholder for a claim against the insurer/ Takaful operator for bodily injuries or death caused to other persons, as well as loss or damage to third party property caused by their vehicle or to their own vehicle due to an accident. The first is known as third party cover and the latter a comprehensive or first-party covers*" (p. 5).

Besides, both *Takaful* and conventional insurance systems provide financial indemnification for protection against unexpected risk. Furthermore, they have similar scientific rules and actuarial approaches to morbidity rates, mortality rates, loss ratios, discounted cash flows and claim experience to measure risk price and evaluate liabilities (Sarpin, 2014). Finally, according to Zaheer A. Qadir (2016), "*the concept of conventional insurance is completely in sync with Islamic tenets. It is only in practice in business that conventional insurance goes in violation of certain fundamental principles of Islamic finance, as opined by Ulema*" (p. 01).

Arguments

Both *Takaful* and conventional insurance systems have built upon a complex structure. Therefore, discussing these two concepts from all aspects is quite cumbersome. However, in order to provide a clear overview of these systems, this paper argues the concept of *Takaful* and conventional insurance based on only its nature. Verily, a significant number of policies can be found between these two systems, which are relatively similar based on their operational structure and market policy. In this argument section, the paper mainly focuses on the two concepts— "risk transfer" and "risk sharing"—and provides rational thoughts about them from five various perspectives: justice, economic, risk, moral or ethical, and refund policy.

Justice Perspective

When contemplating the concepts of "risk transfer" versus "risk-sharing," it is often assumed that societies lean towards embracing risk-sharing practices to maintain harmony, rather than resorting to risk transfer. Risk transfer entails shifting an individual's risk onto others. This begs the question: who exactly are these 'others'? Do they not also reside within the same societal framework? If so, what rationale underpins the acceptance and implementation of risk transfer? Could this concept not potentially harm individuals or the broader social fabric?

Alternatively, we can also say that risk transferring means nurturing or allowing the existence of risk in a society which ultimately damages society's economic structure, leading to the vulnerability of the whole societal structure. Furthermore, risk transfer cannot or should not be an ethically and legally justifiable concept in society. Although almost all jurisdictions across the globe adhere to the interest-based and risk-transferring system, this does not mean that it is justified. The question arises—how can a system be justifiable where someone's gain in the system leads to other's loss? What is the justification for a person to suffer losses while others can enjoy what the person has lost?

In contrast to conventional insurance, Takaful operates on a distinct principle of risk-sharing rather than risk transfer. This fundamental difference has significant implications, particularly evident in times of crisis such as the global financial downturn of 2007-2008. While conventional insurance often exacerbates social and financial distress by transferring risk to policyholders, Takaful's collaborative approach fosters a more equitable distribution of risk, thereby potentially mitigating the adverse impacts on society's well-being.

While it is acknowledged that there have been instances of unethical conduct among Takaful agents, it's important to recognize these as isolated incidents rather than systemic flaws. Takaful operates on the principle of risk-sharing, fostering a sense of cooperation within society. In contrast, conventional insurance relies on risk transfer, lacking the same communal aspect. This cooperative principle underpinning Takaful positions it as a more socially beneficial system compared to conventional insurance.

Economic Perspective

Proper wealth distribution creates an equal economic environment in a society or nation. The circulation of wealth within specific individuals or groups can never be a positive sign for an economy. Because this improper wealth circulation creates an imbalanced supply and demand; as a result, a significant number of people may not have enough means in order to fulfill their basic needs, which ultimately influences the supply nature. Let us consider this concept of economy in both conventional insurance and *Takaful*. As its nature, conventional insurance is based on risk transfer which ultimately leads someone in the system to be the default individual. It means that through this system, someone must bear the risk, which leads to improper wealth distribution. However, considering the contribution and presence of conventional insurance in the incumbent economy, a significant portion of the economy accepts the concept of risk transfer; as a result, people also, willingly or unwillingly, comply with the concept. More importantly, this concept has a considerable contribution to the economy. While through *Takaful*, only a few billion dollars are circulating in the world economy, conventional insurance deals with the larger portion of the market. So, from the economic point of view, the contribution of conventional insurance is undeniable despite the existence of ethical and moral issues.

