



ISLAMIC
FINANCE
ADVISORY

SHARIAH & SECURITY

THE ROLE OF INSURANCE IN ISLAMIC FINANCE



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Introduction

The UK insurance market is one of the largest in the world, with London being a global hub for insurance and reinsurance business. This industry not only contributes significantly to the UK economy but also plays a role in managing risks, thus providing stability and security to other sectors. As of 2020, it led Europe in terms of total domestic insurance premiums, making it the largest insurance market on the continent. Globally, the UK ranked fourth in terms of life and non-life direct premiums, ranking only behind the USA, China and Japan.¹

In terms of structure, the UK's insurance industry bifurcates into life and non-life insurance segments. Life insurance in the UK covers a range of significant life events, extending beyond death to include scenarios like disability or terminal illness. The expenditure on life insurance by UK households reached its highest in 2006, maintaining a steady level from 2019 to 2021. On the other hand, non-life insurance encompasses protection against property damage, business-related risks, and, in most cases, private health insurance. The UK recorded non-life insurance premiums of 116 billion euros, positioning it second in Europe for the highest value of premiums written.²

Focusing on market leadership within the UK, the country boasts several key players in Europe's insurance landscape. Prominently, three of the top ten life and health insurance companies in Europe, as of May 2023, are based in the UK. Aon, Prudential, and Willis Tower Watson stand out in this group, with a combined market valuation surpassing 130 billion US dollars. These leaders are accompanied by other major European insurers from countries such as Germany, Switzerland, France, Italy, and Belgium, based on gross written premiums.³

"As of 2024, the US, China and the UK make up the largest insurance markets in the world, together accounting for almost 55% of global premiums."

- 2025, Beinsure Insurance⁴

¹ <https://www.statista.com/topics/4511/insurance-industry-uk/#topicOverview>

² *ibid.*

³ *ibid.*

⁴ <https://beinsure.com/top-ranking-the-worlds-largest-insurance-markets/>



A Brief History of Insurance

The origins of the UK insurance industry can be traced back to the Elizabethan era. During the 16th century, as British maritime trade expanded, the need for marine insurance grew. Merchants and shipowners sought ways to mitigate the financial risk of sea voyages. This period marked the preliminary stages of formalised insurance practices in the UK, primarily focused on maritime risks.⁵

One of the most significant developments in the history of UK insurance was the establishment of Lloyd's of London in the late 17th century. Originally, a coffee house owned by Edward Lloyd, it became a meeting place for merchants, shipowners, and those willing to underwrite (insure) ships and cargo. This informal gathering laid the groundwork for what would become one of the world's leading insurance markets.⁶

By the 18th century, the scope of insurance in the UK began to expand beyond marine risks. This period saw the emergence of fire and life insurance. The infamous Great Fire of London in 1666, which resulted in massive property damage, highlighted the need for fire insurance. This led to the formation of the first fire insurance companies.⁷

In the 20th century the two World Wars had a significant impact on the UK insurance industry. The wars brought about unprecedented levels of destruction, death, and injury, leading to huge insurance claims. These events tested the resilience of the industry and led to the development of new forms of insurance, including various liability and war risk covers.⁸

In the post-World War II era, the UK insurance industry underwent significant expansion and diversification. The economic boom and the rise in consumerism led to an increased demand for various types of insurance, including motor, travel, and health insurance. This period also saw the growth of reinsurance.

5 KINGSTON, C. (2014). Governance and institutional change in marine insurance, 1350-1850.

6 <https://www.lloyds.com/about-lloyds/history/coffee-and-commerce>

7 <https://www.museumoflondon.org.uk/discover/how-great-fire-london-created-insurance>

8 <https://www.atlas-mag.net/en/article/history-of-war-risks-insurance>

The late 20th and early 21st centuries have been characterised by technological advancements and globalisation. The UK insurance market has not only grown domestically but has also expanded its global footprint, dealing with international insurance and reinsurance. The advent of the internet and digital technology has transformed the way insurance products are marketed, sold, and managed.

This traditional form of insurance, evolving through centuries, became a cornerstone in managing financial risks associated with life, property, and businesses. The concept revolved around pooling resources to protect against losses, a principle that resonated across various cultures and economies and evolved into the conventional insurance we have today based on the transfer of risk from the insured to the insurer for a premium.

However, as this traditional insurance model spread globally, it encountered diverse cultural and religious perspectives, leading to unique adaptations and alternatives.

What are the Components of a Modern Conventional Insurance Contract?

A modern conventional insurance contract consists of six noticeable elements, as shown in the following diagram:

Often a company or institution that is obligated to pay financial compensation to the insured when the covered event or risk occurs.



