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The evolution of Islamic insurance – Takaful[1]: a literature survey

Abstract

This survey introduces a series of papers that examine the emergence and evolution of Islamic insurance – Takaful – from both the theoretical and practical perspectives. Our study begins with a brief description of the Islamic financial services industry, and the significance of the role played by Takaful in this market. We then discuss the evolution of Takaful as an alternative to conventional insurance and the contribution of Islamic jurisprudence in this field, followed by an analysis of the nature of Islamic insurance as proposed by Muslim scholars. After a comparison between Islamic and conventional insurance contracts, the study continues with a survey of Takaful empirical research. We finally highlight several key issues unresolved in the literature, and solutions that seem feasible to counter these issues are discussed. The study concludes by reporting the future prospects of Takaful, and points to some directions for its sustainable growth.

Keywords: Takaful, islamic insurance, literature survey.

Introduction

The market for Islamic financial services is growing at an impressive rate, reaffirming its position as one of the most dynamic sectors in international finance. The Islamic finance industry enjoyed a compound annual growth rate for the period of 2006-2009 of 28% (HSBC Report, 2009), with assets forecast to hit US $1.033 trillion in 2010, and US $1.6 trillion by 2013. This growth represents a major achievement, as well as new challenges for investors, regulators, customers, and also Islamic financial institutions themselves. The biggest share of this market belongs to the Islamic banks. An S&P[2] report indicates that the assets of the top 500 Islamic banks in 2008 were $639 bn, and grew by 28.6 percent to $822 bn in 2009. The success in developing Islamic banking spurred efforts to extend Shariah[3] practices to other market segments. The next significant development was the establishment of Islamic insurance – Takaful. The global market for this financial service is one of the largest potential sectors within the Islamic finance industry. The current number of Takaful companies is estimated at 118[4], located in nearly 30 countries, including a number of licensed operations in Europe. According to Ernst & Young estimates, the gross Takaful contribution has grown from US $1.4 billion in 2004 to over US $5.3 billion in 2008. The Takaful industry is expected to surpass $8.8 billion in contributions by the end of 2010[5]. This is an impressive long-term compound growth rate of 26.26% per year.

Despite the relative improvement in the Takaful landscape and the strong growth in recent years, the Takaful industry still remains very small in comparison to the overall insurance industry, accounting for roughly 0.2% of the world's total insurance operations[6]. However, with the Muslim population measured at 1.6 billion or 24% of the world population, demand for Islamic insurance is expected to grow quickly in the future.

This growth also rests on the development of the Islamic finance and banking system as a whole. A comprehensive Islamic financial system that includes Islamic banking and the Islamic capital market, complemented by legal and human capital, Shariah and regulatory infrastructure, and a diversity of players with a wide range of products and services is essential for the development of the Takaful industry.

In addition, the sustainable development of Islamic finance and insurance relies on other supporting elements, among which the role of quality research is highly significant. With extended research determining policy and strategy of Islamic finance, development based on its potentials, problems, and future prospects can be achieved more accurately. Studies on Islamic finance started after the Second World War. The focus, however, was on the Islamic economic system as a whole. Studies on Islamic finance, in a narrower sense, began with the banking sector around three decades ago, while research on the non-banking sector was relatively neglected until recent years. Data from the Islamic Finance Project (IFP) Databank show that the number of research outputs in the form of journal articles, books, conference papers, and other materials on the entire field reached 6500 in 2007 (Ali, 2008).

Within the wide range of topics and abundant literature, the objective of the current study was narrowed

[1] Takaful is an Arabic word meaning "joint guarantee".
[2] S&P Press Release, February 2010.
[3] Islamic Jurisprudence.
[4] The Banker, top-500 Islamic financial institutions listing, 2009.
[5] Ernst & Young's World Takaful Reports, 2009 and 2010.

