



ISLAMIC FINANCE AND THE ROLE OF ISLAMIC INSURANCE IN IT

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Received: 20 th January 2024 Accepted: 6 th March 2024	This article reveals the role and importance of Islamic finance and Islamic insurance in it, and offers suggestions and recommendations for improving the practice of Islamic insurance in the future
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INTRODUCTION

The recent drastic changes in the global community and economy (economic sanctions, crises, political obstacles, population migration due to political circumstances, epidemic diseases, etc.) necessitate the revision of economic development and stratification, including the growth of financial institutions and the widespread introduction of the insurance business and its current, commercial and mutual forms. The insurance service markets in several nations have experienced significant growth. Islamic insurance is effectively growing in the international insurance market and is popular with all demographic groups. Additionally, people are quite interested in our country's insurance sector. According to Mirziyoyev, the head of our state, special attention is given to the issue that "it is time to develop a legal framework for the introduction of Islamic financial services in our country as well as to recruit experts from the Islamic Development Bank and other global financial organizations" in this percentage. Additionally, as the "strategy of action" on the directions was formed, the Republic of Uzbekistan defined five development priorities for the years 2017–2021, with the importance of economic growth and deregulation on the evolution of the insurance industry specified.

To analyze the world economy today, particularly World Finance, financial ties based on Sharia-mu sulman law could be overlooked. The economy is based on Islamic principles. During human existence, the Islamic religion is a guide to happiness and the proper route on the plains of the earth. God created the Earth and gave man the ability to form diverse partnerships, including economic and financial

ones. He gave every guy a Fitr and made every man want to be in the headlines. In man, however, there are also traits of avarice and malice, ill feel and cruelty. By defining specific moral and social bounds with Justice, Islam has defined an economic and financial concept that can avoid injustice in the use of material resources. Following these principles will assist a person in finding honest sustenance on earth as well as God's approbation in the hereafter.

The Islamic economics is based on the concepts of "permissible / good / right / good," which means that it defines what "good" is and urges people to attain it using the most effective and successful techniques within murray's constraints. As a result, the Islamic economy ensures a clear relationship between human liberty, private property, entrepreneurship, monetary gain, and the work to be made and the reward. The Islamic economy, on the other hand, provides specific moral filters that assist to bring social fairness at many levels..

Shortly on the critical matter! In Islamic finance, money has a very precise meaning. It does not have the ability to reproduce itself over time! Because time cannot generate anything, capital cannot be a source of multiplication in the absence of a cent. This likely investment is money in Islamic finance. Active investments pay off only when the owner bets on one permitted (honest) project. Investments can only benefit or hinder a certain project as long as it is stitched into that project, because it is not time-consuming but generates an economic advantage to the business enterprise This indicates that "potential profit" and "possible loss" are inextricably linked, implying that the danger of loss and the promise of



profit are both directly tied to the manner of investing. For instance, if this is a buy-and-sell transaction, the debt will be accessible until the business risk asset is sold. If there is a rent or rental, the entrepreneurial risk will be accessible for the duration of the asset's return or sale. If a partnership exists, the entrepreneurial risk exists until the collaboration agreement is signed.

The Islamic economy model is unique in that it considers not only people's material needs, but also their religious, spiritual, and social needs, and thus, while generally supporting free market laws, it confirms certain ethical and humane boundaries in order to protect society's interests, and to also prevent nonsense and unfairness that "What can you produce?" The Islamic economic model solves this challenge by focusing on the nature of man and his requirements, rather than gratifying all of Man Without Borders' aspirations.

The Islamic economic model's goal is to build a system of ethically acceptable commercial economies. One of its features is the satisfying of actual needs rather than the personal and societal existence. The Islamic economic system places a premium on the equitable distribution of wealth throughout society, as it is thought that without it, social concord (harmony) and economic progress are difficult to achieve.

Takaful is a way to provide Muslims and the burgeoning economies of many nations with a majority Muslim population with the social and economic advantages of contemporary insurance protection in a way that respects their religious beliefs. As a result, the growth of Takaful is essential for both economic development in many nations with growing market economies as well as for social inclusion in non-Muslim nations. Therefore, it should come as no surprise that the takaful business is experiencing a time of fast expansion. The complexity of takaful understandings and the unsolved difficulties that surround it, however, provide some serious obstacles to the growth of takaful. These problems make it difficult for the takaful business to build an effective legal and regulatory framework as well as to deal with financial reporting, corporate governance, rating, and other relevant difficulties.

