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**GENERAL TAKAFUL AND MECHANISM OF ITS INTRODUCTION INTO MUTUAL INSURANCE SYSTEM**

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*Abstract*

The existence of a multitude of potential risks for physical persons and legal entities necessitates the formation of an effective system of insurance protection of various kinds of interests of citizens and enterprises. Traditionally, Russia has been considered as a multicultural and multiconfessional country for many years. At the same time, in the new history of the country, the role and possibilities of a particular confession have never been limited. Within the framework of the insurance system, a special interest is presented by the dynamically developing institute in Islamic insurance - takaful, and the possibility of its widespread adoption. Takaful is developing in foreign countries and has been widely discussed in Russia.

Rules of Islamic law have a right to be in the legal system of many countries. At the same time, these rules are not in conflict with the law, but rather additional ethical restrictions assumed by the subjects. The challenges of the past few years, forcing to revise the vector of development of entire sectors and the country's strategy itself, have drawn particular attention to the financial system. The introduction, development and support at the state level of the first signs of Islamic finance can seriously increase the flow of non-Muslim funds into national financial system and also give a new impetus to the inflow of foreign investments from the countries of the Middle East and Southeast Asia. The issue of the application of Islamic financial principles in the Russian economy has become particularly relevant now.

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## 1. Introduction

If during the period of centrally planned economy two branches were distinguished: personal and property insurance, then nowadays in the works of many contemporary authors three or even four insurance sectors are distinguished in the insurance business. Thus, L.I. Reitman identifies the following areas of insurance: property insurance, personal insurance, liability insurance, and business risks insurance. The same position on this issue is set forth in the works of A.A. Tsyganova, T. Natkhova, V.V. Shakhova, T.G. Alexandrova and O.V. Meshcheryakova (Natkhov, 2006; Tsyganov, 2014, and others). There are authors who mark only three branches: I.T. Balabanov, L.I. Korchevskaya and K.E. Turbina, L.N. Klochenko and K.I. Dust, such as: property insurance, personal and liability insurance.

It is necessary to note that in the Russian legislation (Chapter 48 of the Civil Code of the Russian Federation and the Law of the Russian Federation No. 4015-1 of November 27, 1992 “On the Organization of Insurance Business in the Russian Federation”) there are two branches of insurance: personal and property. In its turn, property insurance includes three sub-sectors: property insurance, liability insurance, and business risk insurance, which generally conforms to the norms of Shariah Standard No. 26, which provides property (general takaful) and personal (family takaful) insurance (Kalimullina, 2014).

According to general takaful, the short-term contracts awarded. Its basis is the idea of compensation for harm, damages through mutual aid. Consequently, general takaful represents the protection against material losses or damage to property of participants of takaful at the expense of general takaful fund, formed from the paid contributions in the form of donations of participants (Logvinova, 2012).

If there are not enough financial resources in the Takaful Fund to pay out the insurance compensation, which is usually observed in the early years of the Takaful company, a Takaful operator provides interest-free loans to fund participants, or the Takaful participants can balance the deficit of the fund through additional contributions.

Investment income in the commercial model of total takaful is distributed among the participants and an operator of the takaful under the terms of the Mudaraba contract. The terms of the distribution of insurance surplus, as established by p. 12 of Shariah Standard No. 26 is approved by the Takaful Shariah Supervisory Board.

An important point in general takaful, similar to traditional property insurance, is the constant monitoring by the takaful operator of the condition of the insured object. Thus takaful operators periodically evaluate the insured object. It is reasoned by the fact that during the period of validity of the contract of takaful, the insured object may depreciate, which is unacceptable in takaful, since it creates a situation of uncertainty and creates the possibility of enrichment of one side at the expense of the other.

The profit of a Takaful operator depends on the type of management model adopted by the Takaful Fund (Bekkin, 2006).

The validity of an insurance contract in general takaful usually is one year, when the term of the policy expires, it is renewed. Some Islamic scholars emphasize the relationship of the Takaful-treaty with various financial institutions of the Shariah (Zaripov, 2016).