[6] According to Swiss Re's latest sigma study, world insurance was US $4067 bn in 2008, dropped by 1.1% in 2009, and is expected to have a positive growth rate in 2010. We have roughly calculated this percentage as the ratio of US $8.8 bn over $4067 bn.

down to serve as an introduction to a series of papers that deal with Takaful. Scientific publications on Takaful began to appear in the late 1980s and early 1990s, mainly in Islamic law journals. These papers primarily focused on the legal features, and to some extent, on the ethical aspects of Islamic insurance contracts. With the growth of the Takaful industry, and the accumulation of historical data, studies dealing with the financial aspects of Takaful also started to emerge a decade ago. The literature surveyed in this study is in historical sequence to reflect the development of Takaful as a contract, and to show the route through which the Islamic insurance institutions evolved over time. We hope this survey helps in guiding researchers who work on Takaful to the previous results obtained in the field. We also discuss some unresolved key issues in the literature, and discuss solutions that seem feasible to counter these issues. The study concludes by reporting the future prospects of Takaful, and points to some directions for its sustainable growth.

This study of Takaful is important for several reasons. First, there is currently a shortage of academic research on Islamic insurance. According to Siddiqi (2008), one of the obstacles to Islamic financial research is the shortage of proper historical studies in this field. He also believes that the research problem in Islamic insurance is more acute than in the other areas[1]. Our study will help to identify where the research gaps exist in the literature. Second, it is claimed that Islamic finance practices provide a more equitable distribution of wealth, based around the contracts that manage the risk. Since individuals use insurance contracts to manage their risk, it would be interesting to find out whether there is any evidence in the literature that supports this claim. Third, Takaful is similar to mutual insurance, an area that has already attracted considerable research interest. However, there are differences in the structure of Takaful products that make them distinct from mutual insurance, and affect the research outcomes. For instance, in developing Takaful, the principles of Gharar (uncertainty) and Riba (usury) were important; however, they are not relevant to cooperatives. Furthermore, insurance operators can only invest Takaful funds in Shariah-compliant instruments, and cooperatives do not have such constraints. Finally, the current study is the first literature survey on Takaful, and to the best of my knowledge, no similar survey has been conducted on this topic before.

[1] In his own words: "I cannot miss this opportunity of giving at least one example, that of insurance. The Islamic economic literature on insurance during the last half-century, and the corresponding practice in the name of Takaful and Islamic insurance, exemplifies the problem".

1. The evolution of Takaful theory

The origins of the concept of Islamic insurance are traced back to the second century of the Islamic era, when Muslim Arabs started to expand their trade to India, the far east, and other countries in Asia. The foundation of this insurance was laid down in the system of Aqilah[2], meaning a joint guarantee by a group of individuals to help each other in times of disaster or misfortune. In later centuries, Muslims from the Ottoman Empire used similar mutual help or indemnification practices in their trade relationships with Spanish merchants (Schoon, 2008). Cizakca (2004) also refers to the application of Waqf[3] funds in providing rudimentary insurance for members of guilds in the Empire. However, insurance institutions based on indigenous means failed to develop, either during the Ottoman era, or in other periods during the history of other Muslim countries. With the onset of Ottoman reform movements and the acceleration of trade with Europe in the 19th century, the Ottomans adopted a variety of modern financial institutions (Pamuk, 2004)[4]. However, they were all based on Western models (Kuran, 2005). Transplanted from conventional modes, insurance contracts were also endorsed by Ottomans around 1839[5], and by Egyptians in 1845[6]. Kuran (ibid.) attributes the stagnation of these institutions to the rigidity of Islamic law that blocked the evolutionary path of their progress. Sources of rigidity, in his view, included: "(1) the Islamic law of commercial partnerships, which limited enterprise continuity; (2) the Islamic inheritance system, which restrained capital accumulation; (3) the Waqf system, which inhibited resource pooling; and (4) Islam's traditional aversion to the concept of legal personhood, which hampered private organizations". It was only after the demise of the colonial period and the independence of Muslim countries after World War II that "Muslims began to rediscover their identities and manifested the desire to regain the lost values in all aspects of life, especially concerning the economic system." (Zamir & Mirakhor, 2007).

Modern insurance as we know it today is not very old. It began in the late 17th century when the first fire insurance company was established in England following the Great Fire of London (Wikipedia).

[2] Development of the Aqilah concept, in turn, goes back to the tradition of blood money or Diyah and financial compensation for bodily injury called Arsh; which predates Islam. The concept was endorsed by Muslims after the Prophet Muhammad used it in a verdict to solve a tribal dispute.

