A Proposed Model of Halal Insurance Policy Scheme

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Abstract

It is a well-known fact that Muslim scholars have declared commercial insurance in modern times religiously prohibited (Harm), mainly for the reason that it contains *riba* (insurance), *gharar* (misleading), *and maysir* (gambling or speculation). The Islamic Figh Academy declared the same because it causes a major element of risk, which voids the insurance contract; therefore, it is prohibited. Takaful insurance, a Shariah-compliant insurance, was introduced to replace commercial insurance by eliminating the prohibited elements in commercial insurance. While successfully introduced, Takaful still did not fulfill Shariah's purpose in preventing the injustice practiced, including profiting out of the agony of others. The author introduces a new Islamic insurance (FAWZ) to eliminate the elements of prohibiting commercial insurance while still fulfilling the purpose of Shariah (Maqasid al-Shariah). FAWZ-Insurance is based on a partnership model between the two parties, the insured and the insurer, a model or a transaction called for by Shariah as manifested in Surat Anissa, Verse 29, declaring that Tijara (commerce) is the only permissible transaction amongst believers, whereas Musharakha (partnership) is a form of commerce that is used.

Keywords: Conventional Insurance, Takaful, FAWZ-Insurance

1. Introduction

Since decades ago, Muslim scholars have studied the issue of providing modern-day insurance according to Shariah teachings (Halal). Most Muslim scholars think that modern insurance violates Shariah teaching, thus calling for its prohibition (Alhabshi & Razak, 2011; Hassan, 2020; Hoyle, 2012). They pointed out that the prohibition of insurance was due to: first, the use of interest rates; second, a form of *Mayser* or gambling; and third, a form of *Gharar* (missing leading actions). Shariah certainly prohibits all these elements; however, some other scholars, including the author, think that the exploitation of and profiting from the misery and agony of some by others is a good reason for the prohibition of modern insurance (Archer et al., 2009; Malik & Ullah, 2019). Another reason for some is that insurance is considered a way to protect against God's will, which is prohibited.

Muslim scholars came up with Takaful Insurance, an insurance scheme that is based on group solidarity, where a group of people each contributes to a pool of funds that is used to help the less fortunate members in case of mishaps (Archer et al., 2012b; Siddiqui, 2013). Still, in Takaful, the fund is managed by a for-profit business

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company that, by charging management commissions, profits from investing in the Takaful Fund (Azman, 2018; Kasule, 2012; I. Khan et al., 2016). In Takaful, the remaining contributions at the end of the year should be redistributed among members; this action is rarely executed. Takaful is still considered to be a sort of protection against God's will, which may still be considered a violation of Shariah.

The author is introducing a new halal insurance scheme model based on FAWZ, a halal structure that substitutes the interest rate factor. In an FAWZ-based insurance scheme, the three prohibited elements (*Reba, Maysir, and Gharar*) are eliminated. In addition, an insurance company manages the insurance policies in partnership with each client. In that sense, no exploitation of any party by the other would exist, and any mishaps would be part of the insured business, which bears profit and loss in a way called for by Sharia. Hence, we can assert that FAWZ-based insurance is an insurance scheme similar to regular modern insurance, but it is Sharia-compliant and also complements modern insurance norms.

Insurance operations have become one of the most basic operations in the global economy. Their purpose is to protect the economy from large, unexpected risks that may occur as a result of force majeure, such as fire, storms, earthquakes, wars, human errors in design and implementation, or theft (A. Khan et al., 2020). Specialized companies and institutions (insurers) compensate for losses that may occur due to these risks in exchange for paying a specific value divided in the form of installments (premiums). The insured entity usually contributes to covering part of this loss after it is assessed. Insurance in general is classified into two types: life insurance and business insurance. Life insurance may be considered prohibited by Sharia as it tries to guarantee or compensate against God's will (Gada wa Gader), an event the effects of which Muslims cannot cooperate with the vial. Business insurance can be Shariah-compliant if prohibited elementsare removed from the insurance practice.

