ISLAMIC COMPLIANT SHORT TERM INSURANCE: AN EXPLORATORY STUDY TO DEVELOP AN ISLAMIC COMPLIANT INSURANCE MODEL WITHIN A SOUTH AFRICAN CONTEXT

A thesis submitted in fulfilment of the requirements for the degree of

MASTERS IN FINANCIAL MANAGEMENT

at

RHODES UNIVERSITY

by

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March 2015

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Declaration

I, Shakir Jeeva, declare that this dissertation and the work presented in it are my own and have been generated by me as a result of my own original research.

I further declare that:

i. this work was done while in candidature for the Masters in Financial Management degree at Rhodes University;
ii. where I have consulted the published work of others, the source is always given;
iii. I have acknowledged all main sources of assistance; and
iv. none of this work or its parts have been published or submitted previously.

Signed: S Jeeva

Date: 26 February 2015

Acknowledgements

The successful completion of this research would not have been possible without the grace of the Almighty, and the support, guidance and encouragement received from my wife, parents and siblings throughout my years of study.

Thank you as well to the following:

to my supervisors for their support and patience;

to all the participants who took time out of their busy schedule to participate in the research interviews;

to the library staff at Rhodes University for their dedication and assistance; and

to all other individuals who may not have been mentioned but in some way contributed to the completion of this study.

Abstract

In a world where there is ever increasing risks to be mitigated, either by choice or due to the law of the country, an insurance instrument is the most popular risk mitigation tool. However, from an Islamic perspective, Muslims have certain parameters to adhere to due to the laws and boundaries as set out in the Quraan, as well as the teachings of the final prophet, Prophet Muhammed (Peace Be Upon Him). This has relevance in this context as, according to Islam, the conventional insurance models are in contravention of certain Islamic laws as they contain elements which are not acceptable in the Muslim faith.

Therefore, the Islamic insurance models, or Takaful models, have removed the impermissible elements of usury, speculation, and uncertainty, which are all contained in the current conventional insurance models. By removing these impermissible elements from the insurance model, the Takaful model is acceptable for Muslims to use as a risk mitigation tool.

The primary aim of the study sought to propose a short term Islamic compliant insurance model within a South African framework. The secondary aims were to ascertain the Islamic requirements for an Islamic insurance model, how these requirements fit into an insurance model, to then compare and contrast the differences between conventional insurance and Islamic insurance and, lastly, to explore awareness and attitudes towards Islamic insurance.

Therefore, from the above, a proposed short term Islamic insurance model was developed within a South African context which conforms to the laws and boundaries of Islam, making this insurance model permissible to use as a Takaful tool.

Additionally, semi structured interviews were conducted with certain research participants, using purposive sampling, to examine the attitudes and knowledge of the Muslim community towards the Takaful model within a South African context. It was concluded that while the majority of the research participants understand the Takaful model and the significance of this, they have chosen to use the conventional insurance offerings due to the fact that they were unaware of other Takaful alternatives, or due to the fact that the Takaful alternative was out-priced when compared to the conventional insurance offerings.

It was therefore concluded that while there is a need for Takaful offerings within South Africa, this must be done in conjunction with additional marketing, education and competitive pricing for potential clients to consider this as an insurance option.

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Chapter 1 – Introduction and research background

1.1. Introduction and background

For thousands of years human beings have sought to minimise their negative exposure to external or uncontrollable elements (Bekkin, 2007: 110) through various interventions such as insurance contracts. While opinion of the exact origin of the initial insurance contract is varied, the most likely agreed upon source by historians of the initial insurance principles is contained in the Code of Hammurabi, established in 2250BC (Trenerry, 2009: 53). The Code of Hammurabi was a relatively primitive form of an insurance contract, aimed at ship merchants. It effectively allowed the shipper to pay an additional fee for a loan and, in return, the loan would be cancelled in the event that the vessel was lost at sea (Kumar, 2013: 8).

Since the establishment and implementation of insurance, there have been various developments which gave rise to the current conventional insurance models in use today. The fundamental conventional insurance is where payment is made to a party at set intervals over a period of time to cover or insure against various losses such as the loss of fixed or movable assets (Gulati, 2007: 10). Should such loss occur, then the party making the payments is compensated to an amount equal to that agreed upon between the parties. This is largely similar to the concept of insurance contained in the Code of Hammurabi in 2250BC, but it has, however, been expanded upon and varied to cater for a wide variety of risks through various instruments (Trenerry, 2009: 53).

The current conventional insurance approach is based upon the principle where the insurer insures the insured for a fee known as the risk premium (Drennan, 2013: 16). This fee is based on a calculation done during the underwriting process where the risk is evaluated and assessed, including the likelihood of the risk occurring. Therefore, once this process is complete and an insurance policy has been issued, should the insured suffer a material loss from an event which is covered in the insurance policy, this loss will then be covered by the insurer through a compensation payment by the insurer to the insured (Crews, 2010: 6).

The source of Shariah law comes from the verses contained in the Muslim holy book, the Quran, as well as teachings from the last Prophet, Prophet Muhammad (Peace Be Upon Him) (Schmidt, Shelley & Bardes, 2008: 531). It is therefore incumbent on each and every Muslim believer to follower these teachings, and abide by the laws contained within the Quran (Surah Ash-Shu'ara', The Holy Quran; Desai, 2014: 1). Thus, the need for Islamic compliant insurance has arisen, especially in a world where risk needs to be mitigated, either by choice, or by law.

In the Islamic faith, the need for mitigating risk was also identified and provisioned for (Desai, 2014: 1; Maysami & Williams, 2006: 229). However, the terms or structure of this insurance must comply with certain Islamic principles such as cooperation, mutual insurance and a fair sharing of risk amongst the members (Desai, 2014: 1; Khorshid, 2004: 11). While the end result of this structure is similar to that of conventional insurance where risk is somewhat mitigated, the majority of Islamic religious scholars disallow the use of conventional insurance (Desai, 2014: 1) as the following traits are contained in the conventional insurance structure:

- **Uncertainty** – A premium is paid by the insured to cover against the risk of an event which may or may not occur;
- **Speculation** – The insurer accepts money from the insured which it deems will cover any potential claims and result in profits;
- **Usury** – The premiums received are invested in firms which may derive their incomes from prohibited sources as defined in Islam (Ernst & Young, 2012: 5).

The above three elements are all disallowed in terms of the Islamic law, also known as Shariah (Zafar, 2014: 61). Therefore, based on these prohibited elements contained in the conventional insurance structure, it renders the use of this type of structure against the Islamic teachings and beliefs (Visser, 2013: 129). The Islamic prohibition in conventional insurance, therefore, gives rise to the demand for Islamic compliant insurance structures which offer the same outcome as conventional insurance, where the risk is mitigated for the party that has taken out an insurance policy, but is based on different elements and financial models to achieve this outcome. The Islamic insurance concept is also known as Takaful, which means "guaranteeing each other" (Kettell, 2011: 128; Othman & Abdul Hamid, 2009: 468), and has its roots in ancient Arab tribal customs, dating back some 1500 years ago (Omer, 2011: 5). However, the first modern Takaful commercial structure was launched in Sudan in 1979 (Archer, Karim & Nienhaus, 2009: 1).

The structure of Takaful differs from the structure of conventional insurance on the basis of eliminating the prohibited elements within this structure to allow it to comply with Shariah law (Desai, 2014: 1). Therefore, within the Takaful structure there are three types of overall structures which are allowed (Ahmad, Iqbal & Ali, 2011: 283), of which variations can be made within these structures. The first is a profit sharing structure known as Mudharabah, the second is an agency structure known as Wakalah, and the third is a combination of the first and second structures, creating a hybrid structure (Ende & Steinbach, 2010: 863). In the Mudharabah structure, the risks and profits are shared amongst the participants who would self manage this structure, and in the Wakalah structure the operator earns a fee for rendering his services to manage the entity, while the risks and profits are still shared amongst the participants (Crawford & Nazim, 2013: 75).

While the market for conventional insurance dwarfs that of Islamic insurance, the global Islamic insurance market volume is estimated at 13.7 billion USD as at 2013 (Trade Arabia, 2013: 1), with a major contributor being the Gulf region, and with the volume growing at a rate of at least 19% per annum as at 2010 (Ernst & Young, 2012: 4). The major contributors to this Islamic insurance volume growth have largely been the increased awareness of Islamic insurance and the improving economies of majority Muslim countries as well as the increased Takaful offerings (Tolefat & Asutay, 2013: 1).

1.2. Research problem statement

While direct studies in this field in a South African context have not been done, other similar studies have been conducted which are relevant and can be noted here. These studies include work done by Kumar (2013: 36), where the study of life insurance was done in an Indian context. Here the study focused mainly on the attitudes of a certain customer base towards life insurance, where these results were used to realign the life insurance products offered by the firm to suit the target market more appropriately at the correct pricing point. Maysami & Williams (2006: 229) explored the relationship between the Takaful insurance model and Islamic fundamentals. They concluded that Muslims are largely unaware of the Takaful credibility and offerings available for their Islamic insurance needs.

Additional studies undertaken include those done by Othman and Abdul Hamid (2009: 468) who also explored the level of understanding of the Muslim community in Malaysia with respect to Takaful; with the results reflecting that 67% of respondents were unaware of the Takaful concepts and how this relates to the Shariah**.** The purpose of this study was to ascertain which type of insurance was more suitable for Muslim clients, conventional insurance or Takaful insurance, with the Takaful structure being confirmed as the most suitable structure for Muslims due to its compliance with the Shariah laws.

Within a South African context, separate legislation governing Takaful entities does not currently exist (Bodiat, 2012: 1). Therefore, the Takaful insurance firms are regulated by the same set of South African financial laws and regulations which apply to the conventional insurance firms. Although the Muslim base in South Africa is approximately 1 million people, South Africa acts as a springboard into the rest of Africa, which has a Muslim population of approximately 50% of the total population (Bodiat, 2012: 1). Therefore, while Takaful insurance is still hugely underdeveloped in Africa, and more so in South Africa, it holds untold investment and growth opportunities into the future (El-Tahir, 2011: 4).

Islamic banking and insurance has begun gaining popularity only since the early 1970s (Iqbal & Molyneux, 2005: 190), with the Islamic insurance and Islamic banking closely linked due to the Islamic principles and similar religious structures upon which both are built. The majority of the current limited studies have been conducted in the Gulf region. Additionally, no study has been found by the researcher on Islamic compliant insurance within a South African context. More specifically, this study seeks to ascertain the requirements of making an insurance offering fully Islamic compliant within a South African context, as well as proposing a short term Islamic insurance model within a South African context.

1.3. Aim, goals and objectives of the research

The primary aim of the research is to develop a proposed Islamic compliant short term insurance model within the Republic of South Africa.

To provide further insight and detail into the primary aim, the following secondary aims have been formulated:

- to identify the requirements of Islamic insurance;
- to propose how the Islamic requirements translate into a short term insurance offering within South Africa;
- to compare and contrast Islamic insurance models with the conventional insurance models; and
- to explore awareness and attitudes towards Takaful insurance in South Africa.

1.4. Research approach

Guba and Lincoln (1994: 105) suggest that the objective of research is to examine and critically build onto the known assumed reality. The research methodology adopted in this study will be that of a qualitative study, adopting an interpretative paradigm. This paradigm relies heavily on naturalistic methods which involve engagement with others to "construct a meaningful reality" (Cohen & Crabtree, 2006: 1), based on the information received.

In the study, data will be collected through in-depth semi-structured interviews which will be audio recorded and transcribed thereafter. The researcher will use an interview guide to conduct the interviews (Babbie, 2011: 415). The participants will be chosen through purposive sampling, which entails selecting specific cases that meet the criteria of the study and enable the researcher to draw relevant data for the study (Terre Blanche, Durrheim & Painter, 2006). The research participants for the study will include, amongst others, Muslim leaders and Muslim business owners who the researcher believes would appreciate the need for an Islamic compliant insurance offering in South Africa. The criteria for selecting the sample will be based on the following criteria:

1. the participant must be a Muslim;
2. the participant must have a basic understanding of insurance and finance;
3. the participant must have a basic understanding of Islamic law and what is lawful and unlawful in Islam;
4. the participant can be of any race and either sex;
5. the participant must reside within South Africa;
6. the participant must be 18 years or older; and
7. the participant must be willing to participate.

Data analysis in the study will be through the thematic analysis technique to analyse the open ended questions. Drawing from this technique the researcher will generate themes from the qualitative data using the constant comparison technique (Babbie, 2011: 394). The researcher will engage in follow-up interviews and member-check to verify the proposed findings and model generated (Denzin & Lincoln, 1994).

From an ethical perspective, ethics will be taken into account by ensuring anonymity of participants, informed consent is received from the participants, as well as confidentiality assurance from the interviewer not to divulge and information which may contravene the ethical or confidential standards set for this study. Other factors such as transferability, credibility, dependability and confirmability, will also been accounted for within the study.

1.5. Significance of the study

Islamic insurance (Takaful) is a relatively new concept in South Africa, and therefore this study attempts to develop and propose a short term Islamic compliant insurance model within a South African context based on current literature (Desai, 2014: 1). Thereafter, the study seeks to illicit responses and views from a selected group of participants in respect of their opinions regarding their potential acceptance of the proposed model.

Furthermore, the study also seeks to expand on current literature, as well as develop an appropriate short term insurance model for potential clients within a South African context. Thereafter, this model will be discussed with certain respondents to obtain their views and opinions on this model and the concept of Takaful.

1.6. Format of the study

The research study and approach will be broken down as follows:

1.6.1. Chapter 1 – Introduction and research background

The researcher will introduce and elaborate further on the topic and give some background to the various insurance structures, including that of Islamic insurance, as well as what gave rise to the insurance models and the reason behind this. The problem statement and aims and objectives of the study will also be briefly discussed as well as the research approach and significance of the study.

The above concepts will be further elaborated and discussed in subsequent chapters.

1.6.2. Chapter 2 – Literature review and proposed theoretical model

The researcher will discuss and integrate the theoretical model and the thoughts of the concepts of Takaful and Islamic insurance, as well as the works of other authors who have raised issues on the same topic.

In addition, mention will be made of the Takaful offerings within a South African context, which will explore the current Islamic banking and insurance offerings, due to the linkage between Islamic insurance and Islamic banking through the similar underlying principles of Islamic insurance and Islamic banking.

The researcher will also integrate the theoretical components researched with regards to Islamic insurance into the observations and findings of the study, as well as the analysis thereof, which will result in a short term Takaful model within a South African context, as proposed by the researcher.

1.6.3. Chapter 3 – Research design and methodology

This chapter will focus on the research design and methodological approach in terms of data collection and the interpretation of this data.

Various research design and methodology components will be addressed here including those of research paradigm, research setting, data collection instrument and procedure, sample selection, quality criteria and ethical considerations.

1.6.4. Chapter 4 – Results, discussion and interpretation of the findings

This chapter will present all of the data collected and the discussions and interviews that were engaged in. Thereafter an analysis of the results, using the thematic approach, will be made with the results being discussed thereafter.

1.6.5. Chapter 5 – Discussion

The discussion chapter will serve to elaborate further on the information collected in the literature review chapter as well as the results of the semi structured in depth interviews.

Additionally, other authors' opinions on some of the results will be analysed to compare the results received in this study against other results from previous studies and publications.

1.6.6. Chapter 6 – Research conclusions and recommendations

In this chapter the researcher will summarise all of the key points of the research and state the conclusions and inferences drawn after the analysis. The researcher will also emphasize what the objectives of the research were, what it was meant to address, and how the objectives were addressed in the study.

