

## **The Line of Separation between Takaful and Conventional Insurance**

A conventional insurance can be defined as a source of financial protection against uncertainties and day-to-day hardship that are very hard to occur. Takaful is also a similar concept but with some exceptions and benefits. Here are certain main features that separate Takaful from a conventional Insurance:

### *Independence to discontinue*

As per the contracts and rules of Islamic insurance, if any of the members is not willing to continue with the current insurer then, he is free to leave without paying the premium amount again. However, in the case of a conventional insurance there are certain numbers of premiums that an insured has to pay before he has the option of leaving. Therefore, Takaful seems to be a safer bet.

### *No place for interest*

As per the rules and regulations governing Islamic insurance, there is no interest involved in the system. Takaful is based on the concept of mutual sharing of profits under the technique of Al Mudarebah. In case of Takaful, the insured person invests the amount and shares the accumulated profits from the business whereas in case of conventional insurance, the premium paid by the insurer is more of a loan for which he collects interest.

### *Takaful reaps profits but not bonus*

As discussed in the previous point, the insured person invests his amount in the business and divides the accumulated profits from the same in mentioned proportions as per the contract. Therefore, the amount that he gets back is purely profit that was derived out of the business conducted from investments. In case of a conventional insurance, the person only gets a part of the profit derived, which can be termed as bonus.

### *No commission involved in Takaful*

In case of Takaful, the agent who invites the members to invest gains his commission from the insurer whereas in case of a conventional insurance, the agent derives his commission from the insured himself.

### *Concept of Zakat in Takaful*

Zakat is a term similar to charity that the company pays both on the insured person's premium and on the amount derived as profit from business. In Takaful, the amount of Zakat on the part of Insured person is deducted from the account. This accumulated amount of Zakat is used for the social security system of Islam known as 'Baitul Maal'.

### *Distribution system*

The accumulated Zakat in Takaful system is used to help different people by the company whereas in conventional insurance, the insured has to pay the entire premium individually by himself.