Takaful Models and Global Practices

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TAKĀFUL MODELS AND GLOBAL PRACTICES

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INTRODUCTION

There is a global interest in Islamic finance in general and *Takāful* in particular. The main feature that differentiates *Takāful* services from conventional ones is *Sharī'ah* compliance nature of these services. Investors are taking keen interest in this potential market as Muslims constitute about one fourth of the world population (Muslim population, 2006). To streamline operations of a *Takāful* company, management and *Sharī'ah* experts have developed different operational models for *Takāful* business. *Takāful* model is the basis of the company operational activities. It provides conceptual framework for the operations of *Takāful* Company and sets a path for the flow of funds in the organization. All the transactions of the company business are carried out in the light of conceptual framework of *Takāful* model adopted by the company. A number of *Takāful* companies are successfully operating in Muslim and Arab countries and growing each year faster than their conventional counter parts. Many conventional insurance companies, showing their interest in *Takāful*, have opened *Takāful* windows to compete with *Takāful* companies.

This research paper discusses different *Takāful* models being practised by *Takāful* operators across the world. The paper is mainly divided into two sections. First section discusses functioning and conceptual mechanism of *Takāful* models practised by *Takāful* operators across the world. Second section raises some *fiqh* related issues faced by *Takāful* operators practicing different *Takāful* models in different countries.

TAKĀFUL MODELS IN PRACTICE

Theoretically, *Takāful* is perceived as *cooperative insurance* (*Takāful* models in practice, 2006), where members contribute towards a common pool yet the commercialization of *Takāful* has produced several models of Islamic insurance, each reflecting a different experience, environment and perhaps a different school of thought. Currently following models are being practised in *Takāful* companies across the world.

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***TAKĀFUL TA'AWUNI* (NON-PROFIT MODEL)**

Ta'awuni model (Billah, 2004; pp.5-8) is based on the concept of brotherhood, solidarity and mutual cooperation among participants to achieve well-being of those who are in great need of help due to a sudden calamity, misfortune or disaster. This model seeks to achieve welfare of *Takāful* participants and community at large. *Takāful* operator acts as a trustee on behalf of participants with no intention of making profit. That's why this model is also called non-profit model. The profit and underwriting surplus are distributed entirely to the participants.

Let's consider the following example to illustrate how the concept of ta'awuni model is applied. A (first party) lends his money to B (second party) and B manages the fund sincerely with no intention for profit making or benefit. Here A is the participant where B is *Takāful* operator who manages the fund. It is important to acknowledge that the contribution paid is actually based on the principles of *Tabar'ru`*. A *tabar'ru`* concept is rather a one-way transaction in which once the contribution is made, the contributor has no right to take any benefits out of it. The fund is used for any participant who faces difficulties within the time period as agreed on insurance policy. When the participant contributes to the fund, he is indirectly applying the golden principle of 'bear ye one another's burden'.

Qardawi (n.d., p. 75) has clearly mentioned that this concept of mutual cooperation is absent in prevalent system of insurance. He says: *"As far as insurance companies-especially life insurance are concerned, they do not satisfy these conditions in any respect because the insured individuals do not pay the premium as donations; such a thought never occurs to them…"*

Rahman (n.d., p. 24) has described that it is incorrect to imply that the principles of 'mutuality' in all insurances. He asks: *"How can all forms of insurance be mutual when this mutual character is actually unknown to the insurer and insured? What is the value of an economic interdependence among all the insured and between the insured and the insurer, of which neither of them is aware?"*

These findings of research scholars urge us to seriously think on the issue of mutual cooperation in *Takāful* system and to inculcate true Islamic spirit of cooperation among members of society so that benefits of implementing an Islamic insurance system could be achieved in reality.

Global Practices

The concept of *ta'awuni* (Billah, 2004; pp.5-8) was originated in Sudan in 1979 when first *Takāful* company started its operations in Sudan. After that, insurance companies are bound to follow ta'awuni model and adopt *Takāful* business by law. *Ta'awuni* model was also adopted and being practised by Bank al-jazira Saudi Arabia when the scholars realized that there is a need for cooperation in insurance under the umbrella of *Shari'ah*. Thus came the idea that members should donate their contribution to a fund (*Takāful* fund) to compensate the members in case of distress. Both the participants and *Takāful* operators should acknowledge their rights and obligations to the fund. The profit and underwriting surplus solely belongs to the participants.

MUDHĀRABAH MODEL (*TIJARI*)

In *Takāful*, *Mudhārabah* model is a profit sharing contract (Billah, 2004; pp.4-6) where participants provide capital in the form of contribution and *Takāful* operator acts as a mudarib who provides his management expertise to efficiently utilize the *Takāful* fund. It is also called *tijari* model as it works on commercial business basis. *Takāful* operator shares the profit from investment of *Takāful* fund and is responsible for all management expenses.

In family *Takāful* plan, Participant's contribution is divided into two parts. The major portion of the fund goes into Participants' Account (PA) that belongs to participant whereas smaller portion is contained in Participants' Special Account (PSA) that is used to pay claims and underwriting costs. Entire amount of PA and PSA is invested in *Sharī'ah* approved instruments. Profit from PA is shared between participants and *Takāful* operator according to agreed ratios. Profit and the amount in PSA are used to pay for claims and underwriting costs. In case, claims payments and underwriting costs exceed the amount prescribed in PSA, the loss is compensated from PA or shareholders may provide interest free loan (qard-e-hasana). In case, claims and underwriting costs are less than the amount available in PSA, the amount left is treated as underwriting surplus and shared between *Takāful* operator and the participants. In *Mudhārabah* model, *Takāful* operator claims to share in underwriting surplus as an incentive for efficiently managing *Takāful* funds.

