

Islamic Insurance (Takaful): Demand and Supply in the UK

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Abstract

Takaful is the Shariah compliant alternative to conventional insurance. Unlike conventional insurance, *takaful* insurance avoids prohibited concepts according to Islamic law, such as interest (*Riba*), gambling (*Maysir*) and uncertainty (*Gharar*). While there is a rapid growth in the *takaful* industry worldwide, it is in its early stages in the UK. In the UK there are only two *takaful* providers, one of which is struggling to raise capital and remain in business. In this paper the main objective is to examine empirically whether there is a real demand for *takaful* products among Muslims in the UK. This may involve other aspects such as targeting different segments of the Muslim population (e.g. overseas students in the UK) or effectively promoting strategies.

Key words: Islamic insurance, *takaful*, *Riba*, *Maysir*, *Gharar*.

1 Introduction

Takaful is the Shariah compliant alternative to conventional insurance (Al-Qaradaghi, 2011). While there is a rapid growth in the *takaful* industry worldwide, it is in its early stages in the UK. In the UK there are only two *takaful* providers, one of which is struggling to raise capital and remain in business. Despite the fact that there are about 1.6 million Muslims in the UK, which constitutes 2.8% of the whole population (ONS, 2010), there is only a small demand for Islamic insurance (*takaful*). In this paper the main objective is to examine empirically whether there is a real demand for *takaful* products among Muslims in the UK. Other relevant aspects and questions that are considered in this paper are stated below.

Q1: Is there a real demand for takaful in the UK market?

- Are people willing to switch from their current insurance providers to *takaful* providers if they will get the same service (cover) at competitive prices?
- Are there different levels of demand for *takaful* products in different cities in the UK?
- Is there a market among overseas Muslim students for *takaful* products? If so which products?

The latter point is interesting to look at since there is a significant increase in the number of overseas students in the UK. According to UKCISA (2010), India, Malaysia and Pakistan are among the top ten countries that send students to the UK. In 2007/2008, the numbers of students from these countries was 25,905, 11,730 and 9,305 respectively, hence in total 46,940 students. There is also a substantial number of Muslims from other Arabic and Islamic countries who study in the UK. Therefore, it may be interesting to investigate if there is special demand for insurance products in this segment of the Muslim population, such as student insurance, car insurance, home contents insurance or mobile phone insurance.

Q2: Is there awareness among Muslims in the UK about the Islamic insurance (takaful)?

This includes whether they are aware of the main concept of *takaful* and its important principles, and whether they consider *takaful* to be Shariah compliant. There are two *takaful* providers in the UK, to what extent UK Muslims are aware of their existence is of interest.

Q3: Do UK Muslims agree with the use of Arabic terms for the Islamic insurance (takaful)?

Using Arabic terms for the Islamic insurance *takaful* may help to distinguish *takaful* products from the corresponding conventional insurance products. Furthermore, this may help to emphasize that these products are Shariah compliant. However, avoiding Arabic and Islamic terms may help to attract non-Muslim customers and thus increase the *takaful* share in the market.

This paper aims to answer these questions using empirical data collected via an online questionnaire. Some secondary data may be used for discussion and comparisons. This paper is organized as follows: Section 2 introduces *takaful* insurance and provides an overview of previous research on this topic. The demand for Islamic financial services and the status of *takaful* industry in the UK are highlighted. It also looks at some vital aspects of retailing *takaful*

products such as promoting and increasing customers' awareness. Finally some opportunities and challenges for *takaful* industry are discussed. Section 3 explains the methodology that has been used in this paper. The analysis and the findings of the main questions of this paper are presented in Section 4. Section 5 summarizes the results of this paper with some recommendations.

2 Takaful: Introduction and overview

Takaful is derived from the Arabic word 'Kafala' which means 'guaranteeing each other' or 'joint guarantee'. It is not a new concept; it has been practised in various forms for over 1400 years, back to the practice of 'Aqilah' by ancient Arabs in which there was a mutual agreement among the tribes that, if anyone is killed unintentionally by a person of a different tribe, the killer's relatives take the responsibility to make a mutual contribution towards paying the blood money to the victim's relatives. This was later extended to cover many other situations, for example in sea trade to cover anyone in the group who had an accident during sea voyages (Khorshid, 2004; Sadiq, 2006).

There are several indications from the Qur'an and the Sunnah that encourage and support the concept of *takaful*. For example, in the Qur'an (Surah al-Maidah): "Help ye one another in righteousness and piety, but help ye not one another in sin and rancour." (Qur'an, 5:2)

And in the Traditions of the Prophet (the Sunnah), people are encouraged to help each other particularly in hard times: "The believers, in their affection, mercy and sympathy to each other, are like the body; if one of its organs suffers and complains, the entire body responds with insomnia and fever." (Muslim)

All these evidences support the importance of mutually guaranteeing of each other and therefore support the main principle of insurance in Islam or *takaful*. The AAOIFI's accounting, auditing and governance standards for Islamic financial institutions provide: "Islamic insurance is a system through which the participants donate part or all of their contributions which are used to pay claims for damages suffered by some of the participants. The company's role is restricted to managing the insurance operations and investing the insurance contributions." (Rabiah Adawiah Engku Ali and Odierno, 2008)

How does takaful work

Essentially, in *takaful* insurance, participants agree to guarantee each other by making a contribution (as a donation) to a mutual fund or pool. This pool creates the *takaful* fund. The amount of contribution depends on the type of cover, nature of the risk and the period of the cover. The *takaful* fund is managed on behalf of the participants by a *takaful* operator who charges an agreed fee which could be a fixed fee or a percentage of the profit or even both. The *takaful* fund is used to pay any claims by participants and any surplus, after reducing any expenditure and reserves, belongs to the participants and may be distributed among participants in the form of cash dividends or discounts towards future contributions (IIBI, 2010; Rabiah Adawiah Engku Ali and Odierno, 2008).