[3] A charitable endowment established by withholding one's property to spend its revenue on fulfilling certain needs.

[4] Including the establishment of secular courts, the legalization of interest, and financial regulations.

[5] Only for non-life insurance, believing that the life-insurance concept clashed with Islamic principles (Amin, 1985).

[6] Islam Banker, the origin of Takaful: 18th Century Ottoman Europe, Online at: http://tyo.ca/islambank.community.

The development of insurance institutions in the 18th century was spurred by the advances in mathematical theories upon which the practical models of insurance are based. The leading insurance companies of the West began to offer their services on Ottoman soil in the 19th century, where Muslims utilized them in their trade relationships with Europe (Khan, 2005).

Some Muslim scholars held the view that the recognition of insurance was inevitable in the modern world (Bekkin, 2007). Others had serious reservations regarding the morality of the practice (Ahmad, 1995), but could not think of any alternatives to suggest to their fellow Muslims. As a result, for more than a century, Muslim businessmen used Western conventional contracts to manage their risks (Abdel Karim & Archer, 2002). This state of affairs created a stigma for concerned Muslim intellectuals and scholars, urging them to search their past critically to find alternative products which were more compatible with Islamic financial principles. The Takaful contract was born later out of this necessity.

One of the prime distinctive features of Takaful compared with conventional insurance lies in the legal relationship between the contracting parties. Modern Western contract law accepts any commercial agreement as long as it's not unlawful. In Islam instead, commercial law provides rules for various kinds of contracts, including for insurance. Ibn Abidin (1784-1836) was the first Islamic scholar to develop the meaning, concept and legal basis of an Islamic insurance contract. Later, in 1906, the Mufti of Egypt, Muhammad Baqit, approved the idea of insurance as described by Ibn Abidin (Mankabady, 1989).

In conventional insurance contracts, the relationship between the insurer and the insured is that of buyer and seller. An insurance policy is sold to the policyholder, and insurers want to maximize their own gain by selling this service. According to Shariah law, an insurance contract (like any other contract) is permissible, if it is clear and free from: Gharar or uncertainty in the contractual obligation, Jahalah or ignorance regarding financial obligation, Riba (usury), Ghabn (fraud) and Maisir (gambling). Furthermore, an acceptable insurance contract is expected to be based on principles of mutuality and cooperation (Ta'awun), encompassing the elements of shared responsibility, joint indemnity, common interest and solidarity. The purpose of this "mutual endeavor" is not profits but to uphold the principle of "bear ye one another's burden".

This differentiates Takaful from a conventional type of insurance, in which the policyholders, rather than the shareholders, solely benefit from the profits generated from the insurance and investment assets. In a Takaful company, the manager or agent acts as trustee of the participant's fund, and is entitled to have remuneration, which is given by the participants as a share of profit arising from the operational surplus of the Takaful fund. Any cash surplus, which may remain at the end of each financial year, is normally returned to the policyholders in the form of cash dividends or distributions. This creates a built-in mechanism to counter any overpricing policies, as whatever the premium, the surplus would normally be returned to the participants in proportion to their contributions. In the case of loss, policy holders receive their compensations from a loss-absorbing reserve[1].

The stand taken by Muslim scholar in favor of or against conventional insurance arises from the extent to which they believe these contracts are diluted by the impurities discussed earlier (Muhammad, 2007). At one extreme, some Muslim jurists defended conventional insurance contracts by distinguishing their features from the elements of impurities. At the other extreme, insurance contracts were found to be in conflict with Islamic law (Zaman, 2008).