This final chapter sets to conclude the study by providing an overview of the entire study. Therefore, this would in essence briefly summarise the study and conclude the study.

The limitations encountered during the study will also be made clear.

Depending on the nature of the findings, the researcher will make suggestions for possible further research in respect of the field of study.

1.7. Conclusion

The research topic was briefly introduced and explained. Additionally, the aim and objectives as well as the research methodology were discussed. The outline of this chapter and its subsequent chapters were also briefly explained above. The ensuing chapters that will follow will present a detailed overview of the study, with each chapter being explored in depth.

Chapter 2 – Literature review and proposed theoretical model

2.1. Introduction and background

Insurance as a risk mitigation tool has evolved over many hundreds of years to give rise to the current wide selection of models in use today. While there are various models, the mechanics of the models are all formed around certain basic principles (Reavis, 2012: 2). These principles are where a certain risk is to be mitigated and, if it is possible to mitigate this risk, a monthly fee is paid by the person requesting the insurance to the insurer for a future amount payable to the insured, should a particular unexpected predefined event occur (Reavis, 2012: 2-14; Investopedia, 2014: 1).

However, not all risks can be mitigated against in the form of an insurance instrument. The possibility and feasibility of a risk being insured generally contains the following characteristics (Mehr & Emerson, 1980: 34-37; Reavis, 2012: 3):

1. Large number of similar exposure units – As insurance firms operate based on the pooling of risk, it is important that the risk be applicable to a large segment so that the risk can be pooled and loss predictions can be similar to actual claims.

2. Definite loss – The loss must contain three elements for the loss to be verified. The three elements are that the time, place and cause of the loss can all be identified.

3. Accidental loss – The event that led to the loss must be out of the control of the insured.

4. Large loss – The loss incurred must be of substantial value, so that the insurer is able to cover its costs of administering the policy, as a small loss would not make this feasible.

5. Affordable premium – While certain assets need to be insured for possible events, should the premium be too high, it would make it unfeasible for the potential client to take up this cover.

6. Calculable loss – The cost of the loss and the possibility of the event occurring must be able to be estimated, if not formally calculable.

7. Limited risk of catastrophically large losses – Insurers normally reinsure independent non catastrophic events, so that they do not go bankrupt in the event of a large catastrophic event occurring. (Mehr & Emerson, 1980: 34-37).

Should any one of the above characteristics not be contained in a particular risk, then the risk will not be insured against by an insurance firm, as this would be what is referred to as an uninsurable risk. An example of an uninsurable risk would be the possible failure of a business, as one or more of the above characteristics listed above cannot be defined (Tatum, 2014: 1).

The term of insurance is also broken up into two main subcategories. These categories are short term insurance, where the period of the insurance policy is not normally longer than 12 months, and long term insurance, where the term is normally longer than 12 months, and in many instances, into perpetuity, or as long as the asset still holds any material value (Insurance Fundi, 2010: 1).

In order to mitigate risk for insurable risks, there are various insurance options available, covering almost any potential risk facing a client. The risks can include but not be limited to risks such as auto insurance, health insurance, disability insurance, casualty insurance, life insurance, burial insurance, property insurance, liability insurance, credit insurance, and many others (Anderson & Brown, 2005: 6).

However, parts of the current or conventional insurance models have certain elements which are not acceptable in the Muslim faith, due to the fact that these elements are against the teachings of Islam (Desai, 2014: 1). These main impermissible elements are uncertainty, speculation and usury. This, therefore, means that the current or conventional insurance methods are not permissible for Muslims to either use as a client, where a policy is taken out using the conventional insurance model, or facilitate as a broker or insurer, due to the fact that the conventional insurance models contain one or more of the impermissible items in Islam (Visser, 2013: 129).

Islam does, however, make provision for a specific type of insurance, or risk mitigation mechanism known as Takaful. This is evidenced by the fact that the Islamic prophet, Prophet Yusuf, also known as Prophet Joseph in Christianity (Knappert & Knappert, 1985: 85), filled silos with grain as additional provisions in the event of unavailability of grain in the future, which exhibits future provisioning and the reduction of the potential risk of shortage of grain (Desai, 2014: 1).

The Islamic insurance structure, however, should not contain the non permissible elements such as uncertainty, speculation and usury (Visser, 2013: 129). This is where uncertainty refers to the fact that the negative event may or may not take place, speculation refers to the fact that the customer may or may not claim and usury refers to the fact that the relationship is skewed to the insurer, where there are high fees charged to the insured for an event which may or may not occur.

Additionally, the premiums should not be invested into non permissible investments which, according to Islam, are such investments as breweries, conventional insurance firms and non Islamic banking companies. There are, however, also various interpretations by Islamic scholars of the Islamic compliant insurance principles, which leads to different end products of insurance models, some of which are not fully in compliance with that of the Shariah law in the opinion of the majority of Islamic scholars (Wahab, Lewis & Hassan, 2007: 384, 386). For purposes of this study, the Islamic principles followed will be those as described by the majority of Islamic scholars and accepted and followed by the majority of Muslims globally.

The above fulfils the secondary aim of identifying the requirements of Islamic insurance.

Therefore, Takaful can be defined and described as "a co-operative system of reimbursement in case of loss, paid to people and companies concerned about hazards, compensated out of a fund which they agree to donate small regular contributions managed on behalf of a Takaful operator." (Bhatty, 2011: 1). Takaful is further defined as a concept which has developed from Islamic banking, "observing the rules and regulations of Islamic law" (Fisher & Taylor, 2000: 1).

While the published books or papers from an Islamic insurance perspective are limited relative to those published for conventional insurance, the demand for Takaful insurance is growing at an exponential rate, especially in predominantly Muslim countries such as the Middle East, Malaysia and parts of Africa (Stahnke & Blitt, 2005: 7). This is mainly due to the fact that for firms to operate competitively in a globally competitive environment, they need to reduce or minimise the uncertain elements by mitigating their risk, of which one way of doing this is through insurance (Ernst & Young, 2012: 4). Moreover, this is also required for compliance with the state laws in some countries, where having an insurance policy on some assets is compulsory, such as car insurance in the United Kingdom (Legislation.gov.uk, 1988: 1). Therefore, Muslims would rather choose Takaful insurance over conventional insurance, all else being equal (Ayinde & Echchabi, 2012: 413).

Specifically in South Africa, the large short term Islamic compliant insurance firms are also practically non-existent, with those previously independently in existence now owned by the larger banking institutions that offer both types of insurance, which is the Takaful insurance and the conventional insurance (SA Insurance Guide, 2012: 1). Therefore, in South Africa there is currently no large independent sole Islamic compliant insurance company as found by the researcher, of which this study will be focused on within a South African context.

The following section of this chapter will explore the evolution and principles of conventional insurance so that the reader obtains a basic understanding of the conventional insurance model. This understanding will allow the reader to then understand the comparison between the conventional insurance principles and models, and those of Islamic insurance principles and models.

2.2. Exploration of conventional insurance

The fundamental principle of insurance is that payment is made to a party at set intervals over a period of time to cover or insure against various losses such as the loss of fixed or movable assets. Should such loss occur, then the party making the payment, which is the policy holder, is compensated to an amount equal to that pre-agreed upon between the parties (Oxford Dictionaries, 2014: 1).

While the history of this form of insurance dates back to 2250BC, as stated in the code of Hammurabi, it has developed and evolved, mainly during the 16th and 17th centuries, either in response to certain events such as the Great Fire of London in 1666, or to intellectual developments of certain persons or companies (Buckham, Wahl & Rose, 2001: 5).

Conventional insurance providers work off distinct insurance principles, of which the most common are as follows (Shahzad, 2009: 2; Akrani, 2011: 1):

1. Principle of utmost good faith – Both parties must act in good faith towards each other and the insurer must provide the client with complete and clear information so that the client can make an informed decision.

2. Principle of insurable interest – The person being insured must have an interest in the insurable asset as he will gain from its existence, and lose from its non-existence.

3. Principle of indemnity – The insured must be put in the same position as they were prior to the event occurring.

4. Principle of contribution – The insured is only able to claim to the extent of the loss of the asset. If more than one policy is held in respect to the same asset, then the sum of the claims on the policies may not exceed the value of the asset.

5. Principle of subrogation – Subrogation is where one creditor is substituted for another. Therefore, through this principle once the insurer has paid out an amount for a claim, the insurer can lay claim against the party that caused the damage, and will then be entitled to claim the amount equal to that compensated to the insured.

6. Principle of loss minimization – Once a policy has been issued, it is the duty of the insured to take all precautions and due diligence to ensure that the loss is minimised in any negative event which may occur to the asset.

7. Principle of nearest cause – In the event that more than one event led to the loss, the nearest applicable event, should it be covered, would oblige the insurer to pay out a claim in this respect (Shahzad, 2009: 2).

The firm therefore pools the premiums received by all of the clients to pay off the claims made by some of the clients. The remaining balance is for the profit or loss of the insurance firm and will not affect the client or the insurance cover which the client has, or premiums payable by the client.

The conventional insurance model is thus largely set up on the following basis (Sha, 2012: 1; Insurance Europe, 2012: 5-9):

1. An amount is transferred to an entity as working capital for the commencement of business of the entity, in this case the insurance entity or fund.

2. The entities making the transfer become the shareholders of this insurance entity. Upon possible dissolution, this capital amount is payable to the shareholders, of which capital amount is normally taken on loan from a banking institution or, in some instances, self financed.

3. Premiums are paid by the insurance clients to the insurer in exchange for risk cover by the insurance entity. Should the customer lay a claim, the insurer then pays the insured the agreed upon value for such a claim, after the claim has been investigated. However, should no claim arise, then the insured is not entitled to any money back from the insurance entity.

4. Surplus amounts held by the insurer are invested into any type of investment vehicle, without limitation or exception.

5. A portion of the premiums received is kept as reserves in the event of unanticipated large claims or catastrophes.

6. A portion of the surplus amounts are distributed as profits amongst the shareholders or, in the case of the loss, the shareholders would also then share this loss and make contributions accordingly.

Based on the model as described above, there are certain elements which are not acceptable in Islam, making this type of insurance model unlawful in the Muslim faith. However, in Islam, should the unlawful elements be removed, then the model would become acceptable and allowed in terms of Islamic law, or Shariah law (Desai, 2014: 1).

Therefore, the unlawful components contained in a conventional insurance model as described above in the explanation of the uncertainty, speculation and usury concepts include:

1. The policy holders, while making regular payments, or payments as agreed upon, are not entitled to any profits from the firm. Therefore, there is no balance between risk and reward sharing amongst the parties, or mutual co-operation.

2. Investments are made in any type of investment vehicle, of which investment vehicle may be operating in activities which are not allowed according to Shariah law (Desai, 2014: 1).

The following section will provide an overview and evolution of Islamic insurance and its models to allow the reader further insight into where these principles stem from and how these differ from the conventional insurance principles and models.

2.3. Exploration of Islamic insurance

While conventional insurance has had a long history, Muslims believe that Islam's teachings are derived from two main sources (Visser, 2013: 10). The first source is that of the Muslim holy book, the Holy Quran, and the second is from the characteristics and conduct of the last and final Islamic Prophet, Prophet Muhammed (Peace Be Upon Him), of which his teachings are recorded in certain authenticated books. It is believed by Muslims that the Quran was revealed to the Prophet Muhammed some 1435 years ago in various intervals. Within the Quran and revelations, Islam has made provision for risk mitigation, within the confines of the Shariah law (Schmidt *et al.*, 2008: 531).

Due to the fact that the conventional insurance models contain certain non-permissible elements, Muslims are not able to make use of these insurance models. An alternative is then required for risk mitigation within the confines of Shariah. One alternative would be to engage in a form of self insurance, where money would be periodically put aside in the event that an undesired event occurs (Berry, 2011: 1). Should the event occur, then the money which has been provisioned can be used to compensate for the loss. However, in this type of self insurance, the money provisioned for the risk mitigation might not cover the full extent of the damage, should the incident take place prior to the provisioned funds covering the value of the asset (Calsyn & Lee, 2013: 1). Should no negative incident take place which would necessitate a pay out, then in the self-insurance scenario the funds provisioned still remain the property of the company and no money is lost, as would be the case if insurance premiums were paid to an external insurance firm. Another option is part insurance where only a portion of the risk is covered. In this event, should a negative event occur, the full value of the asset will not be covered.

Alternatively, it is possible to create and/or participate in an insurance model which does not contain the impermissible elements of usury, uncertainty and speculation. For purposes of this study, the focus will be on the Takaful method of insurance, as this would be the only Islamic compliant insurance alternative available.

Within the Takaful structure, there are three types of general model structures which are allowed. The first is a profit sharing structure known as Mudharabah, the second is an agency structure known as Wakalah, and the third is a combination of the first and second structures, creating a hybrid structure (Rabanni, Mehmood, Saeed & Ilyas, 2010: 11). In the

Mudharabah structure, the risks and profits are shared amongst the participants who would self manage this structure, and in the Wakalah structure the operator earns a fee for rendering their services to manage the entity, while the risks and profits are still shared amongst the participants (Islamic Finance Info, 2011: 1).

The Islamic compliant models have therefore removed the impermissible elements which are contained in the current or conventional insurance models, thus making the Islamic models in compliance with Shariah law.

While the Takaful structure has been available for many decades, it has gained popularity since being introduced in Sudan in the late 1970s (Alhabshi & Razak: 1). From then, the Takaful insurance model has gained in popularity, mainly in the Middle East, but also in other parts of the world.

The major driving force for use of insurance would be due to the inherent quality of mankind to mitigate risk and maximise reward, while the driving force for that of Islamic insurance, in addition to the mitigation of risk, is firstly and primarily for Muslims to be in the obedience of the Almighty by complying with the laws as set out in the Quran and as taught to Muslims by the last Muslim prophet, Prophet Muhammed (Peace Be Upon Him), and secondly to mitigate risk (Desai, 2014: 1).

After setting out the background to Islamic insurance, the following section sets out the detailed principles and workings of Islamic insurance and its models and also explores the modern day history of Islamic insurance.

2.4. The origin and reasoning behind the Takaful structure

The source of all Islamic laws is the Quraan and the Sunnat. The Sunnat is an account of the character, sayings and actions of the final Muslim prophet, Prophet Muhammed (Peace Be Upon Him). Therefore, it is incumbent upon every practising Muslim to follow these laws and teachings as set out in the Quraan and as advised by the Prophet Muhammed (Peace Be Upon Him) (Schmidt *et al.*, 2008: 531).

An item which is against the teachings is referred to as something which is Haraam. Therefore, all types of structures would be permissible, as long as they do not contain any Haraam elements (Arabic Online, 2012: 1).

Based on this principle, some 60 years ago a greater need for insurance arose in the Muslim world due to increased economic activities and other factors, and so certain scholars adapted an insurance model based on certain underlying Islamic principles to create what is now known as the Takaful insurance model. The reasoning behind this is that Muslims required insurance for certain reasons, including compliance with state laws, and therefore an Islamic model would be preferable to one which is considered to be Haraam, as practising Muslims are to be in obedience of the Almighty at all times, under all circumstances (Lim, Idris & Carissa, 2010: 2).

The basis of Takaful is a concept known as Kafalah, which is concept contained in the Quraan. Kafalah refers to "security" or "collateral" (Ahmad, 2009: 314). This concept was then used as the basis and built on by the Islamic scholars to create an Islamic compliant insurance model known as Takaful.