In general *Takāful* plan, there is no PA A/C and participants' contribution goes directly to PSA that may be invested and is used to pay for underwriting costs and claims. A portion of PSA fund after taking into account profit from investment can be retained as contingency reserve for future. Any amount left is treated as underwriting surplus and is shared among participants and *Takāful* operator according to agreed ratios.

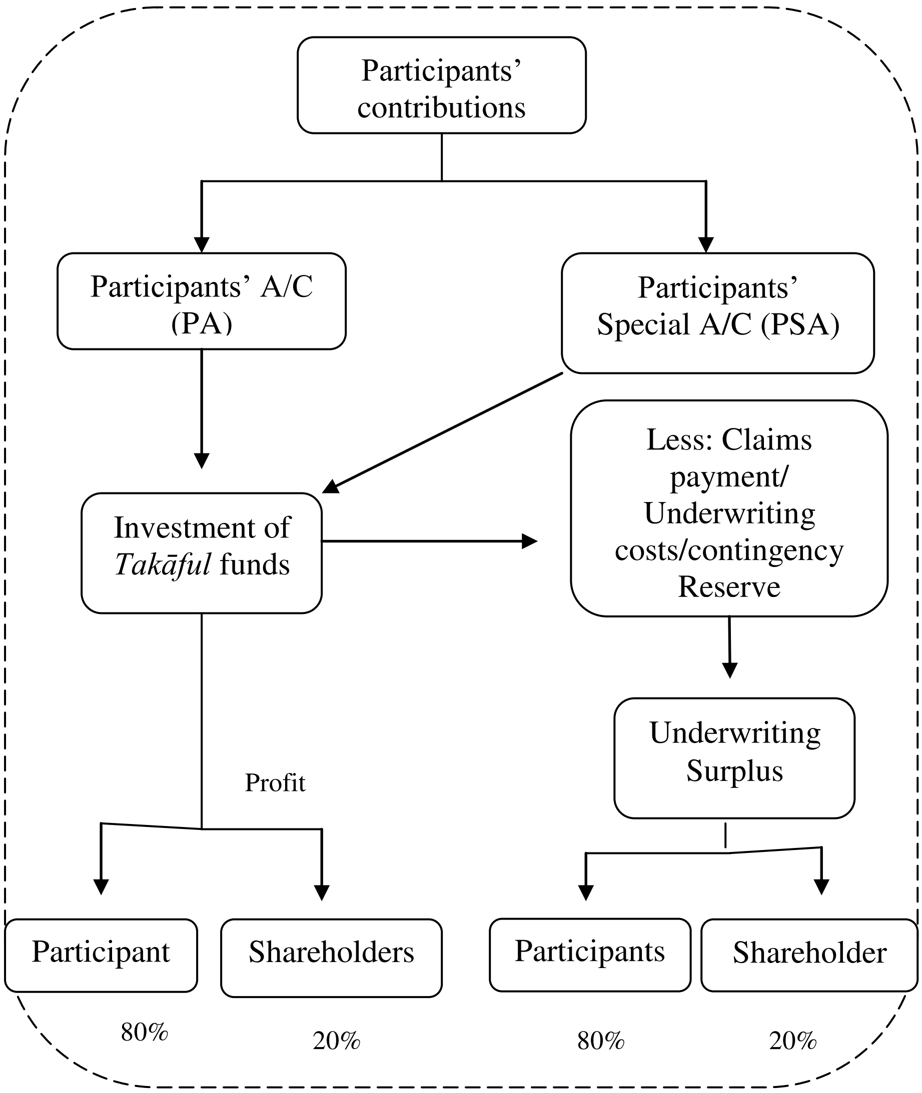
a. Global Practices

Mudhārabah model has been in operation in Malaysia for almost 20 years since the incorporation of Syarikat *Takāful* Malaysia in 1985, the first and the largest *Takāful* company in Malaysia. With its foundation firmly established, the *Mudhārabah* model in Malaysia has proven to be both viable business venture as well as profitable to consumers and investors alike. Besides Malaysia, *Mudhārabah* model is also being practiced in Brunei. It is reported that *Takāful* operators in Brunei have been paying almost 36% profit to their participants (*Takāful* Malaysia News bulletin, 2001).

b. The Model

The Figure1 below shows a flow chart of modarbah model for family *Takāful* practiced by Syarikat *Takāful* Malaysia. Here, Participants' contribution is distributed in two accounts i.e. Participants' Account (PA) and Participants' Special Account (PSA). PSA is risk management account which is used to pay for the loss (claims payment) where as PA belongs to participant. Greater portion of contribution is allocated to PA as compared to PSA (e.g. 80% of the contribution goes to PA whereas 20% goes to PSA). Amount in both accounts is invested together in *Sharī'ah* based instruments and profit is allocated proportionally to both accounts. After deducting Claims payment, Underwriting costs and contingency expenses from PSA, surplus is shared between participants and shareholders according to pre-determined ratios. The whole amount in PA together with profit is delivered to the participant after the maturity period.

FIGURE 1: MUDARBAH MODEL



Source: Sharikat Takāful Malaysia Berhad. www.Takāful-malaysia.com

HOW DOES *MUDHĀRABAH* MODEL WORK?

