

## The car insurance that obeys sharia rules

By Kara Gammell

Last Updated: 4:24pm BST 08/09/2008

More than 2m Muslims in Britain will now be able to arrange motor insurance without compromising their religious beliefs, according to Salaam Halal Insurance. Bradley Brandon-Cross, the chief executive of Salaam Insurance, says: "Conventional United Kingdom insurance options conflict with the core beliefs of the Muslim faith and, as a result, give Muslims living in the UK who wish to drive a car no choice but to go against their beliefs in order to follow the law, which requires motorists to have cover.

"The face of Britain is changing and it is the responsibility of British institutions to cater for such changes and welcome diversity."

In conventional insurance, the risk is entirely transferred from the policyholder to the insurance company upon payment of a premium, explained Brandon-Cross. He says: "In return for paying the premium, the policyholder gets peace of mind and in the event of a valid claim, the claim settled. This brings elements of uncertainty and, in the view of Muslims, gambling, into the contract as one of the two parties will make a loss, especially the policyholder if no claim occurs."

advertisement In Sudan in the 1970s, a concept called Takaful insurance was created to circumvent these problems. Takaful is an alternative form of cover which a Muslim can obtain against the risk of loss due to misfortunes and is a structure in which risk is shared between all policyholders.

Junaid Bhatti, director of independent Islamic finance consultancy Ballencrieff House, says: "So far, the only successful Takaful product in the UK has been Amanah's home insurance offering, which is normally cross-promoted with the HSBC Islamic Mortgage product. It is great to see that the Government's support for the industry has continued, and a fully sharia-compliant Takaful company has received authorisation."

Takaful provides its members with the same level of protection offered by conventional insurance, but it operates in a different way. This type of insurance allows participants to pay their contribution into a pool which is invested strictly in sharia-compliant investments and any investment profits are distributed back to the Takaful fund.

Takaful is an Arabic word meaning "guaranteeing each other" or joint guarantee. Theoretically, Takaful is perceived as co-operative insurance, where members contribute a certain sum of money to a common pool. The purpose of this system is not profits but to uphold the principle of "bear one another's burden".

Each participant who needs protection must be present with the sincere intention to donate to other participants faced with difficulties. Therefore, Islamic insurance exists where each participant contributes into a fund that is used to support each another, with each participant contributing sufficient amounts to cover expected claims.

Brandon-Cross says: "The objective of Takaful is to pay a defined loss from a defined fund. The fund is used to pay claims, and at the end of the year, if the Takaful fund is overfunded, it is then distributed back to policyholders as a participation discount on their next year's premium in addition to any conventional no-claim bonus."

Salaam Halal Insurance will offer sharia-compliant motor insurance and plans to launch a home insurance policy before the end of the year. While offering a choice to British Muslims, the products are also designed to appeal to the non-Muslim community who are interested in products of an ethical or co-operative nature, because of the nature of Halal insurance.

However, Bhatti is unsure whether there is enough demand for this type of insurance, despite the existence of many Islamic financial products, including Islamic bank accounts, mortgages and child trust funds. He says: "At the moment, the worldwide Islamic insurance industry is just 1/1000th the size of the conventional insurance industry, with half the world's Islamic insurance policies being sold in Iran.

"Some will review this data and assume there is huge potential for the Islamic insurance industry to expand. However, given how slowly the industry has grown in the Muslim world, this also suggests that the Muslim community's desire for these products is much lower than Salaam Insurance is hoping."

In order to ensure that the insurance is fully compliant with Islamic law, all the activities and products of Salaam Insurance are overseen by its Sharia Supervisory Committee. Bhatti says he hoped that Salaam Insurance will provide customers with good value for money, because that is the only way they will make inroads into an already crowded market. He says: "One thing the sharia finance industry should have learned by now is that simply self-labelling as 'Islamic' is not enough to win customers, and success can only come by competing on price and having an appealing promotional message."

- The main difference between Islamic and conventional banking is that Islamic teaching says that money itself has no intrinsic value, and forbids people from profiting by lending it, without accepting a level of risk. In other words, interest – known as "Riba" – cannot be charged. Another way some banks do not comply with sharia is if they lend to companies that deal in such activities as alcohol, pork products, pornography, arms trading, not to mention many other prohibited – or "Haraam" – activities.

### Case study

Riaz Khan, 42, a teacher at Leicester College, and his wife Sheetal Pancholi, 33, decided that Salaam Halal Insurance was the best way to cover their car. The couple have four children, Qais, 11, eight-year-old Safiyya, Sumaiyah, 2, and Junaid who is less than a year old.

Khan was recommended the sharia-compliant package by a friend who works for the company. He says: "It was easy to switch to and the rates were very competitive."

Khan says that the insurance product was very similar to the insurance available in Saudi Arabia – and it was this similarity which attracted him. The family are interested in other Islamic financial services products, in particular home insurance.

Information appearing on telegraph.co.uk is the copyright of Telegraph Media Group Limited and must not be reproduced in any medium without licence. For the full copyright statement see [Copyright](#)