Takaful compared to conventional insurance

There are several differences between *takaful* and conventional insurance. The main difference is that in *takaful*, the participants make a donation to the *takaful* fund to provide protection for each other against risks, whereas in conventional insurance the premium is paid to the insurance company which bears all of the risk.

In addition, any surplus in the *takaful* fund is distributed among participants and shareholders on the basis of *Mudaraba*, *Wakala* or *Waqf* models (Khorshid, 2004; Rabiah Adawiah Engku Ali and Odierno, 2008; Sadiq, 2006), whereas all profits in conventional insurance belong to the shareholders of the insurance company only. As such, *takaful* is based on mutual cooperation whereas conventional insurance is based more on profits and commercial aspects. The third major difference is that *takaful* companies adopt Shariah principles in all aspects of their operations, avoiding prohibited concepts, such as *Riba*¹ (interest), *Maysir*² (gambling) and *Gharar*³ (uncertainty). *Takaful* companies are subject to the governing laws as well as to the Shariah Supervisory Board. On the other hand, conventional insurance companies are only subject to the governing laws.

¹The element of *riba* exists in the profit of investments in which the insurance funds are invested in financial instruments which may contain elements of *riba*.

²The *maysir* presents when the policy holder contributes a small amount of premium in order to gain a larger sum (claim), the policy holder loses the money when there is no claim, or if the amount in claims is higher than the amount contributed by policy holders, then the company will face the risk alone and will be in deficit.

³The *gharar* occurs in an insurance contract when a claim is not made; the insurance company may gain all the profits and the participant may not obtain any profit.

If there is any shortfall in the *takaful* fund, this would be covered by an interest-free loan (*Qard Hasan*) by the participants, whereas in conventional insurance the company covers the risks. With regard to the investment, the *takaful* fund should invest in investment channels that are Shariah compliant (Kassim, 2007; Haron and Taylor, 2009).

2.2 UK demand for Islamic financial services

Following the closure of the Al-Baraka bank in the early 1990s and the failure of the Halal Mutual Investment Company in the mid 1990s to attract sufficient customers, it has been doubted whether there is a real demand for Islamic financial services among Muslims in the UK. Dar (2005) based a study on 503 Muslims living in ten cities in the UK that have large Muslim communities. He found that two thirds of the UK Muslims were indifferent to Islamic financial services (e.g. mortgages, current and savings accounts). Furthermore, only 5% of UK Muslims were seriously interested in Islamic finance services, while 23% claimed they would be interested in Islamic mortgages if they were comparable in price with conventional mortgages. According to the survey, the typical consumer of Islamic finance services is likely to be a highly educated person with a high income and a higher professional job living in the North or Central England. Despite London being considered the international finance centre, the study showed that a Londoner who is highly educated, who works in a highly professional job and earns a high income is likely to be, at best, indifferent to Islamic finance services. On the other hand, a person living in Manchester with similar credentials is three times more likely to use Islamic finance services than being indifferent to them.

In addition, the study showed that the majority of Muslims in the survey (about 83%) did not believe that these Islamic services and mortgages are really Islamic (Halal). This reveals the lack of awareness of Islamic finance among Muslims which naturally has a significant impact on the demand for Islamic finance services. Therefore, according to Dar (2005), there is no significant demand for Islamic finance services in the UK despite Muslims showing great interest for such services. As a result, Islamic financial providers need to create a demand for their products and services because it may not already exist.

2.3 UK *takaful* industry (demand and supply)

The *takaful* industry has a rapid growth rate worldwide. In July 2006, in the Middle Eastern region, there were 23 functional *takaful* companies and 18 companies in their formation process. In the Asia Pacific region there were 34 *takaful* companies; 23 of them in Indonesia alone. In Africa 12 out of 17 *takaful* companies were located in Sudan (Bhatty, 2007a).

A study by Abdul Rahman (2009) shows that there is a potential demand for and growth of *takaful* worldwide. She also considers in particular the main factors that affect the future potential growth of the *takaful* market in the US. She highlighted that affluent communities, high education, positive population growth rate and social structure all play a role in this potential growth.

Despite there being many Islamic insurance providers across the world, there are only two *takaful* insurance providers in the UK; Muslim Insurance Services (MIS) (MIS, 2010) and Salaam Halal Insurance (SHI, 2010). MIS provides several Islamic insurance products ranging from personal insurance products to commercial insurance products. As personal products they provide home insurance and travel insurance with different options to suit Muslim needs, e.g. single trip insurance, annual multi trip insurance, family travel insurance, pre-existing medical insurance, business travel insurance and Hajj/Umrah travel insurance. In addition, they also provide a package of products for commercial needs, such as business insurance, professional indemnity insurance, landlord insurance, mosque insurance and charity insurance. The last two are very unique which aim to insure and protect the religious and charity buildings in the UK, including asset and liability cover. All of these are Shariah compliant.