FIGURE 2: FAMILY *TAKĀFUL* PLAN

Total contribution Rs. 100,000
Return on investment 10%

Allocation to PA = Rs. 80,000 (80%)	Allocation of PSA = Rs. 20,000 (20%)
Profit (10%) = Rs. 8,000	Profit (10%) = Rs. 2,000
Total fund = Rs. 88,000	Total fund = Rs. 22,000
	Less:
	Claim payments (10%) = Rs. (10,000)
	Underwriting costs = Rs. (5,000)
	Surplus = Rs. 7,000
	Participants' share (80%) = Rs. 5,600
Rs. 5,600	←
Accumulation to PA =Rs. 93,600	

The Figure 2 shows a practical example for the flow chart of *modarbah* model for first year after receiving *Takāful* contribution. Here, it is assumed that company has initial contribution of Rs.100, 000 that is distributed into two accounts i.e. a greater portion (Rs.80,000) goes to Participants' Account (PA) whereas smaller portion (Rs.20,000) is kept for Participants' Special Account (PSA) to cover the loss (claims payment) as it occurs to any of the participants. Amount in both accounts is invested together in *Sharī'ah* based instruments and profit is allocated proportionally to both accounts. Assuming a profit of 10% from the investment of *Takāful* fund, Rs.8000 goes to PA whereas Rs.2000 goes to PSA. Adding the profit, amount in PA reaches toRs.88,000 and amount in PSA becomes Rs.22,000. Claim ratio is assumed to be 10% while underwriting cost is estimated as 5% of the total contribution for the first year. After deducting Claims payment and underwriting costs from PSA, surplus of Rs.7000 is obtained that is shared between participants and shareholders according to pre-determined ratios. 80% of the surplus (Rs.5600) goes to PA while 20% (Rs.1400) goes to PSA. After adding participant's share, amount in PA becomes Rs.93,600. It is used as an opening account for the second year.

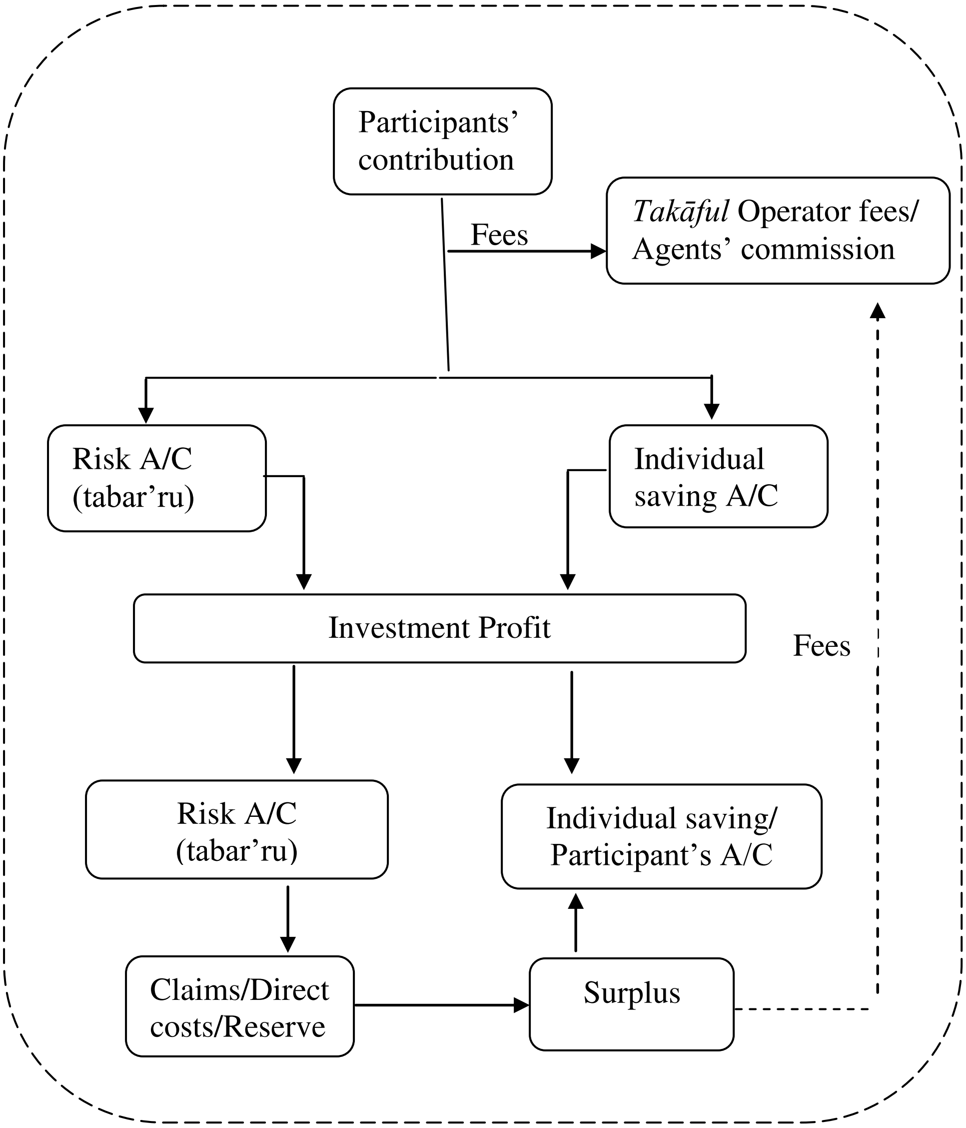
WAKALĀH **MODEL**

Wakalāh model is a fee driven Islamic contract in which one party provides capital whereas other party manages the funds. Here, other party charges a fixed fee instead of profit sharing as in *Mudhārabah* contract for providing its managerial services to prudently invest and manage the funds. In *Takāful* contract, participants provide capital in the form of contribution and *Takāful* operator manages the funds and charges a fixed fee (called a *Wakalāh* fee) for providing its services (Whear & Western, 2006). The *Wakalāh* fee should be fair and appropriate and should be determined and approved by *Sharī'ah* Supervisory Board (SSB). *Wakalāh* model is considered more transparent than *Mudhārabah* model as charges are fixed and predetermined by the both parties. There are no hidden charges. Some *Takāful* operators charge an additional fee on surplus as an incentive to efficiently manage the funds.

