

## **ORIGINAL ARTICLE**

# **THE SIGNIFICANCE AND USE OF TAKAFUL INSURANCE IN THE ISLAMIC FINANCE SYSTEM\***

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### **Abstract**

In recent years, there has been a significant and swift advancement of the Islamic financial system, also known as interest-free finance. While the Islamic finance system is growing and developing so rapidly, the place and importance of takaful insurance, which is the cornerstone of the system, in the Islamic finance system are increasing day by day. The transactions carried out in the Islamic finance system, which operates in accordance with Islamic procedures and rules, can be carried out smoothly thanks to the financial protection and trust offered by takaful. Therefore, this article sheds light on how important and necessary takaful, one of the most important financing methods of the Islamic finance sector, is for the Islamic finance system.

### **Keywords**

Financial System, Islamic Financial System, Takaful Insurance.

### **JEL Classification**

F30, F65, M21.

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## 1. INTRODUCTION

From past to present, individuals have endeavoured to eliminate or minimise the risks they face throughout their lives. However, as a result of the differentiating and developing world life and the aggravation of living conditions over time, individuals have come to the point where they cannot undertake the risks they face alone, especially financially. Large organisations were needed in order to cover these increasing risks that could no longer be undertaken by individuals, and thus the idea of insurance emerged. With industrialisation, the areas that can be insured have increased and the need and interest of legal entities in insurance has come to light. In this direction, the first applications of the insurance system started to be implemented primarily in western societies. Over time, these applications have developed and differentiated.

This insurance system, which was developed, could not find the opportunity to develop in Muslim countries because it contains interest, which is prohibited by Islam, and contains uncertainty. Because the people in Muslim countries have stayed away from insurance due to interest sensitivity. However, the fact that the Muslim population also wanted to benefit from insurance services without being involved in interest brought about the search for a new insurance model. As a result of this search, the application called “takaful”, which is planned to be an alternative to traditional insurance, was put into practice. Takaful insurance was first introduced and developed in Islamic countries. Looking at the world in general, although the desired level of prevalence and recognition has not yet been reached, interest in the takaful insurance system has increased significantly, especially in Western countries where Muslims live in large numbers. Increasing its application areas and insurance rates day by day in Western countries, takaful insurance is a decisive actor for the Islamic finance system to reach the place it deserves worldwide.

In this article, firstly, a general definition of the classical finance system is made and the functioning of the classical finance system is examined superficially. Then, a detailed description of the Islamic finance system is made, the structural features and basic principles of the Islamic finance system are explained, and the development processes in the world and in our country are explained. The reasons for the preference of the Islamic finance system have been emphasised and the importance of the Islamic finance system in the development of economies has been emphasised. It is thought that Islamic finance, which has its own application areas and methods, will be an alternative or complementary to the classical finance system. In this direction, Islamic financing methods are also mentioned in our study. The main purpose of this study is to explain the place and importance of takaful insurance, which is one of the most important Islamic financing methods based on solidarity and solidarity, in the Islamic finance system. In the study, the effects of takaful insurance on the development of the Islamic finance system are emphasised. It is concluded that takaful has an increasing importance in the Islamic finance sector and its share is gradually increasing.

The contribution and importance of this study to the literature can be explained as follows: There are almost no studies in the literature that explain the place of takaful insurance in the Islamic finance system and emphasise the importance of takaful insurance in the development of the Islamic financial system. This study aims to fill this gap in the literature.

## 2. LITERATURE REVIEW

Since the number of studies explaining the place and importance of takaful insurance in the Islamic finance system is very small in the literature, during the literature review, we came across more studies explaining the Islamic finance system, examining the place of Islamic finance in the global economy, examining the development for Islamic finance, and mentioning the increasing importance of takaful insurance. Some of these studies are explained in chronological order below.

In his related book, Ibrahim Warde (2000) analysed the place of Islamic finance in the global economy and found that Islamic finance is suitable for the global economy in many respects. Warde

stated that Islamic finance is not an income-based financial system and that Islamic finance has a wider development area with the globalisation of the financial system.

