demand. He and some of his helpers could not fully look after the people's demands of either joining the scheme or getting the benefits paid. There was a need for bigger office, furniture and computer equipment and more staff. The expenses needed for such development far exceeded the margins that could be used out of the contributions. The question came up - could the Rescuers help?

Yes they would but not up to the amount that was needed. It was decided to float the company on the stock market, which was permitted within the Sharia guidelines. But this time everyone agreed that the existing and new shareholders would expect returns on their money similar to the returns they expect from other businesses. The Manager did some calculations on back of an envelope and said that this business could provide them with the kind of returns they are accustomed to, but they will have to be patient. Once the business grows and its funds are large and secure, their returns would be larger and stable. This may take another 5 years or so. Despite some of the odds such as the delayed returns, risking their capital on nil return, settling for lower than market rates, the shareholders felt committed to the cause of Takaful and agreed to be the shareholders.

This arrangement worked well as all parties were fairly remunerated for their individual efforts including the owners of the capital, be it the participants or the shareholders, whose main concern was not to make profit only but to ensure that the security of protection cover was in tact. After all if their main motive were to make profit from their contributions or capital they would rather have placed their contributions in a bank.

throwing a coin (50/50) worked out better when the numbers were large.

Returning to the problem at hand, despite reinsuring the risk, a deficit had occurred due to the limitation of size of the fund. What to do now? The manager suggested that in view of the loss the best way to handle would be for participants to place ten times the amount of their contributions as collateral in the bank. This amount should be used only in overall loss scenarios to bail out the participants from situations similar to this one. Every one agreed that the idea was good as it was on co-operative basis but it was not practical as not everyone had that kind of money to spare. The problem was solved as few of the participants were indeed financially blessed by the All Mighty and were prepared to be the rescuers. They agreed to provide this kind of support now and in any other year in difficult times. So the participants and the Rescuers signed another contract through the manager to have an understanding (or a pledge) that an amount would be made available at any time. This amount would be provided on Islamic basis without interest and paid back from future profits as and when they arose.

To rectify the current deficit the Rescuers took the money out of their business and banks to bail out the fund. Due to this, the destitute families were no longer destitute or at the mercy of others. It was only fair that the Rescuers were awarded for their help. It was decided for the Rescuers that having recovered the amount lent, out of the future profits (which may take two or three years) a certain agreed proportion of profits would be shared after that, every year, between the participants and the Rescuers. It would be fair to compensate them to some extent for the returns they had to forego by taking their money away out of their banks and businesses.

This arrangement worked very well and more and more people came to join in the scheme. The Manager was happy but unable to cope with the unprecedented were available to cover any claims. This money was normally kept invested when not needed to pay claims. The Manager explained that it was possible that at any point in time there could arise very large claims or too many claims at the same time which would reduce the fund to nil or it could even go negative. With this in mind the Manager started to share the risk with another organisation that specialised in reinsuring such risks. He kept certain amount of risk with him, as otherwise if he were to reinsure 100% he would have to part with 100% of contributions after covering expenses. That would mean no profit in the fund. The reinsuring company did not operate on Islamic principles so getting a share in their profits would not be acceptable under the Sharia laws.

Despite all this there came a problem. One bad year the claims exceeded the total of the fund and amounts due from reinsurance and not all the claimants could be paid. The fund had a deficit. It meant that there was a breach of trust as the participants had expected to be relieved of the financial misery from this mishap and instead some of the families were now destitute. Even the expenses could hardly be covered and the office ground to a halt. The manager did not get his salary and he was in a fix, even though every one agreed that he had been very efficient in managing the affairs of the scheme.

But how could such a thing have happened when all precautions had been taken? The Manager put on his Sage hat and explained that it was something to do with the law of large numbers. There were only few participants in the scheme. The chances of covering all the risks related to the insured events or mishaps were calculated to be of certain average proportion. In most cases this proportion is manageable when the scheme is large as law of averages works better when numbers are large. It is like when you throw a coin two times it may not turn out to be heads and tails half the time. But if it is thrown many times, say 100 times, it may be very close to 50/50, heads and tails. The known proportion of contribution that is made to the scheme. The contributor loses the right over one's individual contribution in return for a pledge of solidarity that each contributor makes collectively for an amount of money or "benefit" that is definitely payable to any one or more of them if and when they experience one of the pre-defined mishaps. These mishaps can be natural disasters, calamities, accidents etc that can happen to anyone, leading to dire financial and social consequences. All participants have a common interest to protect their livelihood thereby financially protecting their families and businesses. In the larger scheme of things if every one followed this, it becomes a noble social cause in providing financial security and solidarity to the community and the country.

One fine day such a scheme was started by a group of participants. The participants understood that it was important to limit the benefit just to cover the loss and no more, because otherwise it would be tantamount to profiting from this arrangement by exceeding the value of the loss. (In strict sense there is gharar in this as the amount of claim is not known but there is a common understanding for a good social cause).

The participants did not have time to manage this arrangement as they were busy with other aspects of their life, working, employed by others, running their own family businesses etc. So they appointed a wise old man, a Sage, to take care of this set-up through a wakala or agency arrangement to pay for his efforts. The Sage had a proven ability to understand the concepts and apply them properly and the participants entrusted this function to him. The set-up needed an office and a PC (the Sage was computer literate) which was provided for out of the collective fund and not by the Sage. The Sage needed to run errands and these expenses were covered by the fund. The participants decided to call the Sage the Manager.

Every year the manager had to prepare accounts, which showed a balance of contributions after expenses that

Takaful in a few easy steps

From the website of Takaful International, Bahrain

In its simplest form, a takaful scheme can be seen as an arrangement made possible by a group of people with common interest to protect each other from certain defined mishaps through a collective pooling of their resources. This system was adopted by the Islamic academy of jurisprudence (majma al-fiqh) in Makkah Mukarrama in preference to the conventional system as the latter was found to contravene many of the norms of the Sharia. A conventional contract was considered a contract of exchange under a 'buy and sell' agreement containing, in one form or another, elements of chance, gambling and interest.

The essentials of a takaful business are that it is managed by a trustee or a company that functions according to Islamic principles with regular scrutiny and review of Sharia advisors. A takaful scheme must be based on shared responsibility, joint indemnity and common interest of the people participating in the scheme. As contributions can never be exact there is an element of over- or under-charging. The system of profit sharing corrects any such over-charging and mitigates the element of uncertainty in the pricing structure. The effect of under-charging can result in losses that are firstly offset against future surpluses and secondly through interest free loan from the shareholders. For their risk exposure, the surplus is shared between them and the participants on an agreed basis in keeping with the financial strength of the reserves of takaful fund. Lastly, the fund must be invested in assets, which are not forbidden in Islam and do not derive benefit from usury (riba) in any form.

The purpose and terms of entering into a takaful scheme are made clear at the outset. The foremost is about the