Principle Insurance Holdings Limited (PIH, 2010) was the first independent *takaful* insurance provider in the UK. They had been providing car insurance trading as "Salaam Halal" since July 2008 aimed at the 1.6 million Muslims living in the UK. However, their business failed to raise capital to continue as they stated on their website: "We are sorry, Salaam Halal insurance is not accepting any new requests for insurance quotations or issuing new contracts." (SHI, 2010).

There are several studies, for example, those carried out by Abdul Hamid and Othman (2009) (introduced below) and Dar (2005). Some of these considered questions which are of great interest to the topic of this paper; these are re-examined in Section 4, based on Muslims in the UK.

2.4 Retailing *takaful* products

This subsection considers different factors which may have an important impact on retailing *takaful* products.

Bancassurance and bancatakaful

Islamic *bancassurance*, known as *Bancatakaful*, means promotion, marketing and distribution of *takaful* products through Islamic banking channels. This is particularly important in order to attract Muslim and non-Muslim customers.

There are several advantages and disadvantages of *bancatakaful* for both banks and *takaful* operators. For example, *bancatakaful* will help the banks to increase their range of products and thus increase their earning. It also helps them to establish a strong relationship with customers and better understanding of their needs. It also enables banks to combine and improve the products and consequently attract more customers. However, some drawbacks may occur due to the lack of a bank's expertise in insurance and sometimes its complicated nature. Additionally, the relationship with customers may suffer due to negative claiming experiences. For the *takaful* operators, on the other hand, *bancatakaful* widens the distribution of their products and consequently may lead to reduced costs and increases the competition with other providers. However, by shifting to bank distribution channels, the *takaful* operator may face the fact of the possibility of damaging the relationship with the traditional distribution channels which need to be considered carefully by the *takaful* manager (Rabiah Adawiah Engku Ali and Odierno, 2008).

Promoting takaful and customer awareness

Promoting *takaful* products includes branding, marketing and advertising. Since insurance was an untouched topic for many years, many Muslims believe that insurance is *Haram* (prohibited). Therefore strategies are needed to educate customers about the main principles of *takaful*, and create demand for such products (Bhatty, 2007b; Abdi, 2007).

Abdul Hamid and Othman (2009) studied the level of knowledge and awareness among Muslims towards *takaful* insurance and its terms and concepts in Malaysia. Based on 232

Muslim banking customers in Kuala Lumpur, they showed that there is a lack of awareness among Muslims about the main principles and elements of *takaful*, such as *tabarru*, *gharar* and *maysir*. They also showed that about 75% of respondents agreed with the use of Arabic terms in *takaful* in order to differentiate *takaful* products from conventional insurance. Conversely, Al Rasheedi (Anon., 2005) emphasised the importance of promoting a *takaful* concept worldwide without it being linked to religious beliefs, as he said:

“We take into account the vital role and responsibility undertaken to promote the *takaful* concept throughout the world, especially in the developed world, to give a model example of Islamic economy and to introduce a new insurance branch based upon fairness, equality and cooperation. It is a concept that meets the community's requirements without being linked to religious belief. It is indeed a civilized behaviour that is both commendable and worthy of gaining more ground to underline our Islamic identity.” (Anon., 2005).

2.5 Takaful opportunities and challenges

There are several challenges facing *takaful* insurance, for example, one of the biggest obstacles for *takaful* providers is the limited amount of Shariah compliant reinsurance capacity. In this case *takaful* providers have to deal with conventional reinsurance companies until *retakaful*⁴ companies become available. *Takaful* insurers need also to improve and develop their technical skills to meet an increasing demand for more complex insurance products (e.g. catastrophic risks) and investment portfolios. They also need to enhance their quality of coverage with reasonable prices to be able to compete with other conventional insurance companies (Kwon, 2007). On the other hand, there are still many opportunities for developing *takaful* products, increasing its covering not only among Muslims but among non-Muslims as well, to create potential demand for its products and to highlight its important principles.

The main unique selling point of *takaful* is its Shariah compliant mutuality. *Takaful* operators need to enhance this unique selling point; otherwise they will start losing their Muslim customers. *Takaful* operators also need to seek support from Islamic banks and other Islamic finance institutions for funding in the case of deficits in the claims rather than looking for funding via *Qard Hasan* loans (Asaria, 2009).

⁴ Reinsurance based on Islamic principles.

In addition to the general and family insurance products that *takaful* can offer as alternatives to conventional insurance, *takaful* can offer more to the society as well. For example, T'azur, a *takaful* firm in Bahrain, has launched what it claims to be the world's first Shariah compliant charitable insurance product, called the 'Sadaqah' plan (T'azur, 2010). This plan suggests that the participants donate regular contributions which will be invested by the *takaful* operator over a number of years in Shariah compliant investments, and then later this sum will be passed on to a charity that has been chosen by the participant. If at any time the participant is unable to make this payment due to illness or other unforeseen events, the *takaful* provider will continue to make the payment on behalf of the participant. This type of plan is synchronized with the main aim of *takaful*, namely mutual help for the common good. Its benefit beyond the individual participant is benefit to the community as a whole (Anon., 2009).

