Chapter 33
Issues and Challenges in Introducing
Islamic Insurance (Takaful)
into the Algerian Financial Market:
Lessons from Malaysia

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Abstract The global takaful market is estimated by market analysts to reach a
premium of US$ 12.5 billion by 2015. Malaysia is considered one of the largest
takaful markets in the world with total assets of US$ 3.2 billion. The Islamic
insurance sector or takaful has seen remarkably global growth in many major
markets, especially in Muslim dominated countries. However, the development of
Islamic finance, particularly takaful in Algeria appears to have lagged behind.
Although there are two Islamic banks operating in Algeria, Islamic insurance or
takaful has yet to be introduced into the Algerian financial market. Due to this fact,
this research explores issues and challenges that potentially face the introduction of
takaful into the Algerian financial market. An empirical study is endeavoured con-
sisting of semi-structured interviews with Algerian experts in the area of Islamic
finance and takaful to deduce the issues and challenges that might face the intro-
duction of takaful in Algeria. This study found that there would be economic and
spiritual benefits if takaful is introduced in Algeria. In addition, the respondents
agreed that the most important challenge that might face the introduction of takaful is
political will whereby genuine support from the government is needed for the
effective introduction of Islamic insurance or takaful in Algeria. This support should
be subsequently followed by broad publicity of the newly introduced industry, an
amendment of the laws, and the development of the necessary infrastructures to
facilitate an effective collaboration with international organizations.

Keywords Algerian financial market · Islamic insurance · Takaful

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© Springer Science+Business Media Singapore 2016
S.K. Ab. Manan et al. (eds.), Contemporary Issues and Development
in the Global Halal Industry, DOI 10.1007/978-981-10-1452-9_33

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33.1 Introduction

Insurance is a mechanism whereby contributions (premiums) are paid by individuals or business enterprises to transfer some of the ambiguity of the risk to the insurer. Overall, the concept of insurance is an arrangement between the insurer and individuals or businesses to mutually help one another in the event of a contingent loss to any of the member(s) (Qureshi 2011). An alternative model of conventional insurance is takaful which constitutes an integral part of the Islamic financial system. The idea of Shariah-compliant insurance popularly known as takaful was first introduced in Sudan in 1979. This was motivated by the growing needs of Muslim consumers for an insurance protection that is compatible with Shariah principles (Qureshi 2011). Farooq et al. (2010) mentioned that the takaful industry is the fastest growing financial industry in the Muslim world and reached 20% growth in its beginning phase. Abdul Wahab et al. (2007) noted that the global takaful market is estimated by market analysts to reach a premium of US$12.5 billion by 2015.

In line with this contention, it has been noticed that the Islamic insurance sector or takaful has expanded in many major markets especially in Muslim dominated countries (Abdullah and Fares 2012). Abdul Wahab et al. (2007) stated that takaful operators and products are offered in more than 22 countries. However, little attention has been paid to the development of Islamic finance, particularly Islamic insurance in Algeria. The development of Islamic finance, particularly Islamic insurance “takaful” in Algeria, appears to have lagged behind the rest of the world. Although there are two Islamic banks operating in Algeria, takaful has yet to be introduced in the Algerian financial market. Besides, the very few studies that have been conducted on the context of Algeria are narrow in scope. For instance, the study of Benamraoui (2008) simply examined the performance of the sole bank offering Islamic financial product in Algeria, Banque Al Baraka D’Algerie. As a result, this research seeks to investigate the perspective of Algerian experts of Islamic finance and takaful on the issues and challenges of introducing Islamic insurance into the Algerian financial market. This inquiry addresses the following research questions: What are the benefits from the introduction of Islamic insurance into the Algerian financial market? What are the challenges that might face the introduction of Islamic insurance in Algeria? How can we adopt the Malaysian Islamic insurance framework into the Algeria financial market? This study intends to deeply explore and investigate the opinions of Algerian experts in the area of Islamic finance and takaful, which we hope will the Algerian government in making decisions with regard to the development of Islamic insurance. The significance of this study arises from the relatively recent introduction of Islamic banking and finance in Algeria. It is expected that the results of this study will contribute to the development of financial systems and policies in Algeria.
33.2 Overview of the Concept of Takaful

Takaful is an Arabic term derived from the word Kafalah which means guarantee. Takaful is based on the principle of mutual cooperation (ta’awun) and donation (Tabarru’), where the risk is shared collectively and voluntarily by the group of participants (Ismail 2011a). According to Redzuan et al. (2009), in order for takaful to be acceptable by Islamic tenets, it must be founded on the principles of mutual cooperation (ta’awun) and donation (tabarru’). Such is the spirit of takaful which embraces the element of mutual guarantee and shared responsibility. Participants in a takaful scheme mutually agree to contribute into a takaful fund, as a donation, a certain proportion of their contribution to provide financial assistance to any members suffering from loss. Obaidullah (2005) stated that all participants give donation or Tabarru’, which are accumulated into a common fund called the “Tabarru’ fund”. The financial assistance paid to participants suffering a defined loss or damage is from a fund that is contributed to by all participants. Shankar (2008) noted that takaful is also built on the principles of mutual cooperation, where each contributor participates in each other’s loss, and takaful operators facilitate this collaboration by using its expertise.

According to the 26th Shariah Standard, takaful is an agreement between persons who are exposed to certain risks to avoid the damage that results from such risks through paying subscriptions on the basis of the commitment to donate (Tabarru’) to a pool of money. This fund is considered a juristic person with an independent legal personality from which the damage suffered by one of the subscribed is compensated according to the regulations and policies. The pool of money shall be managed by a board of selected policyholders or by the shareholding company. The board or the company—as the case may be—carries out the takaful operation and invests the pools’ assets. In contrast, the relationship between the participants and the conventional insurance company is clearly a Mu’awadah contract (commercial exchange) and its objective is to increase profit (Al Qaradaghi 2009). Therefore, it can be seen that takaful is built on two principles that are donation (tabarru’) and mutual cooperation (ta’awun).

