

## **Implementation of Takaful Insurance System in the Russian Federation and its Future**

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**Abstract:** The present article gives an analysis to the development of Islamic insurance in the Russian Federation, examines the key characteristics of Islamic insurance and its main institutions, determines the structure and types of Islamic insurance, analyses the future development of takaful insurance and surveys the implementation of Islamic insurance system on the territory of the non-Moslem regions and the system of operation of insurance organizations in accordance with the Islamic religion. The author in her article also gives the estimation to the current potential Islamic insurance market in the Russian Federation, identifies the distinctive features between the Islamic insurance and the classical commercial insurance, separates the differences in the legal regulation of commercial insurance and insurance made in accordance with the requirements of Shariah, as well as examines the models of Islamic insurance of takaful. In addition, the present article gives the characteristics of interrelations between the participants of the Insurance Agreement in both – in commercial insurance and in insurance made in accordance with the requirements of Shariah, or the takaful insurance system (from Arabic – the mutual granting of guarantees to each other).

**Key words:** Islam • Shariah • Takaful • Operator • Assurer • The insured party • Model • Takaful industry  
• Legal norms

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### **INTRODUCTION**

Until quite recently, the implementation of takaful insurance system in Russia was not practiced even despite the fact that over 25 million Muslims are living on the territory of the Russian Federation [1]. The first region where insurance activity on the basis of the Shariah model performance [2] appeared was the Republic of Tatarstan.

An insurance company with its activity based on the laws of Shariah [3], i.e. the takaful company was founded for the first time in Russia in 2009. The Agreement on foundation of such company was signed between the Safinat Investment Group and Kazan organization Aliance Capital. The founded insurance company performs its activity in accordance with all set limitations which are formed basing on the Islamic religion. Even though the estimation of Islamic insurance market in Russia at that time was 2.6 billion dollars [2], the development of such type of insurance, however, runs very slowly, even with the assumption that in 2009 the territory of the Russian Federation was inhabited by about 25 million Muslims [2].

The Safinat Logistic Company and Kazan Souz Capital Investment Group which signed the Agreement mentioned above proclaimed about the foundation of the first insurance agency which would operate on the basis of the Shariah system. In other words, they filed for foundation of the first takaful insurer on the territory of the Russian Federation. The Company that meets the ethic grounds of Islam formed during the extended period of time in the first quarter of 2010 suggested the services of auto insurance, property and casualty insurance and special insurance services for palmers to all interested parties. The main difference between the Islamic insurance and the traditional type of insurance is the participation of an insurance company in the process of insurance organization profit formation. During the completion of Insurance Agreement the insured party will receive special bonuses within the whole period of insurance and upon the expiry of insuring period – the payments not spent for the loss events.

Together with its partners the Safinat Investment Group has developed the mechanism which completely meets both the current legislation of the Russian

Federation and traditional norms of the Islamic religion. Correspondently we can easily say that the Company has seriously redrafted the traditional model of takaful which was developed in the Middle East and thus the Islamic insurance system introduced in Kazan is considered to be closer to the Malaysian insurance system than to takaful practiced in the Middle East. The key principle of the Company's business operation is the fact of investment of the monetary funds of insured party into the tools of profit receiving and investment performance allowed by Shariah. The usage of different compromises in accordance with the procedures of the current legislation of the Russian Federation will be allowed only in case they will be approved and their implementation will be allowed by the Shariah experts.

The current potential Islamic insurance market in the Russian Federation at the present time is estimated at approximately 26 billion dollars [1]. Thereat, according to the last estimation the international volume of the current financial services market that completely meets the Shariah requirements [4] is over 750 million dollars as of today [1]. Today about 150 banks, 30 insurance and over-insurance companies, 34 investment and 6 leasing companies, 8 international trade corporations and 10 beneficial ownership companies are operating worldwide. The capitalization of Safinat LIC in 2008 was about 500 million dollars; the Company provides its logistic and investment services to such companies as Pyaterochka (Dagestan), Makhachkala TsUM JSC and Agroindustrial Firm Rodina Ltd [2].