Global Practices

Wakalāh model has been practiced by Bank Al-Jazira, Saudi Arabia. It is also being practiced by Commerce *Takāful* Berhad and *Takāful* Ikhlas Sdn. Berhad in Malaysia. Government of Bahrain has also taken the initiative to make compulsory for *Takāful* and *Re-takāful* companies to adopt *Wakalāh* model in their business (Al Sadah, 2005). This model is gaining popularity across the world due to its transparency and fixed nature of charges irrespective of the amount of *Takāful* contribution received as it provides leverage for the company to act in the best interests of participants and enhance their returns. Moreover, there are less *Sharī'ah* related issues associated to this model that might create conflicts of interests among *Sharī'ah* scholars of different schools of thoughts.

FIGURE 3: *WAKALĀH* MODEL



Source: Bank Al-Jazira, Saudi Arabia. www.baj.com.sa

When *Takāful* contribution is paid by the participants, *Wakalāh* fee is deducted as upfront charge. The Figure 3 shows a flow chart of *Wakalāh* model for family *Takāful* practiced by Bank Al-Jazira of Saudi Arabia. Here, agents' commission is directly drawn from Participants' contribution as upfront charge. The remaining amount is distributed in two accounts i.e. Individual saving account and Risk account to cover the loss of affected participants. Individual saving account is each participant's personal account that is used for future savings. Risk account is also known as *tabar'ru* account as participants agree to donate a portion of their contribution to this fund which is used to pay for claims, underwriting costs and *Re-*

takāful expenses. Amount in both accounts is invested under *Sharī'ah* guidelines and profit obtained from investment is appropriated to both accounts according to their original ratio. Any surplus left from risk account goes to individual saving account. Sometimes, *Takāful* company charges a compensation fee on the amount of surplus as a return for its efficiency and prudent underwriting skills.

HOW DOES *WAKALĀH* MODEL WORK?

FIGURE 4: GENERAL *TAKĀFUL* PLAN

Takāful contribution	=	Rs. 100,000
Agents' commission (35%)	=	Rs. (35,000)
Amount available for Risk fund (tabarru)	=	Rs. 65,000
Profit from investment (10%)	=	Rs. 6,500
Risk fund	=	Rs. 71,500
Claims payment/direct Expenses (40%)	=	Rs. (40,000)
Underwriting Surplus	=	Rs. 31,500
Wakalāh fee on surplus (10%)	=	Rs. (3,150)
Contingency Reserve (10%)	=	Rs. (3,150)
Participants' share in surplus	=	Rs. 25,200 or **25.20%**

The Figure 4 shows a practical example for the flow chart of *Wakalāh* model for general *Takāful* after receiving *Takāful* contribution. Here, it is assumed that company has initial contribution of Rs.100,000 from which 35% agents' commission is deducted as upfront charge. The remaining amount of Rs.65,000 goes to risk fund and is invested in *Sharī'ah* based instruments. 10% profit is assumed from investment of risk fund. After adding the investment profit, risk fund moves to Rs.71,500. Claim payment and direct expenses including underwriting are assumed to be 40%. After deducting Claims payment and direct expenses from risk fund, underwriting surplus of Rs.31,500 is obtained. 10% of underwriting surplus is deducted as *Wakalāh* fee while another 10% is kept as contingency reserve. Remaining amount of surplus i.e. Rs.25,200 is distributed among participants who have no prior claims. It indicates that participants of general *Takāful* can be compensated with surplus share of more than 25% by the use of prudent underwriting mechanism. Sometimes, surplus share is used to pay for the contribution of next year in which case, participants have to pay less contribution to the extent of their share in underwriting surplus.

MIXED MODEL (*MUDHĀRABAH* + *WAKALĀH*)