The Takaful model works as follows, as explained by Khan (2010: 6), and is further expounded upon by Bank Negara Malaysia (n.d.: 4-12) as:

1. Money is contributed to the fund as the initial capital. The ownership of this initial contribution vests in the firm, and cannot be used for any purposes, unless stated by the donors. Additionally, this money cannot be drawn out of the firm by any entity as this money is now referred to as Waqf, which means that the donation is to be used in the assistance of mankind, and cannot be revoked, even by the donor.

2. This initial contribution is used to capitalise the insurance firm, of which capital would not earn any returns for the contributor, directly. However, this differs from normal capital, as this capital cannot be drawn out of the firm, and it cannot be used for any other purpose than its intended purpose, unless stipulated by the donors.

3. Insurance products are then sold to potential policy holders, and premiums are paid for these products in the form of contributions.

4. Should any claims arise, the claims are paid out by the fund to the policy holders once the claims have been investigated and deemed valid.

5. The excess funds are invested into permissible investments. These investments are those which do not involve any Haraam activities such as alcohol, interest bearing or linked assets, and any other intoxicants and immoral activities as defined by Shariah.
6. A portion of the excess funds are distributed to the policy holders, with a portion also kept as working capital and reserves and a portion is paid to the shareholders.

Currently, there are various models available, mainly in the Middle East and African countries. These Takaful structures have attracted great success thus far and are continually growing, as Takaful is the most suitable form of external insurance for Muslims (Khan, Alam, Ahmad, Iqbal & Ali, 2011: 282).

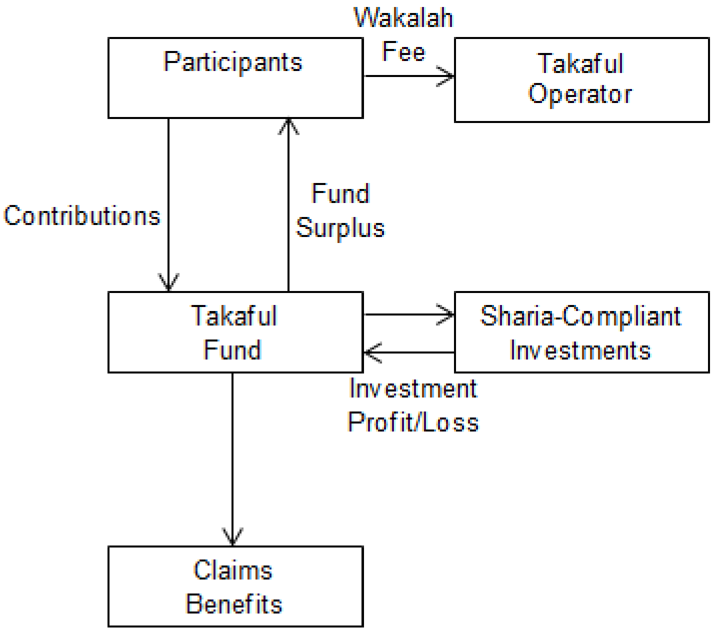
Also, in the Takaful model there is need for a Shariah supervisory board. This is a board parallel to but separate from the board of directors made up of learned Islamic scholars who are there to ensure that the Takaful model of the firm complies to the Shariah principles (Hassan & Mahlknecht, 2011: 324). Therefore, it is important that this board is credible, as the board is needed to assure potential clients of the model's Islamic compliance and authenticity.

The above section addresses the secondary aim of proposing how the Islamic requirements translate into a short term insurance offering within South Africa.

The following section explores the different types of Islamic models available and how these models differ from each other, as this would create the base for a proposed short term Islamic insurance model in a South African context.

2.5. Takaful model structures

In the Takaful insurance, there are three main models available with various adaptations of these models. One model is the Wakalah model, which is the agency model, and it is illustrated as follows:

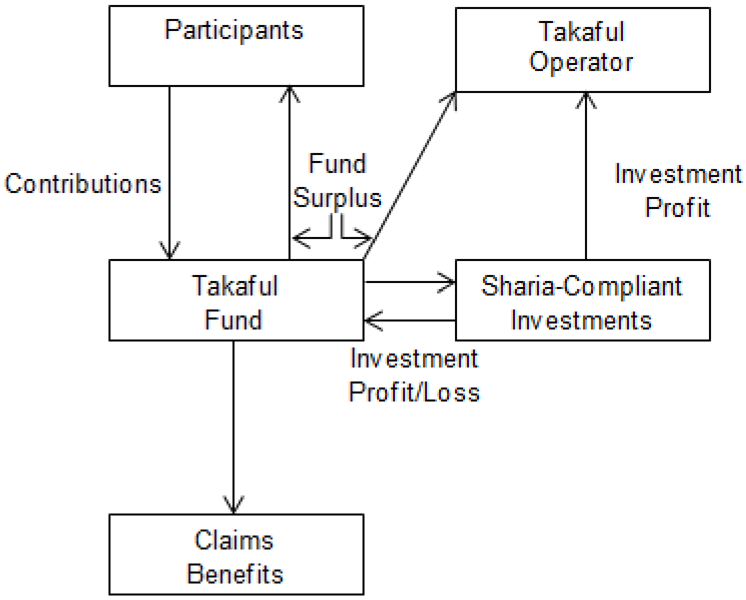


(Diagram 1 – Wakalah Model)

(<u>Source</u>: Yusof, 2011: 29-44)

In the Wakalah model, an operator manages the insurance entity and is entitled to a management fee for the administration function.

The second model is the Mudharaba model which is a mutually managed model:



(Diagram 2 – Mudharaba Model)

(<u>Source</u>: Yusof, 2011: 29-44)

In the Mudharaba model, the insurance entity is managed by the participants themselves and so no additional fee is to be paid to an operator for the administrative function.

The following section draws a comparison between conventional insurance models and Islamic insurance models.

2.6. The major differences between conventional insurance and Islamic insurance

Based on the above literature reviewed thus far, the researcher believes that the conventional insurance principles and those of Islamic insurance should be compared and contrasted for the reader so as to synthesize the above literature, as well as to address the secondary aim of comparing and contrasting Islamic insurance models with the conventional insurance models.

This comparison will allow the reader to then understand the study in the correct context, and will also aid in the understanding of the development of the Islamic insurance model still to be developed in the study.

The Islamic insurance model differs from the conventional insurance model as follows, according to Hussain and Pasha (2011: 25-27) and Mazair (2013: 279):

1. The Islamic insurance system is based on a risk/reward paradigm. Specifically, each policyholder pays premiums in the form of donations to a fund. These donations are then deployed from the fund to various development opportunities. At the maturity date all payees of donations then participate, pro-rata, in either the profits or the losses realised by the deployment of the donations to the fund.

2. Donations from the policy holders are used to pay the losses.

3. The ownership of the fund vests in the policy holders as they have donated contributions and are therefore also entitled to profits.

4. Donations by the policy holders are voluntary.

5. The fund is managed by the donors to the fund in certain instances.

6. Investments are limited to firms which derive income from permissible sources as defined by the Quran (Ernst & Young, 2012: 5).

The following section explores present applications of the current Islamic insurance models and their successes or failures in other parts of the world so as to ascertain the feasibility of a Takaful insurance firm.

2.7. Takaful structures in other parts of the world and their economic contributions

As the majority of Muslims reside in the Middle Eastern countries, as well as parts of Asia and North Africa, which are considered to be Muslim countries, the uptake and development of the Takaful products have been greater in these areas than in other parts of the world (Stahnke & Blitt, 2005: 7). More notably, Saudi Arabia, Dubai and Malaysia are currently at the forefront of the Takaful innovations, also in terms of market capitalization as well as Takaful offerings (Ahmed & Grais, 2014: 251). Therefore, the data available for research and collected was based on data received from firms within these countries.

Currently, the global Takaful market is split into two main segments or streams. The first is the general stream, which is non life (12 months or less), and the second is family, which refers to life cover of the asset (more than 12 months) (Edwards Wildman, 2014: 1). The general stream includes automobile, fire, asset, marine and other casualty products, all on a short term basis, which is normally 12 months or less. The general stream makes up the bulk of the Takaful market. The family stream covers long term insurance products, which are normally longer than 12 months and which products include mortgage and life insurance (Edwards Wildman, 2014: 1).

Based on a comprehensive study undertaken by Ernst & Young in 2013, (Ernst & Young, 2013: 16, 19, 20), the global Takaful contributions exceeded USD 10.958 billion as at 2013, with only 174 Takaful insurance firms contributing to this figure. The major contributor to this global contribution is Saudi Arabia with 51%, while Africa contributes only 5%. It is estimated that the Takaful market should exceed USD 17.114 billion by 2015 (Ernst & Young, 2013: 16, 19, 20).

Although the Takaful market is growing strongly, the period since the financial crisis of 2008 has proved to be a challenge in this rapidly growing industry (Falstead, 2011: 1). However, the market is still “growing phenomenally”, in spite of global challenges facing the Takaful sector (Moody, 2011: 1).

While the Takaful sector is still in its infancy and growing rapidly, this growth rate can be increased further as it has not yet expended its reach and segmented its customer base (Ernst & Young, 2013: 20). Another hindrance to this growth is that of the reinsurance or Retakaful (where insurance companies insure themselves against catastrophic events which may cause them to need to pay out claims greater than their reserves) capacity available for Takaful operators, which is currently under-capacitated to cater for the reinsurance needs of the Takaful industry, due to the fact that the Takaful sector is growing faster than the reinsurance sector (El-Tahir, 2011: 21).

The following section explores the current and potential challenges facing insurance firms, so as to align the proposed model accordingly with the current and potential challenges in mind.

2.8. Challenges in the Takaful marketplace

Like most industries and firms, the marketplace is plagued with various challenges hampering its growth and innovation within the industry. Many of these challenges have recently become stronger, as more entrants have entered the marketplace, which would limit the growth and market share per firm. Based on the increased entrants and the development of the industry, the following challenges have arisen affecting this growth in Takaful and, in some cases, the conventional insurance firms, according to Ernst & Young (2013: 39):

1. **Global economic weakness** – As economies are largely interrelated, the contagion effect of any one economy can have devastating effects on any other interrelated economies, and thus weaknesses, or strengths for that matter, in an economy can also have similar effects.

2. **Competition** – Initially, as the Takaful industry was growing and there was scepticism around the credibility of the Takaful model and market demand, the number of Takaful firms were low. As the demand has increased, due to the fact that the Takaful model has largely become an accepted and credible model, and the demand for Takaful insurance has grown, the number of entrants into the marketplace has also grown significantly.

3. **Reinsurance (also known as Retakaful) shortage** – As the customer base of the Takaful insurance is growing, so too is the risk exposure of the Takaful firms. Therefore, a large majority of firms reinsure their exposure or risk, so that the whole

or a portion of the risk is transferred to a normally larger firm with a suitable risk appetite. However, for this to adhere to the Shariah law, the reinsurance should also be done through an Islamic reinsurer, and therefore this is referred to as Retakaful, which means reinsurance. Due to the fact that the Takaful industry is growing at a rapid pace, the global Retakaful capacity is not increasing at the same rate as the Takaful growth, and this creates a shortage of available firms to reinsure the book value of Takaful firms.

4. **Enterprise risk management** – An important principle within insurance is that a firm would normally pool various types of risk to reduce the firm’s exposure. However, within the Takaful industry, the target market and products are quite restricted with a narrower base and this therefore limits the diversification which a conventional insurance firm can enjoy, and thereby increases the risk of a Takaful firm. This limit thus increases the risk profile of the Takaful firm.

5. **Evolving regulations** – At present, various countries, including South Africa, have one set of regulations for conventional as well as Takaful insurance. However, many countries are amending the laws and regulations to treat the Takaful insurance as a separate industry with its own specific set of laws and regulations. This change in the laws and regulations means that firms would need to ensure additional compliance for continued operations and accreditation with the country. (Ernst & Young, 2013: 39)

While many of the above challenges can also be attributed to conventional insurance firms, the severity of the above challenges for Takaful are much higher than that of the conventional insurance providers, as these challenges are specific to the current growth phase of the Takaful industry, which is still considered to be in a delicate infancy stage.

The following section discusses certain regulatory considerations as well as explores certain upcoming changes to the insurance regulatory environment within a South African context, just as the current section has explored the global challenges.

2.9. Specific insurance dynamics and regulatory changes in South Africa

As the Takaful sector of insurance in South Africa is still relatively new and in the process of developing, this sector falls under the regulations imposed on the conventional insurance operators. Therefore, in addition to being Shariah compliant, the Takaful firms must also ensure that they are compliant with the insurance regulations as set out by Insurance Act of South Africa and other institutions such as the Financial Services Board (FSB) and The Life Offices' Association (The Life Offices' Association, 2014: 1).

While a discussion of the specifics and mechanism of the Insurance Act is not necessary for purposes of this study, there are certain changes which are being imposed on the insurance industry to protect consumers, which will assist in setting the context of the study. The proposed changes have come about through various consumers not being treated fairly, as per the various legislations such as the Treating Customers Fairly (TCF) model, and other regulations in place to ensure that supervision and regulation is forward looking and outcomes focused (Radloff, 2011: 1).

The TCF model is aimed at ensuring that firms treat their customers fairly. To assess this, there are six principles which firms need to demonstrate are present to comply with this model as stated by Radloff (2011: 1):

1. The fair treatment of customers must be central to the firm's culture.
2. Products and services marketed and sold in the retail market must be designed to meet the needs of identified customer groups and targeted accordingly.
3. Customers must be given clear information and be kept appropriately informed before, during and after the time of contracting.
4. Where customers receive advice, this must be suitable and must take account of their circumstances.
5. The products must perform as the firm has led the customers to expect and the service must be of an acceptable standard and must be what the customers are expecting.
6. There must be no unreasonable post sale barriers to change product, switch provider, submit a claim or make a complaint (Radloff, 2011: 1).

There are also various drivers which are expected to achieve a full companywide culture which are:

- **Leadership:** Management gives direction on TCF behaviours and monitors the delivery of TCF outcomes.
- **Strategy:** TCF aims have been incorporated into the business plan and have been carried through to implementation as part of the broader business strategy.

- **Decision-making:** Decision-making protocols ensure that decisions are tested for customer impact. There is an environment whereby staff can challenge decisions which impact on customers from a TCF perspective.
- **Governance and controls:** The firm's governance and control processes, where relevant (e.g. product approval, claims reviews, complaint escalations), cater for TCF considerations. There are management information systems in place to measure results, identify risks and ensure compliance with TCF regulations.
- **Performance management:** Appropriate staff are recruited and trained. Where appropriate, TCF deliverables form part of staff performance contracts and staff appraisals.
- **Reward:** Remuneration, incentive and reward policies take cognisance of fair customer outcomes. TCF is the counterweight to incentivising other essential business goals such as profit and sales volumes (Radloff, 2011: 1).

Should companies not comply with the TCF policy, the FSB has the following enforcement powers:

- administrative fines and penalties;
- declaration of business practices to be undesirable, with associated powers to order cessation or amendment of the practices concerned;
- suspension or withdrawal of regulatory licenses;
- termination or withdrawal of the approval of certain individuals to act in certain capacities;
- damages and compensation awards (including punitive damages);
- referral of certain matters to the High Court; and
- referral to the National Prosecuting Authority for criminal prosecution of individual wrongdoers, where a statutory or common law criminal offence is committed (Radloff, 2011: 1).

The new regulations will be implemented over the next two years, and are expected to be fully implemented and enforced by 2016 (Metcalfe, 2012: 15-25).