The owners of the new company specialized in Islamic insurance do not disclose the amount of investments they made into the project, as well as do not disclose the details of activity of takaful insurance company. The products offered by the company [5] will be primarily in demand among the Muslims, but, as shows the practice of the western countries on the territories of which the companies working in accordance with the Shariah system are already operating nowadays, or have the "takaful windows" in their structure, the takaful insurance system is perceived as a separate new product which did not exist in the market till the present moment, which is operating based on the system different from the standard one and which is out of the concessions that attracts the attention of both the Muslim society and the representatives of the non-Muslim society. A new player exists in a form of LLC and its first offices are operating in Moscow and Kazan [2].

The assurers that are working today in this area do not apprehend the appearing business competition with the takaful company based on the appearance of substitute products. "I guess this market exists but I'm sure it's not so much big," - the Head of the Alfa Insurance Company Mr. Vladimir Skvortsov says. "Our clients are getting used to the norms of insurance and I think that the estimation of prospects of Islamic insurance as more than 15% of the total Russian market is too much optimistic," - he adds [6].

"I know the precedent cases in the leadership of such companies in the non-Muslim states," - the Co-owner of the "RECO-Guarantees" Company Mr. Sergey Sarkisov declared in his interview to the, "Ú" newspaper [2].

Till the present moment such companies which worked on the basis of the Shariah system at other financial services markets have been characterized by the very slow development and poor demand for the products they produce. The insurance companies that meet the requirements of the Shariah system were suggested by the separate banks under the frameworks of takaful insurance system which performed their activity in regions and areas of high Muslim population density. Thus, the Dagestan Express Bank issues the "Islamic" debit cards. The increase of intense interest to such segment of insurance branch for the first time was fixed in 2009 after the First International Conference on Islamic banking and products that meet the requirements of the Shariah system was held in Moscow [1]. The second organizer of such system is the VTB Capital Bank which is one of the first huge Russian banks that entered the market of the Persian Gulf countries [2].

On June 06, 2012 in Kazan the ISK Euro-Policy Company fixed the sale of the first five insurance policies of GAB, i.e. the insurance policies for those who are going abroad [7]. These are the first Islamic insurance products in Russia. According to the words of the Islamic Insurance Project Executive Mr. Dmitry Kosirev, during other periods of time of the earlier terms the mass media published the information about the foundation of an insurance company focused on the Muslim society and working on the basis of the Shariah system on the territory of the Russian Federation. Unfortunately, this information was just a declaration about the intension to set up such company which didn't become a real project to be started and operated in the present time.

"We consciously did not make a focus on our developing project till the moment of availability of completely drafted documentation for its further

implementation and till the day we received the confirmation that the organizations are ready to enter the insurance market,” - Dmitry Kosirev said. Nowadays the company suggests its clients to purchase those products which meet the requirements of the Shariah system. These products include the CNC insurance (CASKO) – the comprehensive automobile insurance, GAB – the policy for those who are going abroad and property and casualty insurance policies for both legal entities and individuals [7].

The interest to the Islamic financial system grows worldwide: according to the International Association of Islamic Banks information, today over 200 Islamic credit banks and organizations are operating in 35 countries of the world, including the Russian Federation [2]. Taking into account the serious problems with raising debt financing, the Islamic financial institutions have serious prospects for the successful development in Russia.

The Islamic Center for Management Development of the Moscow International Higher Business School (MIHBS) together with the Department of Economic Programs of International Department of Russia Council of Muftis have proclaimed the short-term training course “Islamic finances” [6]. Such course will create specialists in Russia who will be able to provide an effective work of insurance and bank companies that will base on the Shariah system and solve the problems related to the release of a product, as well as will determine the level of its correspondence to requirements and norms of Islamic world.

Following the results of such courses completion, its participants will gain wide knowledge on theory and practice of Islamic finances as alternative financial system which received a wide-spread occurrence in both Muslim world states and Western countries; will learn about the special aspects of Islamic financial institutions’ operations which include both credit operations and operations on raising funds: musharaka, mudabara, murabaha, sukuk, etc. [8]; and will also learn about the modern tendencies of Islamic financials development in the world and in Russia. The development of such course is imposed by the necessity of business environment, the community of people interested in Islamic financial system for the purposes of new economic and legal knowledge gaining. This happens mostly due to the latest changes in the world financial system which can be attributed to the rapid growth and expansion of Islamic financial institutions and products and which leads to the increase of interest in the Islamic economy.