As for Russia, nowadays the slow development of Islamic financial institutions in our country is explained by the following main factors:

1. The limitation of legislation that does not provide the functioning of such organizations in the Russian Federation;
2. The lack of special software;
3. Repeated taxation, especially under trade agreements, in which a seller directly indicates the costs spent to sell goods, and sells them to another person (buyer) with a mark-up on the initial cost, which is known in advance to the buyer (murabah) and the issue of Islamic securities ( sukuk);
4. The absence of Islamic financial infrastructure;
5. Mistrust of the population to banking products, and ignorance of the possibilities and differences of Islamic finance from traditional one
6. Insufficient number of professional staff and the lack of educational programs in Russian universities.

However, the attempts to develop Islamic financial institutions in Russia have been making since the 2000s. At the same time, the first attempt to implement the idea of takaful in Russia was made in 2004 on the basis of the “Itil” insurance company in Tatarstan, but in early 2005 this initiative was closed. The company negotiated for the cooperation on the Takaful project with the Dubai Islamic Insurance & Reinsurance Company, as it is known, they did not reach a common opinion.

The same fate was lately shared by the other two projects on takaful - the companies Renaissance Insurance (2008-2010) and ROSNO (2011).

In the period of 2008-2012, there news in the press occurred that certain companies entered the Russian market with Islamic insurance products, but then this information was not confirmed. For example, the joint initiative of the logistic investment group “Safinat” and the investment group “Kazan-Alliance” at the end of 2009 - at the beginning of 2010 became the announced but not launched project. It was known from the mass media that the client’s participation in the company's profits would be in the form of a discount for the next year’s insurance period, and in case of termination of the contract the client would receive a special payment.

And in 2012 in Kazan, a takaful-window was opened in the classical commercial company “LLC ISK Euro-Polis”. On June 6, 2012, the first five insurance policies were sold abroad. It is known that the company provided insurance services for property of legal entities and individuals, insurance for pilgrims, and hull insurance. There was a demand for takakaful products, interest from consumers. Soon the project was suspended. The reason, according to the consultant and ideologist of the project Bekkin (2014), was the human factor. Neither the problem of unprofitability, nor the allocation of funds of the takaful fund, nor the problem of a legal nature, it was namely the human factor. “There was a misunderstanding between the general director of the company and the head of the Kazan branch, who was also the project manager. Claims to a particular person influenced the fate of the entire project”.

Let us consider the experience of Kazakhstan in the development of the Islamic financial system.

In 1995, the Republic of Kazakhstan joined the Organization of Islamic Cooperation, and already in 1997, a representative office of the Islamic Development Bank was opened, which is the center for the region of Central Asia. Interest in Islamic financial instruments began to manifest not only from the government of the Republic, but also from representatives of the private banking sector.

In 2009, the country's legislative system was expanded with special additional rules governing the functioning of Islamic banks and Islamic finance organizations. Thus, the national legal system of Kazakhstan has been replenished with new terminological units in the considered area (the definition of an “Islamic bank” is given). In addition, a number of new provisions were introduced that allowed the opening of specialized Islamic banks, investment funds, as well as the issuance of securities that comply with Shariah norms. In the future, the country's legislative bodies supplemented this sphere with new norms aimed at improving the functioning of Islamic insurance instruments.

For the development of Islamic finance and insurance, the National Bank of the Republic of Kazakhstan developed a draft law “On introducing amendments to some legislative acts of the Republic of Kazakhstan on insurance and Islamic finance”. This bill provides the introduction of the concept of “Islamic insurance”, the regulation of the Islamic insurance market of takaful, the recognition of “Murabaha commodity” as a banking operation, the tax administration of banking operations of an Islamic bank, and the procedure for Vakala activities (acceptance of deposits) in Islamic banks.

Today, the National Bank, together with other interested state bodies, is working on the development of a draft law “On introducing amendments and to some legislative acts of the Republic of Kazakhstan on the development of financial leasing based on the principles of Islamic finance”.

The draft law provides the solution of issues of attracting additional investments from the countries of the Arab world and countries where Islamic financing functions and develops; the development and improvement of the legislation of the Republic of Kazakhstan regulating financial leasing issues and aimed at attracting investments on the basis of leasing activities; determining the rights and obligations of participants in rental relations; resolving issues of leasing activity taxation.