Alsadek H. Gait & Andrew C. Worthington (2007) emphasised the definition, characteristics, general structure and basic principles of the Islamic finance system in their article. The sources and methods used by the Islamic finance system are explained in detail in the related article. The aim of this study is to explain the Islamic finance system in its main lines.

Heiko Hesse, Andreas Jobst & Juan Sole (2008) stated in their article that the Islamic finance system has spread throughout the world as well as Muslim countries and thus gained a serious growth momentum. They stated that the Islamic finance system, which has achieved such a growth rate on a global scale, harbours a much greater potential. In addition, the problems experienced by the Islamic finance system were also discussed and analysed in the related study.

Bala Shanmugam & Zaha Rina Zahari (2009), after explaining Islamic finance in general, explained the legal aspect of Islamic finance. Subsequently, they explained Islamic banking, Islamic capital market and takaful (Islamic insurance) one by one in detail. In addition, in the related study, the difficulties faced by the Islamic finance system were expressed and the future of Islamic finance was discussed.

Ajmal Bhatti (2010) emphasised the increasing importance of takaful insurance in his study. Bhatti stated that takaful insurance has added great value to the classical insurance on a global scale and that takaful insurance has a high potential to be successful in many sectors where the classical insurance sector does not dare to enter. He determined that the Islamic finance system and takaful have a continuously growing structure and contribute positively to the world economy.

In his article, Ahmad M. Mashal (2012) emphasised the existence of the Islamic finance system within the global financial system. Mentioning the growth potential of the Islamic finance sector and thus takaful in different sectors, Mashal also included solution suggestions for the development of the Islamic finance system in the future.

In his book, Tariq Alrifai (2015) provides a brief and comprehensible summary of the past financial crises in the world and then explains the Islamic financing instruments and the functioning of Islamic finance. In his book, Tariq Alrifai argued that Islamic finance can protect the world from future financial crises.

In the article published by Dr. Sabri Öz & Mehmet Ali Işık (2019), the application areas of takaful insurance, which has an important role in the development of Islamic finance, in Turkey and the UK were compared. In the related study, which is a literature review, the idea of cooperation between the two countries for takaful insurance, which will trigger the development of Islamic finance, was brought to the agenda.

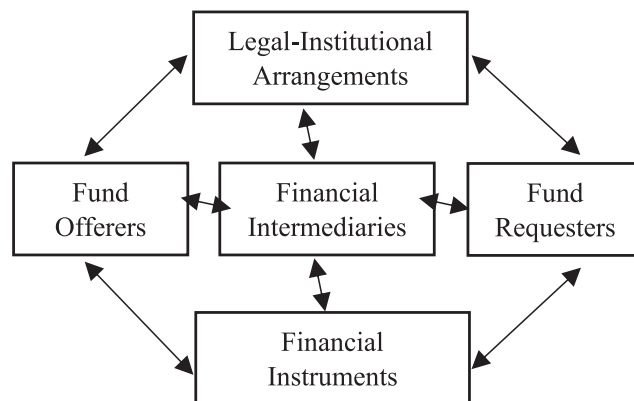
### 3. FINANCIAL SYSTEM AND ITS FUNCTIONING

The financial system is a holistic system that emerges when more than one intermediary institution, market or organisation comes together to use various financial instruments (money, stocks, bonds, etc.). All savings in the economy can be transformed into investments thanks to a sound financial system. In addition, all performances of an economy at micro and macro levels are shaped by the financial system. The main determinants of the financial system are categorised in four main groups. On one side of the system, there are savers whose incomes are higher than their expenses and who offer their savings to those who demand funds in return for a certain profit share. On the other side of the system, there are those who seek financing support for their investments whose expenses are higher than their incomes and who demand funds from the system. Here, there are intermediary institutions that bring together fund demanders and fund suppliers with the least cost and result in the most efficient fund transfer. These intermediary institutions facilitate the transfer of funds. Legal and administrative institutions that ensure the proper functioning of the system are indispensable elements of the financial system. Therefore, when we look at the functioning of the financial system, savers

who are in the position of fund providers transfer their savings to fund demanders in an environment of trust created by legal and administrative institutions with the support of intermediary institutions (Afşar, 2007).

