



SUGGESTION OF ISLAMIC INSURANCE COMPANY MODEL

Abdullah Ibrahim Nazal¹

¹Zarqa University, Jordan

ABSTRACT

This study is one of very few studies which have investigated Islamic Insurance Companies as solution. It explained its operations also comparing with Traditional Insurance Companies and theoretical Islamic insurance models. As result to this study Islamic Insurance companies are profit organization. It helps Islamic banks but it costs customer to face expect risk. Islamic Insurance companies have many ways to get profits and consider all customers installments grants. Its operation gap comes from explanation of Islamic rule which considers part of customers savings in insurance company to buy compensation is the grant not all savings. This can be shown in theoretical models of establish insurance companies. Searcher recommended suggestion to direct Islamic insurance companies operations by Islamic insurance theoretical models. It reduces customer insurance costs and makes facing risk available to all citizens. Models can be developed to cover all types of insurance but as it collects savings, it can't be sold to another company because cash buy cash in local currency is forbidden interest.

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1. INTRODUCTION

Insurance Companies are profit organizations (George Rejda, 2008). Its services depend on customer fears. It deserves customer money because it will give compensation against possible risk. If risk does not happened, Insurance Companies deserve customer money as result to give them safety feeling. All Insurance companies affect customers' savings as individuals or companies because of fear cost. It means this cost must give benefit as value to be fair cost in case there in no risk happened and value of transfer risk or reduce loss in case risk happened. Insurance Companies helps government to reduce expenses of general budget on individual get in risks also it gives government tax return. Its important increases after lose relationship between individual because of

less care and loss source of helping in risk case because of loosing Zakat source. Zakat collects 2, 5% from riches wealth to distribute it on poor people and looser in risk case if they loss there wealth. Insurance services become important to increase grantee. Ex: some creditor gives sales by delay buying price in future or by buying monthly installment on condition that customer is sharing in life insurance contract and creditor will get the compensation in case customer die before complete buying the price. It considers life insurance contract as grantee regardless of other type of grantee therefore insurance services increase credit classification as result to reduce possibility risks. Customer bad reaction comes from Insurance Companies weakness amount of compensation in risk case. Customers can not get compensation as he expects. Tradition Insurance companies in some countries as Jordan try to increase profit by refuse high risk contracts, sell Insurance contract to other Insurance companies to transfer its risk, limit time of asking for compensations after risk and use ways of calculating to reduce compensation (Eid and Alseefo, 2009). It may show negative dealing which courage Islamic Insurance promotion. ¹

1.1. The Problem

Now, there are many Islamic insurance companies (Ahmad, 2012) but still dealings need explain (Mehdi, 2010). There is no one Islamic insurance company model. All these companies had been building up to deserve customer money as grants given to the company. Its questions are:

- 1- What is the different between Islamic insurance companies and Tradition Insurance Companies?
- 2- What is the gap practically in Islamic insurance companies?
- 2- Is there Islamic Insurance Company Model practically?

1.2. The Importance

It discusses Islamic Insurance Company success practically as way to manage possibility risks. It explains effects of Islamic rules practically on managing financial structure of Islamic insurance company. It tries to give Islamic model as suggestion to avoid practically Islamic rule gap which will help companies, government and individuals. It gives poor people round the world chance to get insurance.

1.3. The Objectives

To apply search there is are which are:

- 1- To find different between Islamic insurance companies and Tradition Insurance Companies.
- 2- To explain the gap practically in Islamic insurance companies.
- 3- To suggest Islamic Insurance Company Model.

1 Compensation = Loss * (the amount of insurance that had been decided by customer to buy installments/ value of things that customer make insurance for as goods value in market) this shows that increasing of goods value in market will reduce compensation.

