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## ISLAMIC INSURANCE

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### Abstract:

Islamic economic system is protector and supporter of all the legitimate interests of the individual and society and this safety and support is without any greed and advance payment. For him, rather than artificial and deceptive schemes, it offers a coherent, stable and natural conduct of life, which on one hand protects individual from free-taking, work stolen and urges him to work with hand and to serve human. And on the other hand, on the basis of legitimate weakness and excuse of the member of society, it gives him unbiased and full support. Pure emotions of God fearing and humanitarian are its basic stimulations. Thus, there is no any place for prevailing insurance system in that pure and comprehensive system of life. Before reviewing the current system of insurance and offer of the alternative Islamic system of it, it is important to have awareness of the basics of insurance.

### Key Words:

Insurance,  
 earning &  
 spending,  
 Economic  
 Revival,  
 uncertainly  
 Necessities.

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### Meaning:

Insurance is the word of Persian language. Because of its excessive use it has been given the status of Urdu word. Insurance means fear. From fear it became Insurance, which has masculine sound. It means the responsibility of submitting specific amount in case of death or after the fixed period. This word is also used in the sense of conveying goods from one location to another location.<sup>(1)</sup> In Arabic, the word for it is "Tameen" Whose meaning is to insure trusting and understanding as faithful, are also in its meanings.<sup>(2)</sup>

In English, the word for it is Insurance that is used in the sense of satisfaction and confidence, means, such insurance that is made to meet the financial loss.

Prof Abdul Hameed Daar wrote definition in these words in his book:

### Definition of Insurance:

He says:

“A contract where by one person called the insurer undertaken in return for the agreed consideration, called the premium to pay to another person called the assured as some of money or its equivalent on the happening of a specified event. The specified event must have some element of uncertainty about it the uncertainty may be either.

As the case of life insurance the time of happening of this is uncertain or even.

In the fact that the happening of the event depends upon accidental causes, and the event therefore may never happen at all.<sup>(3)</sup>

Insurance is a contract in which one person (the insurance provider) pays to a second person (insurance requested) pays a specific premium after happening a special event.

In a special event, uncertainly is necessary which is present in shape of human insurance where death is certain but its time is uncertain. Insurance means assurance. The English translation of the word “Bema” is insurance. So, Insurance Company is an institution, which ensures to compensate the loss of disasters and accidents.<sup>(4)</sup>

General concept of insurance is a guarantee that the group of people who are at risks and the risk is not too early to assess the impact. Therefore, when such a risk occurs, its impact on the group be spilt.<sup>(5)</sup>

There are risks in the future, any person or institution would give guarantee that he would pay compensation to financial impacts of such hazards.<sup>(6)</sup>

Insurance company tells the insured person of certain risks and future losses and assures him of future compensation of these damages. For this reason it is called the insurance.<sup>(7)</sup>

Insurance is an agreement between parties, in which one party is insurance company and other party is one who takes insurance. Insurance company takes the responsibility of paying an unknown damage and in exchange of it, the other party makes an agreement to pay the certain amount in instalments (premium) until there is no any incident of unknown damage.<sup>(8)</sup>

### **Europe and Insurance (background):**

Present simple form of insurance started in 1400 from Italy where one of the arms merchant's ship sank. Because of it, the merchant suffered severe financial crisis. All the other merchants helped him and in this way a relief fund started and experiments of such relief system also began in Holland. So, the trend of insurance on land also started as well as the pacific insurance.

Life insurance formally launched in England in 1583, and the life insurance act was passed in 1870. And then with the evolution of human civilization it also made progress and gradually became a profitable business

and after completing the successful journey it reached to the present shape. We can't call this prevailing system of insurance the final one, because its rules and forms shall remain in change with the future economic and cultural development.

**Indian Subcontinent and Insurance:**

Existing forms of insurance in United India were introduced after arrival of European nations. Before partition, Eastern Federal Insurance, Muslim insurance company and Habib Insurance were most prominent. From 1947 to 1973 there were almost 33 private companies working in insurance sector. But in 1973, all these companies were given the name of State Life Insurance Corporation of Pakistan by combining them together, and they were taken into government custody.

So insurance has been declared compulsory for every employee of government, non-government and also for the employees of industrial, commercial and public institution and a default insurance premium is deducted from there salary which in case of death of any employee is given to his relatives.

**Types and Procedures:**

There are many practical forms of insurance as insurance of life, property, building insurance, insurance of human organs, valuable documents, machinery and insurance of vehicles, insurance for important responsibilities such as children's education and marriage insurance etc, insurance of ships and aeroplanes etc. Method and terms are different for every type of insurance.