Muslim legal experts agree that the "aquila" system, which was used by Muslims in Mecca and Medina, lay the groundwork for mutual insurance by establishing shared liability. Early in the second century of the Islamic era, Muslim Arab traders expanding their trade into Asia mutually agreed to contribute to a fund to cover any members of the group who experienced accidents or robberies while

traveling by sea. This mutual agreement led to the establishment of Islamic insurance (marine insurance). We are aware that all human endeavors have a risk of financial loss due to unanticipated circumstances. What we now refer to as insurance has been around since at least 215 BC to help individuals with this load. For more than 1400 years, this idea has been used in numerous forms. It comes from the Arabic term *kafalah*, which meaning "shared assurance" or "guaranteeing each other." The idea is in accordance with the concepts of community compensation and shared accountability. Trade caravans existed back then, and they were subject to the same dangers that traders face today. According to Muslim scholars, the *Al Aaqilah* system, which was used by Muslims in Makkah and Madinah, set the groundwork for mutual insurance by establishing shared responsibility. It was made up of donations made by tribe members who shared joint duty for protecting the victim or the victim's family and friends from financial liabilities resulting from certain occurrences. According to the idea of mutual defense and collaboration in virtue and good acts, Prophet Muhammad (pbuh) endorsed such system.

When someone committed an offense against a member of another tribe, they were subject to a pooled obligation known as *takaful*, which required them to compensate the victims or their heirs. Later, this idea was used to a variety of fields, including maritime trading, where participants contributed to a fund to compensate any members of a group who experienced accidents while at sea.

An Islamic insurance system that serves as an alternative to traditional insurance is known as *takaful*, which is an Arabic word that means solidarity. *Takaful* is a type of insurance that is entering a rapidly expanding worldwide market because to the expansion of the Asian and Middle Eastern economies. The *Takaful* system is *Tabarru* (Voluntary), which means that the associated risks are dispersed among the volunteers in a group and is founded on the idea of collaboration or mutual aid. The *Takaful* system is primarily described as a group of participants who agree to collectively guarantee themselves against loss or harm incurred by individual signatories, as verified in the policy, that is reflected in the agreement (or policy). In the not-too-distant future, inhabitants of Islamic nations are expected to make *takaful* their default option. The appeal of this and related Islamic banking and financial goods to Muslims has been enhanced by the system's financial effectiveness and principles supported by religious correctness. This thesis provides a brief history of insurance in general and of the Saudi insurance legislative framework in



specifically. By doing so, it sheds light on Islamic insurance Takaful applications across the world. Saudi Arabia is the market leader in the area. It also evaluates the insurance options available in Saudi Arabia to see whether the facilities provided by the local insurance firms have any limitations or restrictions that might affect the efficiency of governmental oversight and regulations in connection to creating a legal framework. The degree to which the Saudi Arabian insurance market's foundations are protected is impacted by this. Additionally, several ideas and recommendations for future practice are generated by the current study's goal.

Any takaful company is usually called a "takaful operator" instead of an insurer. For the Islamic model, contributions (premiums) should be paid on donation (tabarru) in order to remove the element of gharar from the takaful contract. These two principles are considered essential elements from the Shari'ah point of view, and all Islamic models have to comply with these principles (Tolefat, 2006). Takaful practices are free from the elements of riba and other prohibited elements and are evolved around the elements of mudarabah, tabarru, and other Shariah justified elements. Conventional insurance may involve

riba and some other elements, which may not be justified by Shari'ah principles. In Takaful, the paid premium is treated as both donation (tabarru') and saving (mudarabah). In the conventional system, the paid premiums create an obligation against the insurer on a sale and purchase relation. The underwriting profit in Takaful is distributed to the policyholders. The shareholders' profit is generated from the return in the investments of the shareholder capital and expenses paid to the shareholder by the policyholders for managing the company on behalf of the policyholders, and managing the policyholders' investment funds on behalf of the policyholders. In the conventional scheme, the policyholders do not get any share of the underwriting profit (except in mutual companies); shareholders' profit is generated from the company's underwriting profit plus any investment returns. Under takaful, the policyholder's funds belong to the policyholders on collective basis and are managed by the shareholders. Under the conventional scheme, all funds belong to the company, though separation of assets may be maintained between shareholders and policyholders for specific insurances (for example, with profits) (Anwar, 2008).