1.4. Previous Studies

(Mehdi, 2010) had followed many theoretical and empirical studies to evaluate Islamic Insurance as Islamic solution up to corporate to face expect risk (Takaful). It was difficult to judge emergency of Islamic insurance practically which leads to be second alternative choice for customers because of tradition insurance companies developed services and low level of knowledge about it in spite of the relation between the development of Islamic banks and Insurance. Nico and Peiter (2010) they follow size of Insurance covering. They discovered that many individuals are not insured round the world because of poor income. They recommended Promoting Islamic Insurance as way get Takaful services against risks for every person from different countries and religions.

2. THE OPERATION OF ISLAMIC INSURANCE COMPANY

Some Islamic organizations try to reduce or transfer possible risk by using insurance idea and Islamic investment tools with out interest. In spite of legally Insurance Company by law, Islamic organization refuses way of their dealing. They classified it as gambling on risk and interest investment. Insurance Company collects all customers buying in portfolio. Customer can not get buying back again except compensation in case risk happen therefore it gambling. Insurance Company use portfolio in interest investment to get profit. Islamic organizations try to build Islamic Insurance Company with out gambling or interest investing and accepted by Islamic rules.

Some Islamic banks make Islamic insurance reserve in its financial structure to reduce or transfer credit risk of sell services. Ex: customer buy car by Morabaha Installment selling service for 5 years. As result to accident risk bank try to protect his money by apply insurance installments beside car buying installments. Other Islamic banks build other company to sell Islamic insurance services profit investment. It tries to cover every customer looking for Islamic services instead of traditional Insurance services. Ex: Islamic Insurance Company in Jordan has produced many services as result to Jordan Islamic Bank needs. This bank sells services and goods as car. Selling by credit has risk of car accident. Islamic Insurance Company produces now Takaful Insurance, Marine Insurance, Fire Insurance, Medical Insurance and General Accidents Insurance (The Islamic Insurance Company, 2007).

3. THE OPERATION GAP OF ISLAMIC INSURANCE COMPANY

The gap comes from the applying Islamic rule practically:" all customers share in insurance services are giving delay buying or installment to face risk in case it happen consider as grants". There is no problem when risks happened and take all customers grants put if risks did not happen, Insurance company will get grants in its reserve as undistributed profits after reduces managing services operation cost.

Gap case needs to discuss: customers' installments are grants to face risk if happened but in case risk did not happened; customers' grants become customers' savings. As result to Traditional insurance law, all customers buying are profit of company if risk did not happen. By comparing

between traditional Insurance companies and Islamic insurance company, there is no difference practically because getting savings after risk happen as in case 2 which were owned by company as result to get it in its reserves which increase equity in balance sheet.

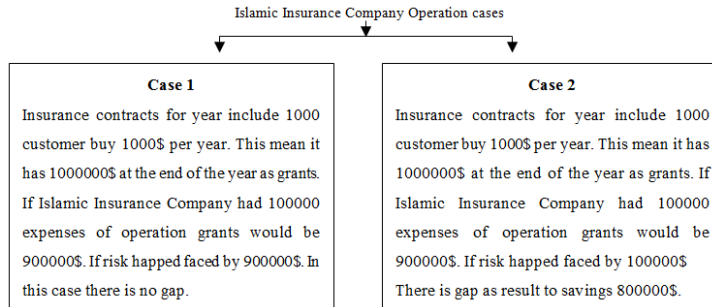


Figure-1. Comparing between two Islamic Insurance Company cases to find gap

Islamic insurance company makes profit from investing part of its capital and part of customers' grants. Its profit can be shown in the next figure:

Profit of Islamic Insurance Operation services
 + Profit of Islamic insurance company capital investing
 + Profit of Part of customers grants investing before contract time end
 + (All customers grants after contract time end – compensation after risk happened)

= profit of Islamic Insurance company

Figure-2. Profit of Islamic Insurance Company calculating

Islamic insurance company is managing risks. It sells contract to other Insurance company. Customers deal with the company that they make agreement even it sell contract. Practically if risk happen compensation will buy to customer from contracts owner. This way transfer risk from company to other as any traditional insurance company. Insurance companies profit has many sources. Company can use part of customers grants to invest as sharing in capital or take part of customers savings and make investing in order to get percentage of profit (as Modaraba) addition to service operation selling, commissions from selling contracts to other company and return of contracts had been sold to other company after reduce risks compensations.

