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CHALLENGES AND PROSPECTS OF ISLAMIC INSURANCE (TAKAFUL) IN OMAN USING SWOT ANALYSIS

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Abstract
*This study investigates the challenges and prospects of 'Takaful' (**Islamic insurance**) in Sultanate of Oman. Itis widely acknowledged as an alternative towards conventionalinsurance,its services are offered in a full swing in many Muslim as well as non-Muslim countries. The special feature of 'Takaful' is that, it is appropriate and acceptable by any personirrespective of the religion, and it is gaining momentum through active awareness and development programs.The main benefits are that, if any surplus in the 'Takaful Fund' exits it will be shared among participants only and the investment profits are distributed among participants and shareholders on the basis of Mudaraba or Wakala models. The recent economic crisis in petroleum products price has stingily affected the economic growth.The government has taken essential steps to improve the contribution of non-oil sector to bring well-adjusted economic growth in the Omani economy. It is one of the major opportunities for the investors to exploit the opportunity through 'Takaful'. Thus, the main objective of the study is to examine the viability and market potential of Takaful Islamic Insurance in Sultanate of Oman using theSWOT analysis approach.*

Keywords: Takaful, Insurance, Prospects, Awareness, SWOT,Mudaraba Or Wakala.

1. Introduction
Takaful originates from the Arabic word ' Kafalah' which means donation and joint guarantee. The aim of Takaful is mutual help and cooperation among the members of a defined community.

Referring to the AAOIFI's Accounting, Auditing and Governance Standards for Islamic Financial Institutions (2004/2005), Takaful is defined as "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 manage the insurance operations and investinginsurance contributions."

2. Origin, History & Growth of Takaful
Takaful is based on the idea of mutual assistance and donation. It adopts the practice of Aqilah concept followed by Arab tribes in ancient periods before and during the Prophet's (s.a.w) time. This concept refers to the payment of any close kin of the responsible of a murder a blood money called 'diyyah' to the family of the victim (EngkuRabiah& Hassan Scott, 2008). Htay& Salman (2013) affirmed that this Arabic custom allows creating monetary contribution which is perceived as the insurance premium for the murderer. In contrast, the compensation under Aqilah for the family of the victim is considered as the compensation of present insurance practices for an unpredictable event which is the death of the murdered.

Nevertheless, all Fiqh bodies all over the world refused the insurance activity due to its contradiction with Islamic rules in terms of involving interest, gambling and uncertainty. They have suggested an alternative based on the concept of joint responsibility and mutualcooperation. It may be considered as an Islamic substitute for traditional insurance called recently as Takaful. In fact, the first Takaful operators have been established in Sudan and the UAE in 1975 and named respectively The Islamic Insurance Co and The Islamic Arab Insurance Co (IAIC).

Later on Malaysia played a revolutionary role through setting the first Takaful regulatory framework in 1984 (Takaful Act Malaysia) by which the Takaful movement has successfully launched in this country and other South East Asian countries.Then, Sudan and Iran followed by Pakistan having Islamic legal environments turn out to be Takaful markets. After that, Gulf countries particularly Bahrain and Saudi Arabia set specific Takaful legislations. Naturally important markets of Islamic insurance have blossomed into a fast growing industry with a promising prospect in the region as it is the case of Sultanate of Oman.

3. Significance of the Study
This research will be worth to various groups of people like the regulators and government agencies in developing policies and guidelines tosupport and develop Takaful Insurance in the country. Insurance is a highly regulated industry and Takaful is not immune of this. Takaful requires a different legal frame work such as Shariah Supervisory Board (SSB) to ensure that the organizations adhere to the belief of Muslims faith. Therefore, having noted inherent challenges that Takaful operators

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face SSB and Insurance Regulatory Authority (IRA) will ensure to develop guidelines and supervision requirements to address these challenges that may hinder execution of their directives.

On the other hand, policy holders, general public, interested researchers, investors and students will also benefit from this study as it would serve as source of reference mostly, when they are engaging or purchasing Takaful products.

4. Literature Review

Insurance is one of the primary services sectors which continue to play an important role in supporting economic and social development. It is renowned to drive a huge potential of contributions to the economic growth. With the emergence of the Islamic economy model, a new industry known as Takaful has started its business.