Considering the Takaful, it adopts the concept of risk-sharing, which leads to cooperation instead of selfishness attitude–i.e., risk transfer. This risk-sharing nature of Takaful through *mudarabah* Islamic financial contracts helps to circulate the wealth properly and create a more balanced and prosperous society (Kasim et al., 2015).

Generally, most of the systems come into existence in order to ensure goodness for a society. In this continuation, conventional insurance has some useful elements or practices. It may solve some immediate financial problems in the short run, but in the long run, it is ultimately breaking the economic structure. For example, equality in the economy is always preferable in society; however, a conventional insurance system creates unequal economic practice because of its nature—i.e., risk transfer. No matter how good the system is in the short run, the ultimate objective of conventional insurance is to transfer the risk; in other words, transferring someone's problem to another, which is uneconomical. However, it will be unrealistic to say that conventional insurance cannot ensure the development of the economy. A substantial number of studies show a significant impact of conventional insurance on the economy (Costache, 2018; Asongu & Odhiambo, 2020; Zulfiqar, 2020; Absalom, 2022). The point of this study is not to justify the system based on its contribution; instead, it mainly focuses on the nature of it. The system's contribution to the economy is undeniable; however, it needs some conceptual changes or additions that will make it more viable and good for the economy and society. Fortunately, *Takaful* already has that conceptual framework—i.e., the risk-sharing concept. Therefore, it might be an excellent opportunity for the conventional insurance system to adopt the concept of Takaful to ensure sustainable and positive economic development.

Risk Perspective

The principle of a contract in traditional insurance is not mutual aid, in which each policyholder spends money to support one another when they encounter problems; instead, the insured passes their risks to the insurer, who passes the same risks to the reinsurance operators in exchange. Therefore, in conventional insurance, the contractual arrangement is not based on risk-sharing, where individuals support each other. Instead, it promotes an environment of selfishness in safeguarding each side by transferring risk to others.

In contrast, *Takaful* is based on risk-sharing, not risk transfer, which is to diversify the risk among the contributors. Practically, Takaful is seen as a means of mutual assurance between individuals regarding loss and harm that could be imposed on each of them. The members of the policyholders comply with reciprocal assurances, which justifies the risk-sharing aspect. In addition, the underlying contract, e.g., *mudarabah*, can also be considered to denote Takaful as a risk-sharing system (Kasim et al., 2015). Although there is almost no disagreement with the concept of "risk-sharing" in Takaful, many do not agree with it in the case of *retakaful*, comparing it to conventional reinsurance. *Retakaful* is designed to provide coverage to takaful operators to minimize or reduce the financial impact of risks on their respective takaful funds. As with Takaful, the cooperative nature and objective of the *retakaful* transaction are similar, with the exception of the parties involved (Ahmad et al., 2016).

Moral or Ethical Perspective

The practice of conventional insurance is embedded with unethical factors: investment in Shariah non-compliant elements, uncertainty, usury, and gambling (Hassan & Salman, 2017). Essentially, there are a variety of insurance-related activities that are against ethics, not the concept of insurance itself. When something is not always in compliance with Shariah, unethical consequences arise. In an effort to avoid unethical and non-Sharia issues in insurance practices, a logical answer is to replace conventional insurance with a version that conforms to the Shariah known as *Takaful*. Takaful falls under the category of ethical insurance because it is part of Islamic finance. Hence, it creates an atmosphere that promotes mutual respect, caring, and sharing while adhering to the Islamic ethical framework (Azmi, 2015). However, there are indeed some unethical cases that can be seen in the *Takaful* industry as well. These cases are not as frequent as in the conventional insurance industry; this is an individual act, not an institutional one. Therefore, to preserve a harmonious society, the *Takaful* concept or model should be practiced in society because this concept complies with risk sharing, not risk transfer. Many financial and social issues can be solved by practicing the *Takaful* concept instead of conventional insurance. For example, it would eliminate fundamental impermissible elements, including gambling, usury, and uncertainty. In addition, the impermissible business operations are also kept away from the *Takaful* system. Apart from financial gains, ethical and social gains are also expected from *Takaful*, where solidarity is encouraged in most of the society with the concept of cooperation, which is put into action throughout society (Hassan & Salman, 2017).