Despite the fact that recently a lot of research has been done on *takaful* insurance, see for example Abdul Rahim (2009, 2010), more research is needed to develop this important area of Islamic finance. For example, a recent study by Kader et al. (2010) won a top prize in 2009 from the Geneva Association and the International Insurance Society, Inc. This study examines the cost efficiency of (non-life) *takaful* insurance firms operating in 10 Islamic countries. They examined whether the cost efficiency of *takaful* insurance companies will be positively affected by three main factors; the proportion of non-executive directors on the board, a separation of the CEO and Chairman positions and the size of the board of directors. They found that neither non-executive directors nor the separation of the CEO and chairman positions positively affect the cost efficiency, however, the board size and firm size have been found to have positive effects on the cost efficiency of *takaful* insurers. Finally the study showed that there is no statistical evidence that regulatory environment has effect on cost efficiency.

3 Methodology

In Section 1 the main objectives or questions of this study were defined. In this section, the methodology used to answer these questions is explored. The target population for this study is the whole Muslim community in the UK. And since our target population is large and widely geographically distributed, an online survey is the best option for this study because it is cost effective and can reach many Muslims across the country. So, the data for this study were collected through a self-administered questionnaire where a non-probability sampling technique

was employed. The proposed questionnaire contains of four parts: (1) Participation on insurance and *takaful* products, and the satisfaction with the *takaful* products if they have any, (2) The awareness, knowledge and understanding of the concepts of *takaful*, (3) The opinions on using Arabic terms in *takaful* products, and (4) Demographic information: this consists of 8 questions including gender, marital status, race, age, location, education level, occupation and annual income.

The link of the online questionnaires had been distributed via emails to many Islamic societies in the UK which have their own web pages. These societies are either independent societies or student Islamic societies linked to universities. The link was also posted in several Muslim student forums. It was also sent to the two existing *takaful* insurance companies in the UK but no response was received.

And since there is no specific formula to determine the sample size for non-probability sampling, the advice of Alreck and Settle (1995) and Hill (1998) is followed to collect as much information as possible given the time restrictions for collecting the data in this project. This led to 230 responses, out of these 178 were complete, so a complete response rate of about 77%. Incomplete responses are removed from the analysis. These data could be used partially, as far as they are available, however it was decided not to do this and only complete responses are used in the analysis.

4 Data analysis and results

In this section, the survey data are statistically analyzed. This section is divided into four subsections in order to answer the questions that have been raised in Section 1. Subsection 4.1 gives an overview and summary of the background of the respondents. Subsection 4.2 examines the demand for *takaful* products in the UK, including evaluation of the current participation in *takaful* products and whether respondents are willing to buy *takaful* products. The demands are explored per city and by Muslims students living in the UK. The preference of receiving *takaful* products through banks channels is also studied. Subsection 4.3 examines the awareness and the understanding of *takaful* concepts among Muslims in the UK. Subsection 4.4 studies the opinion on using Arabic terms in *takaful* products and the reasons for supporting or not supporting this proposal are reported.

4.1 Background of the respondents

Table 1 shows the summary (frequencies and percentages) of all demographic information of the respondents for this study. From this table, it can be seen that 81% of respondents are male and 65% are between 24 and 35 years old. The survey shows that about 68% of the respondents are highly educated with at least a Master's degree. Despite the fact that there is a large number of Muslims from India and Pakistan in the UK, about 79% of the respondents are from Arabic countries. With regard to annual income, 41% of the respondents earn less than £15000 and about 31% earn between £15000 to £24999. This is due to the fact that about 72% of the respondents are students, with only 23% of the respondents full-time employed. About 21% of the respondents live in Newcastle, with 9% of the respondents living in each of London and Nottingham. This is followed by 8.4% who live in Leicester and 7.9% in Coventry. Later, this study will examine whether there are different demands for *takaful* products between these 5 main cities.

Gender	Freq.	(%)	Status	Freq.	(%)	Education	Freq.	(%)
Male	145	81	Single	57	32	A level	19	10.7
Female	33	19	Married	119	67	Bachelors	34	19.1
			Divorced	2	1	Diploma	4	2.2
Location	Freq.	(%)	Age	Freq.	(%)	Master degree	88	49.4
Birmingham	5	2.8	18-23	24	13	PhD	33	18.5
Bristol	4	2.2	24-29	64	36	Occupation	Freq.	(%)
Coventry	14	7.9	30-35	52	29	Full-time	41	23.0
Durham	8	4.5	36-41	26	15	Part-time	3	1.7
Edinburgh	5	2.8	42-47	7	4	Retired	1	.6
Exeter	6	3.4	48-53	5	3	Self-employed	4	2.2
Glasgow	4	2.2	Race	Freq.	(%)	Student	128	71.9
Leeds	8	4.5	Arab	140	78.7	Unemployed	1	.6
Leicester	15	8.4	Indian	3	1.7	Annual income (£)	Freq.	(%)
Liverpool	4	2.2	Malaysian	11	6.2	< 15000	73	41.0
London	16	9.0	Pakistani	6	3.4	15000 - 24999	55	30.9
Manchester	9	5.1						
Newcastle	37	20.8						

Norwich	4	2.2	White	6	3.4	25000 - 34999	28	15.7
Nottingham	16	9.0	Others	12	6.7	35000 - 44999	15	8.4
Sheffield	3	1.7				45000 - 59999	6	3.4
Others	20	11.2				> 60000	1	.6

Table 1: Demographic summary

4.2 Demand for takaful in the UK

This subsection examines whether there is a real demand for *takaful* insurance among Muslims in the UK. Throughout, and in order to calculate the mean scores, the data corresponding to this question have been coded, so the values 2, 1, 0, -1 and -2 are given to the 5 point-scale: Very Likely, Likely, Not Sure, Unlikely and Very Unlikely, respectively.