The individual or entity that holds an insurance policy and is protected under it. This person or organisation enters into a contract with an insurer and pays premiums, in a lump sum or instalments as agreed, in exchange for financial protection or reimbursement against specified risks or losses.



The events or risks that the insured expects could occur in the future, such as a fire, accident, death or disaster.



This is the sum that the insured is obligated to pay to the insurer.

This section specifies the maximum amount the insurer will pay under the policy for a covered loss.



By this, we mean the period covered by the insurance contract. For example, one year from the date of the contract, and the insurance contract ends upon its expiry.



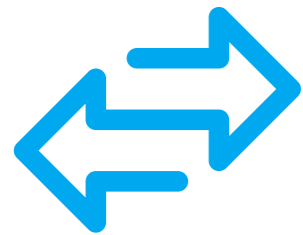
Islamic Considerations regarding Conventional Insurance

In Islam a modern conventional insurance contract is considered to have the following 4 properties as shown in the diagram below:

From the perspective of Islamic Jurisprudence, the conventional insurance contract is considered binding upon both parties to the contract at the time of its commencement. Accordingly, and given the nature of the contract, the insurer is a creditor from a perspective, and a debtor from another. Likewise, the insured is a creditor from a perspective, and the debtor from another, and these obligations are established by the contract. Consequently, neither of the contracting parties has the right to annul the contract or terminate it unilaterally, unless there is a legitimate or legal permitting it.

It is seen as a Contract of Exchange

The insurance contract is a financial contract of exchange, not a donation or contract of benevolence. Due to it being based on exchange, in which both parties aim to obtain a benefit in exchange for what the other contracting party receives, the insurer is obligated to deliver financial compensation to the contractual entity experiencing realised risk, and the insured is obligated to pay the agreed-upon premium. This differs from a contract of benevolence in which the intent of the transaction is not an exchange, and in which the contracting party does not contractually receive a counter-value for what they give.



It is seen as a Speculative Contract

The conventional insurance contract is a speculative or contingent contract from the perspective of Islamic Jurisprudence, and not a specified contract. The reason for this is simply because the risk being insured against is a matter that the insurer and the insured anticipate to happen or not happen in the future. Accordingly, the matter of contractual liability (possible accident/loss) does not exist at the time of contracting, but is considered something that may exist in the future, with its occurrence being beyond the control of any of the contracting parties. From the perspective of Islamic Law, this is considered 'ambiguous', (or containing *Gharar* غرر), and has implications on the ruling of a contract.



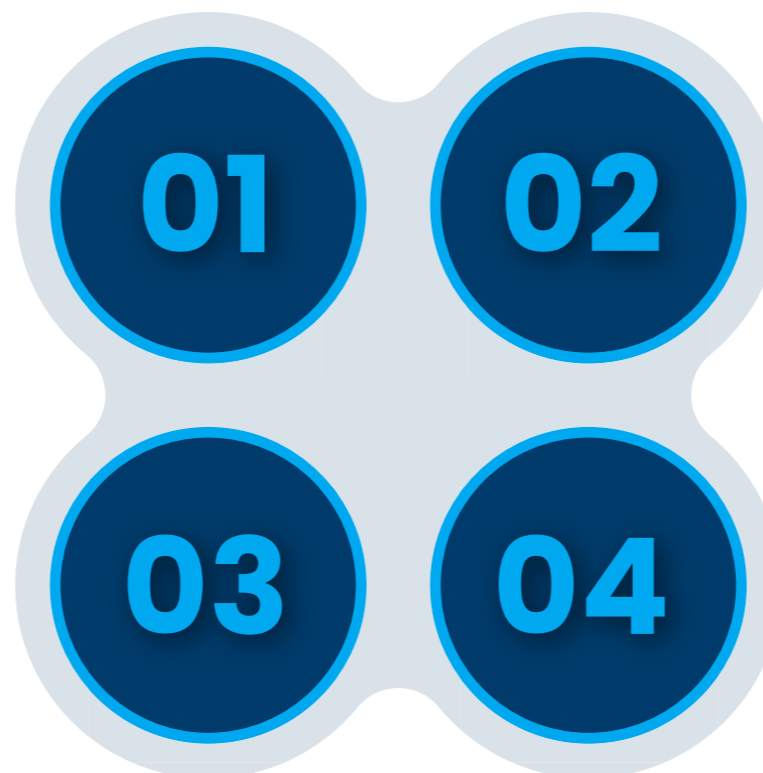
It is seen as a Modern Contract

Conventional insurance contracts are a modern contract from the perspective of Islamic Jurisprudence, i.e. it is not found in the list of named contracts found in the classical books of Islamic Jurisprudence. For this reason, it is based on diligence and personal reasoning of Islamic scholarship in devising and deducing the jurisprudence provisions regarding it.