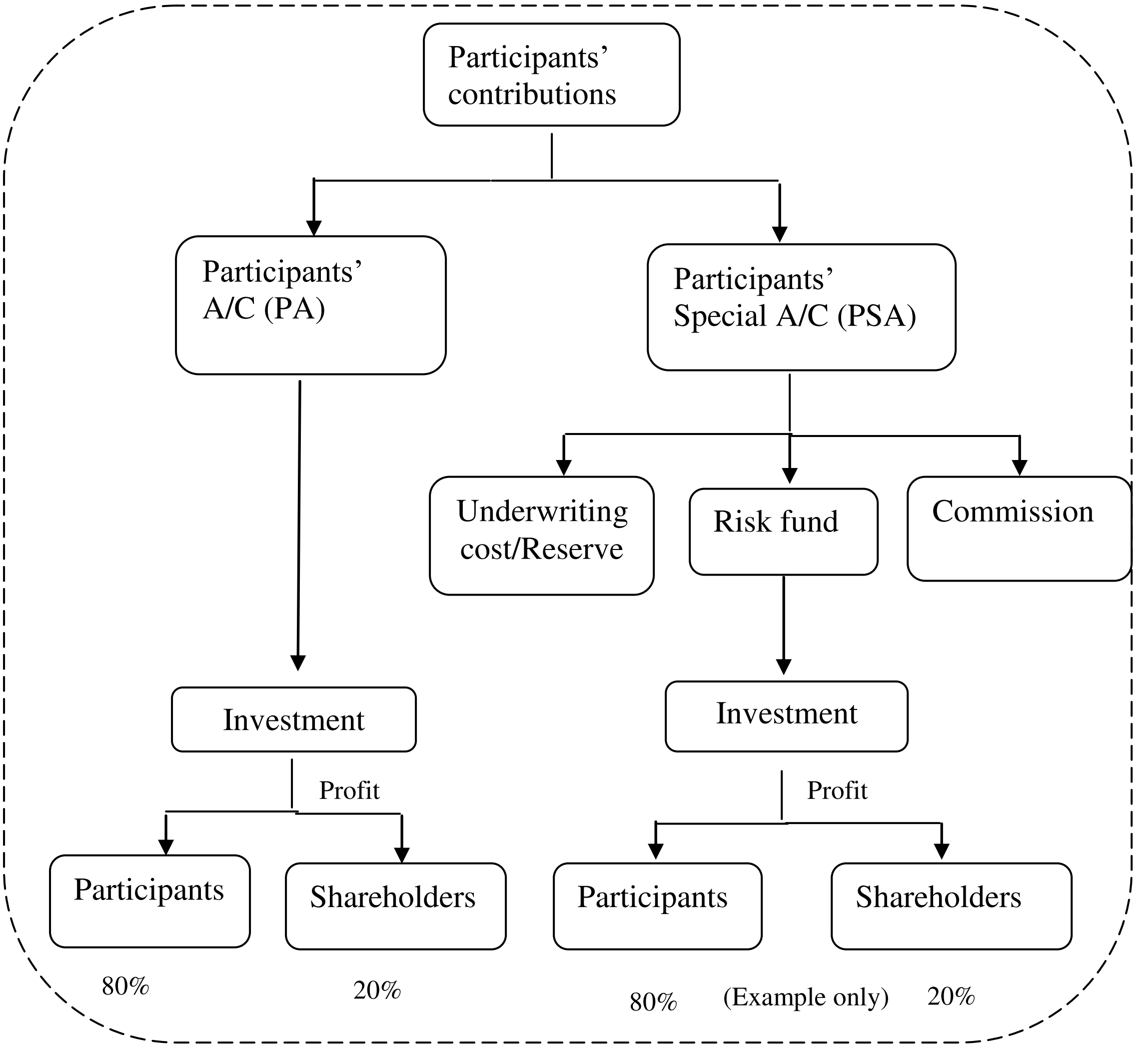
Mixed model is a combination of *al-Mudhārabah* and *al-Wakalāh* model where *al-Wakalāh* contract is used for underwriting activities while *al-Mudhārabah* contract is adopted for investment activities (Tolefat, 2006). With regard to underwriting activities, the shareholders act as the *wakeel* (agent) on behalf of participants to manage their funds whereby the *Takāful* company (shareholders) receives contribution, pay claims, arrange *Re-takāful* and all other necessary actions related to *Takāful* business. In exchange for performing these tasks, the company charges each participant a fee known as a *Wakalāh* fee, which is usually a percentage of the contribution paid by each participant. On the investment side, the company invests the surplus contributions in *Sharī'ah* based instruments based on *Al-Mudhārabah* contract, whereby the company acts as *mudarib* on behalf of participants *(Rab-al-maal* or capital providers). However, in order to satisfy the *Sharī'ah* requirement for *Al-Mudhārabah* contract, the ratio of profit is fixed and agreed upon between the two parties, at the inception of the contract.

Proponents of this model argue that a *Mudhārabah* arrangement is better suited for management and investment of *Takāful* fund (Obaidullah, 2005; p.148) and provides incentive to *Takāful* operator to optimize its return by sharing profit. The *Wakalāh* model is perhaps better suited than the *Mudhārabah* for managing the *Takāful* business for the agency fee (cost of insurance). It is more transparent and is free from the controversial charging of expenses (including marketing commissions) to the *Takāful* fund. These arrangements need to be considered as a part of efforts to search for an optimal model of *Takāful* as well as to create harmony among existing *Takāful* models.

Global Practices

The mixed model of Al-wakalah/Al-mudaraba (Tolefat, 2006), is the dominant model in the Middle East market and it is widely practiced by *Takāful* companies worldwide. In Malaysia, it is being practiced by *Takāful* Nasional Berhad and Mayban *Takāful* Berhad (MTB). Proponents of this model argue (Obaidullah, 2005) that as this model combines the benefits of *mudaraba* as well as *Wakalāh* model so it could facilitate the search for a unified approach to standardize *Takāful* practices across the world.