Rashid (1993) groups the diverse views of Shariah experts into three broad categories:

i. The first group includes advocates of conventional insurance, who denied the presence of gambling and high degrees of uncertainty in conventional insurance contracts. Their only reservation was for investing the surplus insurance funds according to the Islamic modes. They denied the presence of gambling in insurance contracts because of the distinction they made between the risk taken in gambling, and the risk taken in trade. A gambler takes risks voluntarily for the sake of gains, while insured risk in a trade is an indispensable part of a business process which is conducive to productivity. A high degree of uncertainty in the insurance was also disputed because of the possibility of predicting the chance of an accident according to the law of large numbers. This law helps an insurance company to calculate the number of likely incidences with some accuracy. As a result, the element of Gharar or uncertainty in the contracts of insurance is negligible according to the view of this group.
ii. The second group of scholars approved general insurance but disapproved of life insurance, as it involved gambling and contained uncertainty. This group argued that in general insurance (non-life insurance), the premium is pre-agreed and does not contain uncertainty,

[1] The schemes for loss-compensating reserves and loss-absorbing facilities were originally proposed by Chapra (1982).

although some uncertainty may exist in the claim amount. In life insurance contracts, Gharar can be seen to exist even in the premium, as the insured party does not know how much he will pay to the insurance company each year, or for how many years. Scholars agree that engaging in Takaful transactions, with a donation element as part of the contribution, offsets Gharar.

iii. The third group of scholars believed that the elements of gambling, coupled with usury and uncertainty exist in all sorts of conventional insurance.

Nagaoka (2007) attributes these differences to "the dichotomy between those who attach greater importance to the ideal of Islam finance and those who deem it desirable to respond to the practical demands of Islamic finance". A pragmatic approach that rests somewhere between the extreme view of the first and the third groups can create a balance between the formal demands of Shariah and the economic necessity of the time in providing insurance for everyday life (Abdul Rahman, 2007).

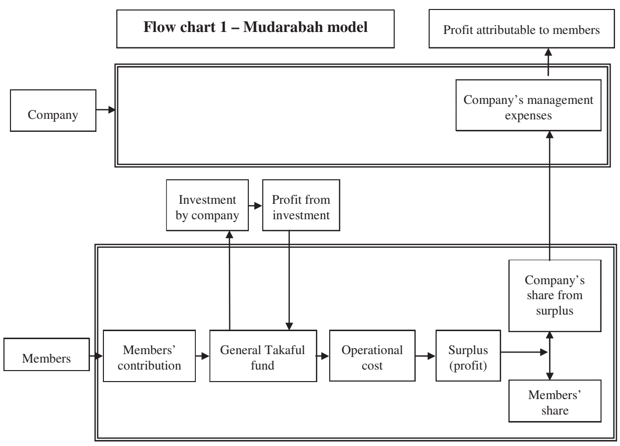
Takaful guidelines share a great deal of commonality with conventional mutual insurance theory, and add to it such concepts as the avoidance of usury. The capacity of cooperative societies to ascertain common risks and charge premiums reflecting those risks has been enhanced by the progression of actuarial science from the 18th century onwards. This infrastructure has facilitated the understanding of Takaful theory, and the development of its model. It has also helped to develop Takaful products across the world without ties to any particular jurisdiction. They are rather constructed according to certain norms and conditions that may be applied anywhere in the world, where there is a market and people who wish to engage in Takaful transactions in a manner which is consistent with the Shariah law. Recent development has enhanced the recognition of Takaful by conventional practitioners, and facilitated the marketing of these products to Muslims and non-Muslims[1] alike.

The recognition of mutual protection as an acceptable form of insurance was reinforced in 1976 during the first international conference on Islamic Economics in Makkah, Saudi Arabia. However, the basic model of Takaful was only approved in 1986 during the second sessions of the Council of Islamic Fiqh (jurisprudence). This was a major boost to the creation of institutions to translate Islamic insurance ideals into practical solutions. In rapid succession, efforts to introduce Takaful schemes produced results in many countries. Sudan took the lead to establish the first Takaful insurance company[2], followed by Saudi Arabia, UAE, Bahrain, Malaysia, and others[3]. The prevailing social and economic environment during this period also gave an encouraging start to Takaful operation in Western Europe[4]. The early types of Takaful products were unit-linked savings plans, where the benefits of the policy were notionally linked to the value of the underlying assets in the internal funds of the Takaful companies. Those products were, in general, complying with Islamic Shariah principles regarding the type of investment and risk.

To protect the Takaful operations from being involved in unlawful activities, they normally appoint a Shariah supervisory board (SSB) to set the basic rules and principles governing their operations. As an independent body, the SSB issues a certificate of Shariah compliance for the company's operations and products.