**Figure 1**

*Structure of the Financial System*



**Source:** Aslı AFŞAR, “The Relationship between Financial Development and Economic Growth”, Journal of Accounting and Finance, Issue 36, 2007, p.189.

### 3.1. Definition of Islamic Finance

The Islamic finance system is the system that ensures that financial activities are carried out in accordance with Islamic sensitivities. This system was born as an alternative to the classical finance system in a way that does not contain interest within its structure due to the prohibition of interest by the Islamic religion. The main purpose of the Islamic finance system, which is thought to have emerged as a kind of reaction to the classical finance system, is to ensure that the Islamic finance system can be integrated into the existing (interest-bearing) finance system as a complementary (Çelik, 2016).

### 3.2. Structural Characteristics and Basic Principles of Islamic Finance System

#### 3.2.1. Structural Properties

- **Islamic Finance is Still in the Developmental Stage**

The history of the Islamic finance system is approximately 50 years old worldwide. The history of the concepts and terms used in the Islamic financial system dates back to the beginning of the fourteen hundred year old Islamic religion. The full use of these concepts and terms within the existing financial system and their fusion with the existing financial system is an event that will take place over time. Therefore, we can say that the growth and development of the Islamic finance system will continue for many more years.

- **Islamic Finance is Growing Fast but Developing Slowly**

The Islamic finance system has developed and grown rapidly in 50 years. Various Islamic finance products have been developed and the amount of funds accumulated in the Islamic finance system has increased rapidly. However, it takes considerable time for the Islamic finance system to adapt to the classical finance system and to work in full harmony with the classical finance system. Due to this slow adaptation process, the rate of development of the Islamic finance system also slows down. When we look at it, many concepts such as inflation and globalisation, which are indispensable ele-

ments of the classical finance system, have only recently started to be used in the Islamic finance system. This is one of the main indicators of slow development. This problem, which slows down the development of the Islamic finance system in the coming years, will need to be resolved.

#### • **Islamic Finance is a Human Based System**

The Islamic finance system also has a humanitarian aspect. When the very foundation of the system is analysed, it is understood that it is based on the human being, who is defined by Islam as “a person with good morals”. The Islamic finance system can only work in accordance with the rules of Islam thanks to people with good morals. At every point where the system fails, it is seen that there are people who make wrong choices.

#### • **Islamic Finance is Based on Islamic Law**

Islamic finance system is a system shaped by the rules of Islamic law. Islamic law is the determinant of the functioning of the Islamic finance system. Therefore, Islamic law is the most fundamental element of the Islamic finance system. Understanding whether the transactions carried out within the system are in accordance with the requirements of the Islamic religion, the rules of Islamic law, and whether the system is functioning correctly requires an important determination process. In Islamic financial institutions (participation banks, takaful insurance companies, etc.), “sharia advisory boards” have been established within the institutions in order to make this determination and control.

When we look at the organisational structure of Islamic financial institutions, we see advisory boards different from the organisational structure of conventional financial institutions. In our country, Sharī’ah advisory boards are only named as “advisory boards” without the word “Sharī’ah” for various reasons. The Sharia advisory board established in 1976 within the Faisal Islamic Bank of Egypt is the first Sharia advisory board. These first advisory boards were established at the request of Islamic financial institutions. Over the years, the need for these boards has increased and the number of these boards has also increased. Today, Islamic financial institutions are obliged to establish advisory boards within their organisations. Advisory boards are the most important reason for the customers of the Islamic finance system. Because the existence of these boards significantly increases the reliability and preferability of the institutions. The task of determining the suitability of each new product developed for the financial system to the Islamic finance system also belongs to the advisory boards (Yanpar, 2021).