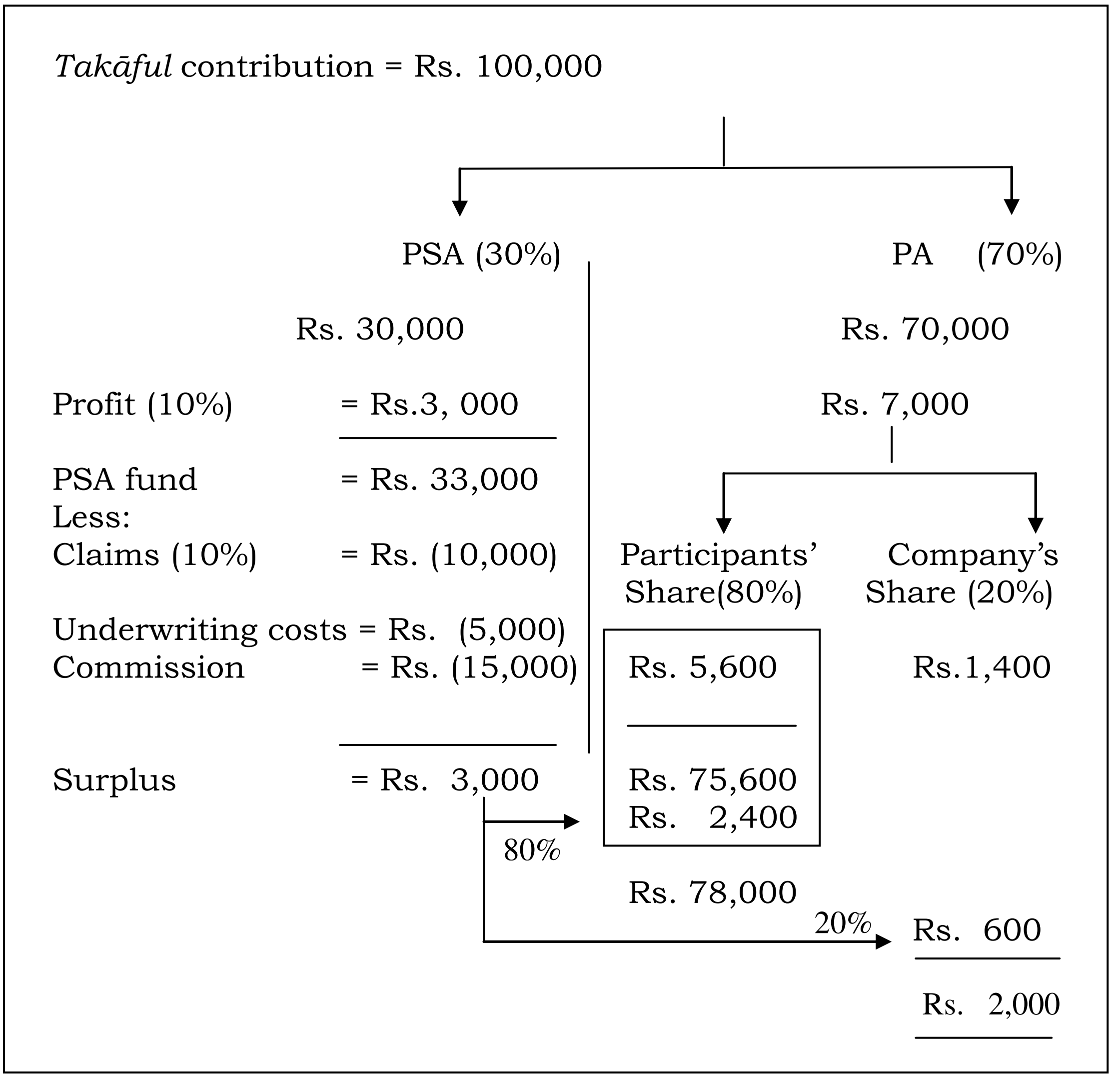
FIGURE 5: MIXED MODEL (MUDARBAH + WAKALAH)



Source: Takāful Nasional Bhd. Malaysia. www.*Takāful*nasional.com.my

HOW DOES MIXED MODEL WORK?

FIGURE 6: FAMILY *TAKĀFUL* PLAN



In the Figure 6, it could be seen that *Takāful* company applies a mixed approach for the management of *Takāful* fund. It uses *Wakalāh* concept for PSA account when it charges commission as a fee. It uses *Mudhārabah* concept when it invests the amount of PA account and shares in the profit from the investment and underwriting surplus according to agreed ratios. Participants' share of surplus together with their share of profit from investment is added to their PA account.

WAKALĀH MODEL WITH *WAQF* FUND

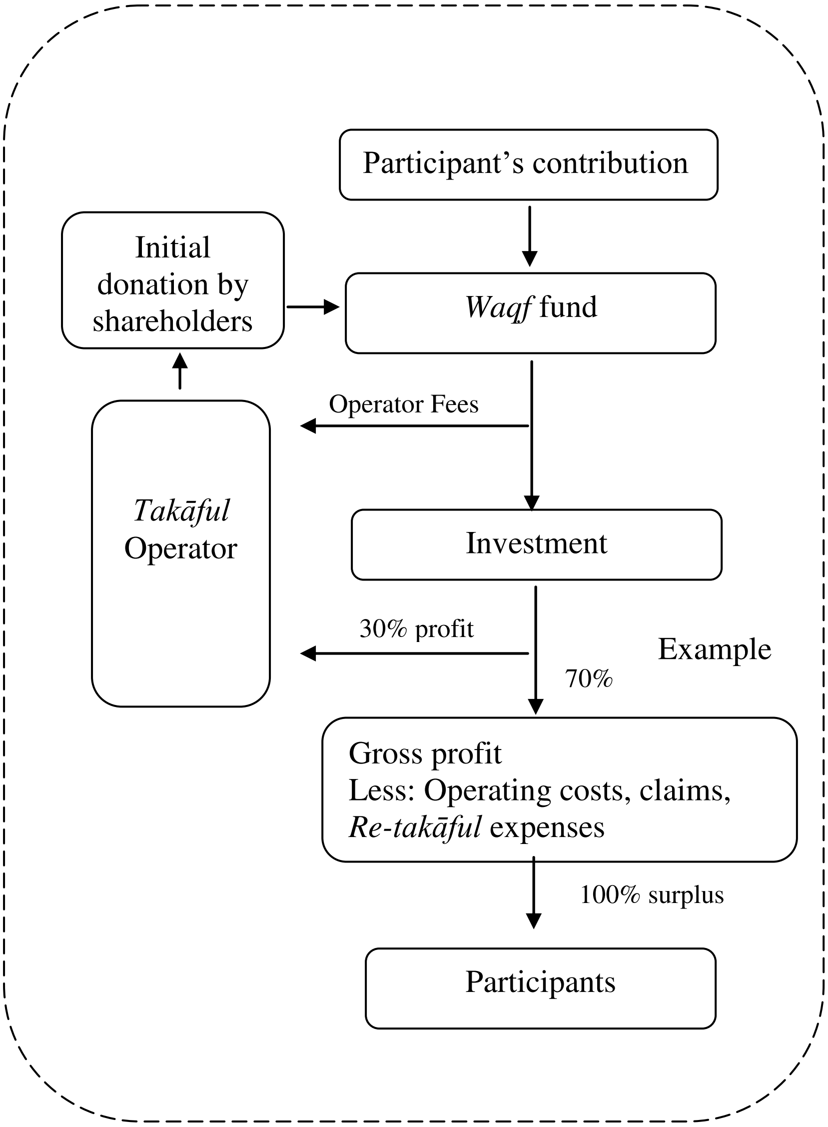
After several objections were raised regarding the issue of surplus sharing in *Mudhārabah* model and modified *modarbah* model and their legal status. A need was felt to develop a model that could work towards building the creditability of *Takāful* operator as a welfare institution rather than a profit oriented entity. This lead to the formation of *Wakalāh* Model with *Waqf* fund that was approved by *Sharī'ah* scholars of *Darul Uloom* Karachi, the most famous and credible Islamic institution in Pakistan. The model is a modified form of *Wakalāh* model where a *Waqf* fund is created by initial donation of shareholders. Participants' contribution goes directly to *Waqf* fund. *Takāful* operator deducts its fees from *Waqf* fund. The remaining amount is invested in *Sharī'ah* based instruments. The profit from investment is shared between *Takāful* operator and participants according to agreed ratios. After deducting claims, *Re-takāful* expenses and underwriting costs, 100% net surplus belongs to participants who have no prior claims and distributed to them according to their proportion of contribution.