Participate in takaful

Table 2 shows the frequency and the percentage of the insurance products that the respondents have at the moment. Not surprisingly, quite a high percentage of respondents have (37%) car insurance, which is required by the UK law. Second is health insurance (9%) and third are mobile phone insurance and travel insurance, (8%).

	Freq. (%)	
Car insurance	103	37
Health insurance	24	9
Mobile phone insurance	23	8
Travel insurance	22	8
Home contents insurance	16	6
Student insurance	16	6
Home insurance	13	5
Life insurance	8	3
Others	5	2
No insurance products	48	17

Table 2: Participate in insurance products (more than one answer allowed)

Table 3 shows that 78% of the respondents did not have any *takaful* products. From those who have *takaful* insurance, 11% were for car insurance and 4% for health insurance. As shown in Table 4, about 61% of the respondents who have *takaful* insurance are very satisfied or satisfied with these products.

	Freq. (%)	
Car insurance	21	11
Health insurance	8	4
Mobile phone insurance	1	1
Travel insurance	2	1
Home contents insurance	0	0
Student insurance	3	2
Home insurance	2	1
Life insurance	3	2
Others	2	1
No takaful insurance products	152	78

Table 3: Participate in takaful insurance products (more than one answer allowed)

	Freq. (%)	
Very Satisfied	5	19
Satisfied	11	42
Neutral	8	31
Dissatisfied	0	0
Very Dissatisfied	2	8

Table 4: Satisfaction with takaful products

Willingness to buy takaful products

If a *takaful* provider will offer the same service (cover) as conventional insurance and with competitive prices, how likely is it that the participant will buy any of the *takaful* products?.

Table 5 shows how likely it is that the respondents are willing to buy any of the *takaful* products. The study shows that respondents are highly likely (with mean score 1.46)⁵ to buy car insurance if they will offer the same service (cover) as conventional insurance and with competitive prices. In addition they are likely to buy health insurance, home insurance and home contents insurance with mean scores 0.94, 0.62 and 0.52, respectively. On the other hands, with mean score -0.77, they are unlikely to buy any pets insurance. With regard to the remaining insurance products, the respondents are not sure whether they will consider buying any of the *takaful* products, where the mean scores vary between -0.23 and 0.49.

	Very Likely	Likely	Not Sure	Unlikely	Very Unlikely	Mean scores
Car insurance	127(71%)	25(14%)	16(9%)	1(1%)	9(5%)	1.46
Travel insurance	64(36%)	28(16%)	42(24%)	19(11%)	25(14%)	0.49
Life insurance	43(24%)	13(7%)	40(22%)	24(13%)	58(33%)	-0.23
Mobile phone insurance	58(33%)	28(16%)	30(17%)	25(14%)	37(21%)	0.25
Home insurance	68(38%)	36(20%)	36(20%)	14(8%)	24(13%)	0.62
Home contents insurance	60(34%)	40(22%)	36(20%)	17(10%)	25(14%)	0.52
Student insurance	52(29%)	24(13%)	47(26%)	19(11%)	36(20%)	0.21
Mortgage cover	61(34%)	27(15%)	40(22%)	20(11%)	30(17%)	0.39
Health insurance	92(52%)	29(16%)	30(17%)	8(4%)	19(11%)	0.94
Pets insurance	31(17%)	6(3%)	29(16%)	19(11%)	93(52%)	-0.77

Table 5: Willingness to buy *takaful* products

Bancassurance and bancatakaful

Interestingly, the study shows that 81% of the respondents prefer to get *takaful* products via banking channels, with only 3% against this proposal and 15% indifferent. This result highlights an important message for the banks in the UK to perhaps start considering *takaful* products along with their insurance products. For example, two leading banks in the UK, namely HSBC and Lloyds TSB, offer Islamic banking but neither of them have introduced any *takaful* products.

Demand per city

⁵Very likely: mean score ≥ 1.5 , likely: $0.5 \leq \text{mean score} < 1.5$, Not sure: $-0.5 < \text{mean score} < 0.5$, Unlikely: $-1.5 < \text{mean score} \leq -0.5$, Very unlikely: mean score ≤ -1.5 .

It is interesting to examine whether there are different demands for *takaful* products between 5 main cities in the UK, namely Newcastle, Coventry, Leicester, London and Nottingham. In other words, to consider whether respondents who live in these cities, differ in their attitude towards buying *takaful* products if they are offered similar service and competitive prices comparing to conventional insurance. The mean scores for this question and for these cities are given in Table 6. These results are also visualized in Figure 1.