It is seen as a Contract of Adhesion (*al-idh'ān* الإذعان)

Through the lens of Islamic Jurisprudence, a conventional insurance contract is a **contract of adhesion** (*al-idh'ān* الإذعان), because the insurer is a stronger party to the contract by design as it dictates its will to the counterparty of the contract who is the weaker party, i.e. the insured. Accordingly, the insurer prepares the insurance contract in advance, and the insured has no to little negotiating ability except to sign it and assume the resulting contractual liability. This reality is even more pronounced in insurance contracts that are a result of compulsion, due to laws or contractual conditions stipulating insurance as a part of the governing/transacting rules.



Insurance: An Islamic Perspective

As stated earlier, conventional insurance contracts as they exist today are a modern phenomenon from the perspective of Islamic Jurisprudence. Accordingly, there is no specific evidence from the era of revelation dealing with it specifically.

That said, Islam's legal framework which includes controlled Scholarly Legal Reasoning (*Ijtihad*) is inherently capable of providing adequate rulings to suffice all occasions until the Day of Judgement. With *Ijtihad*, the differences between the jurists in aligning the insurance contract and its conditioning from an Islamic Jurisprudence perspective will naturally lead to a difference in ruling.

Those who view insurance as akin to contracts connected to cooperation for good deeds have issued fatwas permitting it. In contrast, those equating it to a contract of exchange have flagged key necessary factors, such as gambling, usury (interest), or an ambiguity regarding it, and accordingly have issued fatwas declaring it prohibited.

Additionally, some jurists have explored a middle ground, treating insurance as a conventional contract of exchange while ensuring the counter-value is concluded to be something tangible in order to negate or reduce the contracts' associations with gambling, usury and ambiguity.



What is the difference between Interest and Usury?

In Islam, interest and usury are often spoken about together, but there is a key distinction and it mostly relates to how the terms are used in everyday English, not under Islamic law.

According to Islamic Jurisprudence any guaranteed increase on a loan regardless of how small it may be is considered to be *Ribā*, and of course all *Ribā* is prohibited, regardless of whether it is small or large, or 'mild' or 'extreme'. In other words, in Islam **both interest and usury are seen as *Ribā*** and therefore, they are the same in terms of ruling, i.e. **both are prohibited**.

In everyday English however, interest can mean any additional charge on a loan, even modest and regulated, whereas usury usually means excessive, exploitative or predatory interest. Islam does not make this split and does not differentiate between 'mild interest' and 'extreme usury.' If it is an increase on a loan, regardless of how small it may be and even though it may be regulated, it would fall under the term *Ribā* and would therefore be prohibited.

The Islamic Ruling on Insurance:

Islamic Scholarship has predominantly differed on the topic of conventional insurance based on two views:

The First View:

Conventional insurance is Forbidden in Islam from the outset.⁹

This view is shared by the vast majority of contemporary Islamic Scholarship across the spectrum of the four major schools of Islamic Jurisprudence (*Mathaahib*).¹⁰ The foundations for their collective verdicts are encapsulated as follows:

1. It Entails an Ambiguous Transaction

Conventional Insurance entails an ambiguous transaction, the likes of which were prohibited by the Messenger (ﷺ), for he (ﷺ) "forbade ambiguous trade."¹¹ The ambiguity arises from the fact that the event being insured against, at the time of contract initiation, is uncertain - it might happen in the future, or it might not, and its occurrence or non-occurrence is beyond the control of the parties involved in the contract. From an Islamic Jurisprudence perspective, this would entail a level of ambiguity that is unforgivable in contracts that involve financial compensation.



⁹ The added phrase "from the outset" is mentioned to denote that Islamic Jurisprudence allows for exceptions to the rule of prohibitions in exceptional circumstances.

¹⁰ Dr. Issa Abdo: 1)166 (ص: حقه والحرمة) [Insurance Between Solution And Prohibition] Professor Mustafa Al-Zarqa: 1)25 (ص: حقه والرأي الشرعي فيه) [The insurance system: its reality and the legal opinion] Dr. Wahba al-Zuhayli: (4/442) وأدلته الفقه الإسلامي [Islamic jurisprudence and its evidence].

¹¹ Sunan Ibn Majah 2195.

2. It is Akin to Gambling

A conventional insurance contract is akin to gambling, creating a zero-sum situation where one party's gain is contingent on the other's loss. A positive-sum outcome is inconceivable; because if the insured pays a premium and then an accident happens, the insurer must pay the full amount of the coverage. Conversely, if the insured event doesn't occur, the insurer retains all paid premiums without owing any compensation.