Nowadays, business insurance protects against losses arising from uncertain events. A person can avail of this protection by paying a premium to an insurance company. A pool is created through payments of premiums paid by persons seeking protection from common risks. Any loss to the insured in the event of an uncertain event is paid out of this pool (Akhter et al., 2017; Rahman et al., 2018). At the end of each year, the remaining funds will become an income to the insurance company after payment of all presented losses and making reserves for contested contracts. In this model, the insurer is to be the trustee of the pool's funds, but ownership of the pool goes to the insurer, who is responsible for all compensations due to the insured parties and the remaining funds in the pool to be considered profit to the insurer. If the pool funds are not sufficient for compensation, it is the insurer's responsibility to provide the extra-needed funds. The reason for not permitting the insurer to utilize the pool's fund in his endeavor, despite ownership of the fund, is to reserve the fund for compensation only. It is a customary practice that the insurer moves up the potential risk to another larger insurance organization through reinsurance, sharing premiums with such a company. This process further spreads the risk of loss among a larger number of insured projects.

A contract of insurance is between two parties: the insurer and the insured. In exchange for a premium, the insurer offers to compensate the insured if a specific catastrophe event occurs. A contract of insurance is an indemnity contract, with the goal of restoring the insured to his pre-misfortune financial situation. The sum insured must be set at a level that will offer adequate compensation in the event of loss. The cost of insurance would depend on the scope of coverage, as additional coverage requires an additional premium. In general, only unforeseen and fortuitous losses are insurable. Thus, foreseeable misfortune or losses are generally not insured.

Islamic modern-day Scholars have issued a fatwa stating that insurance in its traditional form does not comply with Islamic law because it contains usury (*Riba*), deception (*Gharar*), and gambling (*Mysir*), acts that are forbidden according to Islamic Shariah (Amin, 2012; Archer et al., 2012a; Bakar, 2012). Below, we will discuss these actions and how they occur in conventional insurance operations. Some of the fatwas issued by scholars included, according to the National Fatwa Committee of the National Council for Islamic Religious Affairs Malaysia, "life insurance provided by present-day insurance companies is a business transaction that is voidable because it contradicts the Islamic business principle in view that the contracts contain the elements of *Gharar, Maysir,* and *Riba."*. As such, from Shariah's point of view, insurance is Haram." The Islamic Fiqh Academy, emanating from the Organisation of Islamic Conference meeting in Jedah 1406 H, declared that "the Commercial Insurance Contract, with a fixed periodical premium, which commercial insurance companies commonly use, is a contract that contains major elements of risks that void the contract and therefore are prohibited (haram) according to the Shariah."

2. Prohibited Elements in Insurance Practices

In this section, it is explained how Shariah prohibits elements that prevail in conventional insurance (Alam et al., 2017; Alhabshi, 2017; Bekkin, 2007; Hassan, 2020).

2.1 Usury (Riba)

Usurious interest (*Riba*) is used in insurance procedures as follows:

- The premiums paid by the insured are calculated based on future interest.
- The premiums paid during the insurance period are invested in interest-bearing investments.
- Insurance companies pay interest on some of their financial transactions.

- Insurance contracts may contain usury, as a pledge is made to pay a value to the insured that exceeds the value of the premiums he pays.
- Paying interest on late installments.
- Paying interest on insurance policy loans.

2.2 Misleading actions (Gharar)

Gharar refers to a lack of clarity concerning the negotiated subject matter, or "uncertainty" in which the results are hidden or unknown. In business words, putting oneself at risk in an enterprise without knowing what would happen. It is not legal to sell something without making all of the details apparent. It is also unacceptable for anyone who is aware of a deficit to remain silent about it. Gharar occurs in an insurance contract when one party collects what is owed to him while the other does not obtain his entitlement.