	Newcastle	Coventry	Leicester	London	Nottingham
Car insurance	1.32	1.71	1.53	1.75	1.31
Travel insurance	0.84	-0.21	0.80	0.75	0.56
Life insurance	0.32	-1	-0.40	0.13	-0.31
Mobile phone insurance	0.62	-0.50	0.67	0.13	0.56
Home insurance	0.95	-0.29	0.47	0.63	0.94
Home contents insurance	0.95	-0.50	0.53	0.69	0.75
Students insurance	0.73	-0.50	0.13	0.06	0.63
Mortgage cover	0.54	-0.36	0.67	0.31	0.75
Health insurance	0.84	1	0.87	0.75	1
Pets insurance	-0.24	-1.29	-0.27	-0.69	-1.13

Table 6: Demand per city (mean scores)

Table 6 and Figure 1 show that respondents who live in Coventry, Leicester and London are very likely to buy car insurance from *takaful* provider, however respondents from Newcastle and Nottingham are likely to buy car insurance. Respondents are also likely to buy health insurance from a *takaful* provider regardless which city they live in. Apart from Newcastle and Leicester, where respondents are not sure about buying pets insurance, respondents from the 3 remaining cities are unlikely to buy pets insurance from *takaful* providers.

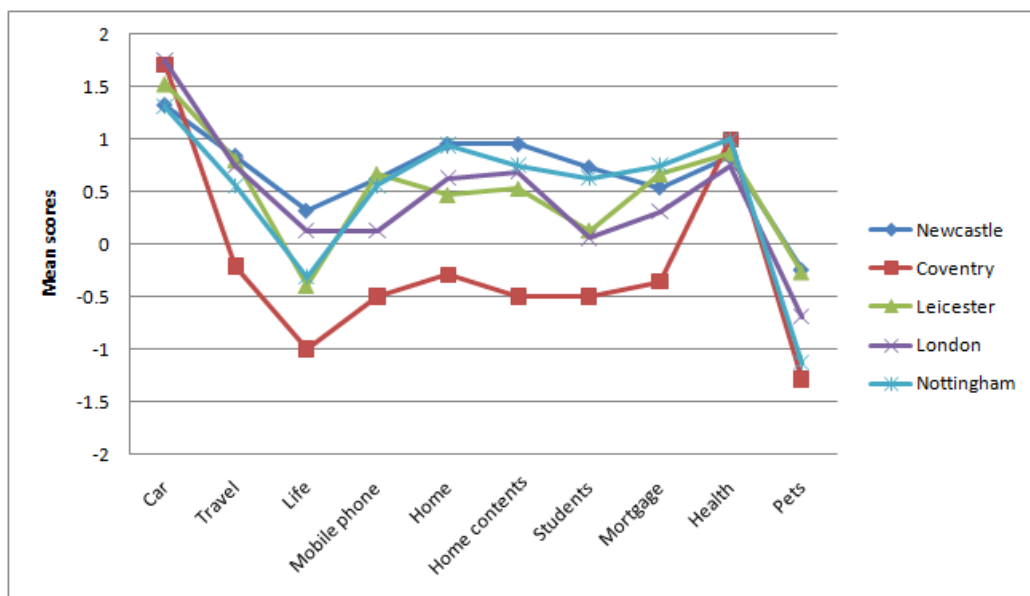


Figure 1: Demand per city (mean scores)

Respondents for all cities except Coventry are likely to buy travel insurance from a *takaful* provider. While respondents from Coventry are unlikely to buy life insurance, other respondents are not sure about buying this product from *takaful* providers. With regard to mobile phone insurance, responses vary. For example, respondents from Newcastle, Leicester and Nottingham are likely to buy insurance for their mobile phone from *takaful* providers. However, respondents from Coventry and London are unsure whether they will buy such a product.

Respondents from Newcastle and Nottingham are likely to buy home insurance, home contents insurance and mortgage cover from *takaful* providers, while respondents from Coventry are not sure about buying such products. Respondents from Leicester are likely to buy only home contents insurance and mortgage cover while respondents from London are only likely to buy home insurance and home contents insurance. Only respondents from Newcastle and Nottingham are likely to buy students insurance, with others not sure about that. This may reflect the large number of students who responded to the survey and live in Newcastle and Nottingham.

In general, therefore, respondents who live in Newcastle and Nottingham are more likely to buy *takaful* products (except life and pets insurances) while respondents from Coventry are less likely to buy any *takaful* products except they are willing to buy car and health insurances. Interestingly, the study done by Dar (2005) showed that people living in North or Central England are more likely to buy Islamic finance services (see Section 6), which seems similar to the results obtained in this subsection.

Demand by students

There are 128 students out of 178 respondents to the survey. Table 7 shows the frequency and the percentage of the students who are willing to buy any of the *takaful* products if they offer similar service and good prices in comparison to conventional insurance. In the final column, the mean scores per product are calculated. Table 7 shows that students are likely to buy car insurance, home insurance and health insurance, with mean scores 1.45, 0.65 and 0.98 respectively. However they are unlikely to buy pets insurance with mean score -0.76. For the other remaining insurance products, they are not sure whether they are willing to buy any of them, with mean scores ranging between -0.36 and 0.46.