In 2011, the National Bank of the Republic of Kazakhstan joined the Council on Islamic Financial Services (IFSB). The main objective of the IFSB is to ensure the coherence of actions of the control and supervisory bodies of the countries and the development of uniform standards for Islamic financial institutions.

Currently, a number of different Islamic financial institutions operate in the Republic of Kazakhstan. As part of an intergovernmental agreement between the Republic of Kazakhstan and the United Arab Emirates, in 2010, the first Islamic bank in the Republic of Kazakhstan, “Al-Hilal Bank”, was established, and the Islamic insurance company “Takaful” is currently operating.

In 2012, the National Bank issued the necessary permits for the issuance and placement of sukuk to the Development Bank of Kazakhstan and in July 2012, the Development Bank of Kazakhstan became the first issuer in the region to successfully complete a transaction to issue Islamic bonds “Sukuk al-Murabaha” in the amount of 240 million Malaysian ringgits (about 76.7 million USD).

At the same time, 38% of the issue was distributed among Kazakhstan investors. The Malaysian company RAM Rating Services has assigned the AA2 rating to the Development Bank of Kazakhstan, which allows the bank to be positioned at the same level as RBS Berhad, RHB Investment BANK Berhad and other banks known in the South-West Asian and Islamic stock markets. (Bazmukhametova, 2012).

As it is shown by the analysis of international experience in the development of takaful, the world market has demonstrated steady dynamic growth in recent years and by 2019, according to forecasts, it will grow by more than 1.5 times (58.8%). Taking into account the dynamic growth of takaful in the world and

the relatively high integration of Russian Muslims into the global Islamic community, it is strongly possible that similar trends can be assumed, as well as a high, solvent interest in takaful in Russia.

In this regard, it is necessary to analyze the current situation and prospects for the development of the takaful market in Russia.

## 2. Problem Statement

Thus, characterizing the degree of the elaboration of the selected research problem, it is necessary to note insufficient attention on the part of Russian researchers and the almost complete absence of works devoted to the substantiation of the need and possibility of the broad development of takaful in Russia. Nevertheless, the works devoted to the development of takaful in general and particularly in Russia can be divided into the following groups:

- studies on general issues of the functioning of the takaful mechanism by: Bekkin R.I., Fukina S.P., Archer S., Bumbaji J., Logvina I.L., Tsyganova A.A. et al. (Bumbaji & Tsyganov, 2014; Logvinova, 2014; Fukina, 2014).

- empirical research on the state of the insurance market and takaful conducted by specialized organizations (Ernst & Young, Deloitte, etc.);

- studies on the study of individual components of the implementation of the mechanism of takaful by: Zhakenova G.I., Egizekov OM, Bekkin R.I., Tsyganova A.A., Vakhitov G.Z., Magomadova M.M., Ryskulov A. S. and others (Magomadova, Khominich, Savvina & Dzhurbina, 2017; Ryskulov, 2010; Zhakenova & Egizekov, 2011; Bekkin, 2008; Tsyganov & Bryzgalov, 2014).

## 3. Research Questions

The subject of the research is the Russian insurance market. The analysis of the main components of the dynamics of insurance system and the insurance services market of Russia in recent years makes it possible to determine the clear positive dynamics of most indicators (Table 1).

**Table 01.** Dynamics of key indicators of the state of the insurance system and the insurance services market in Russia in 2008–2017.