The “Islamic financing: prospects of development in Russia” Conference held in Moscow is an event organized by The Moscow Times newspaper and Russia Council of Muftis. It has attracted quite huge interest and gathered together a huge number of people interested to learn more about the current situation of Islamic insurance in Russia. Conference guests included: the Ambassador of the Ministry of Foreign Affairs of the Russian Federation Mr. Konstantin Shuvalov, the Ambassador of Luxembourg to Russia Mr. Gaston Strong, the representative of the Embassy of Malaysia Mr. Hairul Nizam, the representatives of the Russia Council of Muftis, the Director of Russian-Arabic Business Council Mrs. Tatyana Hilaeva and others.

Mostly all guests of the event talked about the development of Islamic economy in the world, while the Vice-President of the Association of Regional Banks of the Russian Federation Mr. Oleg Ivanov who also visited the Conference touched upon the lately vital problem of prospects of Islamic financial tools usage by the Russian banks. According to his opinion, the Russian regions (which were called by him “depressive”) need the microfinancing, which ancestor was the Nobel laureate, a Muslim, Muhammad Yunus.

As explained by Oleg Ivanov, “in predominantly Muslim republics the Islamic economy must be widely represented”. “The Muslim society in these regions is noted by the conscious approach and high Islamic spirit which are reflected in a higher accuracy of debt repayment. In Povolzhye, for example, the Muslim borrowers are 2 times more accurate in credit repayments,” - Oleg Ivanov noted in his speech [6].

“The key purpose of this event is quite clear: this is the presentation of international consulting companies aimed to find their place at the market and this is mostly not a Conference but the real recruitment fair of representatives of these companies which are trying to sell themselves at the best price in the present segment,” - the specialist on Islamic economy, the Candidate of Juridical Sciences Mr. Renat Bekkin, regards [6].

“As for the commentary of Oleg Ivanov concerning the fact that Muslims repay credits earlier than any other bank’s clients, I would like to say that this words even being much interesting are quite disputable. How much are the regions ready to accept the Islamic products today? I can’t give an exact answer,” - Mr. Bekkin says [6].

“Communicating with the Russian anthropologists not so long time ago I found out that at the North Caucasus region, for example, the level of credits

repayment among the Muslims is lower than 1%. If we judge basing on these data, we will see that there is almost no demand for the Islamic products,” - Mr. Bekkin noted. “What is different about it is that the Muslim clients will orient onto the image of the company and onto the fact how the company behaves itself in this or that situation. Using the insurance services any client will watch if the company pays money or not. And if the company fails to pay the set amount of funds, it doesn't matter how it sets itself up, the client will know that he won't receive his money,” - he added [6].

In addition to the said words, Renat Bekkir also pointed onto the huge number of consultants on Islamic banking in Russia that appeared from nowhere. But hereby, in his opinion, in reality the market has no products. “The same Linova Investment Financial Company actively promotes itself, but no actual activities of the company still can be seen,” - Mr. Bekkir regards [1].

“The result – this is an important thing for us as for today. If the managers in such a huge number gather together and actively promote themselves, it, possibly, means that there are few prospects of Islamic banking development. But the fact that the stated by the organizers Deputy Economic Development Minister of the Russian Federation Mr. Stanislav Voskresensky and the First Deputy of the Russian Federation Council Chief Mr. Aleksandr Torshin did not visit the event, shows us that they are simply not interested yet to visit this labor market,” - Mr. Bekkin concluded [6].

According to the words said by the President of Executive Committee of the Russian Congress of Caucasus Nations Mr. Ahmed Azimov, the regional republics today do not need a usual Islamic economy development. The regions require the microfinancing system as much as they require the air to breath. “The young people are full of creative ideas, but they have no opportunity to open their own even small business,” – states the representative of the Russian Congress of Caucasus Nations [1].

“As to the development of Islamic banking in regions, I can more specifically say that it will develop only in places where the administration having authority will be ready to introduce the legislative initiatives into the regional Parliament. The initiatives that are required for Shariah economy introduction,” –Mr. Azimov underlined. “The Republic of Tatarstan is the fastest one among all Russian republics which proceeds to this system and this happens only due to the support of the authorities of this Republic,” - he added [6].

The problem lies not in the readiness of Muslims to acclimate and develop the Islamic economy, but in the readiness of authorities to take the initiative and act proactively.