While there are various changes, certain changes that companies would need to consider include:

1. enhanced risk management tools;
2. enhanced product development;
3. distribution channels to be scrutinised more closely;
4. increased responsibility and accountability shared by both the financial intermediary and product provider; and
5. a review of the current commission model, which is currently skewed due to the advice given by intermediaries, based mainly on commission structures (Metcalfe, 2012: 15-25).

The FSB believes that the above proposed changes, still to be implemented, will be of great value to the consumer due to the fact that consumers are better protected in terms of increased accountability by the intermediary which sells the product to the consumer, less incentive for the intermediary to advise the client on higher commission products, and clear roles and responsibilities of each part along the value chain (Radloff, 2011: 1).

From a Takaful perspective in South Africa, the greatest challenge is that there are currently no specific Takaful regulations, so the Takaful firms must comply with the conventional insurance regulations as well as Shariah regulations (Bodiat, 2012: 1). This lack of specific Takaful regulations thus does not ensure uniformity across the Takaful firms' models, and allows for various deviations from the generally accepted Takaful models, which can potentially put the consumer at risk of using a Takaful model which is not in compliance with the Shariah law.

However, it should also be noted that while there are certain changes needed to enhance the insurance offerings in South Africa, there are also certain challenges facing the insurance providers from a customer perspective.

One of the challenges, which is considered as the main challenge globally, is that once customers are insured they would be less risk averse, due to the fact that they are covered for any eventualities under a policy (Shavell, 1979: 541). This therefore means that they would be inclined to engage in higher risk activities than if they were not insured, also known as 'moral hazard' (Shavell, 1979: 541). This then leads to increased incidents and claims which come at the cost of the insurance provider. However, the insurance provider then in turn factors this less risk averse activity into the price, which leads to higher end consumer prices, even for those who would not change their risk attitudes (Shavell, 1979: 541).

Additionally, another negative factor facing insurance firms is known as 'adverse selection'. This is where information asymmetry occurs, and this means that those who are at higher risk of loss would be those who would purchase insurance products. This would mean that the insurance firms would not be aware of the potential loss that might occur, as this is only known to the client themselves, and this could then potentially lead to a larger claims ratio (Polborn, Hoy & Sadanand, 2006: 327-354). This phenomenon will lead to higher premiums charged to customers, further creating this cycle where those who are less risk averse will not purchase the insurance products, or purchase less of them, and those who are risk averse would purchase the insurance products (Polborn, Hoy & Sadanand, 2006: 327-354).

Insurance firms, however, try to counter moral hazards and adverse selection by a process called 'underwriting', where the risks are evaluated and priced on a case to case basis. So if a client is at a higher risk of a potential claim against the insurers, then the client's premiums would be higher than someone who is at a lower risk of claiming from the insurers for an incident which may occur.

The following section discusses the underwriting process and its significance within an insurance model in terms of the risk and price calculation process.

2.10. Underwriting

Insurance underwriting is a process where the underwriters evaluate the risk and exposure which the insurance firm will face with a particular client or product. The underwriters, who calculate the risk associated with a customer and the accepting or rejecting of the risk, use various variables to determine the risk associated with a certain customer and/or product. The term 'underwriter' was derived from Lloyd's of London, where the financial bankers would literally write their names below risk information associated with a customer on a Lloyd's slip created for this purpose (Wertheimer, 2006: 25), thus the term 'underwriter'.

For example, when insuring a client for automobile insurance, the underwriters will consider the client's driving record, type of car to be insured, history of the particular vehicle, and a host of other factors relating to the client. Additionally, underwriters also consider external risks (Ahmed, 2007: 73). For example, using the automobile scenario, they would also consider other factors such as the legal driving age in the country, the area in which the car will be used, the mortality and accident rate on the roads and the crime statistics relating to hijacking, as well as the client's history of past claims. All of the factors are used to calculate the risk of the customer claiming from the insurance firm (Ahmed, 2007: 73).

Once the factors are used to calculate the risk associated and the cost of insurance from the firm's perspective, the underwriters decide on a price to charge the customer for accepting the risk. This price is called the 'premium', and is normally charged on a monthly or annual basis.

It does, however, occur where certain risks are too great, and insurance firms would refuse to carry the particular risk, and therefore not insure the client. In certain cases, where the risk is great, the insurance firm might accept the risk and issue an insurance policy to the customer, but the insurance firm will protect itself by charging a high insurance premium and/or adding in certain exclusions from the policy. The exclusions refer to scenarios in which the insurance firm will not pay for claims (Investing Answers, 2014: 1).

The following section briefly explores the market potential for Islamic insurance firms on a global scale. For purposes of this study, an in depth analysis is not required.

2.11. Market potential

Within all industries plagued by change and challenges, there are always opportunities and untapped potential still available to be unlocked. Within the Takaful industry, as the industry is relatively new and still largely unsaturated, the untapped potential lies in markets which are predominantly serviced by conventional or non Takaful insurance firms (Sharif, 2004: 8), such as non Islamic countries like the United States and United Kingdom, which are not majority Muslim countries (Livingston, 2004: 285).

This is due to the fact that the current Takaful firms are concentrated within the predominantly Muslim countries where the general demand for Takaful insurance is higher. However, this means that there are many non Muslim countries which are not serviced and where there are pockets of demand for Takaful insurance (Usman, 2012: 1). These pockets of demand will attract greater profits for the initial firms able to offer the Takaful insurance, as they are unable to currently obtain these products. However, as with all firms, the operator would require a clear strategy and a well defined execution plan, as Takaful is merely a Shariah compliant variant of insurance (Usman, 2012: 1).

The following section explores the differences of opinion among Muslim scholars regarding the Islamic insurance models.

2.12. Critique of the Takaful model

As with any type of law, it is open to interpretation by various learned scholars in that particular field. Therefore, within Shariah law there are also differences of opinion based on the compliance and credibility of the Takaful structure based on alternative interpretations of Shariah. The argument for the non permissibility of the Takaful structure is as follows (Wahab *et al.*, 2007: 384, 386):

1. When the initial amount is contributed by the shareholders to establish the fund, this amount becomes Waqf and the ownership of this wealth is removed from the shareholders. However, while the ownership is removed, the shareholder still benefits from this Waqf contribution and this is therefore a conditional Waqf donation which is not acceptable to some scholars (Moosagie, 2014: 1).

2. In the event of the death of one of the shareholders, inheritance law according to Shariah would come into play and this Waqf donation would then be due to the beneficiary of the inheritance, although it is Waqf and cannot be taken out of the share capital (Brood, 2014: 1). It is therefore in conflict with Muslim inheritance law.

3. In the agency model, when the operator earns a fee, the actual fee earned by the operator is not acceptable, as the profits are actually due to the policy holders in totality (Wahab *et al.*, 2007: 384, 386).

It is, however, the opinion of several Islamic scholars such as Desai (2014: 1) and Moosagie (2014: 1) that the Takaful structure is permissible, due to the fact that the above critiques can be overcome through an adaptation of the model. Therefore, for purposes of this study the researcher holds the view that Takaful is a sound Islamic compliant insurance approach. This view of the researcher is motivated by the following:

1. Islamic compliant models are effectively those which do not contain impermissible elements in Islam; and

2. conversely, any concepts not in contradiction to the impermissible elements will be acceptable and therefore the models can be amended to account for any reservations in this regard, in addition to the fact that the Takaful model is accepted by the majority of Islamic scholars.

This study will, then, follow the view that the Takaful structure is in conformance to the Shariah laws and a permissible structure for Muslims to use as a form of insurance.

As Islamic insurance and Islamic banking are closely linked due to the similarities in the foundation of these models, the following section explores and elaborates on the Islamic banking model and Islamic banking within South Africa.

2.13. Islamic banking and finance

Within a South African context, the first Islamic product available was that of Islamic banking. The concept of Islamic banking and finance started in South Africa in 1989 when Albarakah Bank was established with a group of South African investors and the Saudi Arabian based Dallah Albarakah group. This was followed by conventional banks such as First National Bank and Absa Bank in 2004 and 2006 respectively (IOL, 2010: 1).

The Islamic banking model works off similar principles to that of Takaful. These principles are that the model cannot include any transactions or elements which are against the teachings of Islam, such as interest or usury (Ariff & Iqbal, 2011: 5). Therefore, the Islamic banks operate in a co-operative manner, where the customers share in the risks and profits of the firms. As an example of this concept, in a mortgage transaction the Islamic bank would purchase the asset and resell it to the customer over fixed instalments at a profit, whereas the conventional banks would charge the customer an interest rate related to a monthly repayment fee (Ariff & Iqbal, 2011: 6).

Like the Takaful model, the Islamic banking model also needs a Shariah supervisory board to oversee the credibility of the model, as well as confirm that the model is in compliance with Shariah law (Institute of Islamic banking & Insurance, 2014: 1).

With the Shariah compliant models and deviations thereof, there are differences of opinion as to whether the models are truly Shariah compliant. The arguments against Islamic banking by certain scholars are as follows (Hunt-Ahmed, 2013: 387):

1. Certain Islamic banks charge for the time value of money, which amounts to an interest charge, which is contrary to the Shariah.

2. Certain Islamic banks would share the rewards with the client, but have little tolerance for any type of risk, such as in the case of default where the client is expected to cover the full cost of the shortfall of the asset once it has been auctioned off. This is not an equitable sharing of risk and reward.

3. Certain Islamic banks are not Muslim owned or managed, and therefore creates doubt and suspicion in the minds of potential clients as to the validity and credibility of the model and banking institution.

4. Certain Islamic banks use the prevailing interest rate to calculate the client non interest repayment amounts, where interest is not allowed in Islam, and this is used as an inappropriate substitute for an interest charge to the customer.

5. Certain Islamic banks work on a diminishing partnership structure, which is not on a fair and equitable basis towards the client as it favours the bank unduly.

6. Certain Islamic banks charge service fees which are seen as a disguised interest charge and a charge which is not justified in terms of the Islamic principles of fairness.

7. Certain Islamic banks are able to make unilateral amendments to pre-agreed contracts which are in contrary to the Shariah (Hunt-Ahmed, 2013: 388).

It must be noted, however, that the above criticisms are against certain banks' models and not against the general concept and model itself. Therefore, the critique should not be seen as a critique on the general concept of Islamic banking and finance.

While Islamic financial instruments are relatively new to South Africa, the South African government is seen to be moving forward in this direction as well by offering more Islamic products as a way of expanding its investor base, where Muslims are only able to invest in instruments which are in compliance with Shariah law. An example of this is the debut of an Islamic bond (Sukuk) which was issued and will be listed on the Luxembourg Stock Exchange (South African National Treasury, 2014: 1).

The value of the Sukuk was USD 500 000 000, and the bond was oversubscribed by more than four times with an order book of USD 2 200 000 000. Therefore, this shows the demand and appetite available in the market place for Islamic compliant financial instruments (South African National Treasury, 2014: 1).

The following section explores the various Islamic insurance offerings available within South Africa.

2.14. Takaful products in South Africa

There was only one large independent Takaful firm in South Africa called Takaful SA. Takaful SA offered a range of products including vehicle, household and commercial insurance. This therefore fell into the general stream of insurance offerings.

As insurance firms are based on intellectual property, the mechanics of the workings of Takaful SA are unavailable for purposes of discussion within this study. However, the insurance offerings claim to be Shariah compliant, and this is verified by what is called a Shariah board (Institute of Islamic Banking & Insurance, 2014: 1). The Shariah board consists of credible Islamic scholars, who guide and advise the executives within the Takaful firm and operate within the insurance firm internally. While this is not a compulsory requirement, Takaful firms often include Shariah boards as this gives credibility and assurance to the potential clients, as the Takaful firm is unable to open its product workings for scrutiny, as this will expose their intellectual property and in turn hamper their competitive advantage.

Takaful SA is, however, no longer an independent Takaful firm as it has been bought by ABSA Bank, which is a division of Barclays Bank (SA Insurance Guide, 2012: 1). This creates concern in the minds of potential clients as it is unusual for a Takaful and conventional insurance firm to operate under one banner, although Islam does permit this. It is permitted as long as the product itself is Halaal, and not necessarily the company which is selling the insurance products (Desai, 2014: 1).

Further to this, other smaller insurance firms such as New National and Takafol Short Term Insurance offer Islamic compliant offerings. However, due to the nature of insurance where in depth information was not available due to the intellectual property considerations, the models could not be explored and verified by the researcher, with no additional Takaful firms found by the researcher.

The following section explores prior studies done in the field of Islamic insurance and briefly discusses their research and findings.

2.15. Prior studies done in the field of Takaful and Islamic banking and finance

The researcher could not find any directly related studies on this topic in a South African context and has therefore chosen to discuss certain similar studies done in the Islamic insurance field.

These studies chosen include that of Maysami and Williams (2006: 229), who explored the relationship between the Takaful insurance model and Islamic fundamentals. They concluded that Muslims are largely unaware of the Takaful credibility and offerings available for their insurance needs. This means that, while there might be Takaful products available where their study was conducted, additional education is required for potential Muslim clients as to whether the Takaful structure is in actual fact Halaal. In addition, greater targeted marketing would be required for potential customers to be aware of the Takaful offerings. This means that the target base would need to be educated as customers would rather refrain from something which is doubtful to them in a religious context.

Additional studies undertaken in Takaful include those done by Othman and Abdul Hamid (2009: 468) who also explored the level of understanding of the Muslim community in Malaysia with respect to Takaful. The results reflected that 67% of respondents were unaware of the Takaful concepts and how this relates to the Shariah**.** The purpose of this study was to ascertain which type of insurance was more suitable for Muslim clients, with the Takaful structure being confirmed as the suitable structure for the Muslim clients due to its compliance with the Shariah laws. Therefore, as per the results of Maysami and Williams (2006: 229), education is an essential part of the success of a Takaful firm as, while the products might be offered, it is imperative that the potential Muslim clients be aware of the products and also have an understanding of them. This understanding will allow the clients to have comfort that the model is in fact Shariah compliant.

Ayinde and Echchabi (2012: 407) did a study on the perception and adoption of Islamic insurance in Malaysia. In this study, they polled 200 respondents using a questionnaire and analysed the results. The findings indicated that the Malaysian market is willing to adopt Islamic insurance. However, this is dependent on two factors which will influence their purchasing decision. These factors are compatibility and awareness (Ayinde & Echchabi, 2012: 413), where the respondents want to ensure that the Islamic model employed is Islamic compliant and that they can only make use of this insurance if they understand and are aware of its existence and offerings.

Htay and Salman (2013: 145) did a study that was focused on the Takaful market in India. Here they considered the viability of Takaful in India where they polled 333 respondents, both Muslim and non Muslim respondents, which were split equally (Htay & Salman, 2013: 153). The results showed that there is interest in India for Takaful insurance amongst both Muslim and non Muslim clients. However, the respondents cited that the level of awareness and understanding is very minimal, and therefore this might be a hampering factor to Takaful firms in India. Furthermore, the respondents felt that the Takaful industry in India can be successful only if the Indian government supports this sector, and if the Takaful firms do not market this type of insurance as Takaful, as this creates the misconception that this type of insurance is only for Muslims (Htay & Salman, 2013: 153).

From the Takaful research done, there was also certain reference made to Islamic banking and finance (Abdullah, Sidek & Adnan, 2012: 151-163), and so certain Islamic banking and financed studies were researched further as per the discussion below.

The Islamic banking and finance study done by Zaher and Hassan (2002: 1) confirms that Islamic banking is a relatively new concept which has developed from the 1980s. While it is a relatively new concept and still evolving, Islamic banking and finance has seen rapid growth globally due to various factors which include structural reforms in financial systems, the liberalization of capital movements, the global integration of financial markets and the introduction of innovative and new Islamic products.