**Normal Procedure:**

Like trading companies, mostly there are many investors in insurance companies. Company receives a fixed amount of money till the fixed time period from the insured person. If he dies before the fixed term or the insured article damages then the fixed amount with interest is called bonus and is returned and if insured person dies soon he will get more bonuses. So there shall be more interest on less instalments.

**Life Insurance:**

For life insurance, the director of that company, after conducting medical examination of the person who wants insurance, makes a careful estimation of the remaining life of that person that how long the person of that stature can live more. Then an agreement between the insured and company is done. According to that agreement the insured person shall pay fixed amount (premium) monthly or after a fixed period. The amount that company receives

in that ways shall be invested at higher interest rates and will make agreement of less bonus and return of payment. And this middle amount shall be the profit of the company. In the similar way, certificates, documents and other valuable things are insured.

**Industrial Method:**

There is insurance for everything like manufactory, trading goods, agricultural goods, manufacturing goods or raw materials means everything can be insured. Insurance companies keep announcing different schemes after observing the objective conditions of any country, the rate of accidents, weather conditions, economic volatility and political situation. They create a great sense of danger in future about fire incident, submergence, robbery, air accidents, traffic accidents, railway accidents etc, and get heavy amount from them and become a major source of growth of economic interest. By providing some facilities they receive numerous benefits. Sometimes they distribute hundreds or thousand rupees and make the people crazy or buggy then earn million of rupees continuously and also include other partners in this game, this one of the benefit among numerous other benefits.

**Cancellation and Confiscation of Instalments:**

If an insured person becomes permanently disable by accident then company forgives his remaining instalments and also pays him the full fixed amount. But generally it is very minimal. However if the insured person stops paying the instalments the insurance company seizes the already paid instalments as per policy. However, after paying fine and remaining instalments the confiscated amount can be restored. But If the insured person wants to terminate his agreement then the insurance company just returns the 60% of paid instalments and keeps 40% as a cruel profit.

**Types of Insurance:**

According to different conditions, insurance has numerous and diverse types to avoid future threats. Usually there are three major types of insurance.

**Types of Insurance risks Referred:**

Types of Insurance to protect against future threats are as follows:

Goods insurance.

Third party insurance (machinery insurance is included in it).

Life insurance.

**Goods Insurance:**

The equipment or building (ship, car etc), which are intended to insure the insurance company receives premiums, the company will compensate fully in case of damage and if there is no damage till the fixed period company does not pay the amount of premium to insurance holder.

**Third Party Insurance:**

The loss that is due to any vehicle or machinery, to avoid such a loss we take insurance of vehicle or machinery. Then if there is any loss of vehicle or machinery, company shall compensate. If there is no damage till the fixed period then company shall not return the premium.

**Life Insurance:**

This insurance is used for fixed or non-fixed term. If insured person dies during the term then company returns the amount of premium with interest. The person who takes life insurance, his insurance amount is given to the designated person. There are several forms of this.

**Types of Insurance According to Procedure:**

There are many procedures of insurance to fight against the dangers of life and future. In term of this, it has generally three more types.

**Group Insurance:**

A meager amount is cut from the salary or wages of a particular segment of people and this amount is invested on interest and in case of death or accident of any member of the class the company helps the affected members of his family. It has numerous conditions.

**Mutual Insurance:**

It is also called collaborative insurance. Shared risk victims together establish a fund and is decided that in case of danger the loss of every member would compensate. It is calculated annually. If the annual payment increases then more amount is charged according to per capita and if the annual payment is less and income is more then it is divided according to per capita. And if the annual payment is less and profit is more then it is distributed according to per capita. Because there is no gambling, fraud and interest (gamblers rabbis) in insurance of that types that's why it is a legitimate case.

**Commercial Insurance:**

It is also called التامين التجاري. In this process, insurance company is established according to commercial principles and the amount of premium that it gets is inverted on various businesses and profit is earned and the

compensation of the loss of the insurance holder is done with profit that company gets

from business. Company hires formal experts to detect the loss and dangers for the payment of insurance. These experts are called Actuary.

**More Types and Descriptions:**

Insurance business has expanded in addition to these important and prevalent types of insurance. There is insurance for human organs, valuable documents and goods except the insurance of machinery, vehicle, ship and building. Various insurance companies give insurance in marriage, education, treatment, raising children, motherhood and also for financial problems. In old age, these companies run their business in this way. But the thing that is unIslamic and illegitimate in all these matters is to run the amount of premium on interest, gambling over the probability of danger means when matters take the resemblance of gambling, there is desperate need of reform in such un-Islamic actions. Policy that is adopted in many forms of insurance by company is that if company provides more convenience and ease then premium amount will be the same height over the long term. But if the level of convenience and ease is low and limited then the premium of amount would also be low and limited. This procedure has given the insurance purely a commercial and business form. Dedicated, sincere and devoted work of humanitarian passion is missing.