There is ambiguity in insurance transactions for the following reasons:

- Ignorance regarding the outcome of the insured operation, as both parties to the insurance contract do not have certain knowledge of the outcome of the operation.
- The insured does not know whether he will have compensation as a result of an accident that may occur, as the insurer does not know whether he will have to compensate the insured as a result of a specific accident or not.
- The insured does not know when the accident will occur; he is insured against its occurrence.
- The lack of fairness in the insurance process, as the insured pays premiums to compensate for an event that may not occur, and thus the payment of premiums is free of charge.
- Insurance is a promise to compensate for losses due to an event that may or may not happen, and therefore there is doubt or ignorance about the occurrence of the event, which is forbidden.

2.3 Al-Maysir (Gambling):

Insurance also contains Al-Maysir for the following reasons:

i. The insured can obtain huge sums of money without adequate effort as compensation.
ii. Paying installments without getting any results, i.e., loss.
iii. The insurer may bear huge losses in the event of a large number of compensations.
iv. The insurer may achieve huge profits in the absence of compensation.

In addition to the previous elements that are believed to prohibit modern insurance practices, the author believes that two additional elements of prohibition should be considered. Profiting at the expense of the misfortune of others and the challenge of God's will by protecting against God's act. God All Mighty has commanded us, in His Great Book, to help others in their distress and to cooperate among believers to alleviate the effects of such distress. Therefore, trying to profit from the crises, harm, and distress of others is a hideous exploitation of people’s circumstances and is contrary to what was stated in the noble verse, and this is forbidden in the writer’s opinion. Many Muslim believers think that buying insurance is considered protection against God’s will. In that sense, Muslims should accept God's will and not try to plan protection to avoid the action of God. This is what is called GADA Allah WA GADERH in Islam. That means the acceptance of God's actions and the effects of such actions.

3. Takaful Insurance

Takaful is an Arabic term that meaning "taking care of one's needs." As a result, the Takaful is defined as a contract between at least two persons who agree to jointly guarantee one another in the event of loss due to tragedy. As impeded in the Takaful concept, the joint guarantees can be put into a form of business or commerce transaction (Tijara) permissible in Islamic Shariah. Takaful is a form of cooperative insurance that confirms all Shariah rules, including removing riba, gatherer, and may. Takaful is one of the following Islamic framework concepts: Takaful is founded on the principles of solidarity, shared responsibility, and fraternity among members. Takaful is defined as a group of people's desire to reciprocally insure each other inside the group against specific losses or damages that may be inflicted on any of them.

Trabarru is when the participants agree to relinquish, as a donation, all or a certain portion of their contribution, thus enabling them to fulfill their obligation of mutual help and joint guarantee. It is claimed that the Tabarru concept can Islamize insurance contracts by removing most of the prohibited elements (riba, mayser, and gharar). This forms the fundamental difference between Shariah-compliant insurance and conventional insurance. However, the fact that Tabarru is calculated to be in alignment with the expected compensation in the case of Miss Hap makes the intention of Tabarru morally questionable.

The Organisation of Islamic Cooperation meeting in Jeddah in December 1985, after declaring that commercial insurance and reinsurance practiced nowadays contain elements prohibited by Shariah, called for an alternative that confirms the principle of Islamic dealings in the contract of co-operative insurance, which is founded on the bases of clarity and cooperation. In 1982, a committee was established by the Malaysian government, Badan Petugas Khas, to study the feasibility of setting up

Islamic insurance in Malaysia. As a result, the Takaful Act 1984 was enacted, and subsequently, the first Takaful Company, Syarikat Takaful Malaysia Bhd, was formed in 1984.

In Islam, all economic activities are legally allowed as long as they do not violate any of the Shariah's principles. According to the four major schools of thought in Islam, all forms of business involving Reba (interest), Gharer (uncertainty), and Mayser (gambling) are considered invalid. On the other hand, the Magasid al-Shariah theory imposes an obligation on all Muslims to defend material goods, property, and their personal well-being. The means of such protection must be consistent with Shariah teachings and rules. Unfortunately, most typical insurance procedures are outlawed by Shariah.