	Very Likely	Likely	Not Sure	Unlikely	Very Unlikely	Mean scores
Car insurance	89(70%)	19(15%)	14(11%)	1(1%)	5(4%)	1.45
Travel insurance	44(34%)	19(15%)	32(25%)	14(11%)	19(15%)	0.43
Life insurance	26(20%)	9(7%)	30(23%)	19(15%)	44(34%)	-0.36
Mobile phone insurance	40(31%)	21(16%)	25(20%)	17(13%)	25(20%)	0.27
Home insurance	49(38%)	27(21%)	26(20%)	10(8%)	16(13%)	0.65
Home contents insurance	42(33%)	26(20%)	27(21%)	15(12%)	18(14%)	0.46
Student insurance	38(30%)	19(15%)	32(25%)	16(13%)	23(18%)	0.26
Mortgage cover	38(30%)	24(19%)	31(24%)	15(12%)	20(16%)	0.35
Health insurance	66(52%)	23(18%)	22(17%)	5(4%)	12(9%)	0.98
Pets insurance	21(16%)	4(3%)	25(20%)	13(10%)	65(51%)	-0.76

Table 7: Willingness to buy *takaful* products (Students)

	Students	Others	All
Car insurance	1.45	1.48	1.46
Travel insurance	0.43	0.64	0.49
Life insurance	-0.36	0.10	-0.23
Mobile phone insurance	0.27	0.22	0.25
Home insurance	0.65	0.54	0.62
Home contents insurance	0.46	0.68	0.52

Student insurance	0.26	0.08	0.21
Mortgage cover	0.35	0.48	0.39
Health insurance	0.98	0.82	0.94
Pets insurance	-0.76	-0.80	-0.77

Table 8: Demand by students, others and all (mean scores)

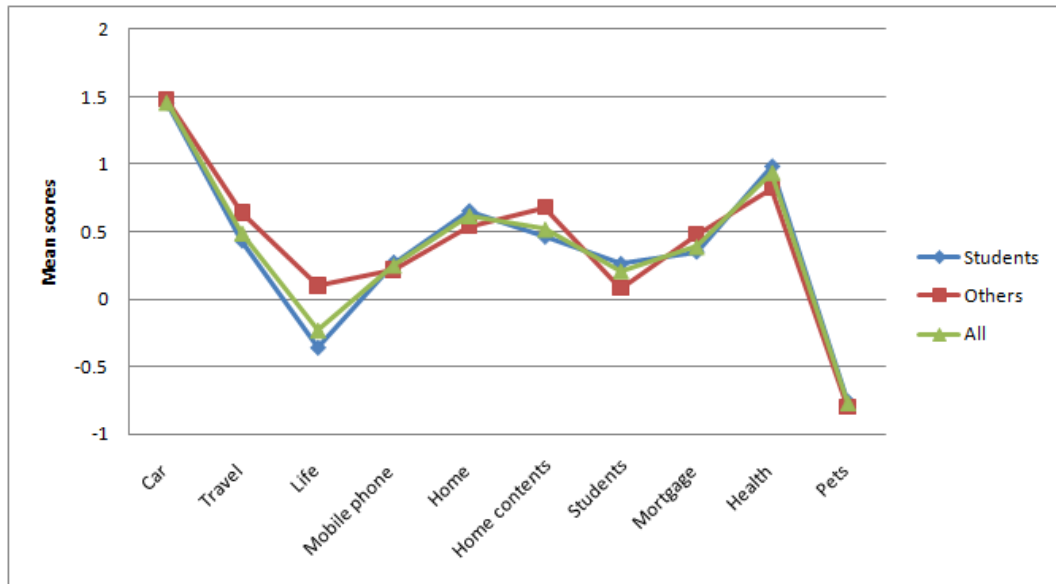


Figure 2: Demand by students, others and all (mean scores)

In order to compare the demand for *takaful* products between student respondents and other respondents, the non-student respondents are grouped together in one group, called 'others' and the mean scores are calculated for the question whether the respondents are willing to buy *takaful* products in favour of conventional insurance. Also the mean scores for students, others and all (both together) are calculated and presented in Table 8 and Figure 2. Figure 2 shows that the main difference between student respondents and other respondents is with life insurance, where the mean score for students is less than the mean score for other respondents. However, both groups are not sure if they are willing to buy life insurance from *takaful* providers. On the other hand, there is substantial difference with regard to travel insurance and home contents insurance, with students not sure to buy such products but other respondents likely to buy such products from *takaful* providers. For the other insurance products there is agreement between the two groups (students and other respondents).

4.3 Awareness

This section mainly examines the understanding and the awareness of *takaful* concepts among Muslims in the UK. This includes understanding of the essential elements of *takaful* insurance, *riba*, *maysir* and *gharar*.

Knowledge and understanding of takaful concepts

Table 9 shows percentages of respondents who are aware of concepts of *takaful*. In the last column the mean score is calculated, using coding of No, Not sure and Yes by given them the values 1, 2 and 3, respectively. The study shows that many respondents are aware of the concepts of *riba* and *maysir* with mean scores 2.82 and 2.75, respectively⁶. However, for other concepts the mean scores range between 2.12 and 2.38 which indicates that respondents are not sure about these concepts. On the other hand, a study based on a sample of Muslims in Malaysia showed that most respondents were aware of the concepts *riba* and *gharar* (Abdul Hamid and Othman, 2009).