### **3.2.2. Basic Principles**

#### • **Principle of Prohibition of Interest (Riba)**

Islamic law labels interest as “riba”. However, the concept of riba is a more comprehensive and broad concept than interest. Ribâ has many meanings such as “increase, multiplication, multiplication of the money lent, surplus value that has no equivalent”. Islam has also prohibited interest (ribâ) and interest-bearing transactions. Therefore, the prohibition of interest (ribâ) is accepted as the main principle of the Islamic finance system. When a debt relationship is analysed, ribâ here refers to the excess that the lender creditor gains over the principal amount lent in the event that the lender creditor repays the debt with interest. In other words, it means the unjust enrichment of the lender creditor and the impoverishment of the borrower. However, Islam supports lending to those in need (without expecting a return such as interest) as a favour. For this reason, interest (ribâ) is prohibited in principle in the Islamic finance system because it is contrary to the requirements of Islam. Parties in the Islamic finance system cannot engage in activities involving interest. The products in the Islamic finance system must not contain interest.

### • Principle of Prohibition of Speculation and Garar (Uncertainty)

According to Islamic law, gharar is used in various meanings such as “excessive uncertainty, risk and danger”. Therefore, the uncertainty of the maturity or delivery date in sales transactions and trade is undesirable in terms of Islamic law. Because in financial transactions where uncertainty is dominant, one of the parties faces the danger of being exposed to all kinds of risks. This uncertainty is considered speculation under Islamic law and is prohibited. Uncertainty is a serious problem in the classical finance system. The Islamic finance system aims to avoid this problem. The absence of the concept of uncertainty in the Islamic finance system makes the system more reliable, more transparent and of higher quality. Disputes that may arise between the parties due to uncertainty will be minimised.

### • Profit and Loss Sharing Principle

According to this principle, profit and loss are shared among the parties of the Islamic finance system. It is known that the Islamic finance system attaches importance to sharing and partnership. For this reason, the parties of the Islamic finance system share both profit and loss in proportion to their shares and bear responsibility towards each other.

### • Principle of Avoiding Haram Goods and Activities

With this principle, many activities such as armament, alcohol, tobacco and drug trade, sale of pork, black marketeering, interest-bearing transactions, games of chance and gambling (maisir), which pose a serious problem for the classical financial system and damage the classical financial system, are not included in the Islamic financial system because they are considered unethical. Islamic law considers gambling and games of chance as games where one party wins and the other party loses. Since the main purpose of all financial transactions is for both parties to win, gambling is prohibited in the Islamic finance system. Therefore, all speculative transactions are prohibited.

### 3.2.3. Reasons for Preference of Islamic Finance

In recent years, interest in the Islamic finance system has increased significantly. The basis of this increased interest lies in the rapid growth of the Islamic finance system in the last few years. In addition to its rapid growth, the Islamic finance system is on its way to becoming an alternative to the classical finance system as a system with a high moral dimension in the coming years. Because in the most difficult times, during the most serious financial crises, the Islamic finance system has proved that it can be stronger, more robust and more ethical than the classical finance system. During periods of global financial crisis, the Islamic financial system has been less affected by the crisis than the classical financial system and has been able to protect itself. Another main reason for the increasing interest is the realisation that the Islamic financial system can be an alternative to the classical financial system in the process of greed control. It is seen that the most important motivation source of individuals in capitalism is “greed”. In fact, although ambition is considered to be positive and necessary for individuals to improve themselves and for economies to develop, it is an undeniable fact that excessive ambition is harmful. Since the classical financial system is also under the influence of capitalism, it incorporates the greed factor to a significant extent. For this reason, it is subject to criticism. In addition, it is seen that all financial crises are caused by uncontrollable greed and have severe consequences. At this point, the Islamic finance system has been put into use as an alternative system in order to control the greed factor. The most important and necessary reason for the emergence of the Islamic finance system is the financing of the development of the Islamic world. When we look at the world in general, since most of the Islamic countries are unfortunately developing or undeveloped countries, the Islamic finance system has been established in order to ensure the development of these

countries and their access to the status of developed countries. Because the classical finance system did not play an active role in financing these countries (Yanpar, 2021).