	Conventional insurance (proprietary)	Conventional insurance (mutual)	Takaful
Contract	<ul style="list-style-type: none"> A policy in the form of an exchange contract (sale and purchase) between the insured (policyholder) and the insurance company. 	<ul style="list-style-type: none"> A policy in the form of a risk sharing contract between the individual insured and the pool of insureds as represented by the cooperative insurance company. 	<ul style="list-style-type: none"> A combination of tabarru' contract (donation) and agency and/or profit sharing contract between the individual insured and the pool of insureds as represented by the Takaful.

Responsibility of policyholder/s/ participants	<ul style="list-style-type: none"> Policyholders pay premium to the insurer. 	<ul style="list-style-type: none"> Policyholders pay contributions to the pool in the form of premiums paid to the cooperative insurance company. Any underwriting surplus belongs to the policyholders, who are also liable for any deficit. Annual surpluses are normally retained in 	<ul style="list-style-type: none"> Participants make contributions to the scheme. Any underwriting surplus belongs to the policyholders, who are also liable for any deficit. Practices regarding disposition of annual underwriting surpluses or deficits vary. In some Takaful, operator manages
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		underwriting reserves out of which any annual deficits are normally met	underwriting under a Mudaraba contract and shares in underwriting surplus as a Mudarib fee.
Liability of the insurer/operator	<ul style="list-style-type: none"> Insurer is liable to pay claims according to the policy using the underwriting fund and, if necessary, shareholder's funds. 	<ul style="list-style-type: none"> Pool is liable to pay claims according to the policy using the underwriting fund. 	<ul style="list-style-type: none"> Takaful operator acts as the administrator of the scheme and pays the Takaful benefits from the Takaful (underwriting) fund. In the event of deficiency in the Takaful fund, the Takaful operator is expected to provide an interest-free loan to the Takaful fund to cover the deficiency.

Access to capital	<ul style="list-style-type: none"> Access to share capital and debt with possible use of subordinated debt. 	<ul style="list-style-type: none"> No access to share capital, but access to debt with possible use of subordinated debt. 	<ul style="list-style-type: none"> Access to share capital by Takaful operator but not to debt except for interest-free loan from operator to underwriting fund.
Investment of Fund	<ul style="list-style-type: none"> There are no restrictions apart from those imposed for prudential reasons. 	<ul style="list-style-type: none"> There are no restrictions apart from those imposed for prudential reasons. 	<ul style="list-style-type: none"> Assets of the Takaful funds are invested in Shari'a-compliant instruments.

1.1 table Comparison between Takaful and conventional insurance (proprietary and mutual) – general insurance¹

One of the greatest challenges - the misconception that takaful is for Muslims only - has been settled in this paper. Due to its explicit ethical structure, takaful can be marketed for both Muslims and non-Muslims. In multiracial Malaysia, for example, takaful products have attracted even the non-Muslim communities. The belief that takaful is only for Muslims has hopefully been refuted. This is, however, not enough to cultivate a culture of awareness for takaful products. Although takaful products are faced with challenges such as immature banking infrastructure, awareness can be cultivated by offering a wider range of takaful products as an alternative to those offered in the conventional market. The strength of takaful products to announce their awareness lies in its ethical structure. The ethical structure of takaful serves as an

¹ Islamic Financial Services Board (IFSB) and International Association of Insurance Supervisors "ISSUES IN REGULATION AND SUPERVISION OF TAKAFUL (ISLAMIC INSURANCE)" August 2006.



offshoot of the principles of fairness and the sharing of each other's burden. This will extend protection to the less fortunate members of the community. On the basis of this common humanity, takaful products stand a chance to be accepted by both Muslims and non-Muslims, despite the obvious religious and cultural differences. It seems probable that takaful companies will attract new clients from the existing conventional insurance franchises. Takaful is being practiced now as an alternative to the conventional insurance system.

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