4.1. Prohibition of conventional insurance by Islamic Shariah

Muslim League Conference in Cairo in 1965, National Fatwa Committee of Malaysia in 1972 and OIC Fiqh Academy in 1985 had issued the same fatwa on prohibiting conventional insurance activity. In this context, **Htay& Salman (2013)** stated that the conventional insurance was rejected by Islamic Shariah due to its contradiction with its principles. For instance, commercial insurance specifically life insurance involves gambling (al-Maisir), uncertainty (Gharar), interest (Riba), unlawful appropriation of others' property and violation of law of inheritance in case of life insurance... It is a profit-orientation business, thus investing in interest-bearing assets. In contrast, Islamic insurance is not allowed to deal with commercial banks which are involved in the practice of interest **(Anwar, 2008).** It came as a substitute to theconventional insurance.

4.2. Principles of Takaful

According to Solomon (2014), this industry promotes the solidarity and cooperation among the policyholders (participants) against damages and risks in accordance with the policy. Contradictory to the old model of insurance, the relationship between the insurer and the insured is commercial corresponding to that of buyer and seller.

According to Bekkin (2015), Takaful insurance companies are not the owners of the cumulative fund from the policyholders (participants) but only a trustee. So, all the contributions of the participants received by the insurer shall be transferred to the Takaful fund, as their common property.

In Practices, Takaful is considered as a mean of joint guarantee among a group of participants (members) against the risk of loss or damage that may occur to any of them. If the latter happens, all the participants guarantee jointly a certain sum of money to cover the loss of the damaged member out of the fund they collectively donate. With reference **to Yasid&al (2012),** all the group members support the needy and agree to jointly indemnify his damage through pooling their efforts and contributions. Thus, it is perceived as a system of mutual cooperation (Ta'wun) and donation (Tabarru) which is highly enhanced by Islamic teaching. In the Holy Qur'an, Allah mentioned that: "….Help you one another in Al Birr and At Taqwa (virtue, righteousness and piety); but do not help one another in sin and transgression**…." (Al-Maidah: 2)**In addition, Htay& Salman (2013) declared that while avoiding the prohibited elements in Islam'Takaful is designed to fulfill the needs of both Muslims and non-Muslims and to protect all the involved parties in the case of misfortune'.

4.3. Models of Takaful Business

The Takaful business can be managed generally by adopting three basic concepts known as: al-mudharabah, al-wakalah, al-waqf or a combination of the three contracts.

Al-MudharabahModel (trustee profit-sharing)

It is a contractual agreement between the entrepreneur (mudharib) and the capital provider (sahibul mal) for a business venture whereby each agree on a specific profit-sharing ratio. However, the capital provider will bear alone the whole responsibility of losses except that resultant from the misconduct of the entrepreneur, his negligence or violation of the policy conditions (Htay& Salman (2013)). Under Takaful contract, the participants are the capital providers and the entrepreneur is the Takaful operator who takes care of the Islamic insurance business based on the contributions of the first partner. Sometimes, the ratio of profit sharing in Takaful business may not be specified.

Al-Wakalah Model

The Arabic word 'wakalah' refers to the delegation of a task to another or carrying out a job on behalf of others. The AAOIFI Shari'ah Standard No. 23 defines wakalah as, "The act of one party delegating the other to act on its behalf in what can be the subject matter of delegation". Practically, wakalah means agency.In Takaful context, the operator named the wakeel is responsible to manage the funds of the participants (their agent) and he is earning a specific fee ' the ujrah' for his services.

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The participants receive the profit or losses from the management of their Takaful fund unless defeats were not due to the misconduct or negligence of the agent.

Al-Waqf model
Islamic scholars defined Waqf as 'detention' which means legally ' the devotion or the dedication of a possession for religious and charitable purposes. According to Htay& Salman (2013), this agreement gives the right to the dedicator ' the Waqif' the right to transfer the ownership of the property to Allah (swt).For Takaful policy under Waqf model, the operator collects the contributions of the participants under the Takaful fund in which a waqf account should be established and will be relinquished later on as a waqf fund .

Mixed/ Hybrid Model
This model is a combination of al-mudharabah and al-wakalah models. Under this contract, the Takaful operator has the role of the entrepreneur and the agent of the participants'whereas the latter is the principal and capital provider simultaneously. With reference to Htay& Salman (2013), under this model the Takaful operator will earn an upfront agency fee from the contributions of the participants and he is also allowed to share the profit on the investment of the Takaful fund according to the conditions of the policy.

4.4. Mechanism of Takaful Business
Takaful business can be grouped under two basic forms: family and general takaful. Each is based on the concepts of Mudharabah and Tabarru. Thus, theelement of interest from the insurance policy is disappeared and Gharar is converted into tolerable form.