3.1 Takaful Insurance Process

Using the Takaful concepts presented above, a process of running a Takaful business that includes the following components: Takaful fund construction, premium payment by the participant (insured), investment process, and management of the funds is presented. A Takaful Fund is a form of mutual pool that is established by a Takaful management company (insurance company) on behalf of several participants who are interested in the mutual protection of their assets. The ownership of the fund goes to the participants, as per the percentage of their contribution. Any compensation to the participants due to the suffering of mishaps is done from the mutual fund. Funds accumulated in the pool are a result of Tabarru from participants seeking protection.

Premium payments by the participant are done through Tabarru, where the company helps the participant become an interested member and helps the participant calculate the amount to be granted by Tabarru towards the mutual fund (Pool). In case of cancellation of the Takaful policy by a participant, the fund granted through Tabarru to the pool is returned to the participant, plus any profits made through the investment of the Tabarru amount.

Investment of pool funds is done using an Islamic investment contract, namely *modaraba*, where participants act as *sahib-al-mal (*capital owner) and the company as *mudareb* (entrepreneur). On the side of the investment, the company will act as the capital owner of the mutual funds, facing an entrepreneur. It must be noted that in this case, the company is always on the profit side of any investment transaction, whether such transaction ends up being profitable or losing.

The Takaful Company is solely responsible for managing the mutual fund, accepting members into the Takaful co-operation, and paying compensation to affected members. In addition, receiving and determining the *Tabarru* issued on each policy, managing all the investments in the fund, and keeping accounting. In return, the company receives a benefit, either through *wakala* (agency) on fund investment or through partnership in the investment of the fund through *modaraba*.

3.2 Issues in Takaful

While it is clear that Takaful eliminates Shariah prohibited of *Riba, Mysir, and Gharar*, Takaful fails to avoid two of what were thought to be Shariah violations in conventional insurance as pointed out in Section 2.5, namely profiting on the agony and misfortune of others and being in a form of business to protect against God's will. In addition, Takaful has more drawbacks, explained as follows:

- Tabarru is supposed to be a goodwill gift or donation, where the donor, morally and religiously, should not expect back a specific, predetermined benefit, conditioned on the happening of specific events.
- The return of Tabarru to the participant, if no undesirable event occurs, defeats the purpose of solidarity and helping each other.
- Profiting from Tabarru by investing it in a pool of funds also does not go well with the concept.
- Determining the Tabarru value (premium) about the value of the compensation expected changes the essence of Takaful to be a for-profit business, which violates the spirit of Takaful.

Thus, Tabarru loses its meaning and morality, and Takaful may be looked upon as nothing but twisted conventional insurance to look Shariah compliant.

It is hoped that some light was shed on Takaful-based insurance in this section; however, the goal was to identify the bases of Takaful (which is Shariah-compliant) in comparison to conventional insurance bases (Shariah-prohibited businesses). Now it is hoped that the stage is set for the introduction of a novel insurance business that is similar in operation to conventional insurance yet confirms Shariah rules and teachings under the name FAWZ-Insurance.

4. FAWZ Insurance Model

In this section, a novel insurance scheme is introduced that complies with Shariah rules, first by eliminating elements of Riba, Myser, and Gharrar in conventional insurance, and second by making an insurance transaction a Tijara transaction between the two parties involved, the insured and the insurer, where both parties share the risk of the results of the transaction. In practice, the processes and procedures of FAWZ-based insurance will not differ from conventional insurance, except that it is Shariah-compliant.

4.1 FAWZ-Insurance Structure and Process

In FAWZ-Insurance, the insurer and the insured form a partnership entity to exploit the business or asset to be insured, where the insurer holds the majority of the capital (the amount of the required insurance policy) and the insured is solely responsible for managing the operation of the partnership. A policy to cover the insured business or asset is purchased using a partner fund. The fund used to purchase the insurance policy is trusted with the insurer until the end of the insurance period or until a claim is issued for some mishap. Meanwhile, the allocated funds for this insurance are invested by the insurer in the market using a halal investment vehicle such as FAWZ. The insurance process goes as follows:

- The capital of the partnership is to be equal to the value of the asset or business to be insured. The income of the partnership is of two types: first, the investment of the fund (value of the insured business or asset) using any legal and Sharia-allowing methods; and second, the actual results of exploiting the insured business or asset, distributed using the FAWZ factor (which may be loss or gain).
- Advanced periodical profit payments are made by the insured to the insurance company to be used in a similar way as premium payments. The factor FAWZ is used to estimate the periodically paid profit (premium) and is also used to determine the final actual profit of the business and how the parties (insurer and insured) share it.
- Profits resulting from exploiting an insured business or asset are divided between the two parties as per the agreement using the FAWZ factor (a Shariah-compliant factor replacing interest).
- Compensation due to the insured party in case of a mishap is paid by the insurer using the joint capital provided and by using its resources if needed. Such compensation is due if a loss is incurred, as per the conditions of the contract. If no compensation is needed (no claim is registered), the capital portion of the insured is returned to him, along with any investment profits.
- Premiums (profit share) paid on all contracts plus the insured parties' portion of the insurance policy value form a pool that is owned and managed by the insurance company and is used for the compensation of the misfortunate insured in case of the occurrence of an insured against the event.

An important note that should be mentioned is that the capital provided by the insurer is not liquid cash and cannot be used to exploit the insured business. However, it can be used, at face value, to guarantee compensation in case of a mishap. The insurer’s portion of the capital may not be considered for investment. This exception is made because insurance companies are not obligated to use their capital to pay compensation. Another important point is that practically no mutual pool exists where shared funds are accumulated for investment and compensation payments, as each capital component of the insurance policy is dealt with separately.

4.2 Elimination of Shariah-Violating Elements

This section shows how FAWZ-Insurance eliminates what were shown to be elements violating Shariah Rules. At the same time, it is shown how FAWZ Insurance does not add major changes to conventional insurance. It is a fact that conventional insurance contains *Riba, Maysir, and Gharat,* which Shariah prohibits. The conventional insurance business can also be considered a business based on profiting from others' agony and misfortune and a business that tries to challenge God's will by reversing God's Act.

The method chosen by using FAWZ-Insurance to eliminate all previously mentioned elements of Haram in the insurance industry is to use the Tijara (commerce) principle in insurance operations. This is accomplished by making both parties, the insurer and the insured, partners in what to be insured business or assets so that both will bear losses in case of mishaps and benefit in case of business profits. Such a way is called for in the Quran, in Surat Al-Nisa 29. "O you who believe! Squander, not your wealth among yourselves in vanity, except it is a trade by mutual consent, and kill not one another. Lo! Allah is ever merciful unto you." A partnership is one way of trading; such a partnership is to be under mutually accepted conditions.

In this verse, God all mighty made it clear that the only way to conduct a halal financial transaction between believers is by using commerce methods based on mutual agreement between the involved parties. All Muslim scholars declare partnership in commerce (Musharaka) to be a form of Tijara (commerce). Thus, it may be concluded that FAWZ-Insurance, as it is based on a partnership between the insured and the insurer and respects the Figh rules of Boyuo (commerce), is completely Halal. FAWZ-Insurance avoids using interest by using FAWZ as a halal replacement for interest based on partnership.

FAWZ-Insurance does not reject or guarantee against the Act of God (Gada Wa Gader) but makes it a possible result of a financial transaction (Tijara), and both parties share the risk of the results of that happening. In FAWZ-Insurance, the insurer becomes a commerce partner, sharing the risk with the insured, thus avoiding being a company profiting from the agony and misfortune of others, as is the situation in conventional insurance and Takaful. In addition, partnerships, where risk and profit are shared, eliminate any *Gharar* or *Myser.*

In all cases, there is no usury, as profits and losses are shared, and there is no facilitator, as neither the insured customer nor the insurer can obtain profits without risk. Do not bear losses without the participation of the other party. There is also no room for ignorance, as there is clarity and agreement between the two parties in sharing the output resulting from the insured commercial operation, whether in the case of profit or the case of loss.