Ahmad (2000: 57-81) discusses the concept of Islamic banking and also discusses the challenges facing Islamic banking. He states that Islamic banking works on the principle of equity sharing, abiding by an ethical model, and a system which is non inflationary. In terms of challenges, he refers to the fact that due to the fact that the majority of the banking system operates on an interest taking basis, the Islamic banks are faced with the challenge of operating in a global environment without contaminating any income with that of interest.

Abdullah, Sidek and Adnan (2012: 151) conducted a study in Malaysia to measure the perception of non Muslims towards Islamic banking products and services. Their research involved 152 respondents, all of whom are non Muslim, to be able to gauge their perceptions of Islamic financial products and services. The results of their study indicated that there is a positive trend and that non Muslims are well disposed to Islamic financial products and the use thereof. However, the main reservation is that the non Muslims do not understand the Islamic concepts and dynamics, and would therefore need additional education (Abdullah *et al.*, 2012: 151). However, it was noted that the respondents advised that they feel that Islamic banking will overtake conventional banking in Malaysia in the near future (Abdullah *et al.*, 2012: 151).

Based on all of the various studies analysed, it appears to the researcher that the general trend is that there is a need for Islamic banking and insurance products (Htay & Salman, 2013: 153; Abdullah *et al.*, 2012: 151) which will be supported by Muslims and non Muslims (Htay & Salman, 2013: 153). However, the main inhibiting factor is the awareness around these products as well as the low level of understanding around the Islamic financial products that hampers the uptake (Ayinde & Echchabi, 2012: 413). Should these factors be overcome, it will yield greater potential for firms offering Islamic financial products (Maysami & Williams, 2006: 229).

The following section explores the feasibility of a Takaful insurance firm globally due to the limited information within a South African context.

2.16. Feasibility of a Takaful insurance firm

As the Takaful information within South Africa and Africa is limited and in some cases nonexistent to an extent, the financial information and feasibility study done is taken from an Ernst and Young (2013: 3) study conducted in the Middle East and Asian regions. As the majority of Takaful firms are in these regions, the financial information will be a good indicator as to the global Takaful state; however, there is no evidence that this is relevant to a growing economy such as South Africa, where the Takaful industry is still in its infancy.

Within the conventional and Takaful insurance industry, there are a few general costs and factors which need to be taken into account when assessing the feasibility. The nett profit of a firm would be calculated after the income and expenses, and the formula for an insurance firm (either conventional or Takaful) would generally be as follows:

Income (%)	**Premiums received (taken as 100%)**
Expenses (%)	**(Claims ratio)**
	(Commission ratio)
	(Expense ratio)
Other income (%)	**Investment yield**
	Nett Profit %

Therefore, based on this formula, the feasibility and projected profit of a firm can be calculated.

Based on the information contained in the Ernst and Young study (2013: 27), the following information was revealed in Saudi Arabia, Malaysia and Gulf Cooperation Council (GCC):

Key ratios (%, 2012)	GCC (excluding Saudi Arabia)	Saudi Arabia [1]	Malaysia [2]
Claims ratio	64	69	62
Commission ratio	4	3	13
Expense ratio	38	23	24
Combined operating ratio	106	95	99
Investment yield	6	3	5
Return on equity	0.4	4	13

[1] Saudi Arabia's insurers (including takaful) operate under a unique cooperative model — this model is different than other countries' pure takaful model.

[2] Malaysia's takaful sector derives nearly 78% of its net contributions from the family takaful business.

- **Financial performance ratios are derived from published financial statements of a sample of conventional insurers and takaful operators. These provide indicators of the financial norm of** industry players.

(Table 1 – Insurance Ratios)

(Source: Ernst & Young, 2013: 27)

It can be seen that the ratios vary, with the return on equity ranging from 0.4% to 13%.

Within a South African context, the investment yield would potentially be higher due to the current returns on the Johannesburg Stock Exchange (JSE) should the firm decide to invest into the South African equities. For a 12 month period ending August 2014, the JSE grew some 19.02% on average (Thomson Reuters, 2014: 1), creating a higher growth yield for a South African based Takaful firm, should the JSE returns be sustained. The table above however is for the period 2013.

It should be mentioned that an insurance firm is normally measured from a customer perspective by the payout ratio and the ability to compensate customers for claims quickly, without any hassles and delays (Desai, 2014: 1). Therefore, most firms would have a higher claims/payout ratio, which would mean that this high claims payout ratio, combined with the distribution cost and other costs, would leave the firms with small profit margins, emanating mainly from the investment yield revenue. While the profit margins might be small, the volumes are large and this potentially leads to the growth and sustainability of an insurance firm (Reinhardt, 2009: 1).

The following section briefly explores reinsurance as a risk reduction mechanism for insurance firms. For purposes of this study an in depth analysis is not required as the study does not focus on reinsurance.

2.17. Retakaful or reinsurance

Within a world where asset portfolios can run into many billions of Rands, reinsurance is something which many firms engage in, especially for firms which are starting out and/or with limited capital reserves in the event of large payouts. Reinsurance or Retakaful is something which is permissible when done within the confines of the Shariah laws (Rahman, 2009: 2).

Shariah law allows for the reinsurance through a firm which is Shariah compliant. So this would mean that the firm would need to ensure that it only invests in Shariah compliant investments and refrains from operating with interest funds, which would mean loans from banks or loaning out money with interest repayments (Rahman, 2009: 2). Therefore, reinsurance from conventional reinsurance companies would not be permissible due to the source of their funds, such as from banks that operate with interest and/or the source of their income, which may be derived from non Shariah compliant sources (Malaysia International Islamic Financial Centre, 2014: 5).

However, from a reinsurance perspective, Takaful firms are facing increased challenges as the capacity of reinsurance is not sufficient to meet the demand, which is growing faster than the reinsurance capacity growth and therefore creating a bottleneck, restricting the Takaful growth due to capacity and lack of expertise in this field of insurance (El-Tahir, 2011: 21).

Based on all of the sections above, the following section seeks to propose a Takaful model within a South African context, bearing in mind the typical structure of a Takaful firm, the regulatory challenges and dynamics and the Shariah considerations.

2.18. A proposed Takaful model for the South African market

Within the South African Islamic community there is generally still little known about the permissibility of Takaful and the parameters thereof. For a Takaful firm to take full advantage of the possible market, thorough education needs to be done to eliminate all doubts within the minds of potential clients (Desai, 2014: 1). One major reservation and possible misconception is that the Takaful firm must operate independently to be Shariah compliant (Desai, 2014: 1). There is, though, currently no independent sole Takaful firm within South Africa, leaving a large part of the Muslim community without a perceived Shariah compliant alternative.

Therefore, to create a Takaful model, the following steps need to be followed as researched from the Institute of Islamic Banking & Insurance (2014: 1), and based on the researcher's interpretation and adaptation of these steps for a South African context:

1. An amount of money must be donated to the fund and declared Waqf. This is where the money cannot be returned to the donor, but the donor is able to put certain restrictions onto the purpose of the Waqf amount.

2. From this Waqf amount, the donor can decide as to whether the fund will be managed by an agent, or self managed by the policyholders.

3. In either case, policy holders make regular contributions to the fund in order to be covered for any unexpected event. This money, together with the initial Waqf amount, is used to pay out any claims which may arise.

4. A Shariah board would also need to be established which will operate in an advisory capacity. Normally, at least one person from the board will be stationed full time at the offices of the Takaful firm, to ensure that the daily running and transactions of the insurance firm are in compliance to the Shariah law.

5. Any surplus money is apportioned as follows:

    a. invested into Shariah compliant investments for additional returns;

    b. kept as reserves for future claims; and

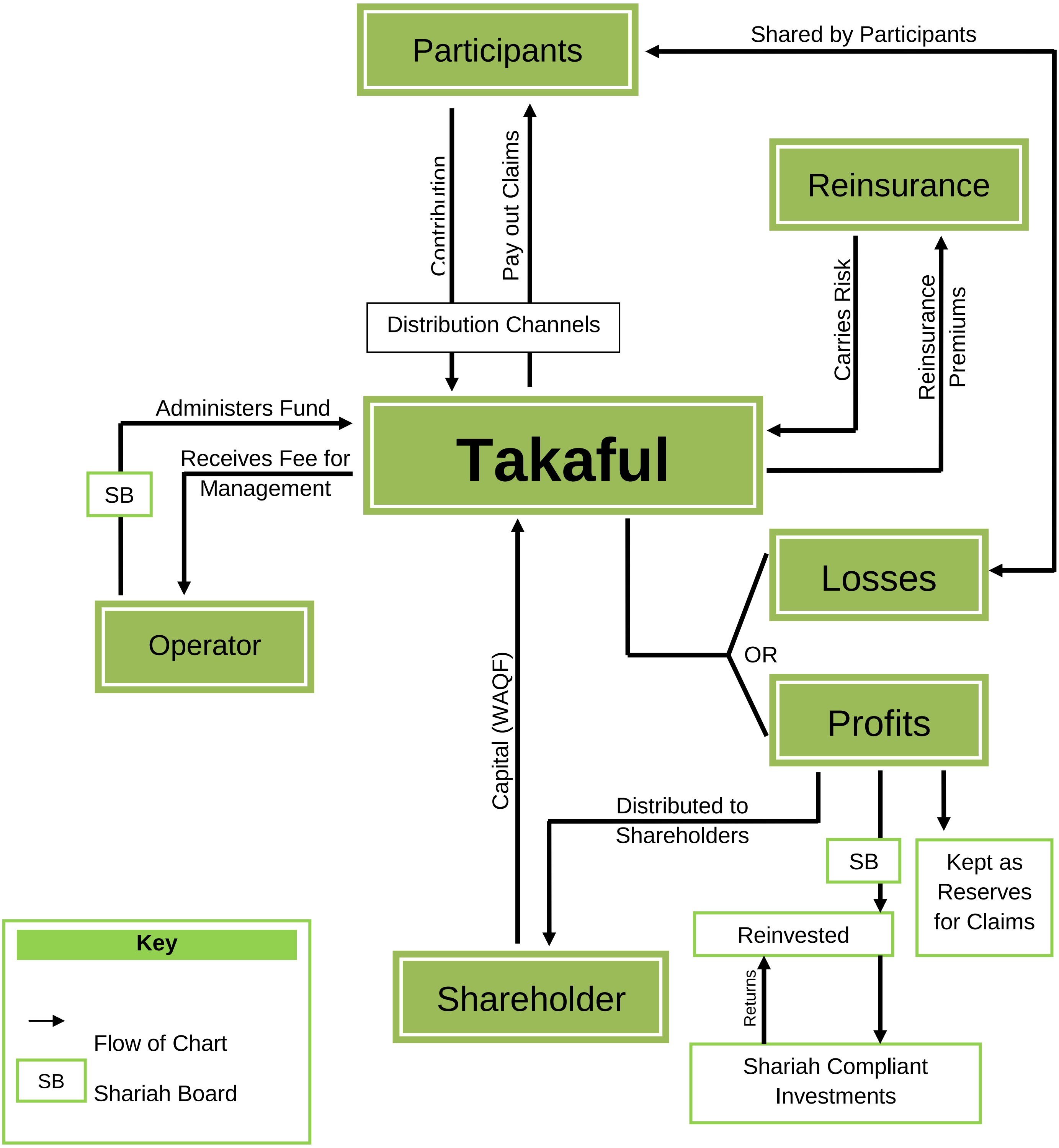
    c. distributed amongst the policy holders (who are also the participants) in proportion to their contributions.

6. Should this be on a Wakalah or agency model, then the agency fee is also paid from this collection of funds.

7. Retakaful costs are also paid from this collection of funds.

Based on the above, the Takaful firm employing this process would be fully in accordance with Shariah law and able to offer Takaful insurance. Any other variations would then be offshoots of this model, as this is the basis of Shariah compliant insurance. Any deviations from the above would fall out of the ambits of Shariah law.

The above can also be illustrated as follows:



(Diagram 3 – Proposed Islamic Compliant Insurance Model)

(Source: Own)

The above model has been created by the researcher based on various literature reviewed and other contextual sources within a South African context.

The above concludes the literature review, apart from the conclusion of the chapter, and addresses the primary aim of the study which was to develop a proposed Islamic compliant short term insurance model within the Republic of South Africa.

The following section concludes the literature review chapter with a brief summary of the chapter.

2.19. Conclusion

The literature review chapter set out to compile and synthesize all of the available theory on the subject matter. Through this synthesis certain deductions and analysis can be made.

Therefore, from the above chapter, a greater understanding of insurance and Takaful was uncovered as well as a model developed for the Takaful structure.

While various literature has been discussed, the information now needs to be tested and conclusions drawn and recommendations made from research done in the field. This is set out in subsequent chapters, where the field research is described and the results analysed.

Chapter 3 – Research design and methodology

3.1. Introduction

The research methodology chapter serves to describe various methodologies, parameters and data used in the study to obtain credible and reliable results, and results which can be verified should the same methods be employed to conduct another study under the same circumstances. It must be noted here that the Takaful sector of insurance has not been researched to the extent of other types of insurance and, therefore, certain research methods chosen were based on this premise due to the available and accessible data in order to conduct the research.

Kumar (2008: 30) defines research design as “a written plan for a study”. Kumar (2008: 30) goes further and states that research design “communicates the intentions of the researcher – the purpose of the study and its importance, together with a step by step plan for conducting the study”. Beri (2008: 51) defines research design in a similar manner as “the methods and procedures for conducting a particular study”.

From the above it can be noted that the research design is the overall plan of how the research will be conducted as well as a guide for the choice of research paradigm and research strategy, considering the fact that the data must be reliable and accurate.

The proposed Islamic compliant insurance model, which was developed and discussed by the researcher in section 2.18, was presented to research participants to solicit their views on the model and the concept of Takaful.

The following sections in this chapter set out how this research was done and what methods were employed to conduct the research. Additionally, justification as well as advantages and disadvantages for certain methods employed are given.

3.2. Research approach

Research method can be defined as “a system of models, procedures and techniques used to find the results of a research problem” (Panneerselvam, 2004: 2). Thus it can be gathered that the research methodology concept is the way that the data itself is gathered.

Research can follow two approaches. These can either be qualitative, where the results generated are of a non numerical nature, and quantitative, where the results generated are of a numerical nature (Flick, Kardorff & Steinke, 2004: 4).

For the purpose of this study, the research methodology followed was that of a qualitative approach which is defined by Bricki (2007: 2) as research "which is characterised by its aims, which relates to understanding some aspect of social life, and its methods which (in general), generates words rather than numbers, as data for analysis".

The results received measure the comments and attitudes, and explore certain social aspects of the topic, when interviewing respondents regarding an Islamic compliant insurance model within South Africa. Therefore, the results received would not be of a quantitative nature and would therefore fall within the ambit of a qualitative research approach.

However, the qualitative approach has certain benefits and limitations. These are described as follows (Griffin, 2002: 1):

Benefits:

- increased degree of flexibility in the research design;
- the ability to avoid any of the researcher's predetermined assumptions; and
- the ability to focus and pry further into key issues.

Limitations:

- expensive and time consuming to interview participants;
- reliance on a relatively small number of participants; and
- reluctance by certain decision makers such as policy makers, academics and practitioners to take qualitative data seriously.