Indicators	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Cumulative payments under the contracts of voluntary and compulsory insurance, made by insurers, (billion rubles)	308,5	356,9	486,6	633,2	739,9	774,8	902,2	376,6	419,9	473,5
Number of registered insurers, (units)	983	921	849	777	693	600	514	436	409	395
The number of branches of insurers, (units)	5038	5171	5341	5443	5213	4567	4332	5081	5180	4803
The average number of employees of insurers, (thousand people)	67,2	40,8	37,1	20,3	28,7	29,4	35,1	129,5	131,3	125,4
The average number of insurance agents, (thousand people)	137,2	199,1	190,8	194,2	196,5	177,3	163,7	272,4	181,0	168,7
The share of employees of insurance organizations in the total number of people employed in the economy, %	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,6	0,4	0,4
Aggregate payments under the contracts of voluntary and compulsory insurance per capita, (thousand rubles)	2,1	2,5	3,4	4,4	5,2	5,4	6,3	2,6	2,9	3,3

Insurance premiums, (billion rubles)	506,2	614,0	775,1	954,8	979,1	1036,	1269,	811,1	901,1	983,4
The share of insurance premiums in GDP, %	2,3	2,3	2,3	2,3	2,5	2,2	2,3	1,3	1,4	1,4
The size of insurance premiums per capita, (thousand rubles)	3,5	4,3	5,4	6,7	6,9	7,3	8,9	5,7	6,3	6,8
The share of profitable organizations in the total number of insurers	84,9	83,2	86,7	80,2	86,9	85,8	85,6	89	92,9	85,6
Revenue of profitable organizations, (billion rubles)	29,7	34,5	29,3	23,5	36,4	42,1	45,2	80,7	61,4	79,8

From the data in Table 1, reflecting the dynamics of key indicators of the state of the considered sphere of economic activity, it follows that the insurance system and the insurance services market of Russia play an important socio-economic role, which is growing every year, and is manifested in the dynamics and trends of the following indicators:

- stable growth dynamics of aggregate payments under voluntary and compulsory insurance contracts made by insurers (their volume increased by 53.5% in 2017 compared to 2008) indicates on the intensification and increase in the efficiency of the insurance institution in Russia and, as a result, the possibilities of realization of its main functions for the population: risk, precautionary, savings, accumulation and control;

- despite the gradual decrease in the number of registered insurers, as well as their branches, in recent years there has been a stable prevalence of the share of profitable organizations in the total number of insurance companies, which is not typical for every sphere of economic activity. Thus, if the number of insurance organizations in 2017 decreased by 59.8%, and the number of their branches by 4.7%, then the share of profitable organizations in 2017 was 85.6%. Under the conditions of an unstable economic situation, a negative influence of the external conjuncture, the presence of a significant proportion of profitable organizations is an undoubted advantage for the national economy, allowing to obtain both social and economic effects;

- in recent years, both absolute and relative numbers of people employed in insurance companies and their role in the Russian labor market has been growing. Thus, the share of people employed in insurance organizations (the number of employees of insurers and the number of insurance agents) in 2017 increased 43.9% compared to 2016, reaching 294.1 thousand people (or 0.4% of the total number of people employed in the country's economy);

- one of the trends of recent years is a steady increase in the size of insurance premiums of insurers, which grew by 94.5% in 2017 in comparison with 2008. Considering that the volume of premiums of insurers grew “faster” than the volume of the economy and inflation it is possible to can to determine the rapid growth of the insurance services market in Russia, due to its insufficient realized potential. This fact is also evidenced by the data on the dynamics of the total payments of insurance organizations per capita and the amount of insurance payments per capita.

#### 4. Purpose of the Study

The purpose of the research is presented by the theoretical substantiation of the feasibility and the possibility of the formation of a general takaful in Russia, taking into account the modern legal and institutional environment. In order to achieve this goal, summarizing the analysis of key parameters of the

insurance system and the insurance services market in Russia, it is possible to draw the following preliminary conclusions:

- firstly, to trace its system-forming role and high significance in economy;
- secondly, to trace the positive dynamics and trends of key development indicators;
- and, thirdly, to trace a number of socio-economic effects of its functioning.

These features and positive aspects of the functioning of the insurance institution in Russia at the present stage can be fully extended to its promising, not yet developed areas, including the new Islamic insurance industry for Russia. At the same time, the popularization and large-scale introduction of Islamic insurance in Russia requires the elimination of a number of existing problems, including social, organizational, economic and legal ones.