Furthermore, when a payout is required, the exact amount the insurer owes to the insured remains uncertain, and it's unclear whether this will be more or less than the total premiums paid. Thus, falling within the general prohibition of gambling found in the verse:

يَا أَيُّهَا الَّذِينَ آمَنُوا إِنَّمَا الْخَمْرُ وَالْمَيْسِرُ وَالْأَنْصَابُ وَالْأَزْلَامُ رِجْسٌ مِّنْ عَمَلِ الشَّيْطَانِ
فاجْتَنِبُوهُ لَعَلَّكُمْ تَفْلِحُونَ

O you who believe! Intoxicants, gambling, idols, and drawing lots for decisions are all evil of Satan's handiwork. So, shun them so you may be successful.

Surah Al-Ma'idah: 90

3. It is a means toward the realisation of Ribā

Conventional insurance is a **means toward the realisation of Ribā** (usury/interest), as it involves both *Ribā al-faḍl* (usury of surplus) and *Ribā al-nasī'ah* (usury of delay). This is because if the insurance company pays more than received to the insured, or their heirs, as in the case of life insurance, then this would entail receiving less money for more money (*Ribā al-faḍl*).

Additionally, *Ribā al-nasī'ah* is realised as the insurer makes these payments in a deferred manner. If the payout by the insurer is equal to the amount received, then it constitutes only *Ribā al-nasī'ah*. Both forms of Ribā are forbidden, as per textual evidence and scholarly consensus.¹²

Noteworthy Important Mention:

Using the framework for impermissibility in the *Shari'ah* that we discussed earlier, we can now see that the default ruling entails conventional insurance being forbidden from the outset.

However, if the prohibition stems from the presence of excessive *Gharar* (uncertainty), and if a person is forced to take out insurance, for example someone who needs to drive in the UK and is unable to lawfully without valid car insurance, as an exception due to the law of the land and not having a choice in the matter and no permissible alternative, insurance in this scenario would become permissible as an exception, due to the legal requirements of the country and

a person not having a choice in the matter, as there are no permissible alternatives.

This is supported by the rule regarding that which the *Shari'ah* makes prohibited 'as a means', such as the prohibition of ambiguity in contracts which is classified by Islamic Jurisprudence as 'impermissible as a means to an end'¹³, rather than being 'inherently impermissible'.¹⁴

Consequently, the criterion set by the law of the country invokes the principle of 'need', rather than 'necessity' coming into scholarly consideration by virtue of Islamic Law, and Islamic Jurisprudence permits as an exception matters that are impermissible 'as a means' but not 'as an end' due to 'need' being realised.¹⁵

Should a situation arise where the aforementioned 'need' is resolved, either through a modification in legal regulations, changes in conventional insurance practices, or, more feasibly, via the introduction of a *Shari'ah*-compliant alternative, then the provisional allowance granted by Islamic Jurisprudence would accordingly come to an end, and the default ruling of prohibition will be defaulted to.



¹³ i.e. Impermissible due to it being a means to an end which is inherently impermissible in Islamic Law.

¹⁴ For example, *Ribā* (usury) is considered forbidden in and of itself; in Islamic law, illustrating a prohibition that is inherent rather than due to being a means to something else.

¹⁵ Ibn Taymiyyah - <https://www.islamweb.net/ar/library/content/22/2435>

The Second View:

Conventional insurance is a permissible contract.

The foundations for the collective verdicts of those who follow this view are encapsulated as follows:

1. The Default Ruling on contracts is permissibility

This is based on the well-known Islamic Jurisprudence principle: “The default ruling on contracts is permissibility”.

We previously mentioned “conventional insurance contracts as they exist today are a modern phenomenon from the perspective of Islamic Jurisprudence. Accordingly, scholars of this view argue that there is no specific evidence from the era of revelation dealing with it specifically. Therefore, conventional Insurance would be permissible as it successfully falls under the principle “The origin of things is permissibility”¹⁶

2. It is a Co-operative Activity

Conventional insurance is a co-operative activity based on spreading risk across a portfolio of insured individuals and Allah says:

وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَىٰ
And cooperate in righteousness and piety

Surah Al-Ma'idah:2

Drawing from the interpretation of this verse and the preceding arguments, the scholars of this view have concluded that conventional insurance is not only permissible, but also aligns with Allah’s command for mutually assisting one another. In this context, it involves the collective sharing and distribution of risk by the insurer across the portfolio of insured individuals they have contracted with.