33.2.1 Islamic Finance in Malaysia

The journey towards the establishment of a comprehensive Islamic financial system in Malaysia is argued by many to have officially begun in 1969 with the creation of Lembaga Urusan dan Tabung Haji (LUTH) (the Pilgrimage Management and Fund Board) (Hussein 1989). LUTH is considered the first Islamic financial institution in Malaysia that aims to encourage and coordinate activities related to Muslims who are planning to go on the pilgrimage. In fact, in July 1981, the government agreed to establish the national steering committee on Islamic banking to further investigate and make recommendations on the establishment of an Islamic bank in zamann@um.edu.my
Malaysia. As a result, in March 1983, the first Islamic bank, named Bank Islam Malaysia Berhad (BIMB), was incorporated as a public company and started its operation in July 1983.

A year later, the Takaful Act 1984 was enacted by Parliament to allow the setting up of takaful companies in Malaysia (Rodney 2007). With the enactment of the takaful Act 1984, the first takaful operator was incorporated in November 1984. Being a subsidiary company of BIMB, the operator, which was registered as Syarikat Takaful Malaysia (STMB), was officially launched by the Prime Minister in August 1985 (Billah 2001). In 1990, the takaful industry progressed into the second phase of its development. This decade witnessed the introduction of another takaful company, following the great success of the first operator. In October 1993, MNI-Takaful Sendirian Berhad (MTSB) was established, and five years later (in November 1998), the company changed its name to Takaful National Sendirian Berhad (TNSB). In 2008, Bank Negara Malaysia (BNM) granted the first International Takaful Operator (ITO) license to AIA Takaful International Berhad (ATIB) as part of the Malaysian International Islamic Financial Centre (MIFC) initiative to promote Malaysia as a major hub for international Islamic finance (Noordin 2012).

33.2.2 Islamic Finance in Algeria

Islamic finance is quite new in Algeria. The first Islamic bank in Algeria is Bank Al Baraka d’Algerie, which was launched in 1991. A more recent bank is the Al-Salam of UAE. Bank Al-Salam was established in 2008 in order to provide innovative banking services and Shariah-complaint products. However, this small market indicates that this industry is very much new in the country. Even though there are two Islamic banks, Takaful has yet to be properly initiated into the financial market of Algeria. Benamraoui (2008) stated that one of the obstacles that have constrained Islamic finance in Algeria is the absence of a real Islamic inter-bank market, whereby banks are not allowed to raise funds from conventional financial market as this is not allowed under Islamic law. Moreover, there are a limited number of products offered in the Algerian market, most of which are used in short-term financing. Benamraoui (2008) suggested that it is essential to have comprehensive financial guidelines and rules that govern Islamic banking and enhance the presence of Islamic banks in the Algerian financial market.

33.3 Methodology

As Islamic banking and insurance in Algeria is considered a new undescribed research area, certain flexibility is needed to answer the research questions. Thus, this study uses qualitative research methods to examine the issues and challenges of
introducing takaful in the Algerian financial market. Creswell (1994) mentioned that qualitative researchers are interested in meaning, typically rich detail, insights into participants’ experiences and their structures of the world. As such, the researcher conducted interviews with Algerian experts of Islamic finance and takaful in Malaysia and Algeria and observed their opinions and perceptions on the issues and challenges of introducing takaful in Algeria. These individuals were selected mainly due to their experience and involvement in various areas related to Islamic finance and insurance in Malaysia. As such, the sampling of the respondents will be considered purposive sampling. According to Babbie and Mouton (1998), sampling in qualitative studies is always purposeful and directed at certain inclusive criteria, rather than at random. Neuman (1997) argued that purposeful sampling is appropriate if the researcher wants to develop a deeper understanding of phenomena. Marshall (1996) noted that a purposeful sample is the most common sampling technique which leads to the choice of the most productive sample in order to answer the research questions.

Semi-structured interviews were used in this study. This kind of interview is suitable for small samples and is useful for studying specific situations and provides reliable and comparable qualitative data (Laforest 2009). Cohen and Crabtree (2006) mentioned that many researchers prefer to use semi-structured interviews. This is because within each topic the interviewer is free to conduct the conversation as he thinks fit, to give explanations, ask for clarification if the answer is not clear, and allows the interviewer to express his/her questions in his/her own terms and style of conversation. Therefore, the objective of the semi-structured interview is to allow new questions to be raised during the interview as a result of what the interviewee says, while ensuring you get in-depth information on what you are researching (Cohen and Crabtree 2006).

The interviews were conducted in Arabic and English. Interview times ranged from approximately 25 min to an hour. Participants were informed that the interviews were confidential and would be audiotaped to allow for transcription at a later time. The researcher listened to the audiotapes following the interviews and transcribed each interview verbatim. This technique was applied to make sense out of the text data, such as text segment or image segment (Creswell 2008). After that, a coding procedure was developed to categorize respondents’ comments and organize the information for analysis along with extensive field notes and reflections after the interviews. Following the criteria of Lincoln and Guba (1985) who have conceptualized a new dimension to determine the authenticity of a qualitative paradigm and they refer it as the trustworthiness criteria. Lincoln and Guba (1985) came up with the following techniques that are as follows credibility, transferability, dependability and confirmability. All aspects of these criteria were applied for this study whereby a thick description of the context, and the activities involved at each stage of this research, was explained in detail. Furthermore, a draft of this study was discussed with some experts in the field of research in order to ensure reliability and verify the interpretation.