Family Takaful
Family Takaful is created as a substitute of conventional life insurance to offer a financial assistance to the relatives of the deceased participant. As per Yasid& al (2012), Islamic life insurance is based on three main principles: the participant has to save over a specific period of time with a specific amount. Then, he receives returns from investment on the basis of his contributions. In the event of his death, his heirs will earn before the maturity of the insurance contract. Under this form, Takaful fund is divided into two separate Accounts namely the Participants' Special Account (PSA) and the participants Account (PA). The portion installed in the PSA is perceived as a donation for the Takaful operator to indemnify the heirs of any participant in case of his death prior to the policy maturity date. The remaining portion will be credited into the PA as a mean of investment and savings.

General Takaful
Contradictory to family Takaful which is supposed to be a long term insurance policy, general Takaful is a mean of protection on a temporary basis practically one year period. The purpose of such business is to provide protection against the legal responsibility of the participant toward the loss or damage happening in material goods or causing an unexpected death of a third party. Htay& Salman (2013) stated that General Takaful may offer various types of products like motor marine engineering, aviation transport Takaful and employer's liability Takaful, burglary Takaful to contract work Takaful. Under general Takaful the contributions of the participants are utilized under the models of Wakalah and Mudarabah.

5. Swot Analysis

Strenghts	Weaknesses
• A strong demand from a public due to conformity of Takaful terminology with Shariah principles • Less interference of Government bureaucracy • Existence of Islamic banking services in the country • Presence of Shariah advisors • Highest Per capita spending in the Middle East • Strong economic growth through a greatest progress rate in GDP • High growth in population • High dependency ratio • Easy acceptance of General Takaful products • **It** is free from interest (*Riba*), gambling,	• Lack of public awareness • Legal and regulatory framework is only moderately agreeable to insurance operators • Low level of penetration in comparison with the enormous market potential offered by the Muslim community • No government support in earlier stages of work • Weak activity of Re-Takaful • limited sources of distribution • limited opportunities of products development due to lack of research • Shortage of qualified and professional staff in Islamic insurance

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(*Maysir*), and uncertainty (*Gharar)*. • Provides free interest loan (*QardHasan*) to the Participants in the case of deficit. • It has re-insurance with Re-Takafulcompanies or with conventional re-insurance companies that adheres to certain conditions of Shariah.	• The cost incurred due to the necessity of personnel training • Problem of qualitative corporate governance • Limited investments vehicles in long term for Takaful funds. • Lack of standardization due to Shariah interpretation, Takaful firms offer no unique value proposition, • Volatile returns of the investments achieved
Opportunities	**Threats**
• High chances forgrowth • Competitiveness of Takaful products prices • Extension of distribution channels through strategic alliance with Islamic banks and financial institutions • Oman's strong macroeconomic fundamentals and quick policy response to the global financial crises • Good economic environment characterized by absence of terrorism events • Providing alternative investment opportunity to domestic and foreign investors. • Growing tendency of Islamic Banking and Takaful Insurance education. • Opening up the Takaful market is a mean of persuading foreign direct investment • Due to non-Shari'ah compliant of conventional life insurance, Family Takaful has more chances to be accepted particularly by Muslim participants. • Easy public awareness towards Takaful.	• Competition with conventional insurers • Growing Initiatives of 'Takaful windows' through Islamic Banks • Resistance to change from conventional to Takaful insurance • Overcapacity are harming the Omani Takaful sector in terms of surplus distribution • Lack of companies able to underwrite big premiums. • Management Fees need to be aligned to actual expense costs.

6. Conclusion

The system has been originally developed to target the Muslims in jurisdictions where some Muslims do not consider conventional Insurance to be acceptable. However the system of Takaful insurance does not limit only to Muslim customers, it is open to all people. Takaful insurance is a new concept in Omani insurance market and the only way it can realize its potential is through spirited campaign to create awareness, this would enhance public understanding on philosophy on which Takaful insurance is formed and also to remove the perception that it is only meant for Muslim faith. The Takaful Insurance model is an alternative to conventional system of insurance. The word "Takaful" means Joint Guarantee and is meant to provide pooling of risks to the individuals to face, with the mindset of helping each other in the event of any defined losses. In addition, Takaful operators need to invest a substantial portion of their resources in training their human capital which will be vital in pushing Takaful agenda in the insurance market. Moreover, Takaful operators should develop and innovate products that would serve the interest of their target market.

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