2. Takaful models

There are two main models that are applied by industry in developing Takaful contracts: Mudarabah (silent partnership) model, and Wakalah (agency) model. The Mudarabah model is essentially a basis for sharing profit and loss between the Takaful operator and the policyholders. The Takaful company acts as the trustee and manager of the Mudarabah fund in return for a share of the surplus on underwriting and a share of profit from investment. Management expenses of the operator shall be borne by the shareholders' fund and not from the Takaful funds. This model is commonly used in Malaysia.



Wakalah is a contract between the Takaful operator and the participant in which the policyholder

[1] Over one-quarter of the policyholders in one Takaful operation in Malaysia are non-Muslims.

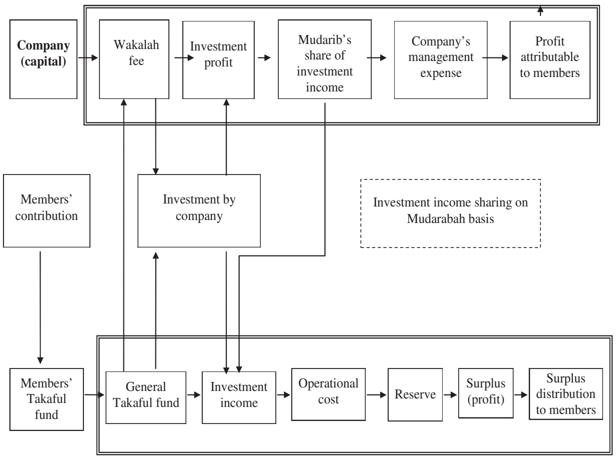
[2] The Islamic Insurance Company (1979).

[3] The Islamic Insurance Company Arabia – Saudi Arabia (1979), The Islamic Arab Insurance Company – UAE (1980), Bahrain Islamic Insurance Company (1983), and Sayrikat Takaful Malaysia (1984).

[4] These include Dar Al Mal Al Islamic in Switzerland (1981) and in UK (1982), and the Islamic Takaful Company in Luxembourg (1983).

authorizes the Takaful operator to manage the fund in return for a fee. This model was formulated by scholars in the Middle East and is still the predominant form of Takaful in this region.

Flow chart 2 – Wakalah model

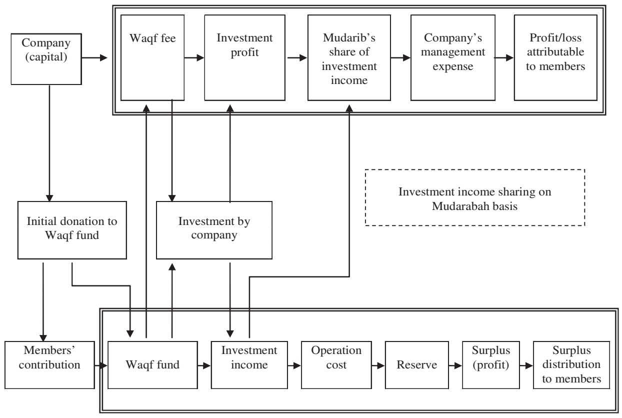


There is also a hybrid model, which combines the principles of both Mudharabah and Wakalah models. Here the Takaful agent receives both a share of the profits generated from the investment activities of the Takaful fund, as well as a predetermined share of the contributions paid by policyholders in the form of Wakalah fees.

Abdul Wahab et al. (2007) referred to the Shariah scholars' expressed concerns regarding the credibility of both approaches. They especially found major flaws in the Mudarabah model for risk management, which effectively rendered it inappropriate to use this contract. For this reason, they outlined the third model, a Wakalah with Waqf fund that seeks to remain within the Wakalah framework, while incorporating modifications that may render it more acceptable from a Shariah perspective.

Under the Waqf model, agents make an initial contribution to a Waqf fund by way of Tabarru[1]. An additional contribution collected from policyholders of the fund helps meet contingencies. Here also the underwriting agent receives a Wakalah fee and the surplus funds remaining after settlement of all outstanding claims are distributed to the policy holders. This model is predominantly used in Pakistan.