3. Based on Qiyās (Deductive Analogy)

The Qiyās used to justify the permissibility of conventional insurance is as follows:

A. ‘Aqd al-Muwālāt

This refers to a contract of support in which a person with an indeterminate lineage appoints a person with a known family background as a guardian. This guardian, the ‘Aqilah¹⁷, assumes

financial liabilities on behalf of the appointing party in the case of any criminal offence, including obligations like *diyah* (blood money) in the case of accidental homicide. Should the appointing party die or otherwise, the ‘Aqilah stands to inherit from their wealth.¹⁸

Scholars of this view draw parallels between this and conventional insurance, noting that it creates legal responsibilities of assistance between both parties. One assists the other in the event of the risk of an offence taking place, and takes a share of his wealth in return, mirroring the mutual responsibilities seen in insurance agreements.

B. Ḍamān khaṭar al-ṭarīq -

This refers to a contract of guarantee from road danger found in the books of Islamic Jurisprudence of the Hanafi *Mathhab* particularly. This contract involves one party assuring another by saying: “Travel this path, and should any harm befall you, I will bear the financial repercussions.”

Drawing from this, some scholars argue by analogy that such a contract is permissible, wherein one assumes financial responsibility to safeguard another’s journey. This resembles the role of an insurer who legally commits to covering financial risks specified in the policy holder’s contract.

C. Al-Wa’d al-Mulzim

This refers to a binding promise which some Maliki scholars (may Allah shower His mercy upon them) have permitted. An example of this would be a person telling someone: “Sell your car, and if you make a loss, I will cover it.” This is considered a binding promise and according to aforementioned scholars, if there is a loss, then the one who made the promise must cover it.

Accordingly, this is used as a basis that such a binding promise creates a legal liability which has been permitted by some scholars and in turn the same would apply to conventional insurance contracts. The insurer makes a binding promise that if an individual pays his monthly instalment to the insurer, then the insurer will cover any loss the individual makes against the policy due to a specified risk.

D. Niḡām al-a’wāqil

This is the framework of those who are ‘Aqilah and their responsibilities. This phenomenon entails that in instances of involuntary manslaughter resulting in a financial obligation like *diyah* (blood money), this liability is distributed among the ‘Aqilah of the offender. These ‘Aqilah are typically the male family members and relatives who are *bāliġh* (mature).¹⁹ The aim of this system is to prevent bankruptcy from inflicting the offender, while ensuring the victim’s party receives compensation, as the financial load is more manageable when dispersed.²⁰

16 The legal maxim, الأصل في الأشياء الإباحة (*Al-Asl fil-ashya’ al-ibahah*), meaning “The origin of things is permissibility”

17 The word ‘Aqilah’ is the plural of ‘Aqil’, which is the one who pays blood money, or compensation in the event of an offence that carries financial consequences.

18 نظام التأمين للشيخ مصطفى الزرقا p29

19 Radd al-Muḡtaar ala as-dur al-Mukhtaar, ibn Aabideen (3/345)

20 عقد التأمين ومدى مشروعيته في الفقه الإسلامي p60 نظام التأمين للشيخ مصطفى الزرقا p279 onwards

Some scholars note the resemblance between the legal responsibility shouldered by mature male family members, as per the principles of 'Aqilah, and the liability an insurer assumes when providing coverage for particular risks. They point out that just as the insurer manages a pool of insured individuals and disperses costs across this collective group, the 'Aqilah distribute the financial burden among themselves to mitigate the impact on any single member.

E. Security Services Contract

This is a contract in which an individual would hire a guard for one's premises, in order for the presence of the guard to serve as a deterrent and provide security.

Some scholars argue that this is akin to an insurance contract as a person is paying for a contract to safeguard themselves in the event of certain risks being realised.²¹



Responses to the Evidences of those that Permit Conventional Insurance:

Responding the use of the principle “The default ruling on transactions is permissibility”

As for the first evidence which uses the principle “**The default ruling on transactions is permissibility**” which entails that in the absence of any evidence transferring the default ruling to impermissible, conventional insurance remains permissible. The scholars who deem conventional insurance as impermissible state that whilst the default status of matters is permissibility and barring any existing prohibition is an accepted principle, there does exist a precedent for such a prohibition. They state that this precedent is rooted in evidence, in which the Prophet (ﷺ) prohibited transactions involving unacceptable levels of ambiguity, which would encompass conventional insurance agreements.

Responding the use of framing conventional insurance as “co-operative activity”

As for the evidence which frames conventional insurance as “**co-operative activity**”; the scholars deeming conventional insurance as impermissible reply by stating that this is a misunderstanding of the reality of an insurance agreement.