**Insurance Benefits (Arguing in Favour of Insurance):**

No doubt insurance started with good and high passion and its results were also nevertheless useful but soon, in insurance, factors like interest, gamblers, hazardous and un-Islamic division of the estate took root and made this useful process which fulfilled the cultural needs, a cooperative society of capitalists. So, the arguments that are presented for the justification and advantages of prevailing insurance system, they are just ideological and conceptual. Their relationship with practical word is nominal. These general arguments are as follows.

**Unforeseen Accidents Counters:**

Almost every person and nation have to face the sudden troubles like damage of valuable documents, fire accidents, flood, accidents, earthquake, miseries and troubles, death, industrial accidents and many other troubles like this. Insurance investment helps to minimize the impact of these miseries and troubles.

**Saving Habit:**

The style and habit of saving, however is a reasonable and good practice. We should keep our costs lower than revenue. Insurance strengthens the habit of saving in human. Human takes insurance to cope with future threats and that's why he has to save.

**Intangible Cooperation:**

Paying from daily or fixed income on the very small portion of the premium to company a person does not feel load on him and on other hand, a lot of money is collected to insurance company. Through which, they earn a lot of profit by investing that amount and they are able to provide employment to many people. And the useful work like mutual cooperation remains continue.

**Help Homeless People:**

In case of accident or death, orphans, widows, homeless individual receive timely and appropriate assistance through insurance. Thus it becomes a useful and effective tool to support. To assist needy and to bring up deprived people and their economic security is possible through the insurance.

**Security of Human Wealth:**

Human stored material is likely to be stolen or lost in any case. Insurance resolves the matter of security of the material safety. Company takes the responsibility of all the dangers and problems and set the individual free from every worry. So, there is material protection as well as the freedom from the future worries.

**Best Form of Collective Cooperation:**

Insurance is the useful and comprehensive form of collective cooperation. The entire society can get benefit from its effects, but compulsion is that if every member of society is connected with it. In this way, the comprehensive system of this cooperation management is guarantor of survival and safety of society and contributes to its development. Both direct and indirect efforts of this constructive ways protect country and nation in both the ways.

**Source of Human Service:**

Insurance company performs the service for suffering troubles surrounded by busy and compelling concerns and it also performs this task very beautifully. So, this is the tool to achieve high goals. Humanitarian sympathy and serve as a useful and excellent work, which stretches the globe. On one hand it is cultural need and also a source of jobs for many people.

**Evaluating Existing Insurance System:**

Insurance is the custom all over the world and it has many benefits as some are given above. But the arguments presented in favour of the prevailing insurance system were just the one side of discussion but after seeing the other side of that prevailing system of insurance we can establish the perfect muslim opinion. Here mind one thing that Islam did not regate the conventional insurance but interest, gambling, fraud, rich benefiting from the wealth of poor and using insurance as a mean of exploiting is condemned in prevailing insurance system.

**Occasional Accidents and Islam:**

The central point of the prevailing insurance system is to avoid accidental and emergency disaster losses or at least able to minimize the loss. But for deliverance from suffering and troubles the established insurance system supports interest and gambling on greater level and it just talk about the compensation from accidents of an insured person. But according to the teachings of Islam, public treasury helps the victims without charging any interest or without gambling. Any premium prior to payment is not necessary. More the payment of liability provision is required.

**Saving and Islam:**

The real emphasis of Islam is over “incidentally the sake of Allah” as well as it emphasizes on saving. It is true that the sanctity of extravagant may cause saving. But according to Islamic teaching, to eliminate the selfishness on the savings Zakat is levied. And the amount of this wealth, Zakat, Ushar, Charity etc is spend over needy because they do not add anything to public treasury due to their poverty and poorness but even this institution is ready all of the time to support their basic needs.

**Security of Wealth and Islam:**

The most powerful argument by the supporters of insurance is that insurance policy protects their wealth. But according to Islamic perspective safety of goods cannot be found after getting wealth from people and investing it over interest. However, the effective and natural way to protect the money is to promote thrift and simplicity in the daily individual and collective life. Avoid from extravagance. Should pay legitimate Zakat and rights over extra saving. Such amount should be deposited to public treasury and then should spend over collective welfare.