### **3.3. Historical Development of Islamic Finance System**

#### **3.3.1. Islamic Finance in the World**

When we look at the world in general, we see that the Islamic finance system started to develop and spread in the 1970s. The 2000s were the years when the Islamic finance system was fully integrated with the classical finance system. Especially countries such as the Gulf countries, Malaysia and Egypt have undertaken serious responsibilities and made serious breakthroughs in order to support the growth and development of the Islamic finance system. In fact, the need to finance the funds of these countries, which were already oil exporters and had a large amount of surplus funds, triggered the emergence of the Islamic finance system (TKBB, [https://tkbb.org.tr/Documents/arastirma-ve-raporlar-102/Islami\\_Finans.pdf](https://tkbb.org.tr/Documents/arastirma-ve-raporlar-102/Islami_Finans.pdf), 2023).

Islamic countries have been exploited by western countries for centuries. Unfortunately, Islamic countries could not develop and become economically independent countries due to the effect of exploitation. In recent years, Muslim people have started to rebel against this situation and to seek their rights more loudly in order to regain their freedoms, especially economic freedoms. The fact that the people are now acting consciously has been a source of hope. The most important event that raised these voices and disturbed the Muslims was that the financing of the construction of the Suez Canal was carried out by a British bank and an interest-bearing financing was preferred. Over the years, Arab and Indian religious scholars have searched for a way to incorporate the rules and principles of Islam into the financial system. In 1963, the “Pilgrim Savings Company” known as “Tabung Haii”, which was established in Malaysia for the purpose of saving the savings of Muslims for pilgrimage, was the first company to use the Islamic finance system. If we look at the development stages of Islamic finance historically; the first Islamic bank was established in Egypt in 1963. In 1971, the first state-sponsored, interest-free bank, “Nasser Social Bank” was established in Egypt. In 1975, the first privately supported, interest-free bank was established in the UAE. In the same year, the “Islamic Development Bank (IDB)” was established in Saudi Arabia (Jeddah) to enable oil-rich countries to finance their savings without interest. In 1976, the “1st International Conference on Islamic Economics”, the first academic meeting on the future of Islamic economy, was held in Mecca. In 1979, the first takaful insurance company was established in Sudan. These rapid developments in Islamic countries have also mobilised Western countries. One of the most important developments in the West was the establishment of the “Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)” in 1991 (Güçlü, 2020).

#### **3.3.2. Islamic Finance in Turkey**

In our country, Islamic finance first started to develop in the field of banking. The Islamic finance system started to take shape with the establishment of Turkey’s first interest-free banks known as “Special Financial Institutions (SFCs)”. In 1985, “Albaraka Türk and Faysal Finans”, the first SPFI, were established. In the following years, Kuveyt Türk was established in 1989, Anadolu Finans in 1991, İhlas Finans in 1995 and Asya Finans in 1996. The establishment of SLFIs also facilitated the spread of Islamic banking. In 2005, the “Banking Law” numbered 5411 was enacted and the name of the SLFs was changed to “participation banks”. In 2009, “Neova Insurance”, the first takaful insurance company, was established. In 2010, Kuveyt Türk Participation Bank became the first bank to issue sukuk. On 1 April 2010, the CMB issued the “Communiqué on Principles Regarding Lease Certificates and Asset Leasing Companies”. In the related communiqué, sukuk is defined as lease certificates. In 2012, the first interest-free pension company “Bereket Emeklilik” was established. On 30 October

2013, the “World Bank Global Islamic Finance Centre” was opened in Istanbul. On 21-23 December 2013, the BRSA and the Participation Banks Association of Turkey (TKBB) organised the first “Interest-Free Finance and Participation Banking Workshop”. In 2015, the first public participation bank “Ziraat Participation” was established. Also in 2015, the “Interest-Free Finance Coordination Board” was established. In 2016, another participation bank, “Vakıf Participation” was established (Özdemir & Aslan, 2017).