Refund Policy Perspective

Apart from the differences based on nature, the refund policy aspect significantly distinguishes the *Takaful* from conventional insurance. In the conventional one, the refund policy mainly works in two ways: 'during the cooling-off period' and 'after the cooling-off period'. During the cooling-off period, if a policyholder cancels the insurance policy, the person may get a refund of any premiums he has already paid based on the contract. However, the insurer may charge a small amount to cover expenses that occurred during the period. After the cooling-off period, the policyholder will be given a refund if no claims were made during the policy year after deducting the administration fees. In another scenario, an insured pays the regular premiums until its maturity, and no uncertain incident happens; therefore, the insured does not claim anything against the insurance. In this case, the policyholder generally does not receive the maturity benefits from the paid premiums; instead, the premiums belong to the insurer.

However, considering the same scenario, *Takaful's* position differs entirely from conventional insurance. Here, the insurer refunds the amount (after deducting the expenses) along with other access earnings from an investment [if any] to the insured that was accumulated as a form of donation or contribution throughout the policy period. More precisely, the refund is given based on the concept of "unit value of insurance". The amount determines the current refund amount of the contribution and is calculated by multiplying the contribution value by the unit value at the end of the policy and the amount that the participant can claim.

Conclusion

The second most vital financial sector in the Islamic community is *Takaful* or Islamic insurance, which works—to alleviate poverty and deprivation—under the umbrella of Islamic finance (Patel, 2004). This concept has obtained enormous appreciation and acceptance in the Muslim world, especially in GCC countries, and its recent growth is significantly higher than conventional insurance. The main objective of the study is to constructively argue about conventional insurance and *Takaful* from a justice, economic, risk, moral, and refund policy perspective. In the argument section, the study mostly focused on *Takaful* because of its risk-sharing nature. From the discussion, *Takaful* seems more vibrant to comply with the aforementioned five indicators—i.e., mostly because of its risk-sharing nature. This study argues in favor of *Takaful* despite having some limitations. The reason behind this is that the degree of those limitations is comparatively lesser than conventional insurance; those limitations are mostly individual, not institutional.

None of the systems (human-made) can be perfect; there is always room to restructure or reformate the system. Due to having a risk-sharing concept, *Takaful* is already in an advantage stage. However, experiencing some unethical behavior in Takaful, the system should add some new clauses to prevent the unethical behavior of agents. On the other hand, conventional insurance should adopt the concept of *Takaful*—i.e., risk-sharing—for the actual development and positive impact on society.

The research presented in this study adopts an argumentative approach to explore the nuances between Takaful and conventional insurance. It delves into discussions concerning their disparities and parallels, with a particular focus on their current market sizes. Notably, the Takaful sector exhibits a remarkable growth trajectory, surpassing that of conventional insurance.

This robust expansion underscores the considerable potential of the Takaful industry moving forward. Several factors contribute to this promising outlook, including the increasing Muslim population worldwide, the intrinsic risk-sharing nature of Takaful, growing awareness of Islamic finance among consumers, supportive governmental policies, ongoing technological advancements, and the overall economic prosperity of Islamic nations. The concept of risk-sharing serves as a key attraction within this sector. Despite being relatively nascent in institutional terms compared to conventional insurance, the Takaful industry demonstrates the capacity to emerge as a significant player in the global insurance market.

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