**Serving Mankind and Islam:**



The prevailing insurance system is called source of serving humanity that is virtually against the fact. Service is always selfless and unpaid otherwise it is business. The real service is to serve the people without charging anything who have deprived economy and limited resources. For this high value, Islam makes special arrangements on every moral and legal ground. Its detail can be seen in the chapter on Islamic teaching about circulating currency. Prevailing insurance system is not for human service, it is a means of earning interest upon intering on the name of human service.

**Cooperation of Capitalists:**

Current form of insurance has taken the shape of cooperation of capitalists. First of all they correspondence exaggerated sources of exhortations about inherent weaknesses like suffering and fear of risk, raising of children and their education, treatment seeking, prevention from accident. Then the owners of company earn a lot of interest from the amount of people and return them their small portion and keep the rest of profit.

**Perverse Events:**

Often to get the insurance money it is not avoided to kill the insured. Insured items are used in irresponsible ways because it is the responsibility of company to compensate the loss in case of damage. So, fabricated and fictitious action is added for the destruction and damage of machinery and vehicle, and to seize insurance amount each kind of lies, treachery and corruption is committed. In Islamic system of higher education, the probability of these events is minimal.

**Collection of Fear and Ignorance:**

Possibility of future loss is called possibility of its presence or absence is equal. Unawareness of real situation is called ignorance. Both non-Islamic forms are found in insurance. On one side there is the fixed amount of insurance, which company pays to insurance holder and on the other side there is an agreement of paying instalments by insurance holder, which however, is decided but in case of any accident this agreement would be broken. Sometimes company shall take profit or sometime company shall be in loss. Same is the case with insurance holder, sometimes he is in profit and sometimes he is in loss, but however, this profit and loss will not be on the base of reality but will be on the base of mere coincidents. In the light of Islamic laws, it is order to negotiate on the basis of the fact rather than the coincidents. In insurance, there is open violation of this order. In this way, wealth of poor is looted and their exploitative and interest based business is adomed with beautiful and modern terminology and is presented. So, Quranic claim is fulfilled that:

(Translation)

Satan portrayed evil in a very elegant manner<sup>(9)</sup>

**Combination of Interest and Gambling:**

Established insurance system is a pack of interest and gambling. All the insurance companies receives premium from insurance holders and they invest that amount on higher interest rate and pays back the bonus to shareholders at low rate of interest and keeps the rest of interest in the name of profit. In this way, interest is rooted in economy. And all the evil and suffering arise which are present in economy, society and culture due to interest. “Kumar” is called gambling. Current insurance system is based on gambling. Nor company genuinely knows exactly how many instalments he will have to pay. So, often times he gets the full amount of insurance after paying less instalments. In this way, this system terns into gambling.

**Against the Islamic Law of Inheritance:**

In case of death to distribute the money according to the Islamic law of inheritance rather than get nominated by the deceased that is clearly a violation of the Islamic law of inheritance. It means to exceed from divine limits. Source of many economics problems in the world is reason of shame in the world here after.

**Seizure of Instalments:**

Seizure of instalments collected by the insurance is clearly un-Islamic and inhuman. If a person is unable to pay instalments due to poverty and helplessness then first of all they seize the already paid instalments but according to prevailing law 40% of the amount is seized and remaining 60% is returned. To seize this 40% is forbidden. Is this the implied of humanitarian and passion of service, to seize their own collected property instead of helping helpless and needy people. If this is service, then what is exploitation?

**Protection of Capitalism:**

Prevailing insurance system is just for the protection of capitalism. All this process of insurance is source of expansion and increase of capitalist. There are capitalist mentality and philosophy in its depth, which has embedded into every part of it. And merely through dissemination and propaganda they prove prison as a nest.

**Source of Extravagance and Wastage:**

Often free and laborless insurance holder wastes the money and uses it extravagantly which he gets from company. Extravagance and wastage are

forbidden and prohibited according to Islamic point of view. And from a purely Islamic perspective it is harmful for healthy economic system.

### **Prevention of Future Risks Referred With Quran and Sunnat:**

It has been placed the thought and passion in human nature to fight against the future risks collectively. After the recitation of Sorah “Yousaf” Rakuh 6-8, we come to know that Hazrat Yousaf prevented future famine in advance after utilizing his excellent talent and for this, every tom, dick and harry supported him. After the recitation of Sorah “Kahaf” Rakuh 7, we come to know that to avoid attacks from Yagog and Magog, Hazrat Zulqarnain built a great wall with the support of local people by collective thought and prevention.

In Quran, there is a term, “Spending in the way of Allah” and it tells that on individual and social level, we should do unbiased and dedicated funding for the people who are indulge in the dangers of present and future.