### **3.4. Islamic Financing Methods**

#### **3.4.1. Mudaraba (Profit Sharing)**

The meaning of the word mudaraba is “labour-capital” partnership with the shortest definition. In this method, the owner of labour (entrepreneur) is called mudârib and the owner of capital (property) is called rabb al mal. Mudarabah (Profit Sharing) Model is the most widely used model in takaful insurance. According to this model, the capital owner is the participants who participate in the system by making teberru (donation) payments, and the labour owner is the takaful insurance companies that participate in the system by putting their experience, knowledge, expertise and time into the system. In this method, profit sharing principles are applied. In case a profit is obtained from the system, the profit is shared between the parties in proportion to their shares. In case of financial loss, this loss belongs entirely to the participants who own capital. On the other hand, the loss of takaful insurance companies, which are in the position of mudarib, occurs in the form of loss of time and labour in the system. Therefore, the takaful insurance company is a partner in profit but not in loss (Öner, 2021). Participation banks also operate participation accounts with the mudaraba method. Participation banks can be a partner in this partnership as mudarib or capital owner.

#### **3.4.2. Musharakah (Profit and Loss Partnership)**

In this method, the parties are involved in the system as both capital and labour providers during the establishment of the partnership. In fact, unlike the mudarabah model, both parties put their labour and capital into the system at the same time. In participation banking, some of the capital required is provided by the participation bank and some by the customer. In the Musharakah method, the parties share in the profit and loss obtained from the system in proportion to their shares. This is the main feature of this method. The parties who share in the profit are also partners in the loss (Yılmaz & Bağış, 2021). When we look at it, we come across the cooperative model as the model in which the “profit-loss partnership” method works best in takaful insurance. Since the main purpose of takaful insurance companies established as cooperatives is not to make profit, profit and loss are shared among the participants in proportion to their shares (Üstün, 2014).

#### **3.4.3. Murabaha (Profitable Sale on Order)**

It is the most widely used Islamic financing method by participation banks. Murabaha, which literally means “increase, profitable sale”, is defined as “sale with profit declaration” on the official website of the Participation Banks Association of Turkey (2022). It is the process of buying a commodity in cash from the first seller by the participation bank and selling it to the customer on a deferred basis by adding a certain amount of profit to it upon the customer’s instruction or promise to purchase (TKBB, 2022). Since it is a very practical method, it draws attention as the most preferred fund utilisation method (Serçek & Yıldız, 2022).

### **3.4.4. Financial Leasing/Leasing (Lease Ending with Transfer of Ownership)**

Leasing is defined in the Interest-Free Finance Glossary published on the official website of the Participation Banks Association of Turkey (2022) as “a financing method that provides the transfer of the right of use of a good to the lessee in return for a rental fee while the ownership of the property remains with the financial institution and the transfer of the ownership to the lessee at the end of the specified period, usually at a symbolic price”. Financial leasing transaction must be based on a financial leasing agreement. The lessor financial institution (e.g. participation banks) must transfer the ownership of the goods to the lessee at the end of the lease period in order to provide financing. In this case, the lease period should be long enough to cover more than 80% of the economic life of the relevant good. At the end of the lease term, the lessee is granted the right to purchase (Yılmaz, Atalay, Aksoy & Aslantaş, 2015).

### **3.4.5. Exception**

It is a financing method in which the payment can be made in cash, in instalments or in advance by first selling a good that has not yet been produced and then producing and delivering it within a certain period. The exception method is a method frequently used by participation banks, especially in shipbuilding and all kinds of construction projects. For the relevant construction project, the customer first applies to the participation bank. The participation bank also contacts the construction company (Yılmaz & Bağış, 2021).

### **3.4.6. Selem (Advance Sale)**

Selem is defined in the Interest-Free Finance Dictionary published on the official website of the Participation Banks Association of Turkey (2022) as “the contract made by the buyer to sell the goods purchased by the selem contract to a third party before the goods are delivered” (TKBB, 2022). The process of selling goods with a certain quality and maturity in advance is called selem. Selem is mostly seen in the form of farmers selling their products to tradesmen in advance in order to meet their financing needs before harvest time (Alkış, 2018).