5. Case Studies of the Proposed Model

In the following section, an example is presented where it is shown how the FAWZ-Insurance process can be carried out to avoid the use of interest, gharar, and maysir. In addition, it shows how profiting from the insurance company's agony and misfortune is eliminated by making both parties partners in the insured business, so both parties can benefit or both can suffer. The larger question of whether insurance, in general, is prohibited, as it is a business that may challenge the will of Mighty God (ALLAH), is answered by merging the insurance business with the insured business, in a sort of partnership, so that any accident or mishap causing losses is part of a productive normal business.

An example of the process of getting insurance coverage by obtaining an insurance policy from the insurer is conducted as follows:

- A trade company is to ensure the import of some products by asking for an insurance policy worth 100,000 dinars. Covering 3 months.
- The insurance company (insurer) evaluates the value to be paid as a premium. Assumed to be 0.05%. of the policy value (500 dinars).
- The customer purchases the desired insurance policy by advancing only 5% of the value of the required policy, that is, 5000 dinars, to the company.
- The company covers 95% of the value of the issued policy, which is considered a portion of the shares it holds in the partnership to exploit the insured business or asset. (95k Dinars).
- The customer receives the issued policy as part of its assets and uses it to run the insured business. Thus, the company becomes a partner in the insured business or asset, with a 95% value of the issued policy.
- The customer distributes periodic profits to cover the perineum using the FAWZ factor (.05% of the policy value). FAWZ is the agreed-upon profit of the insured business or asset run by the customer that diverges at the end of the transaction from the actual fulfilled results of the partnership.
- In case of a mishap and compensation is to be paid to the customer, 95% of the value of the policy is paid by the insurance company, and the customer pays 5%. Otherwise, the customer reclaims his portion of the policy value (5000 d) plus the investment profits of the customer portion, if any. Assuming a placement of 5,000 at an FAWZ of 2%, the profit is 100 dinars. Thus, the customer gets $5100 back.
- The premium value received by the company, resulting from customer profit or exploiting the insured business or assets, is owned by the company, and the

company is free to use it in any way it desires. This premium is to be not more than 95000 * 0.05, equal to 4750 dinars.

- At closing, if the received premium is greater than the resulting profit, then it is up to the customer to request the difference (optional). The company is not allowed to refuse the customer's request to return the extra profit it received.

Table 1: Case Study

Insurer	FAWZ Insurance Company
Products to be Insured	Imported Mixed household products
Insurance type	Martine
Value to be Insured	100,000 Dinars
Premium rate	.05% = 500 Dinar
Fawzi Rate	0.05%
Customer Contribution Toward Policy	5% = 5000 Dinar
Company Contribution	95%= 95000 Dinar
Insurance Period	12 Months.
Investment Rate	FAWZ rate = 2%

Table 2: Results using FAWZ-Insurance (Case 1)

Case 1	The period of the insurance is up with no claim.
Total Actual Profit exploiting the Insured business	10% (10,000)
Total Paid Premium using FAWZ as Insurer Profit	95,000 * .005 = 475 Dinar
Total received profit for the Customer	5,000 * .005 = 25 Dinar
Extra Exploitation Profit	10,000 – 500 = 9500
	this part goes to the Customer as per the use of FAWZ
Total return on investment	100,000 * .02 = 2000 Dinars

Company Return	95000 * .02 = 1900 if it is invested (Optional)
Customer Return	5000 * .02 = 100 Dinar
Total to be returned to the Company of the transaction	95,000 + 475 +1900= 97375 Profit of 2375
Total to be returned to Customer of the transaction	5000 + 25 + 100 = 5125 profit of 125
	(plus 9500 extra profit)

Table 3: Results using FAWZ-Insurance (Case 2)

Case 2	A claim is due
Total Actual Profit exploiting the Insured business	10% (10,000)
Total Paid Premium using FAWZ as Insurer Profit	95,000 * .005 = 475 Dinar
Total received profit for the Customer	5,000 * .005 = 25 Dinar
Extra Exploitation Profit	10,000 – 500 = 9500,
	this part goes to the Customer as per the use of FAWZ
Total return on investment	100,000 * .02 = 2000 Dinars
Company Return	95000 * .02 = 1900 if it is invested (Optional)
Customer Return	5000 * .02 = 100 Dinar
Total to be covered as compensation	95000
Total results for the Company	- 95,000 + 475 +1900= loss of (92625) Dinar
Total to be returned to Customer of the transaction	-5000 + 25 + 100 = loss of (4875) Dinar