After studying the life of Holy Prophet (SAW) we come to know that the system of confraternity, that Holy Prophet (SAW) established in Madina, proved very important honorable settlement of impoverished refugees including with other interests, in this way, to handle prosperous people was taken because the teaching of Quran and Serat were free from selfishness, interest, gambling and wrong doing of prevailing insurance system that’s why they were successful and in result of this refugees stood on their feet very soon in a very respectful way. Mufti Muhammad Shafi writes in Insurance Life,

“It is also said that, first of all, in the period of Muslim rule in Andalusia, the Muslim who participated in maritime trade, they laid the foundation of marine insurance. Form of insurance at the beginning was very simple”<sup>(10)</sup>

Professor Dr. Abdul Hameed Dar supported it in “Islamic Economi”.<sup>(11)</sup>

### **Falsehood in Disguise of Right:**

Contemporary fundamentalist mentality in the form of righteousness started this business to attain their nefarious and abominable purpose and because of not having complete Islamic system anywhere in his unfortunate world, this false system developed and gain so much strength that now it has become a complete culture and philosophy of life. On the other hand, Islam has more better and excellent system than that. And there is desperate need of this system to the world. But Islamic activists has no free time for disagreement for the sake of disagreement and from ratiocinations in the legal and theological issues so that they may turn to this real need of humanity and towards primary duty of divine relevance.

**Base for Insurance Replacement:**

Islamic economic system is a part of complete Islamic system of life. To take full benefit from the Islamic economic system it is necessary to establish a complete Islamic system of life. From partial implementation of Islamic system we can neither receive all the benefits and blessings nor it is the Sunnah way of implementing Islamic teachings. So, only the full implementation of Islamic system of life is the solution of our all social, political and economic problems. And actually this solution only provides the base for insurance replacement.

On other hand, this fact is self-evident that we have closed the chapter of casuistry long ago. Evolution and transformation and revolutionary changes in all the spheres of life have occurred. Skills of the most of classes of our nation has wasted in sectarianism instead of reflecting Islamic view point on contemporary issues. And new generation is under the attack of electronic media. We are feeling a desperate need of modern and correct interpretation of Islam which may be completely compatible with Holy Book and Sunnah on one side and may have the precise spirit of contemporary period on other hand. But the springs of faith and thought and action are going dry. Although in Islamic world, there is also a profound feeling and awareness about the intellectual awakening and awareness of modern problem but the number of such people and their capacity is still low, however, even in these situations important keep points of Islamic teachings are told.

**Current Insurance System and Islam:**

Islam solves all these problems with simplicity and comprehensiveness which is tried to solve through insurance. Moulana Madodi writes in his book "Islamic Economic" about insurance and its method of reform:

According to Islamic law there are three principal objections on insurance.

**Interest Business:**

Amount of premium is invested over interest business.

**Resemble Gambling:**

In case of death or accidents, there is form of gambling in the amount that insurance holder gets.

**In Case of Death:**

The amount that the nominated person gets from the company on the behalf of late, it is not distributed according to the Islamic law of inheritance.<sup>(12)</sup>

**Reform Proposals:**

On the same page, Moulana has presented some reform proposals in prevailing insurance system with these objections. He writes on page 411. There are the justifications to bring the insurance in Islamic circle.

Government should invest deposit of company on the base of shares and should give the company proportional profit instead of the fixed profit.

Should invest on other profitable activities rather than investing an interest based business, and should get proportional profit instead of interest.

Should accept life insurance of those people only who just receive the deposited money after death and should agree to divide it in religious heritage.<sup>(13)</sup>

In proposal No 3, we can get most useful results if we decide the issues to invest the amount of premium after accepting it on the basis of participation and Madaarabah and on the basis of profit and loss.

If we decide the matter in proposal No 3 to accept the amount of premium on the basis of participation and Madaarabah and to invest it on the basis of profit and loss, then we can get most useful results. On one hand, trade shall flourish and on other hand legal cases of insurance shall get motivation. So, Moulana Mododi presented proposal No 4 for the prevailing insurance system.

Moulana writes:

Those who want profit on their amounts, among the insurance holders, their amount should invest on commercial activities like this on the principle of shares.<sup>(14)</sup>

**Opinion of Justice Taqi Usmani:**

Mufti Justice Taqi Usmani in his book “Islam and Modern Economics and Trade”,<sup>(15)</sup> declared mutual insurance a legitimate way of insurance. He also mentioned companies name with “Sharkat Al Tkafi” that are established in some Arab countries. The underlying mechanism of these companies is that every insurance holder becomes the shareholder of relevant company. Company distributes its profit among the shareholders after investing its capital in useful activities and through a special fund, company compensates the loss (Anyway, it can be called a primary successful attempt).

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