### **3.4.7. Tawarruq (Commodity Murabahasi)**

Tawarruq is a transaction in which individuals in need of cash buy a commodity on a deferred basis and then sell it to a third party in cash. The Tawarruq method applied by Islamic financial institutions (participation banks) is referred to as “organised Tawarruq”. It is not recommended to use the Tawarruq method except in cases of necessity. The subject of Tawarruq contracts cannot be money, gold or silver (Sancar, 2019).

### **3.4.8. Sukuk**

Sukuk can be defined as “bonds in accordance with the rules of the Islamic religion”. In fact, sukuk is to own an asset or to obtain the right to benefit from that asset. The sukuk right gives rise to both cash flow and ownership rights at the same time. In our country, sukuk is generally referred to as “lease certificate”. When we look at it, there should be no interest rate relationship in sukuk, sukuk should be based on an asset, and it should offer the right to use the asset (Selçuk, 2014).

### **3.4.9. Takaful**

Takaful, which is the most important of Islamic financing methods, was born as an alternative to tra-

ditional insurance due to the fact that traditional insurance is not in accordance with the rules of Islam and contains interest. Traditional insurance is a risk management tool that is formed by entities and organisations (insurance companies) that undertake this business as a profession and as a commercial activity against a number of risks that are similar or identical to each other, by paying a certain provision (premium), within the term agreed between the parties, in order to eliminate the loss arising in the event of the occurrence of the risks covered. (Demirbilek, 2022). Takaful, on the other hand, is based on the principle that individuals bearing the same risks come together and share the risk among themselves. Takaful, which embodies the elements of solidarity is also an indispensable element of the Islamic finance system. In this system, individuals who bear the same risks come together and form a group, and a fund is created with the contributions called “teberru” collected from the participants. If one of the individuals in the group suffers a loss, the loss of the individual is covered from the relevant participation fund. If the system generates a profit after the loss payments are completed, this profit is shared among the participants. In fact, the participants share the losses in case the system incurs a loss. Therefore, takaful insurance is called “profit-loss partnership”. The funds collected from the participants in the takaful insurance system are managed by takaful insurance companies in accordance with Islamic procedures and principles, thus creating resources for the Islamic finance system (Öz, 2020).

#### **4. THE PLACE AND IMPORTANCE OF TAKAFUL IN THE ISLAMIC FINANCE SYSTEM**

Takaful insurance, which offers assurance to individuals at the point of eliminating or minimising all risks that individuals in the Islamic finance system may face, has proven to be the most important tool of the Islamic finance system with the assurance it offers to individuals. Islamic countries today face serious geopolitical, social, political and economic risks. At this point, takaful insurance comes into play in order to protect Islamic countries against these risks, to meet their trust needs and to minimise the severe consequences of these risks. Thanks to this assurance, takaful insurance actually offers the interest-sensitive segment the opportunity to transfer its risk to the takaful insurance company. The most important application that consolidates the place of takaful insurance within the Islamic finance system is the takaful PPS application. With this application, individuals can be included in an individual pension system and have the opportunity to save for their future in accordance with Islamic principles. Takaful insurance, which is an assurance provider for the Islamic finance system, also comes to the rescue when participation banks are in search of assurance. Real or legal entity customers who use funds from participation banks or deposit funds in participation banks enjoy the comfort of carrying out their transactions under insurance assurance thanks to takaful insurance. If we explain this situation with an example, in a transaction where a construction crane is leased to a customer through the financial leasing (leasing) method, the insurance obligor of the construction crane is the participation bank and it applies to the takaful insurance company for insurance supply. Contributions collected from participants through the takaful insurance system are utilised in interest-free financial instruments. Therefore, by utilising the funds obtained from takaful insurance, the place of the Islamic finance system in the economy and the classical finance system is strengthened and its share increases. Takaful insurance continuously feeds and supports the Islamic banking and Islamic capital market sectors and is complementary to these sectors (Yıldırım, 2021).