The essence of social problems of the spread of Islamic insurance reduces first of all to the need to inform various groups of the population and potential insurers under Islamic insurance programs about its opportunities and benefits. The organizational and economic problems of the widespread introduction of takaful consist in the absence of “working” mechanisms for the provision of Islamic insurance services within the framework of the current insurance system in Russia, including: identifying the main participants of takaful insurance, establishing rules for managing takaful funds and the procedure for issuing takaful policies, etc. However, the key problem is still the imperfection of the legal framework for the implementation of takaful insurance in Russia.

The specificity of Takaful as a special segment of the insurance system consists primarily in its close relationship with the basic religious norms. This is manifested primarily in the presence of such prohibitions as:

- the interest rate for insurance transactions (riba);
- the processes of loan and usury (masser);
- the prohibition of participation in abandoned activities (haram).

## **5. Research Methods**

Using general scientific methods (analysis, synthesis, systematization, classification, generalization, induction, deduction, comparative legal, statistical and structural analysis, forecasting), the authors defined the groups of factors that determine the need for the development of the Islamic insurance institution in Russia:

1. Directly specific features of the implementation of Islamic insurance mechanisms and its internal potential, due to a number of non-traditional and, undoubtedly, constructive tools for the Russian financial system.
2. Obtaining additional socio-economic effects at both the federal and regional levels.

Next, the authors describe the content and characteristics of the manifestation of each of the factors. Thus, speaking about the advantages of the development of takaful in Russia, in terms of its essential content and the specifics of the implementation of Islamic mechanisms, the following possible manifestations of these advantages can be identified:

1) Reduction of insurers' risks due to an even distribution of responsibility for potential risks as opposed to making profits at the expense of other insurers (in fact, traditional insurance is characterized by the presence of “financial pyramids”).

2) The possibility of reducing the risks of participants in the process of Islamic insurance by obtaining guaranteed compensation for deposits made from a special fund, formed on the basis of voluntary donations from members of Islamic insurance system.

3) Ensuring conditions for investing in socially significant and non-rational, from the point of view of society spheres (prohibition on investing the resources in alcohol, tobacco and other types of business that are destructive to society).

4) Integrating into the Russian insurance system of specialized takaful-windows.

5) Involving of additional groups of individuals who have not previously used the services of voluntary insurance due to the contradiction of its essence to religious norms.

2. Additional effects of a social and general economic nature.

The development of takaful in Russia requires the solution of a number of legal tasks, first of all it concerns the improvement of the current legislation of 29.11.2007 N 286-FL “On mutual insurance”, including in the following areas:

1. The introduction into the law of such forms of activity of mutual insurers as an insurance cooperative and a limited liability company.

2. The insurance of the transparency of licensing requirements and the process of obtaining licenses by insurers (determination of the supervisory and licensing authority, development of the form and purpose of licenses, determination of reporting on them, etc.).

3. The granting of the right to mutual insurance organizations to manage the funds of the insured, which were transferred in trust management of insurance organizations.

4. The granting of the right to participants of takaful insurance (policy holders) to participate in the implementation of operations and control over the accounts of insurance companies.

5. The provision of members of mutual insurance companies the right to receive part of the profits based on the results of the company's operation for the year.

## **6. Findings**

The study allows creating the following conditional scenarios for the development of Islamic insurance in Russia in accordance with the current legal framework and its features:

1. The scenario of “soft” introduction of Islamic insurance, which does not require significant changes and amendments in legislation, but merely supplements existing regulations with provisions that allow takaful companies to operate in one form or another.

2. The “hard” implementation scenario - requires more extensive work with the current legal framework, a significant addition to existing civil, tax, financial (including banking and insurance) legislation.

3. A “cardinal” scenario for the introduction of Islamic insurance, within the framework of which the development of an independent regulatory act governing relations in the field of Islamic finance and insurance is carried out.

## 7. Conclusion

Thus, the need and the possibility of the formation and development of Islamic insurance in Russia is explained by factors of special nature (due to the specificity of takaful functioning mechanisms), as well as factors of social and general economic importance. Nowadays, the full implementation of takaful in Russia faces a number of difficulties, primarily of a legislative and organizational nature. The elimination of these problems and barriers is a necessary condition for obtaining a multitude of effects from the functioning of a new insurance direction for Russia - takaful.

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