Global Practices

Wakalāh Model with *Waqf* fund is being practiced by *Takāful* operators of Pakistan. This model has also been adopted by *Takāful* operators of South Africa (Tolefat, 2006). This model is a modified form of *Wakalāh* model. In this modified *Wakalāh* model with *Waqf* fund, the relationship of the participants and of the operator is directly with the *Waqf* fund. The operator is the wakeel of the *Waqf* fund and the participants pay one sided donation to the *Waqf* fund (not conditional) The *Waqf* fund rules (Abdul Wahab, 2006) may define the sharing of surplus and other rules under which it would operate but without having any obligation to distribute surplus.

The Figure 7 shows a flow chart diagram of *Wakalāh* model with *Waqf* fund for general *Takāful* after receiving *Takāful* contribution. According to this model, first a *Waqf* fund is created by the joint efforts of participants as well as shareholders who initially donate their contribution to this fund. Here, *Takāful* operator fees (also called *Wakalāh* fee) are directly drawn from *Waqf* fund. The remaining amount is invested on the basis of modarbah under *Sharī'ah* guidelines and profit obtained from investment is shared between participants and *Takāful* operator according to their mutual terms of agreement. *Takāful* operator is responsible for all the management expenses from shareholders' fund. Operating costs, *Re-takāful* expenses and claim payments are made from participants' fund. Any surplus left after deducting all the related expenses belongs to participants. Sometimes, *Takāful* company retains a portion of underwriting surplus as a contingency reserve to meet any sudden and unexpected future cost.

FIGURE 7: WAKALAH MODEL WITH *WAQF* FUND



<u>*Source: Takāful Pakistan Limited, www.Takāful.com.pk*</u>

ISSUES IN *TAKĀFUL* MODELS

Sharī'ah scholars who belong to different schools of thoughts have different point of views on *Sharī'ah* matters. This has created certain fiqh related issues in *Takāful* models being practised by *Takāful* operators across the world. Abdel Karim and Archer (2002) have identified corporate governance, regulatory and accounting issues that affect the functioning of Islamic financial institutions including insurance companies. Ismail (2004) discussed the issues in modified *Mudhārabah* model at a workshop at Bank Negara, Central Bank of Malaysia. Billah (2004) gives gross root reasons for having diversified *Takāful* models and also discusses their possible solutions. Khanzada (2007) also highlights issues in *Takāful* industry in Pakistan under *Waqf* model. Based on the views of above researchers, key issues that have been found in different *Takāful* models are summarized as follow:

i. Sharī'ah issues:

Sharī'ah issues arise as different *Takāful* models are being practised in different countries. *Sharī'ah* scholars who provide *Sharī'ah* supervisory services to *Takāful* operators belong to different schools of thoughts (e.g. *Hanafi*, *Shaafi*, *Humbali*, *Maaliki* etc.) propagate different opinion on *Sharī'ah* matters according to their belief in particular school of thought. Grais and Pellegrini (2006, pp.17-21) identify issues of independence, confidentiality, competence, consistency and disclosure of responsibilities that affect functioning of SSB in the organization. Due to lack of competent *Sharī'ah* scholars in the field of Islamic finance, most of the scholars hold positions in *Sharī'ah* Supervisory Boards (SSBs) of several companies. This may jeopardize the confidentiality of the company secret information and company may restrict SSB to access certain information and hence affect its independence in the organization. SSB decisions on *Sharī'ah* matters might not be consistent as the company might not properly disclose the responsibilities of SSB and restrict their authority in certain areas.