Flow chart 3 – Wakalah-Waqf model



Reinsurance of the Takaful business on Islamic principles is known as Retakaful. Takaful companies are required to buy coverage from Shariah-compliant Retakaful underwriters. However, due to the shortage of Retakaful insurers in the market, Shariah scholars currently allow existing operators to reinsure using conventional principles.

Takaful models, similar to other modes of finance, have their own strengths and weaknesses. The strength of Takaful models compared with conventional insurance arises from lower transaction costs, the existence of higher trust between policy holders and operators, and positive effects resulting from the companies' embeddedness in their communities. Takaful operation is also perceived to be a new source of possibilities for overcoming entrenched inequities and injustices in the conventional insurance contracts. However, it is not possible to verify the achievement of such objectives from the existing empirical studies.

The weaknesses of Takaful models are due to the negative effects of low outreach, low financial resources, and insufficient management and technical capacities. It is also not possible to offer a Takaful solution to all insurance needs, including the coverage of high-capacity, high-exposure risks in an insurance pool.

3. Empirical studies

Empirical studies on the way that Takaful performs within the Islamic financial sector have been generated during past decade. Maysami and Kwon's (1999) paper is one of the earlier academic research works that systematically addresses some of the financial aspects of Islamic insurance, including the concepts of uncertainty, interest and investment arrangements, the basic structures of different types of Takaful, as well as suggestions for ways of improving the corporate governance of insurance operators.

[1] "Tabarru" means "donation; gift; contribution". For some Muslim scholars, Tabarru is the main core of the Takaful system, making it free from uncertainty and gambling.

Some papers have broad multi-country and inter-regional comparative perspectives. For instance, Abdul Kader et al. (2010) examined the cost efficiency of non-life Takaful insurance firms operating in 10 Islamic countries. They found that having non-executive directors and separating the CEO and chairman's functions did not improve cost efficiency, while board size, firm size and product specialization had positive effects on the cost efficiency of Takaful insurers. In contrast, the regulatory environment was found not to be statistically significant in terms of improving the cost efficiency of Takaful operators. In another comparative study, Riaz (2009) investigated the influence of age, education, and income on the preference of individuals in a sample buying Motor Takaful in Karachi, Pakistan and Dubai and Sharjah in the UAE. Using a survey-based research method. They found that the preference of individuals in Pakistan and UAE was more influenced by income levels than other variables.

The majority of empirical studies on Takaful are on the Malaysian market. Given that Malaysia is the world's largest Islamic financial centre, and the market leader in Takaful, one would not be surprised to see that the bulk of these papers is coming out of this country. To name a few, Abdul Rahman et al. (2009) investigated the dynamic effects of goods, money, and securities markets on the development of family Takaful during the period from 1999 to early 2006. They explored both short- and long-run market dynamics and the causalities between Takaful performance and the goods market, money market, and securities market. Their findings indicated that the goods market is the most significant market in promoting family Takaful in Malaysia. They concluded that efforts to promote Malaysia as a financial hub for Islamic finance had been successful, at least with respect to the Family Takaful developments.

Abdul Majid and Sukki Othman (2009) investigated the reasons for the low market share of Takaful compared with conventional insurance in Malaysia, despite the existence of Takaful since 1984 in that country. They found the low level of knowledge and understanding of Muslims about Takaful concepts and Shariah terms to be the most important factors accounting for the low market penetration of Takaful in the Malaysian insurance industry.

Redzuan et al. (2009) attempted to identify the driving force behind family Takaful demand in Malaysia. They found that income per capita is a robust predictor of family Takaful consumption. Long-term interest rates and composite stock indexes also show significant relationships with family Takaful consumption. Other factors, such as inflation and savings rates, do not appear to influence family Takaful purchases significantly.

Abdul Hamid et al. (2009) attempted to investigate empirically the determinants of corporate demand for Islamic insurance in Malaysia. Their findings showed that leverage, expected bankruptcy costs, tax considerations, company size, and managerial ownership played an important role in determining the corporate demand for Islamic insurance. Their conclusions are robust to alternative model specifications that help to control for unobservable heterogeneity.