Profit of Islamic Insurance Operation services
 + Profit of Islamic insurance company capital investing
 + Profit of Part of customers grants investing before contract time end
 + Commission gets from selling contract to other company
 + (All customers Installments (grants) after contract time end
 – Contracts return installment which had been sold to other company
 – compensation after risk happened)

= profit of Islamic Insurance company

Figure-3. Profit of Islamic Insurance Company calculating in case of selling contracts

This figure shows Insurance company return which come from operation services as commissions to give facilities to customers to import goods also Insurance company use part of its capital in investing as deposit in Islamic bank or sharing experts in market by Modarabah, Morabaha or sharing. It gets all customers installments as return of services which give safety feeling to customer in case no risk happens. It can sell some contracts to other insurance company as way to transfer its risk and get commission from selling. It can get other return by investing part from customers' installments. In case company sell contracts it loss customers' installment as result to become owing to the buyer. This type of return collected to be reduced by company costs to get operation profit. Islamic Insurance Company does not deal with interest on loan to cover its need therefore operation profit affected by tax. Parts of net profit after tax will go to reserves and other parts will be distributed to company shareholders (The Islamic Insurance Company, 2007).

4. SUGGESTION ISLAMIC INSURANCE COMPANY MODEL

Takaful Insurance means sharers guaranteeing each other (Mohammed, 2008) as result to developing Takaful Insurance, There are simple two theoretical models discussed years ago but practically it needs explain. First model build up to giving every sharer same installments for limit time in order to face limit risk that sharers have fear from. Ex: 1000 sharer want to face fire risk and build reserve by buy 100 \$ every month for one year. Within contract time fire happen to 10 sharers. They lost 200000\$. In this contract sharers build reserve of savings = 1200000\$. Savings will loss compensation which it grants to make savings = 1000000\$. If there is expenses of operations as 100000\$ it will be reduced but 900000\$ are savings for sharers. Every sharer will get $(900000/1000) = 900\$$. This model does not include savings investing. First model has advantages which are:

- 1- Collect sharers to face risk with simple managing.
- 2- It does not have currency risks in certain environment.
- 3- Sharing is not profitability.

Second model is same as first model but savings get in investing. Investing may get in loss or make profit. Ex: savings after buy compensation = 900000\$ and investing make 100000\$ profit and 50000\$ loss. This means sharer will get $(900000 + 100000 - 50000) = 950000\$ /1000$ sharer = 950\$. Second model has advantages which are:

- 1- Collect sharers to face risk with complex managing.
- 2- It does have currency risks in uncertain environment.
- 3- Sharing is profitability as way to keep savings value in time of contract end.

By comparing between these models and Islamic Insurance Company, Customers can face possibility risk by there savings therefore they will not loss all savings as in Insurance company which consider these savings a grant to company.

5. CONCLUSION

As result to this study Islamic Insurance companies are profit organization. It helps Islamic banks to face accident risks of selling. It costs customer to face expect risk as consider installments are the company grants. Islamic Insurance companies have many ways to get profits beside get these grants. Its operation gap comes from explanation of Islamic rule which considers part of customers savings to buy compensation is the grant not all savings. This can be shown in theoretical models of establish insurance companies.

6. RECOMMENDATION

Searcher recommended building Islamic Insurance Companies up to theoretical models to reduce cost of face expecting risk and face traditional Insurance companies' negative affection. Models can be developed to cover all type of insurance but as it collects savings, it can not be sold to other company because cash buy cash in local currency is forbidden interest.

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