Takaful is one of the most preferred Islamic financing methods. In recent years, the application areas, volume and capacity of Islamic finance have been rapidly expanding and growing worldwide. The most important share in this expansion and growth undoubtedly belongs to takaful insurance. Both in our country and around the world, there is a significant segment of people who are not included in the classical finance system due to interest sensitivity and who abstain from this issue. Appealing to this segment, takaful has become an indispensable financing tool for those who have difficulty in investing, borrowing and purchasing insurance assurance. As a result of this need, it is seen that takaful has strengthened its place in the Islamic finance system and increased its share. (Islamic Eco-

nomics, <https://islamiktisadi.net/2021/01/20/bir-islami-finans-enstrumani-tekaful/>, 2023)

In order to emphasise the place and importance of takaful insurance in the Islamic finance system, it is useful to convey an important detail. Takaful insurance is still at a very early stage. However, it is clear that it will catch up with the growth and progress rate achieved by participation banking (Sezal, 2017). For example, takaful insurance, which started in 2009 in our country, has doubled its production volume and fund collection capacity (Kumcu & Akıncı, 2017). Again, if we give an example from our country, it is an undeniable fact that participation banking has grown and developed rapidly in our country as well as in the world. Nevertheless, while the share of participation banks, which have been providing services for more than 35 years, is still around 6% in the sector, takaful insurance companies have succeeded in reaching a 5% sector share in just 15 years. For this reason, takaful insurance is a promising sector for the coming years (İlke, <https://ilke.org.tr/tekaful-uygulamalari-genisliyor>, 2023).

## 5. CONCLUSION

The Islamic finance system, in which financial transactions are carried out in accordance with Islamic principles and procedures in an interest-free manner, has been a very good alternative to the classical finance system. When we look at it, the existence of a strong financial system based on solid foundations is essential for economic growth and stability. However, since the classical financial system contains many uncertainties (*garar*), it is struggling with serious problems in terms of growth and stability. Especially when we look at the periods of major financial and economic crises around the world, it is seen that the classical financial system has suffered very serious losses and destabilised. However, it has been observed that the Islamic finance system has been less affected by the crises. Especially after these crisis periods, interest in the Islamic finance system has increased in Muslim countries and around the world. The fact that the Islamic finance system does not contain uncertainties and does not have a debt-based functioning makes this system more stable than the classical finance system and allows it to have a more advantageous position. We can say that the Islamic finance system is a must for sustainable economic growth. Therefore, it is clearly seen that the Islamic finance system has a structure that supports and complements the classical finance system.

When we look at the structure of the Islamic finance system, which emerged as a result of the inability of the conventional finance system to cope with the problems it faced, we see that it is formed by blending Islamic banking, Islamic capital market and Islamic insurance (*takaful*). It is loudly expressed throughout the world that *takaful* is an indispensable financing tool for the development and growth of the Islamic finance system, which provides the system with a sense of trust and enables more courageous behaviour during risky transactions thanks to insurance assurance. The development and growth of *takaful*, which is still in the development stage, will also develop and grow the Islamic finance system. For example, increasing product diversity in *takaful* insurance and developing products that offer investors the opportunity to enter different and niche areas will increase the funds collected in *takaful* insurance. Therefore, the input of the Islamic finance system will increase. Thus, financial mobility and vitality in the system will increase. In conclusion, the place of *takaful* in the Islamic finance system is quite solid and the existence of *takaful* is extremely important for the development of the Islamic finance system.

Finally, if we give an example from our country, the *takaful* insurance products (housing, *dask*, life and personal accident, individual pension, workplace, engineering, agriculture, etc. products) offered to customers especially during loan disbursement in participation banks that carry out the agency of *takaful* insurance companies enable *takaful* insurance to reach a wider masses and enable the public to benefit from *takaful* insurance services in daily life. The fact that an increasing number of participation insurance companies can reach their customers with mobile applications, artificial intelligence and technological innovations also expands the application areas of *takaful* insurance in the public base. At this point, the expansion of the application areas of *takaful* insurance will expand the application

areas of the Islamic finance system.

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