During the last few decades the institute of risks hedging invokes plenty of impassioned discussions in the legislation environment among the Muslim legal theorists. This is due to the fact that, first of all, nowadays the quite critical need of both the Muslim society and the non-Muslim society lies in the operative regulation of appearing relationships in the sphere of insurance against the disastrous occurrence, on the one hand and in the lack of adequate current legislation system for necessary regulation of above described issues arising conduction in the Muslim society – on the other hand.

Thereat the main sources of information on the Shariah system are Koran and Sunnah which nowadays, unfortunately, do not give any clear drafting from the side of the fact of allowance or forbiddance of insurance operations conduction in the Muslim law and the usage of insurance system for liquidation of casualty consequences. Herewith we should note that indisputable norms of Shariah - Al-Ahkam al-Quitayyah [8], which contained in examined sources of the Muslim law, do not have enough stringent response concerning the issue of if the insurance system and Shariah come into conflict or not.

Thereat according to the current theory of interest which is present in the Muslim law, if the legal need in any product or activity which is not directly forbidden by the Islamic religion or the Shariah system was formed in the current Islamic society, such need must be satisfied by the introduction and conduction of these or those activities.

The opponents clamouring against the implementation of traditional insurance system in the regions with Muslim population follow the insurance system in accordance with the requirements of Shariah, or in other words - the takaful insurance system [9] (from Arabic – the mutual granting of guarantees to each other). Herewith the following system of participation in this type of insurance is operating: the participants of “Islamic insurance” (takaful) Agreement makes the payments of all required insurance contribution in a form of paid in monetary donation – the co-called Tabarru [8] with the provision that the organization will return them these monetary funds back upon the expiry of insurance period and in case of occurrence of insurance events listed in the Agreement – will make all required payments covering the amount of expenses incurred for their

consequences liquidation [10]. At that the part of monetary donation is sent to the Fund which participates in the investment activity of the company and brings the insured party a regular income irrespective of whether an insurance event occurs or not.

The mentioned above relationships are usually based on the generally accepted by Muslim economists model of Mudabar [8]. Herewith the assurer and the operating takaful company will act as equal partners. The assurer takes the direct participation in the company's activity by the means of his own monetary funds which are contributed in the form of a donation, while the insurance company performs the role of these monetary funds manager applying its knowledge and experience of monetary funds management for earning additional and regular incomes by the assurer.

Thereat it is necessary to note separately that the Islamic insurance company (takaful) has no right to perform its activity if such activity contradicts in its specifications and features to the requirements of Shariah, as, for example, the collection of interest from any individual, the sale of alcohol and alcohol-containing products, as well as the financial support of casinos and gambling houses. However, according to the opinion of some experts on Muslim law, today the presence of such trusted company at the modern insurance market is not excluded. According to the expressed opinion of many different faqihs [8], the operating Islamic bank shall found an insurance company by its own means and forces and such insurance company must use the monetary funds received in a form of insurance contributions of participants for the purposes of various activities performance which in result will be helpful to all Ummah. In case of an insurance event with the monetary funds giver, he will be paid out the required amount of monetary funds which in its amount can be bigger than the amount of contributed monetary funds.

Herewith, basing on the above given facts we can make a conclusion that the main difficulty in foundation of insurance companies which will act according to the requirements of Shariah lies in the fact that at the present moment the Russian Federation has no sufficient number of specialists that are able to perform this type of activity, as well as to make objective decisions concerning this or that disputable issue regarding the allowance of conduction of investment activity of the company or performance of works with assurers.

Despite such difficulties we can say that the takaful insurance system more and more attracts the attention of population in the country and notably both the Muslim

and the non-Muslim societies which turns to be a guarantee of demand for this type of product at the takaful insurance business acquisition in many regions of the Russian Federation.

The estimation of efficiency of Muslim insurance system implementation in Russia becomes the large stumbling block for decisions of not only economists, but many law theorists, as the norms of Shariah for the thoroughgoing understanding are available only to the Muslim society of the state which in result can lead to the double rendering of conditions for the takaful companies activity. To solve this problem it is required to go behind and reconsider the assurers' ethic code in Russia for the purpose of special section development which will include and determine at the legislative level the rules and norms of takaful insurance activity performance.

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