Ashraf bin Mud. Hashem (2007) investigated the claim that insurance companies have successfully convinced young and middle-income people to contribute to Waqf. This is a departure from the traditional practice whereby older and wealthy people contributed to Waqf. They found that through a combination of several Islamic principles, all relevant parties are benefiting from the scheme, which appears to complement the conventional method of collecting Waqf.

There is one country-specific study by Siddiqui and Al Athmey (2008) on Brunei. They briefly addressed the status of different issues raised in the Islamic insurance literature. They then attempted to define and suggest a set of idiosyncratic goals for Islamic insurance companies within the overall objectives of an Islamic socioeconomic and financial system. They finally discussed the workings of Islamic insurance companies in the state of Brunei.

Concluding remarks

The present survey introduces series of papers that examine the emergence of Islamic insurance – Takaful, from theoretical and practical perspectives. The theoretical literature is surveyed around the historical evolution of Takaful and the route through which the Islamic insurance institutions have developed over time. The empirical studies described were conducted on such topics as the extent of public awareness of the Takaful industry, Takaful product offerings, and Takaful product attributes. Furthermore, the role of religion in influencing demand for Takaful, the relative importance of factors influencing demand for Takaful products, and the demographic profile of potential Takaful customers are also discussed. In reviewing the theoretical papers, one can easily observe changes from the early "idealistic" vision towards the practicality of the Takaful concept. However, in the process of reviewing the empirical studies, we could not organize them into sections that presented any theme or identified any trend, due to the inadequate number of studies conducted on this topic so far. In addition, we found no papers that directly test the validity of the theoretical foundation of Takaful axioms. As a result, it is difficult to judge the viability and credibility of the Takaful practices according to the evidence provided by these studies.

There is a synergy between the development of Islamic banks and insurance. Takaful has emerged as a supportive system for the Islamic banking movement. The distribution via banks has also been the main driver of the growth of Takaful in recent years. This ties the future prospect of Takaful to the development of Islamic banking and finance as a whole. A sustainable development of Islamic banking and finance relies on a balanced integration of Islamic ideology, and other social, economical, institutional and cultural values. The ability of the system to remain true to the principles of religious tradition, and be part of today's rapidly changing world of finance and commerce at the same time is essential for achieving its goals.

In the literature of the 1960s and 1970s, it was clear that Islamic banking should be based on the sharing of profit and loss (Mudarabah). It was expected that this mode of finance would significantly remove the inequitable distribution of income and wealth, or lead to a more efficient allocation of resources as compared with interest-based finance. Islamic banking, however, has virtually shifted to an interest-like transaction system (Saeed, 2004), diverging away from the theory and ethos of Islamic economics.

From the practitioners' perspective, this shift is necessary to maintain the sustainability of the industry within the structure of the conventional system. It is asserted that the "scholarly opinions are made devoid of adequate consideration of practical problems. As a result, such academic reflections are often dismissed as arising from naivety and lack of knowledge of operational issues" (Abdul Rahman, 2007). The root of this dichotomy is found in the development of coherent fundamental economic theory axioms, "without the operational axioms through which Islamic banking and finance institutions can function" (Asutay, 2007). This has given a lot of leeway to the practitioners to bend the rules. According to Asutay (ibid.), practitioners' approach in managing Islamic banking wealth is in line with the neo-classical paradigm, not Islamic economic. He suggests the "institutionalization of social banking" as a solution to overcome this failure.

With respect to Takaful, the situation is not different, as many Shariah scholars see the current model of Takaful as only the "second best" alternative. They "tolerate" it because they recognize that Takaful companies operate in an environment that is basically conventional and a legal infrastructure that is yet to recognise the very essence of this practice. Perhaps, the proposed institutionalisation of social banking can also help to overcome some of the failures of Takaful operations as well.

We believe that a visionary Islamic finance still has the potential and ability to embrace both extremes of a number of dimensions, so that it can adapt to the best practises of the conventional financial system, such as openness, transparency, accountability and uniform regulations, while adhering to the principles of fairness, equity, moderation, and social justice. With creative minds and some determination, the system can unlock the hidden existing opportunities in itself to achieve these goals. After all, one cannot talk about a higher calling to change the world, while sinking into a pragmatism that leads inevitably to "ethical dilemmas" for Islamic banking and finance.

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