It is clear from the previous example that the use of the FAWZ-Insurance Scheme will eliminate interest (Riba), as both parties will either gain together or lose together, which is the sole means of commerce to share the risk. The partnership in the insurance transaction eliminates Gharar and Myser. It is clear from the example that the guarantee or the insurance is merged into a commerce business to be protected, thus becoming part of a legal, moral, and Shariah-compliant business. The example shows that FAWZ-Insurance respects and accepts God's will and deals with it as part of its insured business.

6. Conclusion and Comparison between Models

In comparing the models of insurance, we must first identify the concepts and the basis on which each model is built. Conventional insurance is based on using interest in almost all aspects of running the insurance business, in addition to the use of Gharar and Myser, profiting from the agony of others, and trying to guarantee against God's will. Takaful is based mainly on the concept of Tabarru (free grants); while this concept helps in eliminating Sharia-prohibited elements (Riba, Mayser, and Gharar), it is not able to deal with the other two. In addition, performing investment in Takaful introduces a different form of Riba. In addition, Takaful violates the spirit of solidarity and Sadakat, which is usually given without any strings attached; Tabarru is calculated and given on the promise to get some compensation; and Tabarru may be returned in some cases. All this makes Tabarru defeat the purpose of using it.

FAWZ insurance is based on the concept of the FAWZ factor, which is a profit-calculating factor used in financial transactions that is identical to the interest rate factor in function while respecting all Sharia rules and teachings. FAWZ-Insurance thus eliminates all five elements violating Shar'ea associated with conventional insurance. Some important comparison issues and points are presented below (Zulkifli et al., 2012):

Table 4: Comparison of Models

Sr.	Pertinent Issues	Takaful	Insurance	FAWZ-Insurance
1	Essence of Intention	The intention is to create both spiritual and legal relationships.	The intention is to create legal relations only.	The intention is to create both spiritual and legal relationships.
2	Formalities	Unilateral contract for *Tabarru*' and a bilateral contract for *Mudarabah* and *Wakalah*.	Bilateral contract.	Bilateral contract.

3	Treatment of Accounts	General Takaful operates on the principle of Tabarru', which translates to charity. Family Takaful has two accounts: PA follows Mudarabah principles, while PSA follows Tabarru' principles.	General insurance premiums are credited to the General Insurance Account. While in life insurance, the premiums are credited to the Life Insurance Account.	For General FAWZ insurance, the paid premium (Profit) is credited into the General FAWZ-Insurance Account.
4	Subject Matter	The subject matter must be in accordance with Shariah principles.	The subject matter must be justified according to Common Law.	The subject matter must be validated by both Shariah and Common Law.
5	Matter of guarantee	The operator of the takaful is the fund manager. While participants provide guarantee for mutual cooperation.	The company offers a guarantee.	Both The Company and the Customer jointly provide the Guarantee through a partnership.
6	Fund	The fund belongs to the Participant and is managed by the *Takaful* Operator for a legitimate consideration by the Shareholders for the services rendered.	The fund belongs to the Company through the separation of assets maintained between the Shareholders and the policyholders.	The fund belongs jointly to the Customer and the Company in a partnership relation and is managed by the Company.

7	Contribution or premium payment	Payment for Takaful costs includes a portion recognised as a donation (Tabarru').	Payment of a premium establishes a legal duty for the insurer in a contract of sale and purchase.	Paid premium from profits received from Customer exploitation of the Insured Items, creating joint obligation against both parties the Insurer and the Insured. The issued Policy is the asset of the Customer.
8	Forbidden Elements	The Islamic model is based on Islamic principles and free from any of the forbidden elements.	Insurance policy evolves around the elements of *Gharar, Riba,* and *Maysir*.	The Islamic model is based on Islamic principles and free from any of the forbidden elements.
9	Religious Supervisory	Religious Supervisory is made mandatory by the *Takaful* Act 1984.	There is no Religious Supervisory in Insurance.	There is no Religious Supervisory in FAWZ-Insurance.
10	Profits/Loss	The profit is shared between the Participant and the Company.	In insurance, the profit is at the discretion of the Company.	Profit from Fund investment, and profits from exploitation of the insured Item, are shared between the Customer and the Company.