This is because the insurer is a private business that benefits from this arrangement by charging premiums that, in total, exceed the amount they expect to pay out in claims. Insurers have the business prerogative to increase premiums or even discontinue coverage for individuals to increase their profits.

Policy holders prioritise their own financial interests, which include seeking the most cost-effective option. This means they may prefer changing to a cheaper insurer if it offers the same level of coverage at a lower premium. This preference for cost-saving options demonstrates that individual policyholders are concerned with their own financial well-being and not any communal entity.

This system isn't based on mutual cooperation or mercy among the insured individuals, rather, it's a business transaction where each party - the insured and the insurer - is acting in their own interest.

Responding to the various ways *Qiyās* (Deductive Analogy) has been used to justify the permissibility of conventional insurance

A. The response to the “*Aqd al-Muwālāt*” analogy

The analogy drawn here is not applicable because the nature of the contracts differs significantly. Insurance companies enter contracts with the primary objective of making a profit. This is distinct from the essence of *Aqd al-muwālāt*, where the main focus is on brotherly support and mutual assistance during challenging times.

In the UK, claims adjusters dedicate much of their time to scrutinising insurance claims. Their routine involves gathering statements, examining police and hospital reports, assessing property damage, and reviewing precedents set by similar claims. However, their perspective is singularly focused. Their only objective is to reduce the insurer’s expenses, striving to minimise the payout on each claim as much as possible, aligning with the financial interests of their employer.

B. The response to the “*Ḍamān khaṭar al-ṭarīq*” analogy

This analogy is again not applicable for the same reason mentioned above. The intention in *Ḍamān khaṭar al-ṭarīq* is to encourage support for each other through a difficulty should it arise. The party making the guarantee is not intending to do so in order to make a profit.

The insurance sector in the UK frequently faces criticism for insurers resorting to technical loopholes or subtle tactics to skirt claim settlements or minimise payout amounts.²² This approach stands in stark contrast to a guarantee made out of benevolence, where the intention is to genuinely assist without seeking any loopholes or reductions.

C. The response to the “*Al-wa‘d al-Mulzim*” analogy

This analogy is not precise, as the motivations behind the actions are fundamentally different. An insurer’s objective is once again profit-making, whereas a binding promise stems from a desire to benefit someone else.

Consider examples like offering to pay for someone’s dowry in marriage or saying “Sell your broken car and I will help you with what you are less in buying another one for your family”. These are acts of kindness, motivated by benevolence, without any expectation of personal financial gain. The legal obligation assumed in these cases is born out of altruism, aiming to help one another, unlike an insurance contract where the underlying intent is financial gain.

D. The response to the “*Nizām al-a‘wāqil*” analogy

The idea of family and relatives coming to your aid is based on the principle of maintaining bonds of kinship (*Silat ar-rahim*), meaning the idea of caring for kin, visiting them, and helping them in any way possible, with the intention of seeking reward and recompense from Allah.

This is emphasised by the Qur’an itself:

وَاتَّقُوا اللَّهَ الَّذِي تَسَاءَلُونَ بِهِ وَالْأَرْحَامَ
And be mindful of Allah—in Whose Name you appeal to one another—and
'honour' family ties.

Surah An-Nisa:1

وَبِالْوَالِدَيْنِ إِحْسَانًا وَبِذِي الْقُرْبَىٰ وَالْيَتَامَىٰ
And to parents do good, and to relatives, orphans,

Surah An-Nisa:36

In stark contrast, an insurance company is not connected to the insured through blood relations or a bond of brotherhood. Nor does the insurer provide assistance out of a desire to obey Allah or from a place of mercy. This is evident in the fact that the insurer requires payment upfront, before the occurrence of the event against which the insured seeks protection, as a precondition for their support when needed.

The analogy is fundamentally flawed because relatives assisting family members do so without any expectation of personal gain. They don’t require upfront payment for their support, offering assistance only if and when it’s needed. If they were to demand advance payment as a condition for help in the future if it was required, it would also be considered a form of gambling, much like the scenario with insurance. This starkly contrasts with the nature of familial assistance, which is typically unconditional and not driven by profit motives.

E. The response to the “Security Services Contract” analogy

The contract with a security company significantly differs from a conventional insurance contract, as it is essentially a contract of *Ijarah*, which involves hiring the services of a person or a company. In this arrangement, the security company is tasked with providing a guard whose duty is to watch over the property, effectively acting as a deterrent. The payment made in this scenario is specifically for the service of guarding, not for compensation in case of any incident.