Sharī'ah supervisory board (SSB) strictly ensures *Sharī'ah* compliance of *Takāful* fund and only approves those investment avenues that are compatible with *Shari'ah*. For example, investment in alcohol production or liquor business is not allowed in *Shari'ah*. Though investment of *Takāful* fund is made in consultation with the members of SSB, yet there are chances that some part of income from investment might be considered as illegal from *Sharī'ah* point of view e.g. company invests in an airline or hotel business that apparently seems to be permissible under *Sharī'ah* but it has debt financing in its capital structure or it has derived a part of its income from sale of alcohol or liquor (Abdel Karim & Archer, 2002; p.71).

ii. Profit sharing:

Critics on the issue of profit sharing argue that it is illegal for participants as well as for *Takāful* operators to share in profits as is the case in *Mudhārabah* model. For participants, the issue arises as a result of *tabarru* nature of contribution. A group of *Sharī'ah* scholar is of the view that as participants pay the contribution as donation so from *Sharī'ah* point of view, they cannot receive any profit from donated amount. Similarly, since *Takāful* operators acts as a trustee and manger of funds and its responsibility is to act in the best interests of shareholders. Also the remuneration and salaries of managers are fixed and approved by board of directors, so *Takāful* operator should not be allowed to share the profit but only entitled to fixed charges. The same issues arise for modified *Mudhārabah* model.

iii. Underwriting surplus sharing:

Issue of underwriting surplus sharing is similar to that of profit sharing. *Sharī'ah* scholars argue that Participants are not allowed to share in the surplus of the amount (*Takāful* contribution) which they have already donated to tabar'ru fund. Similarly *Takāful* operators have no right to share the surplus amount as they have already received *Wakalāh* fee or their share of profit. Now the question arises if neither participants nor *Takāful* operator has legal right on the underwriting surplus, where this amount should go. A group of *Sharī'ah* scholars is of the view that this amount should go to a *Waqf* fund for charitable purpose and should be used for the welfare of poor and needy people of the society who are not real members of *Takāful* company. Another group of scholars propose that underwriting surplus could be returned to the participants as *'hibah'* (gift).

iv. Unearned Wakalāh fee:

Wakalāh fee (agents' commission) is usually charged in advance as upfront charge when participant pays contribution amount. According to accrual principle of accounting, *Wakalāh* fee will be earned at the end of *Takāful* period for a particular year. *Takāful* operators claim that participant's contribution will be refunded whenever he wants to withdraw the contract. Only *Wakalāh* fee is deducted from the contribution amount. The question arises if any participant withdraws his contract at the mid of *Takāful* period, has *Takāful* operator any right on unearned *Wakalāh* fee? If not then how should unearned *Wakalāh* fee be returned to the participant when *Takāful* operator deducts it in advance and pays to *Takāful* agents as commission.

v. Legal status of Waqf fund:

Waqf fund is created by initial donations from shareholders' fund. Then *Takāful* contribution, income from investment, underwriting surplus is added to *Waqf* fund. Yet *Waqf* model raises questions about its legal status. Should this fund fall under the purview of trust act or any other act? Is *Takāful* operator bound to comply with provisions of trust act or any other act in addition to *Takāful* regulations? What are the tax implications of treating *Waqf* fund as separate entity or not a separate entity from *Takāful* Company? These questions require clarification from legal and *Sharī'ah* experts related to *Takāful* business.

vi. Corporate Governance issues:

Adoption of a *Takāful* model raises issues of corporate governance regarding the rights of participants who are the provider of funds for the *Takāful* Company. Although *Takāful* operators act as a trustee and manager of funds and get their share of profit in the form of *Mudhārabah* or *Wakalāh* fee, yet they have been criticized for maximizing the shareholders' profits while ignoring the rights of participants that are major stakeholders of the company. In the absence of proper corporate governance practices, company and its board of directors are not held accountable for their decisions that are not favorable to participants or community at large. Moreover, participants are not given positions in the board of directors so they have no right to question any decision of the board and feel themselves insecure (Abdel Karim & Archer, 2002; p.72). Strengthening the regulatory framework is essential to regulate the activities of *Takāful* operators and to protect the rights of participants.

CONCLUSION AND RECOMMENDATIONS:

Five types of *Takāful* models, as identified in this research paper, are being practised across the world. Each *Takāful* model has evolved in a more refined form as a result of certain issues associated with the previous model. *Fiqh* related issues arise in *Takāful* models as *Sharī'ah* Scholars belonging to different schools of thoughts have different point of views on *Sharī'ah* matters. *Sharī'ah* issues are concerned with the independence, confidentiality, competence, consistency and disclosure of responsibilities that affect functioning of SSB in the organizations. Critics on the issue of profit sharing argue that it is illegal for participants as well as for *Takāful* operators to share in profits due to *tabarru* nature (donation) of contribution. Issue of underwriting surplus sharing prevents *Takāful* operators to share the surplus amount and restricts their earning to *Wakalāh* fee or their share of profit. Issue of unearned *Wakalāh* fee arises when a participant withdraws his contract at the mid of *Takāful* period, as fee is usually charged in advance as upfront charge when participant pays contribution amount. *Wakalāh* model with *Waqf* fund has been approved by Securities and Exchange Commission of Pakistan after its approval by Islamic Ideological Council and *Ulema* of Darul Uloom. It takes into account all the related issues of previous *Takāful* models. So it is considered to be the most refined and acceptable model. Yet there is need to create consensus among *Sharī'ah* Scholars belonging to different schools of thoughts. A central *Sharī'ah* Board comprising of different *Sharī'ah* Scholars representing their own *fiqh* is highly desirable as it can resolve various issues that can create conflict of interest among different *fiqhs.* There is also need to counter corporate governance issues that raise the concern for the accountability of company board of directors as they have been criticized for maximizing the shareholders' profits while ignoring the rights of participants. *Sharī'ah* based corporate governance practices are considered very much important for Islamic financial institutions including *Takāful* companies to create transparency and fairness in their operations.

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