For qualitative data to be obtained, various methods of data collection can be employed such as interviews, questionnaires and observations, of which the method of an in-depth semi-structured interview tool was chosen by the researcher to obtain the necessary data. A semi-structured interview allows the researcher to divert from a rigorous set of interview questions and explores new themes and ideas while, of course, working off a framework (Clifford, French & Valentine, 2010: 106).

The semi structured interviews were conducted using purposive sampling, where data is used to describe a population of people with the same or similar characteristics to those of the sample population (Carroll, n.d.: 1). The semi-structured in depth interviews and data collection were conducted personally by the researcher with the assistance of a trained research assistant. The research assistance assisted to record responses from some of the participants.

Based on the objectives of the study, an appropriate semi-structured interview method was used, as the results would allow the researcher to meet the objectives of the research, which were to understand the need for and the requirements of an Islamic compliant short term insurance product within the Republic of South Africa.

3.3. Research paradigm

A research paradigm is "a worldview or perspective about research held by a community of researchers that is based on a set of shared assumptions, concepts, values and practices" (Johnson & Christensen, 2013: 31). Additionally, Johnson and Christensen (2013: 31) further simply this definition as "an approach to thinking about doing research" (Johnson & Christensen, 2013: 31).

Graham and Thomas (2008: 170) define research paradigm as "the basic belief system or worldview that guides the investigator, not only in choices of method but in ontologically and epistemologically fundamental ways" (Guba & Lincoln, 1994: 105).

Therefore, from the above definitions it can be deduced that the research paradigm is a guide to and the method of conducting research.

There are four types of paradigms as identified by Guba and Lincoln (1994: 112). These are:

1. Positivism
2. Postpositivism
3. Critical theory
4. Constructivism

However, various authors identify two main paradigms from the four above. These are positivism and constructivism, where positivism is suitable for quantitative research and constructivism is suitable for qualitative research.

Therefore, for purposes of this research, which was qualitative in nature, the research paradigm was that of the constructivism/interpretative paradigm.

3.3.1. Ontological considerations and relevance to the study

Ontology is defined by Xu, Tjoa and Chaudhry (2008: 294) as “a formal, explicit specification of a shared conceptualization”.

King and Horrocks (2010: 8) advise that ontology means the “nature of being”.

Therefore, from an ontological perspective, there are two dominant ontological traditions or ideologies. These are (Carson, Gilmore, Perry & Gronhaug, 2001: 6):

1. Positivism - In this positivist ontology, the researcher believes that the world is external, research is done in a structured way with hypothesis and mathematical calculations and judgements and the researcher is detached from the participants. This is ideally used in quantitative research studies (Hudson & Ozanne, 1988: 508-521).

2. Interpretivism – In this interpretivist ontology the researcher believes that there is no direct access to the world, there is no single reality, multiple realities exist and so the research is done on a more flexible basis with a close relationship to the participants. This is ideally used for qualitative studies (Black, 2006: 319-324).

As the study is based on a qualitative research approach, the ontology of the study is therefore interpretivism/relativism as there will be multiple realities.

3.3.2. Epistemological considerations and relevance to the study

Epistemology means “theory of knowledge” as defined by Rothe (2000: 10). King and Horrocks (2010: 8) define epistemology as “the philosophical theory of knowledge”.

Epistemology relates to the relationship between the researcher and the research participant (the knower). In this study the epistemological assumptions would be subjectivity as the research pertains to the close interaction between the researcher and the research participant.

3.4. Research setting

The study was conducted in the coastal provinces within the Republic of South Africa. These provinces are the Western Cape, Eastern Cape and Kwa-Zulu Natal provinces. Other parts of South Africa were excluded due to the geographic spread and time constraints of the study.

3.5. The study population and sample

A population can be defined as a collection of people in which we are interested and from whom we wish to collect data and draw conclusions (Easton & McColl, n.d.: 1).

Due to the selective nature of the research subjects, the technique of purposive sampling was employed. This technique is applicable when the population has certain characteristics in common. However, with purposive sampling, the sample selection is not necessarily representative of the population. But for purposes of the qualitative study, this is not considered a weakness (Laerd, 2012: 1).

There are various types of purposive sampling techniques available, and the most appropriate one used for purposes of this study was the technique of homogenous sampling, which is a technique used when the sample shares the same or similar characteristics (Laerd, 2012: 1).

However, purposive sampling is not without its advantages and disadvantages:

Advantages

- There is a wide range of sampling techniques that can be used for qualitative studies.
- The purposive sampling techniques can allow researchers to make generalizations from the sample studied.
- Purposive sampling provides the researcher with a wide range of non-probability sampling to draw on.

Disadvantages

- Prone to research bias.
- It can be difficult to represent the representativeness of the sample.

A sample of 19 persons was selected within the coastal provinces. A sample is a smaller group selected from the population (Easton & McColl, n.d.: 1).

The sample size of 19 persons represented the total participants in the study who were approached and willing to participate and who met the predefined criteria as defined for purposes of this study.

3.6. The sampling criteria

A set of parameters was defined to define the population. From the narrowed population, a sample was then taken for purposes of the research. The criteria used to define the selected population included:

- The participant must be a Muslim.
- The participant must have some knowledge of insurance and finance.
- The participant must have a basic understanding of Islamic law and what is lawful and unlawful in Islam.
- The participant can be of any race and either sex.
- The participant must reside within South Africa.
- The participant must be 18 years or older.
- The participant must be willing to participate.

3.7. Data collection

3.7.1. Data collection instrument

The collection instrument chosen was that of semi-structured in depth interviews. The semi-structured interviews are where the researcher and the participant have a verbal discussion for the researcher to elicit certain information from the participant. The researcher would normally have a model as a guideline, referred to as an interview schedule, but has the flexibility of diverting from the model, dependant on the responses received from the participant.

Other interview options would be to conduct structured interviews or unstructured interviews. Structured interviews are where the interviewer has a rigid set of questions which are to be asked exactly for each interview and where no deviation is allowed from the set of questions. With unstructured interviews there is no set of guidelines or framework for the interviewer to follow, and this type of interview resembles an informal conversation. The semi-structured in depth interview is a hybrid of both types of structured and unstructured interviews.

The information received from the participants by way of interviews is similar to information received from questionnaires; however, the interviews allow for more in depth responses from the participant, and thus additional information and themes may emerge for the researcher.

Through the interviews, information was collected to evaluate the level of understanding of Takaful insurance within the South African Muslim community, as well as the attitude towards this type of insurance and the potential need for a Takaful product within South Africa.

The advantages of collecting data through semi-structured interviews include:

1. overcomes the poor response rate to questionnaires;
2. is well suited to the exploration of values, attitudes and motives;
3. allows the researcher to measure the validity of the response by observing non verbal behaviour;
4. enhances comparability as the researcher can ensure that all questions are answered; and
5. ensures that the respondent is unable to receive external support when answering the questions (While & Barriball, 1994: 329).

The semi structured interview instrument is, however, also not without its disadvantages. These disadvantages include:

1. the time taken to transcribe the interview responses;
2. due to the personal interview, the participants may not be partial in their responses and may respond in a manner in which they think is pleasing to the interviewer; and

3. the possibility of diversion from the framework which may lead to various and multiple themes for the researcher to explore (Hove & Anda, 2006: 3).

A semi-structured interview schedule was used and followed for the interview process. The questions consisted of two sets of questions to gauge the participants' demographics and attitude towards and knowledge of Takaful insurance. Based on the responses received, additional open ended questions were posed to the participants to further explore certain themes which may enhance the researcher's understanding of the participants' responses. The open ended questions also allowed the participants to answer in a more in depth manner, as opposed to a closed question where no further insights can be given.

The interviews were structured through two distinct sets of questions. The first set of questions was used to determine the demographics of the participants, and the second set was used to understand the participants' understanding of and attitudes towards Takaful insurance. The first set of questions was used so that the researcher could possibly explain some of the responses through certain demographic reasons.

Prior to the interview being conducted, each participant was informed of the purpose of the study and the type of questions being answered and the reason for these questions being asked.

3.7.2. Data collection procedure

Interviews were conducted personally by the researcher with the participants. The researcher recorded the interviews for reference purposes and took notes for certain lengthy interviews as well. The data collection was done over a period of one month.

3.8. Quality criteria

3.8.1. Transferability

William (2006: 1) defines transferability as "the degree to which the results of the qualitative study can be generalized or transferred to other contexts or settings."

Therefore, a way to enhance transferability is by explicitly describing the research context and assumptions that were essential to the study.

In this study, the context was described in the literature review chapter as well as the setting for the research study, including the criteria used to select a sample using purposive sampling. No assumptions were described as none were made for the purposes of the study.

Therefore, transferability has been factored in as per the above.

3.8.2. Credibility

Credibility refers to the credibility and integrity of the data as received from the respondents. Thus the credibility can be truly judged only by the participants themselves (William, 2006: 1).

The credibility in this study was ensured by complying with member checks, which are respondent validations. Moreover, the recordings of the semi-structured in depth interviews were transcribed and returned to the interviewees in order that they would verify and confirm that the interviews accurately reflected their views and opinions.

3.8.3. Dependability

Dependability emphasizes the need for the researcher to account for the ever changing context within which the research occurs (William, 2006: 1).

Within the context of this study, the main factors which are dynamic are those of the regulatory environment within an insurance context. Therefore, this factor of regulatory changes must be accounted for, as this affects the proposed insurance model as developed in the literature review chapter.

For the researcher to ensure dependability in this research paper, the process followed was described in detail which would allow for consistent findings if the same process was followed and in the same context.

3.8.4. Confirmability

"Confirmability refers to the degree to which the results could be corroborated by others" (William, 2006: 1).

While there are various methods of enhancing confirmability, the one chosen for this research paper was the strategy of documenting the procedures for checking and rechecking the results. Other strategies include taking the "devil's advocate" route and documenting this or where the researcher can describe the negative instances that contradict prior observations.

The chosen strategy is documented in this chapter and the results were recorded, transcribed and checked thereafter, with all records being kept by the researcher.

3.9. Pre-testing the interview questions

With any data collection instrument a pre-test is necessary so that any shortcomings can be identified and rectified prior to the formal sample interviews being conducted. This pre-test ensures that the questions are clear and that the participants understand these questions as well as what is required of them (Vernon, 2005: 1).

A pre-test was conducted with five participants, who all met the criteria, and the questions were somewhat understood and the questions were answered clearly and within context from the participants. Thus the pre-test was concluded and required some minor adjustments to the sentence structure to clarify certain questions for future participants.

3.10. Ethical considerations

Throughout the data collection process ethical considerations have been accounted for, as interpreted as a set of moral principles governing a person or profession. The components of ethical considerations observed included:

1. Privacy and anonymity
2. Confidentiality
3. Informed consent
4. Data interpretation.

Prior to the interviews being conducted, the interview questions were submitted to the Rhodes University Higher Ethics Committee for consideration and approval which was granted. The interview questions were also reviewed by the researcher's supervisors.

3.10.1. Privacy and anonymity

Prior to, during, and after the interview process, the details of the individual participants were not recorded in the data submitted and cannot be linked to each of the responses received.

Also, the researcher did not disclose the list of participants to any other parties such that the identity of the participants cannot be revealed, and therefore privacy and anonymity can be assured.

3.10.2. Confidentiality

Confidentiality in this context refers to when participants cannot be identified through the responses received, and all information linking the participants to the respondent rests with the researcher, who will not release this information for any purpose whatsoever.

3.10.3. Informed consent

All participants were informed beforehand of their right to voluntarily participate in the research programme. They were also fully informed of the purpose of the study, including the research to be conducted.

3.10.4. Data interpretation

During the interpretation of the data the results were collected and recorded as per the responses received from the participants. The results were then interpreted so as to allow the researcher to understand the various themes which have emerged from the data.

3.11. Data analysis

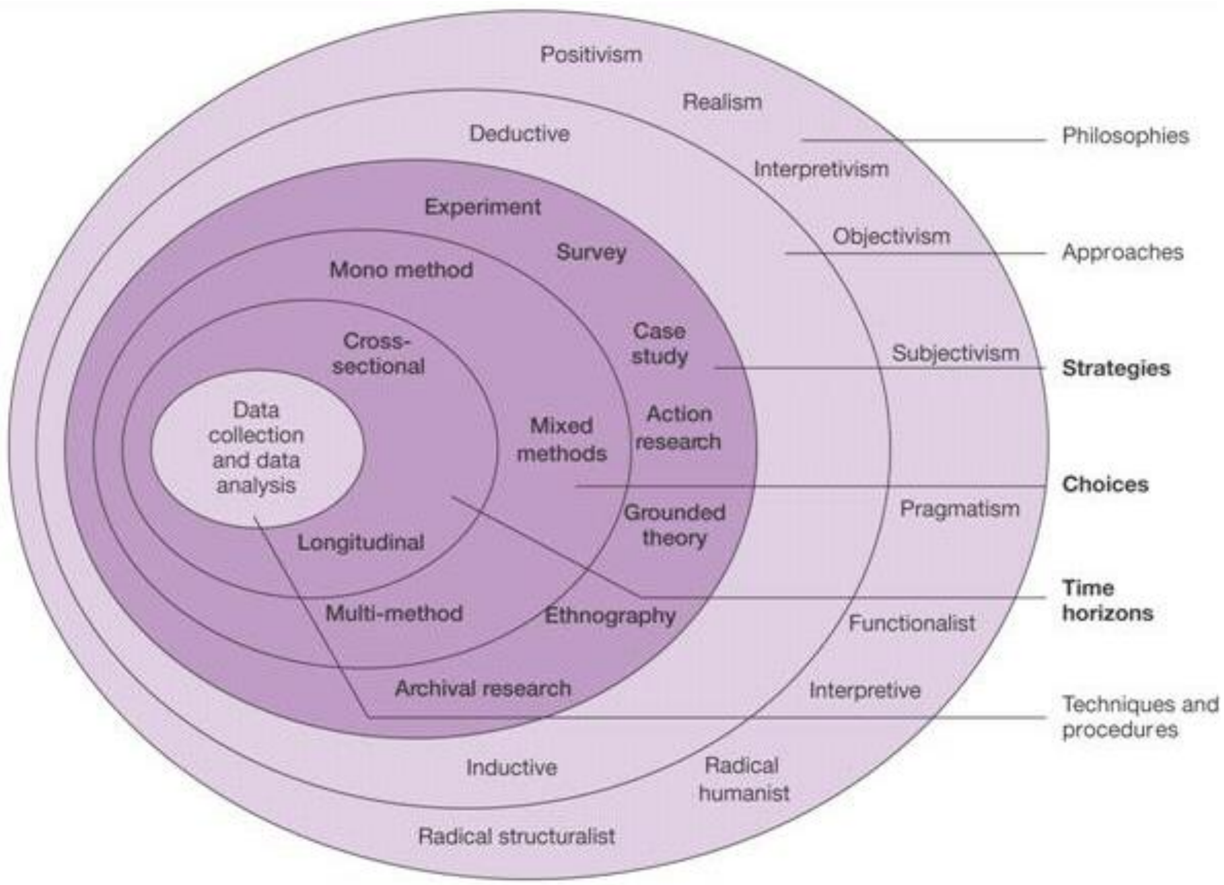
Upon conclusion of the collection of responses from the participants, the responses to the open ended questions were analysed and recorded accordingly. As there were no close ended questions, the use of statistical methods of analysis were not necessary.

The content analysis conducted formed the basis of further investigation and research due to the various themes which have emerged and data available for the researcher to be able to draw conclusions.

3.12. Conclusion

The above chapter has set out the methodology and design employed to conduct further field research. The researcher believes that the methodology used would be the most suitable in order to achieve the desired outcomes.