22 <https://www.theguardian.com/business/2022/dec/02/insurers-breaking-fca-rules-by-undervaluing-written-off-vehicles>
<https://www.insurancetimes.co.uk/news/insurers-must-work-together-to-improve-consumer-trust-if-they-are-to-avoid-outside-regulation-acso/1443813.article>

In contrast, an insurance contract operates on a different premise. Here, the payment is not for a service rendered, like guarding, as the fundamental nature of this contract is not service-based (as in *Ijarah*) but rather financial protection-based. If, despite the presence of security, the premises were to be broken into, the responsibility for the damages does not typically fall on the security company. Instead, they are only accountable for providing the agreed-upon guarding services. Drawing an analogy between these two types of contracts, simply because both offer a form of “peace of mind,” is not accurate and goes against the framework of Jurisprudence methodology for *Qiyās*.

In addition, even if it could successfully be argued that ‘peace of mind’ is an acceptable counter-product for this transaction, the nature of the peace of mind offered in each case is fundamentally different: one is service-based, focusing on prevention, while the other is protection-based, focusing on financial compensation after an event has occurred. This distinction makes it misleading to equate the two under the same premise of providing reassurance or security.



The International Islamic Fiqh Academy’s Resolution on Conventional Insurance

The International Islamic Fiqh Academy (IIFA) which is a universal scholarly organisation recognised worldwide studied the topic of conventional insurance in the 1980s and concluded as per an almost unanimous agreement the impermissibility of conventional insurance as a default rule.²³

The following text is a translation from their resulting bulletin:

International Islamic Fiqh Academy: Decision No.9 regarding insurance and reinsurance:

To proceed, the International Islamic Fiqh Academy, as an entity of the Organisation of the Islamic Conference, in its second council held in Jeddah from 10–16 of Rabī` al-Thānī 1406 AH, 22–28 December 1985 CE, states:

“Having analysed the proposals made by the scholars contributing to the council regarding insurance and reinsurance, and having rigorously examined its various types and forms, as well the principles upon which it is founded and the goals it aims to realise, apropos other Fiqh councils ‘ and scholarly bodies ‘ discussion thereto—the council has decided:

- 1. That the conventional insurance contract of fixed instalments which conventional insurance companies deal with is a contract with copious gharar, rendering said contract void. It is thus legally impermissible (muharram shar`an).*
- 2. The alternative contract which adheres to Islamic principles of financial dealing and engagement is the cooperative insurance contract that is founded on donation and cooperation. Likewise, is the case for second-hand insurance that is founded on cooperative insurance.*
- 3. To call all Islamic countries to work on the establishment of cooperative insurance organisations as well as cooperative organisations for second-hand insurance in order to free Islamic economies from manipulation and contradicting the system which Allah approves of for the Ummah.”*

The Islamic Finance Advisory's (IFA) Resolution on Conventional Insurance

The Islamic Finance Advisory is a Shura based non-profit community-orientated programme based in London offering a range of services dedicated to Islamic finance and economics to an international audience.

The Panel of Scholars at the IFA have concluded the same view as that of the International Fiqh Council, and recognises that at a fatwa level, exceptions are applicable as per the mandates of Islamic Jurisprudence. Furthermore, the IFA scholarly panel is dedicated to being a reference for the study of an individual's specific circumstances and generating the necessary Islamic guidance.²⁴



A Shari'ah Compliant Alternative to Conventional Insurance

Contrary to common belief, the Shari'ah is not opposed to mitigating risk, rather one of its objectives is to protect the wealth of the people. For example, it is not uncommon to request collateral when giving a loan and this is substantiated by the Qur'an itself:

وَإِنْ كُنْتُمْ عَلَى سَفَرٍ وَلَمْ تَجِدُوا كَاتِبًا فَرِهَانٌ مَّقْبُوضَةٌ

If you are on a journey and a scribe cannot be found, then a security can be taken.

Surah Al-Baqarah: 283

One such adaptation from the traditional form of insurance mentioned earlier emerged in the Islamic world with the development of *Takaful*, an insurance model adhering to the principles of Shari'ah. The concept of *Takaful* presents a stark contrast to conventional insurance in several key aspects, particularly in its approach to risk sharing and investment. *Takaful* operates on a cooperative model where participants mutually 'guarantee' each other against loss or damage.

This fundamental difference from conventional insurance stems from the need to align financial practices with Islamic values, which emphasise mutual assistance, shared responsibility, and ethical investing without delving into transactions involving *Ribā* (interest), *Gharar* (uncertainty), and *Maysir* (gambling).

What is Takaful?