	Yes	No	Not sure	Mean score
Takaful insurance	47%	35%	17%	2.12
Riba (interest)	89%	7%	4%	2.82
Maysir (gambling)	84%	8%	8%	2.75
Gharar (uncertainty)	61%	24%	16%	2.37
Mudarabah	52%	30%	17%	2.22
Wakala	52%	33%	15%	2.20
Takaful insurance is free from <i>riba</i> , <i>maysir</i> and <i>gharar</i>	50%	26%	24%	2.24
Conventional insurance contains <i>riba</i> , <i>maysir</i> and <i>gharar</i>	56%	19%	25%	2.38

Table 9: Awareness of *takaful* concepts

It is surprising that, in this study, 52% of respondents are not sure whether *takaful* insurance is in accordance with Islam, and 3% do not think that *takaful* insurance is Islamic, so only 45% of them think that *takaful* insurance is in accordance with Islam. Again this shows the lack of effort by *takaful* providers and other Islamic bodies to educate people about the important

⁶ No: mean score ≤ 1.5 , Not sure: $1.5 < \text{mean score} < 2.5$, Yes: mean score ≥ 2.5

principle of Islamic insurance (*takaful*) and its elements. This differs from the results obtained by Dar (2005), where 83% of Muslims in that survey did not believe that these Islamic services and mortgages are really Islamic (see Subsection 2.2).

Existence of two takaful providers in the UK

Despite the fact that there are two *takaful* providers in the UK, only 13% (so 24 out of 178) of respondents were aware of there being *takaful* providers in the UK. This low number shows the lack of advertising and publicity of *takaful* in the UK market.

4.4 The use of Arabic terms in takaful products

Table 10 shows the frequency and percentage of responses to the question whether one agrees with the use of Arabic terms in *takaful* products. The survey shows that the majority of respondents (73%) agreed with the use of Arabic terms for Islamic insurance. The main reason behind that, according to respondents (42%), is 'To show they are Islamic products'. The second (26%) and third (24%) reasons are to 'differentiate from conventional insurance' and 'attract more Muslim participants'. Other respondents mentioned that the use of Arabic terms will link it to the original root of *takaful*, namely caring for each other which is a key principle of Islam. These results are presented in Table 11.

	Freq.	(%)
Yes	130	73
No	12	7
Indifferent	36	20

Table 10: Opinion on the use of Arabic terms in takaful products

If Yes, why?	Freq.	(%)
To show they are Islamic products	55	42
To differentiate from conventional insurance	34	26
To attract more Muslim participants	31	24
Others	10	8

Table 11: The reasons why Arabic terms should be used in takaful products

Table 10 shows that about 7% of the respondents disagree with the idea of using Arabic terms in *takaful* products. From Table 12, the two main reasons (42% both), according to the respondents, are 'To avoid misunderstanding towards *takaful* products' and 'To attract non-Muslim participants'. Other respondents said that there is no reason to use Arabic terms since there are alternative words in English. Another respondent said that since the *takaful* provider would operate in the UK where the official business language is English, using Arabic terms will cause confusion, and it will be unknown for the majority of Muslims who are non-Arabic speakers. Unlike the word 'Halal' which is well-known among many Muslims, *takaful* terms may not be known by non-Arabic speaking Muslims.

If No, why?	Freq.	(%)
To avoid misunderstanding towards takaful products	5	42
To attract non-Muslim participants	5	42
Others	2	17

Table 12: The reasons why Arabic terms should not be used in takaful products

Table 10 shows also that 20% of the respondents are indifferent to the use of Arabic terms in *takaful* products. A similar study by Abdul Hamid and Othman (2009), based on a sample of Muslims in Malaysia, shows that 74.14% (172 out of 232) of the respondents agree with the use of Arabic terms in *takaful* products, while 26% disagree. Those findings for Malaysia are similar to our finding with regard to the agreement of using Arabic terms in *takaful* products.

5 Conclusion

In this paper, the main principles of the Shariah compliant insurance (*takaful*) are discussed. Although *takaful* has experienced rapid growth worldwide in many Islamic countries, it is still in its early stages in the UK. This paper examined whether there is a real demand for *takaful* insurance among Muslims in the UK. The study showed that respondents are likely to buy car, health, home and home contents insurances if the same cover is offered as conventional insurance and if prices are competitive.

The paper also showed that there is quite a lack of awareness about *takaful* insurance and

its main principles among Muslim communities, and that most respondents are only aware of the *riba* and *maysir* concepts. It also showed that about half the respondents are not sure whether *takaful* insurance is in accordance with Islam. The majority of the respondents prefer to get *takaful* products via banking channels rather than from independent *takaful* institutions. Not surprisingly, the majority of respondents agreed to the use of Arabic terms for the Islamic insurance to show that these are Islamic products and to differentiate them from conventional alternatives in order to attract more Muslim participants.

This paper would encourage more banks in the UK to develop *takaful* products to target the rapid increase in Muslims populations in the UK and increase the demand for Islamic insurance products. Some promotion strategies may be needed to increase the customers' awareness of the existing *takaful* products and more importantly to their compliance to the Shariah law. Despite the fact that there is an obvious preference among our survey participants towards using Arabic terms in *takaful* products, one could argue for the financial benefits of introducing these Islamic insurance products to non-Muslims customers where Arabic terms are avoided but with the explanations of the main concept of *takaful* products.

In this paper, also the main opportunities and challenges facing the *takaful* market in the UK have been discussed. Finally, although it was not an aim of this paper, it may have raised some awareness about *takaful* within Muslim communities in the UK, which perhaps may lead to increased demand for these products.

Acknowledgment

The author is grateful to the reviewer's valuable comments that improved the manuscript.

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