To give a better diagrammatic illustration of the way in which the research was conducted, see the diagram and explanation below, which diagram was developed by Saunders, Lewis and Thornhill (2003: 83):



(Diagram 4 – Saunders Onion)

(Source: Saunders, Lewis & Thornhill, 2003: 83)

Therefore, the research was conducted as follows, based on the diagram developed by Saunders *et al.* (2003: 83), from the final outer layer working inwards:

Philosophy - As the study followed a qualitative research approach, the philosophy followed will be that of an interpretivism philosophy.

Approaches – The study was where certain information will be gathered and then the theory and opinion will be based on the information received. Therefore, the approach is that of an inductive approach, where the theory evolves as a result of the research.

Strategies – The research was conducted with certain respondents using purposive sampling. Therefore, respondents were be polled using in depth semi-structured interviews, and therefore the strategy used was a survey strategy.

Choices – A qualitative approach was used and therefore the choice was a mono method.

Time horizons – The study analysed the data collected from a sample and therefore constituted a cross sectional study.

Techniques and procedures – The techniques and procedures used was semi-structured in depth interviews with the thematic analysis used to analyse the data.

Therefore, the above chapter describes in detail how the research was conducted as well as describing how the researcher ensured that the results would be sound through the researcher adhering to the norms and standards of research.

The following chapter will elaborate on the results from the research and discuss the findings.

Chapter 4 - Results, discussion and interpretation of the findings

4.1. Introduction

The purpose of this chapter is to define the results of the research as well as interpret and discuss the findings in terms of the research aims as previously set out above.

In pursuit of answering the following research goal, “to explore awareness and attitudes towards Takaful insurance in South Africa”, the attitudes and perceptions of the research participants towards the proposed Islamic insurance model are explored in this chapter.

As the research interviews combined certain qualitative questions covering different aspects, the questions are dealt with individually, explaining the results of each question with certain questions being interpreted jointly as this will add additional insight into the results.

A total sample of 19 respondents was chosen, with the study limited to the coastal regions of South Africa, being the Eastern Cape, Western Cape and the Kwa-Zulu Natal provinces of South Africa. Due to the purposive sampling method being used, the theoretical saturation occurred at 19 respondents and therefore the total number of respondents was 19. The coastal regions were chosen as the insurance factors and risks differ in the coastal areas as opposed to areas that are inland.

The following section sets out various results as collected by the researcher. These results are categorised by the type of questions and type of responses received from the respondents for ease of understanding, readability and collation.

4.2. Biographical information

4.2.1. Gender

With a total sample size of 19 respondents, seven were female and twelve were male.

4.2.2. Age group

The age group of the respondents was widely spread with six respondents being in the age bracket of 20-29 years old, making up the largest group of respondents in a particular group, and the other participants were relatively equally spread, except for the under 20 years of age bracket which had no respondents.

4.2.3. Education

While the majority of respondents fell in the first category of formal/non formal schooling with six respondents, a good proportion of respondents were part of the higher categories, including the doctorate level. However, the masters level of education did not have any respondents.

4.2.4. Provincial location within South Africa

As part of the limitation of the study, the study was limited to the three coastal provinces within South Africa, namely the Eastern Cape, Western Cape and the Kwa-Zulu Natal provinces of South Africa.

As the researcher is based in the Eastern Cape, the majority of respondents were from the Eastern Cape with twelve respondents, with the balance of respondents spread between the Western Cape with four respondents and Kwa-Zulu Natal with three respondents.

4.2.5. Race group

The largest numbers of respondents were part of the Indian race group, with African and Coloured race groups included in relatively smaller numbers than those of the Indian respondents. However, no white and other respondents responded to the research study.

The following section describes the general responses received from the respondents, which will assist in formulating themes from the responses received from the participants.

4.3. General responses of research participants

From the responses received with regards to the interview questions it can be noted that the majority of respondents did not have experience in utilizing Islamic financial instruments previously and do not currently make use of any type of insurance, and are uninsured.

All of the respondents felt that there is a need in South Africa for additional Islamic insurance providers and believe that an Islamic insurance provider will be well supported in South Africa.

Also, the majority of respondents would convert to Islamic insurance, should they be using insurance with a non Islamic finance institution, with those that answered negatively not believing in any type of insurance, Islamic or not. When referring to believing in insurance, they believe that any form of insurance is not allowed in terms of Islamic law as our destiny is preordained by the Almighty.

Lastly, the majority of respondents felt that there is an adequate market in South Africa to sustain an Islamic insurance provider and that a Shariah board is necessary for the credibility of the Islamic insurance firm.

As the concept of Islamic insurance itself is critical to the understanding and acceptance by the respondents, the following section discusses this aspect in relation to the responses received from the participants.

4.4. Participants' thoughts towards Islamic insurance and the importance thereof

The majority of participants shared positive thoughts and attitudes towards Islamic insurance. The responses included but were not limited to where the respondents felt that there is a need for Islamic insurance, due to the fact they are not aware of alternatives to conventional insurance, and therefore they felt that this is needed in a South Africa context.

The main driver for respondents is that they would like to make use of insurance products which are in compliance with Islamic principles and the Shariah. Other responses included the fact that they would also like to support other Muslim business persons, as they feel that through this, the money will filter back into the Muslim community which will benefit the Muslim community at large. This is due to the fact that charity is an integral part of the Muslim religion, with it being compulsory for Muslim businesses at a minimum of 2% of profits (Desai, 2014: 1).

However, while an overwhelming majority of respondents had positive views towards Islamic insurance, a certain minority of respondents were of the opinion that Islamic insurance does not exist in Islam and that this concept is manmade, and they would, therefore, not support any type of insurance, Islamic or other.

As one of the major components of the Islamic insurance model is that of the Shariah board, the thoughts and feelings of the respondents towards this board is set out in the next section.

4.5. Credibility of the Shariah board

As per 4.3 above, the majority of respondents felt that it was necessary to have a Shariah board. The reason for their comments is that the Shariah board is what will give credibility to the model and afford a level of comfort to potential clients of the insurance firm. So, there is a strong and credible Shariah board that is needed.

The credibility of the model, in the opinion of the respondents, comes with the level of Islamic education of the persons serving on the board, and whether these are well known, credible individuals.

In Islam, there are various levels of Islamic education. The main levels of Islamic education are that of a Mufti, which is the highest level of Islamic qualification, and Aalim which is the second highest level of Islamic education. To become an Aalim one needs to study various Islamic subjects and languages for seven years, with a Mufti being an Aalim with an additional two years of specialization.

Most respondents felt, then, that the board should consist of Islamic scholars who are qualified Muftis and Aalims, with a minority of respondents content with any Muslim person serving on the board and Muslim persons well versed in finance as they will be able to combine their financial knowledge with their Islamic knowledge. No respondents felt comfortable with any non Muslim person on the Shariah board, due to the fact that they would be deemed not to have the correct or full understanding of Islam and its laws and principles.

The following section discusses the respondents' comments on that of ownership of the Islamic insurance firm and whether they feel that this has any impact on the credibility of the model itself and/or impact on them making use of this Islamic insurance product.

4.6. Ownership and independence of Islamic insurance firms

When respondents were asked as to whether they would prefer an independent Muslim owned firm or consider a firm which sold both Islamic and non Islamic financial instruments, the majority of respondents preferred an independent fully Islamic compliant institution, due to the fact that there is the likelihood that certain Islamic products might not be fully compliant due to possible "cross contamination" of interest and non Islamic compliant investment returns. This suggests that there is a strong preference towards an independent Islamic insurance provider.

Responses regarding the ownership of an Islamic insurance firm were mixed, however, as it seemed that the emphasis was on the Shariah board, which the Muslim community would trust. Most respondents felt that as long as the Shariah board was in place and credible, then the possible non Islamic ownership would not play a role as the model would be endorsed by the Shariah board, which seemed to be the most important element within the Islamic insurance model.

The following section discusses the main themes that the researcher picked up during the interviews with the respondents.

4.7. Themes emanating from the interviews

During the interviews there were various themes and observations which were noted. The researcher would like to expand on the main themes which emanated from the interviews conducted by the researcher with the respondents.

For purposes of confidentiality and anonymity of respondents, all respondents' comments listed below are listed according to their assigned numbers. These numbers were numbers assigned by the researcher to the respondents when the respondents were interviewed by the researcher.

4.7.1. Education

During interviews with various respondents, it emerged that little was known about Islamic insurance within the Muslim community. This led respondents to be unsure as to whether this is a credible and/or permissible form of insurance.

The majority of respondents had some idea of what an Islamic insurance model should contain or not contain, but were unsure as to whether this is Islamic compliant, even if it does not contain any impermissible components within the Takaful model.

Many also cited that while they might have heard about Islamic insurance, they were sceptical of this type of insurance in terms of its Islamic compliance until they were educated by religious leaders of their choice.

Therefore, much needs to be done to educate Muslim persons with regards to the permissibility and working of the Takaful structure.

Feedback received from respondents includes:

Respondent 1 - "More education needs to be conducted within the Muslim community by religious leaders"

Respondent 3 - "I do not have sufficient knowledge on the topic to comment on any Islamic models"

Respondent 7 – "I have not heard of Islamic insurance and would therefore rather refrain from commenting"

Respondent 18 – "I will only trust information I hear if it is told to me by the religious leader at my Mosque, or from a religious leader that I know"

4.7.2. Altruism

While the majority of respondents advised that they would support an Islamic insurance provider, the reasoning behind this varied from either that it is Islamic compliant, it would contribute to the upliftment of Muslim in general, or both.

Therefore, many did not mention any comments regarding the price, but were rather more concerned that their money went to a Muslim company, rather than a non Muslim company, as they felt that through a Muslim company the money would be filtered back into the community through the charity that the Muslim firm would perform.

Also, in this context, the respondents referred to a Muslim company as one that is majority Muslim owned and sells only Islamic compliant products.

Feedback received from respondents includes:

Respondent 7 – "I will support an Islamic insurance provider as I would rather support a Muslim business"

Respondent 8 – "By supporting a Muslim business, I know that they will engage in charity as this is part of the Islamic business ethos"

Respondent 11 – "I will rather support my own as opposed to another provider"

Respondent 19 – "As long as they solely engage in Shariah compliant activities, I will support the Muslim company"

4.7.3. Marketing of Islamic insurance

There are various insurance providers available in South Africa offering a range of products; however, only a small percentage of respondents were aware of these offerings. Therefore, should a new entrant come into this domain, marketing would be key to the success of this as there are many persons seeking Islamic insurance but are unaware of its existence in South Africa.

Many respondents also cited that they do not engage with Muslim communication mediums such as Muslim magazines and Muslim local publications. Therefore, the marketing would need to be done in both conventional marketing mediums and those targeted specifically towards Muslims to engage with a wider audience. Furthermore, from the literature researched, non Muslims should also be considered as potential clients for Takaful insurance and therefore marketing in conventional mediums targeted to general audiences would only serve to increase the potential product reach.

However, it would seem that the most powerful form of marketing would be through word of mouth marketing as many respondents were sceptical of Islamic insurance, and those that did have it, were referred by someone close to them or someone that they trusted. If the information is received from those the potential client trusts, such as a religious leader or a friend, then the potential client might explore the Islamic insurance options and engage in this service.

Feedback received from respondents includes:

Respondent 5 – “I have not heard of Islamic insurance before”

Respondent 8 – “I am not aware of any providers currently offering Islamic insurance”

Respondent 13 – “I did not know about such a thing as Islamic insurance before, but have also never heard of anyone offering it”

Respondent 16 – “If there are any out there, then I am not aware of it. Therefore, they would need to do much more marketing to attract the consumers”

4.7.4. Shariah board and ownership

From the responses received the emphasis regarding any Islamic product available was on the credibility of the board and that the insurance provider must be Muslim owned. Clearly, trust is placed in the Shariah board over and above any other component within the insurance model and, should this be a credible and trustworthy board, then potential clients will have no doubt as to the credibility and Shariah compliance of the model and insurance offerings.

Due to the fact that the large majority of respondents did not have sufficient knowledge of the Shariah law and/or sufficient knowledge of Islamic insurance, they look for guidance from religious leaders. However, the religious leaders need to be those to whom the person subscribes as there are various religious leaders with various opinions.

In addition, the respondents cited that the ownership of the firm is important, as they would only trust a firm which is at least majority Muslim owned. The reason for this is that some respondents felt that a non-Muslim person does not have sufficient Islamic knowledge to own and run an Islamic insurance firm based on strict Muslim principles. Also, irrespective of the knowledge of the non Muslim owners, the Muslim clients would still not trust them.

Feedback received from respondents includes:

Respondent 2 – "I do not understand how Islamic insurance works, but will trust a religious scholar's opinion"

Respondent 7 – "The board must be made up of credible religious leaders for me to trust it"

Respondent 12 – "I will only trust that it is fully compliant if it is Muslim owned and if there are well known scholars on the Shariah board"

Respondent 17 – "I cannot trust a non-Muslim to follow Islamic laws strictly. Therefore, it must be at least majority Muslim owned, if not fully Muslim owned"

4.8. Conclusion

As set out above, the results and finding were interpreted and discussed.

An overwhelming majority of respondents were open to an Islamic insurance product and advised that there is a market in South Africa for a product like this and would also support it.

It was established that the make-up and credibility of the Shariah board would be the core component to potential clients as to whether they would trust this model as being truly Shariah compliant. However, additional education for the Muslim community would still need to be carried out in order to access a large portion of the untapped potential South African market.

The education and marketing component would be critical as, without the correct endorsements and marketing, potential clients would not make use of Islamic insurance, even if they were aware of it.

Chapter 5 – Discussion

5.1. Introduction

The focus of this chapter is to discuss further various aspects of the research paper. These aspects include the literature review as well as the data collected from the semi-structured in depth interviews conducted by the researcher.

The discussion will also entail comparing the results obtained in the research paper to the results of other research papers as well as works from other authors.

This chapter will, therefore, serve to elaborate further on the theory and results obtained in previous chapters.

5.2. Discussion on findings from the research study

The findings of the study were drawn from two sources. The first source came from the literature review compiled from various authors, and the second source from field research done where respondents were interviewed in order to gain an understanding of the thoughts and attitudes of the sample group chosen with regards to Islamic insurance and the structure and components of the Takaful model.

5.2.1. Discussion on findings from the literature review

A broad selection of literature was interrogated to cover various aspects of Islamic and conventional insurance in order to explore the topic further.

Based on the literature explored, it was confirmed that the principles of Islamic insurance are based on sound Islamic teachings and laws (Desai, 2014: 1; Maysami & Williams, 2006: 229). Therefore, Takaful is a widely accepted form of insurance within Islam (Kettell, 2011: 128; Othman & Abdul Hamid, 2009: 468). However, the Islamic insurance model differs from the conventional insurance model as the conventional insurance model contains certain non-permissible elements according to Islam. These non-permissible elements include uncertainty, speculation and usury. Therefore, for an insurance model to be Islamic compliant, it must not contain these three elements (Ernst & Young, 2012: 5).

There are three main variations of the model which is currently in use. The first variation is an agency model, where the participants pay a fee to a firm manager; the second is a participant managed model where the participants self manage the firm: and the third model is a combination of the agency model and the participant managed model, creating a hybrid model (Ende & Steinbach, 2010: 863).

Based on the literature researched, the researcher proposed a model which would be fully in compliance with that of Shariah law.