The globally recognised and vibrant insurance market of *Takaful*, compliant with Islamic principles, has a rich history that dates back till before the advent of Islam. After Islam, the Messenger (ﷺ) recognised this practice in a praiseworthy light captured by the following authentic narration:

Abu Mūsa al-Ash‘ari (may Allah be pleased with him رضي الله عنه) reported that the Messenger of Allah (may Allah’s peace and blessings be upon him ﷺ) said:

“The Ash‘aris, if they ran short of provisions while on a military expedition, or if their children were short of food in Madīnah, they would gather everything they had in one piece of cloth then they would divide them evenly among themselves. Thus, they are from me and I am from them.”²⁵

Takaful, which means ‘shared responsibility’ in Arabic, roots itself in the concept of cooperative risk-sharing. This foundational principle of *Takaful* highlights its long-standing tradition of mutual support and collective risk management.²⁶

Accordingly, *Takaful* is a system based on mutual assistance which originates from ancient Arab tribes as a source of pooled liability which allowed compensation to be paid for any offences committed to another tribe. This principle later extended to many fields and is present in many modern Islamic countries in the form of car and home insurance.

In terms of this article, it is notable to note that it wasn’t until 1979 in Sudan that the first modern *takaful* company was established. Then, in 1985, the Grand Council of Islamic Scholars within the Organisation of the Islamic Conference officially sanctioned *takaful* as an Islamically acceptable alternative to conventional insurance, given that conventional insurance practices were considered to be in conflict with the Shari’ah.

Takaful is commonly referred to as Islamic insurance and this is due to the apparent similarity between the contract of kafalah (guarantee) and that of insurance. However, unlike conventional insurance, members in a *takaful* contract are both the insurers and the insured, and each member of the *takaful* group agrees to make regular contributions or premiums. Thus, *takaful* can be pooled into a fund and managed and distributed on behalf of the participants by an operator who acts as a *mudarib* – a manager or an entrepreneurial agent for the policy holders, who charges a fee to cover costs such as claims management and underwriting.

Any claims made by members are paid out of the *takaful* fund and any remaining surpluses, after making provisions for the likely cost of future claims and other reserves, belong to the participants in the fund – not the *mudarib*. Those funds may be distributed to the participants

as cash dividends or otherwise.

In terms of modern implementation, a *takaful* operator, the *mudarib*, would be able to invest the pooled money and the policyholders would become joint investors in order to not diminish the value of their money over time. A positive return on policies is not legally guaranteed, as any fixed profit guarantee would be akin to receiving interest and contradict the prohibition against *Ribā*.

For a deeper dive into the topic of *takaful* please keep an eye out for our forthcoming publications where we take a more comprehensive exploration of *takaful*, including its various applications.

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²⁵ Bukhari and Muslim

²⁶ https://www.pwc.com/bm/en/services/assets/takaful_growth_opportunities.pdf



Author

Shaykh Dr. Sajid Ahmed Umar initially pursued a first degree in IT and went on to successfully open an IT business. Alongside his contemporary studies, Shaykh Sajid was a student at a Qur'an academy till the age of 18. Subsequently, he turned his attention to Islamic Studies. He completed a 3-year University Diploma in Arabic language and Islamic Sciences at Imam Muhammed bin Saud Islamic University and later attained a bachelor's degree in Sharī'ah and thereafter a master's degree in Judiciary (Qadā), with honours, from the Higher Institute for Judiciary Studies (Ma'had al-'Alī li al-Qadā).

Shaykh Sajid trained as a judge and completed a thesis on Liquidity Management using the famous Repurchase Agreement (REPO) contract and its rulings and permitted alternatives. Upon attaining a Ph.D. from the Higher Institute of Judiciary at Al-Imam University in Comparative Islamic Law and Judiciary he completed a two-volume dissertation thesis on Sharī'ah solutions in Financial Risk Management.

Shaykh Sajid has played an integral part in Islamic academic and project development worldwide. He has authored several articles and dissertations in both Arabic and English pertaining to the various Islamic Sciences, is an Associate Professor at Knowledge International University, and is currently the chair of the Panel of Scholars at the Islamic Finance Advisory as well as being a Senior Advisor at Islamic Council, and the Sharī'ah Governance Officer for the National Waqf Fund.



About Islamic Finance Advisory

The Islamic Finance Advisory (IFA) offers tailored Shari'ah consultancy services to ensure financial and business activities align with Islamic principles. From Shari'ah compliance checks, certification for businesses, investments, and fintech, to guidance on zakah, waqf, wills, and inheritance, the IFA helps Muslims achieve Islamically ethical financial solutions. With expert adjudicators for dispute resolution and a commitment to wealth-building based on divine guidance, the IFA ensures equitable financial practices for individuals and businesses alike.



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