11	Contract	A combination of *Cabarrus* contract (donation) and agency or profit sharing contract.	An exchange contract (sale and purchase) between the insurer and the Insured.	A combination of, an exchange contract (sale and purchase) between the insurer and the Insured, and profit-sharing contracts of the insured item and the fund profit.
12	Indemnity	The indemnity is provided by the *Takaful* Fund.	The Company provides indemnity from the Company's fund.	The indemnity is provided from the shared Fund.
13	Operational Principle	The operational principle in Insurance is Shariah compliance.	The operational principle in insurance is not Shariah compliance.	The operational principle in Insurance is Sharia compliance.
14	Risks Treatment	Risks sharing concept among Participants.	Concept of risk transfer.	Risks sharing concept between partners (Insurer, Insured).
15	Taxation	Taxation and Zakat	Tax	Tax
16	Benefits	Paid from the defined funds under joint indemnity borne by the participants.	Paid from a fund legally owned by the company.	Paid from the fund legally owned by the company, in partnership with the Customer.
17	Profits/ Bonus	Specifies from the outset how the profits are to be shared between the participant and the company.	May offer bonus or profit in general terms only especially with profit participating policies.	Specifies from the outset how the profits are to be shared between the Customer and the Company.

18	Responsibility of Policyholders / Participants	Participants make contributions to the scheme. Participants mutually guarantee each other under the scheme.	Policyholders pay a premium to the insurer.	Policy holders pay a premium, out of the profit of exploiting the insured business or item, in which the insurer is a partner.
19	Liability of the Insurer / Operator	*The Takaful* Operator acts as the administrator of the scheme and pays the *Takaful* benefits from the *Takaful* funds. In the event of a deficiency in the *Takaful* funds, the Operator will provide an interest-free loan to rectify the deficiency.	The insurer is liable to pay the insurance benefits as promised from its assets (insurance funds and shareholders' funds).	The insurer jointly with the Insured, is liable to pay the insurance benefits as promised from its assets (Shared insurance fund).
20	Investment of Fund	Assets of the *Takaful* funds are invested in *Shariah*-compliant instruments.	There is no restriction apart from those imposed for prudential reasons.	Assets of the FAWZ-Insurance funds are invested in *Shariah*-compliant instruments.
21	Concept Used in Providing Insurance	Takaful uses the concept of, Solidarity, *Tabarru, Mudaraba, Wakala*	Conventional insurance uses the concept of legal contracts and Interest Rate	FAWZ-Insurance uses the concept of the partnership of commerce (Mishawaka), and the FAWZ profit calculating factor, a Shariah-compliant factor.

FAWZ-based insurance is introduced by the author to get rid of the elements of prohibiting commercial insurance while still fulfilling Shariah intentions (Magased AShariah). FAWZ-Insurance is based on a partnership model between the two parties, the insured and the insurer, a model or a transaction called for by Shariah as manifested in Surat Anissa, Verse 29, declaring that Tijara (commerce) is the only permissible transaction amongst believers, whereas Musharakha (partnership) is a form of commerce that is used.

FAWZ-Insurance is built around the idea of a reciprocal partnership between the insurer and the insured, where the insurer becomes a partner in the insured business or asset and the insured becomes a partner in the insurance business. In such a scheme, both the insurer and the insured bear the risk of the business, either in normal conditions or in otherwise normal conditions (Force Major). Thus, all prohibition elements in conventional insurance are eliminated by FAWZ-Insurance, mainly Riba, Gharar, Myser, Chalange of God's Will, and profiting out of the agony of others.

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