While this model would seem similar to the models proposed by other authors, the main differentiating factor is that of the Shariah board and their supervisory role within the insurance firm (Jamaldeen, 2012: 362). Based on the comments received from the respondents, many respondents lack the technical or religious knowledge to fully evaluate the credibility of Islamic insurance, and more specifically the model itself. Therefore, there is a strong reliance on this board, which would necessitate that credible Islamic scholars are appointed to this board so that the potential insurance customers would feel at ease when considering the option of Islamic insurance.

The model proposed would be in compliance with Shariah due to the following factors:

1. It eliminates uncertainty, speculation and usury.
2. The policy holders derive benefit from the Takaful fund.
3. Investments are only made into Islamic compliant firms, meaning that the returns would be Halaal (Iqbal, 2005: 2).

Thus the proposed model is fully in compliance with Shariah, taking into account the various laws to be adhered to.

A model was proposed by the researcher which factored all of the above laws and restrictions into account and the researcher believes that this is in compliance with the Shariah and is suitable in a South African context.

The above accomplishes all of the aims and objectives as set out at the onset of the study.

5.2.2. Discussion of the research findings from the data collection

In addition to the literature review study conducted to achieve the aims and objectives, a field study was also conducted to confirm the conclusions drawn from the literature review as well as explore the attitudes of a certain segment of the market towards the concept of Islamic insurance, and more specifically the proposed Islamic insurance model.

There were various questions posed which revealed certain main themes through the semi-structured in depth interviews conducted by the researcher. These themes included education, altruism, marketing of Islamic insurance and Shariah board and ownership.

These themes give great insight into the perception of potential customers, as these themes highlighted that, while the model may be in compliance to the Shariah law, this is not the only consideration that potential customers would take into account when evaluating whether to make the purchase decision or not. Other considerations were mentioned in the themes highlighted in chapter 4.

Other works from various authors concurred with the results as follows:

Education of the customer – The theme emanated from this study indicated that respondents needed more education on the product and Islamic insurance in general. Reichheld and Schefter (2000: 108) emphasize the need for customer education to enhance purchasing decisions. This education, while it may sometimes dissuade customers from purchasing a product, will also lead to enhance trust which in turn leads to lasting relationships. Without customer education firms can still make quick sales, but customers normally feel cheated in their purchasing decisions in this scenario.

Jones, Brown, Zoltners and Weitz (2005: 108) also concur with Reichheld and Schefter (2000: 108) and advise that there are new developments in selling where customers must be educated when making a purchasing decision as this education adds to the value of the product as seen by the customer.

Altruism – The theme emanated from this study indicated that respondents felt drawn more to Islamic insurance firms as they felt that they are supporting other Muslims and that the money would filter through back into the community through the charitable programmes which they assume the Islamic insurance firms would engage in. The respondents felt that by supporting a Muslim firm, they would be doing something socially responsible and receive greater satisfaction from this than a possible lower premium at a conventional insurance firm.

Therefore, Altruism as a satisfaction motivator for customers is confirmed by Lehmann (2001: 15) and Shiau and Chau (2013: 1). Additionally, Shiau and Chau (2013: 1) also state that altruism is a positive predictor of trust. Based on the potential client's perception that the Islamic insurance firm runs on Islamic values and principles and will give back to the community automatically increases this trust and willingness to support this firm over other firms who do not give back to the community.

Marketing of Islamic insurance – This theme that emanated from this study indicated that respondents were not aware of any type of Islamic insurance offerings available in South Africa, even though there were a few firms offering this type of insurance. They felt that additional marketing needed to be done for Islamic insurance products as many cited that they would support the Islamic insurance products, should they be aware of them.

Marketing, and word of mouth marketing more specifically, are important and powerful tools to promote any business, as emphasised by Whitler (2014: 1).

Silverman (2011: 3) also emphasizes the need for marketing and the significance of word of mouth advertising within the marketing framework.

Shariah board and ownership – The theme emanated from this study indicated that respondents felt strongly about a knowledgeable and credible Shariah board to guide the insurance firm and ensure that the Islamic insurance model complies strictly with Islamic teachings and principles.

Based on the feedback received from the respondents, it would seem that the Shariah board and ownership of the firm is the most and second most important factor to respondents respectively. If Islamic insurance firms can ensure that this is done in compliance with the perceptions of the potential clients, then there should be minimal or no doubts left in the minds of the potential clients, and the purchasing decision will then be easy for them to make.

With regards to the ownership of the Islamic insurance firm, as the model of Islamic insurance contains values and principles that are entrenched in religion, potential clients will be sceptical as to the ownership of the firm, as they would more likely trust someone of the same religion as them due to the fact that this person would hold the same values and principles as they do, as opposed to someone from a different religion (Desai, 2014: 1).

The following section gives various conclusions drawn from the results and the research proposal.

5.3. Proposed recommendations for the application of Takaful models

Based on the literature reviewed, research conducted and the discussion above, the researcher would like to propose the following recommendations which would serve to enhance the Takaful model within a South African context:

1. Additional non formal education needs to be conducted with the general Muslim community within South Africa. This education would need to cover:

   1.1.1. Is Takaful permissible in Islam and what makes it permissible?

   1.1.2. How does the Takaful model operate differently to conventional insurance models?

   1.1.3. What impact does the Shariah board have over the Takaful model?

   1.1.4. Into which firms are the investments made and what businesses do these firms operate in?

   1.1.5. How is the profit sharing model calculated and what percentage goes to the fund manager and what percentage is apportioned as reserves?

   This education would prove invaluable as the majority of Muslims are apprehensive of Takaful due to the fact that this is a relatively new concept in South Africa and not a well known concept in Islam.

2. Additional formal education needs to be formulated and conducted in registered institutions so that persons interested in studying or specialising in the field of Islamic insurance and/or Islamic finance and banking are able to obtain a formal qualification

in the respective fields. This will also create qualified persons in the Islamic insurance and banking sector who can consolidate their knowledge of finance as well as that of the Shariah law and make a meaningful contribution within this sector.

This would also mean that certain regulatory exams such as those of chartered financial analysts and the regulatory exams conducted by the financial advisory and intermediary boards should include a knowledge base on Islamic compliant products.

3. As there is currently no separate government legislation governing Islamic compliant firms and products, the government should consider legislating Islamic banking and insurance specific legislation to ensure uniformity in this industry.

   This uniformity will allow firms to grow and flourish, as well as new firms to enter due to the uniformity in the sector and would make investment attractive to the global market once this sector is formally regulated.

4. Firms engaging in Takaful must have various formal programmes which give back to the Muslim community, as well as the entire community at large. This will allow customers to feel that they are contributing to the greater good by supporting the Takaful firm, while also operating within the Islamic parameters as set out by the Quran and the Shariah.

5. In order for a Takaful firm to do well, marketing and education would play a big role in the sustainability of the firm. Many Muslims polled were unaware of any Takaful offering available in South Africa.

   Additionally, many have advised that they would support an Islamic insurance firm should they be aware of such an offering within South Africa. The Takaful firms must target potential Muslim clients as they service this niche. The targeting must be done through appropriate mediums such as those targeted at the Muslim community, as well as through word of mouth advertising by certain well known community leaders.

6. The credibility of the entire Takaful firm rests solely on the credibility and popularity of the Shariah board. It is imperative that the Shariah board consists of reputable learned persons who are respected and well liked within the various communities.

The Shariah board would also need a certain level of autonomy and directive over the Takaful model employed by the firm as this will give the potential clients additional assurance as to the compliance of the model.

7. While most respondents advised that they would support a Takaful operator in South Africa, many of the respondents were also sceptical as to whether a Takaful operator would be able to support the claims made by the customers, as previous Takaful firms were unable to pay out the claims and were ultimately liquidated, where the customers lost out in the end.

   Therefore, it is important to have a credible reinsurer for the firm so that customers are assured of the longevity of the company.

8. Pricing is also another concern for customers, as they would be happy to pay slightly more with a Takaful firm, but not excessively more. Thus the underwriting and affordability of the products are also integral parts of the success of a Takaful firm.

9. Established insurance firms would need to be registered with the FSB, and this provides additional credibility for sceptical clients, as the Takaful concept is a relatively new innovation into the insurance market.

The above recommendations are made based on the literature and research conducted and are based on the interpretation and opinion of the researcher which has emanated from the research study conducted.

5.4. Conclusion

The above chapter sought to further discuss various salient points made in this research paper. These salient points were made up of highlights and conclusions drawn from the literature review as well as the results obtained from the interviews with various respondents.

The discussions were dealt with in two parts, with one part dealing with the proposed Islamic compliant insurance model, derived from the theory in the literature review chapter, and the second part comprised of the data received from the interviews done with the respondents to the study.

Mention was also made of various authors and literary works that concur with the conclusions drawn by the researcher in this research paper.

Some observations were also made based on the additional discussions on the literature review chapter and the results chapter.

The following chapter is a conclusion chapter and will conclude the study as well as make recommendations for further studies in the field and also list any limitations of this study.

Chapter 6 – Research conclusions and recommendations

6.1. Introduction and chapter analysis

Upon commencement of this research paper there was a primary aim to be achieved, with various secondary aims set out to support the primary aim at the conclusion of this research paper.

The main aim was to develop a proposed Islamic compliant short term insurance model within the Republic of South Africa, and to achieve this, the researcher adopted certain secondary supporting aims. In achieving the objective of the research, the research was broken down into various chapters exploring different aspects to produce an outcome which would address the primary aim of the research paper.

Chapter 1 set out to give an overview as well as a general introduction to the topic. In the literature review chapter, chapter 2, various publications and literature was explored to discuss various aspects of insurance as well as Islamic insurance. These aspects firstly served to give the reader additional insight into the topic, as well as served as the basis of achieving the primary and secondary aims. The various aspects also served as a catalyst to propose the short term Islamic insurance model

In chapter 2, the various aims were discussed and achieved, based on the literature reviewed. This also allowed for a short term Islamic insurance model to be proposed.

Chapter 3 set out to state the methodology employed to conduct additional research on the perception and attitudes of certain persons towards Islamic insurance. A qualitative method was employed where purposive sampling was used, as the research needed to be conducted with a certain segment of the population within South Africa to whom Islamic insurance would be applicable. The tool used for polling the sample was that of an in depth semi-structured interview. This tool was chosen as is allows for a certain level of flexibility which can allow for themes to emanate from the interview which the researcher can then explore further. The criteria for judging qualitative research was also discussed in this chapter.

Chapter 4 explored the findings from the semi-structured interview questions. The results of the semi-structured interviews were listed as well as discussed. The interviews revealed that there was an overwhelming majority of participants who felt that there was a strong need for an additional Islamic insurance provider within South Africa, but they did not have sufficient technical knowledge to evaluate the model, and would need to rely on the evaluations of certain Islamic spiritual scholars who have an understanding of the dynamics of an Islamic insurance model. Other conclusions drawn were also discussed in chapter 4.

Chapter 5 set out to provide additional discussions on the literature review chapter (chapter 2), as well as the research results chapter (chapter 4). Therefore, an additional discussion on the literature review chapter was conducted as well as an additional discussion on the results chapter, a discussion which also included supporting works from other authors. Based on these discussions, additional observations were made by the researcher on the topic in the South African context.

Chapter 6 sought to consolidate all of the prior chapters and tie these back to the primary aim and secondary aims. The aims were analysed in terms of the literature reviewed. The final chapter, chapter 6, seeks to conclude the entire study by providing a summary of the findings of the study as well as highlighting any limitations and providing suggestions for future research.

6.2. Summary of findings of the study

This research paper was dealt with in two portions. The first portion, the literature review, effectively set out to investigate further into the concept of insurance, and that of Islamic insurance, with the main aim of providing a short term Islamic insurance model within a South African context. This was achieved in the literature review chapter with the specifics of the model and diagrammatic illustration elaborated further upon therein.

The second portion of the research study, which was to determine the perception of potential customers to Takaful, was undertaken. This was done through in depth semi-structured interviews and certain results and themes were obtained through this.

6.3. Research limitations

As purposive sampling was done and the research was restricted to the geographic area limited to the coastal provinces of South Africa, this created limitations for the study as the study served to propose an Islamic insurance model within a South African context.

Additional limitations included the fact that current Islamic insurance providers could not be explored fully due to the intellectual property limitations available to the public; the scepticism of respondents to respond fully and truthfully due to their fear of being judged as they felt that their responses signified their level of faith; the level of understanding of respondents with regards to the Takaful model; and the lack of previous studies done of the same nature in South Africa.

The above constituted the main limitations of this research paper.

6.4. Suggestions for further research

As the study had certain geographical limitations, the following suggestions are made for further research in the field of Islamic insurance:

- a study based on a national level to accurately canvass persons around South Africa and obtain results suitable to South Africa;
- compare and contrast end user pricing for a conventional insurance policy and that of an Islamic insurance policy;
- the impact of conventional insurance regulations on Islamic insurance;
- the difference that conventional insurance regulations would make to the Takaful model in a South African context;
- a comparison of the cost of insurance between Islamic insurance and conventional insurance from an insurers perspective;
- the level of customer awareness towards the concept of Islamic insurance within South Africa in general;
- the level of awareness towards the concept of Islamic insurance within the Muslim community within South Africa; and
- comparing perceptions and attitudes of Islamic scholars towards Islamic insurance.

6.5. Conclusion

This chapter concludes the study undertaken and has attempted to fulfil the aims and objectives as outlined at the commencement of the study with the research findings being testament to this.

The researcher believes that this study has fulfilled the primary and secondary aims and has contributed to the body of knowledge on the Takaful concept within a South African context.

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APPENDIX 1 - RESEARCH QUESTIONS

1. Gender

Number	**Element**	**Response (✓)**
1.	Male	
2.	Female	

2. Age Group?

Number	**Element**	**Response (✓)**
1.	Under 20 years of age	
2.	20 to 29 years	
3.	30 to 39	
4.	40 to 49	
5.	50 and above	

3. Education?

Number	**Element**	**Response (✓)**
1.	Formal/non formal schooling	
2.	Matric	
3.	Certificate/diploma	
4.	Degree	
5.	Honours	
6.	Masters	

7.	Doctorate	

4. Coastal provinces?

Number	Element	Response (✓)
1.	Eastern Cape	
2.	Kwa-Zulu Natal	
3.	Western Cape	

5. Race Group?

Number	Element	Response (✓)
1.	White	
2.	African	
3.	Coloured	
4.	Indian	
5.	Other – specify	

6. What is your experience in applying Islamic compliant instruments in the financial sector (banking, insurance and investment)? If you have experience in applying Islamic complaint instruments, what are the benefits, and if not, why not?
7. Do you make use of an insurance product, or a form of self insurance?
8. What are your thoughts on an Islamic compliant insurance model and why do you think it is important to have various insurance products or a form of self insurance?
9. What do you think are the requirements for a model to be Islamic compliant?
10. Do you think there is a need for Islamic compliant insurance providers in South Africa?

11. Do you think an Islamic insurance provider will be well supported in South Africa?
12. Would you subscribe and change to an Islamic insurance provider?
13. Why do you think Islamic compliant insurance providers are necessary and what difference would they make in terms of the range of products currently available?
14. Do you think that the market would be adequate to sustain additional Islamic compliant insurance products?
15. Do you think a supervisory Shariah board is necessary for an Islamic compliant insurance provider?
16. In your opinion, what are the criteria needed for the members of the Shariah board to be credible and to endorse the insurance products?
17. Would you use an independent Islamic compliant insurance provider only or would you consider an Islamic product offered by a conventional financial institution, dealing in non-Islamic compliant products as well?
18. Do you believe that the non-Islamic affiliations of the owners would influence the credibility of the model? If so, why so?