

Translated Article[†]

A MODEL OF THE ORGANIZATIONAL AND ECONOMIC MECHANISM FOR ADOPTING AND IMPLEMENTING THE ISLAMIC INSURANCE IN RUSSIA



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Abstract

Importance Considering the challenges of recent years (political isolation, economic sanctions), Russia has to revisit the future development of entire sectors and its national strategy without receding, however, from the market economy principles. Those challenges turned the spotlight onto the financial system and insurance sector, in particular. Therefore, the *takaful* insurance and its types become an important financial institution.

Objectives I design an organizational and economic mechanism to introduce and implement the family *takaful* in Russia based on non-governmental pension funds.

Methods I apply methods of logical and comparative analysis to detect factors, advantages, shortcomings and problems determining how exactly the family *takaful* can be implemented in Russia.

Results The paper presents basic components of the organizational and economic mechanism of the family *takaful* implementation in Russia, underpins the need for its development, specifies its nature and sequence of actions to introduce the Islamic insurance in Russia. I offer a model of the organizational and economic mechanism for implementing the Islamic insurance in Russia and define its constituents.

Conclusions and Relevance The offered constituents of the organizational and economic mechanism represent sophisticated scientific and methodological tools for adopting the Islamic insurance in Russia and specify the key aspects of its functioning, including its tasks and objectives, participants, targets, principles and rules.

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Interlaced with historical and political factors, Russia's multiconfessionalism, on the one hand, and democratic vector of the State, on the other hand, request such economic policies that would meet expectations and needs of representative social layers. Although Russia is promulgated as the secular State in one of the fundamental clauses of the national constitution (Article 14 of the Constitution of the Russian Federation), with religious associations being separated from the State, fundamental principles of various confessions can but influence economic and market

relations. Classic authors in economics (for example, M. Weber [1]) and contemporary scholars¹ delved into the way the religion and economy might influence one another and interact [2–4].

Furthermore, as stated in some significant researches, the religion tends to have a positive effect on the economy².

¹ Kubon-Gilke G. [Zum Zusammenhang von Ökonomie und Religion]. *Vestnik Kostromskogo gosudarstvennogo universiteta im. N.A. Nekrasova = Bulletin of Kostroma State University*, 2007, vol. 13, no. 2, pp. 188–194. (In Russ.)

² Plyasovskikh A. *Vliyanie khristianstva na ekonomicheskoe razvitiye stran, ili o natsional'noi idee* [An impact of the Christianity on the economic development of nations, or the national idea for Russia]. URL: <http://www.nideya.narod.ru/razdel4.htm> (In Russ.)

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For the recent years researches have been more actively exploring whether some Islamic principles are implementable in certain economic tenets. According to theoretical views of the Islamic economic scholars, social equity and fairness are one of the crucial principles of economic relations, protecting the right to equal allocation of resources.

Nowadays, Islamic principles have an impact on economic relations in various countries worldwide, piercing business practices, fiscal and tax policies, management in sponsorship and charity, insurance, etc.

Ethnic Muslims account for about 20 million people out of over 146 million of people constantly residing in Russia, according to different estimates³. Although the Russian Muslims have different commitment to the Islamic principles and laws, Russia sees a growing need in integrating certain financial constructs into the national system of law. The *takaful*, the Islamic approach to insurance, has become one of such constructs. As proved in my previous surveys in one of the regions with the prevailing Muslim population, this mechanism is important for Russia. About 30 percent of respondents, who did not have a voluntary insurance policy, mentioned the religious noncompliance as one of the reasons.

Thus, under the current circumstances, it is necessary to create scientific and methodological conditions for implementing the Islamic insurance in the Russian system of economic relations.

This research devises an organizational and economic mechanism for adopting and implementing the family and personal *takaful* in Russia through non-governmental pension funds.

The research pursues the following objectives:

- specifying the substance of *takaful*;
- determining constituents of the organizational and economic mechanism for the Islamic insurance;
- devising a model of the organizational and economic mechanism for adopting and implementing family and personal *takaful* plans in Russia through non-governmental pension funds;

- disclosing the substance of key components in the model.

Before unveiling the *takaful* substance, I examine its principles, aspects and distinctions. As Article 2 of Shariah Standard 26 describes the difference between the conventional insurance and *takaful*, the conventional insurance implies profit to be derived from insurance deals, which are exposed to uncertainty (*al-gharar*) and other activities condemned by the Shariah, such as usury (*riba*), gambling (*al-maisir*), etc. That is why the Shariah denies the conventional insurance based on commercial terms. The paragraphs below review these restrictions in more detail.

According to experts in the Islamic law, there are several types of uncertainty:

1. Neither party to an insurance transaction is cognizant of the probability of an insurance premium.
2. Certain insurance schemes fail to provide clarity concerning the amount of an insurance premium.
3. The insured party does not know whether the insurer has a relevant amount for the insurance coverage in case of an insurable event.
4. The contract does not stipulate the time of the insurable occurrence.
5. The policy holder is unsure that his/her payment will be used for the Shariah-permitted transactions, meaning that they may be involved into a forbidden activity (*haram*), in addition to the uncertainty⁴ [5].

Uncertainty stems from operational and information difficulties and relates to any ambiguity or contingency of contractual terms, which arise due to unavailable data or control under the contract. If these factors are in place, it makes the contract null and void in terms of the Islamic laws.

As for the usury, or *riba*, it does exist in the conventional insurance. For example, it arises when equity and claims reserves are invested in such assets as bank deposits or assets relating to the Islam-banned activities (production of tobacco, alcohol, etc.). However,

³The number of population.

URL: http://www.gks.ru/free_doc/new_site/population/demo/demo11.xls (In Russ.)

⁴*Haram* (Arab. حرام, cognate *harem*) means actions prohibited by the Shariah. *Haram* is an antagonist of *halal*. For example, pork is *haram*, while lamb meat is *halal* as it is slaughtered with the name of Allah being pronounced.

the insured party may decline such assets while making an investment, if needed.

As for the *al-maisir* ban (business gambling means an excessively risky undertaking in this context) and countering it, the Central Bank of Russia, as the insurance market regulator, controls the ratio of the policy holder's equity and obligations under the Rules approved by Instructions of the Central Bank of Russia of July 28, 2015 № 3743-Y.

As stated above, I formulate the key principles and aspects of *takaful*⁵ [6]:

- there shall not be excessive uncertainty since *takaful* participants uphold their entitlement for *takaful* funds and gain (income) from investment and insurance transactions;
- risks of insurance participants should be secured with guarantees since *takaful*, first of all, envisages that contracting parties can act as guarantors and guarantees;
- there shall be a special mechanism for distribution of profit among *takaful*-holders and the company managing *takaful* funds as reviewed hereinafter;
- a special authority (the Shariah supervisory board) shall control *takaful* operations;
- the utmost good faith shall be a guiding principle as a fundamental law, which all contracting parties shall adhere to;
- policy holders shall be allowed to manage the *takaful* company;
- there is a distinction in inheriting the entitlement for an insurance premium. All lawful heirs of the policy holder (the *takaful* participant) are entitled for the insurance premium, notwithstanding the appointed beneficiary.

These principles and aspects allow revealing the economic substance of *takaful* and formulating my own definition in line with the terminology circulating in the Russian laws on insurance.

⁵ Magomadova M.M. [Takaful as a tool for developing the insurance market of the region]. *Sborniki konferentsii NITS Sotsiosfera = Conference Proceedings of the Science Publishing Centre Sociosphere*, 2015, no. 36, pp. 51–54. (In Russ.)

Takaful constitutes the redistribution relations based on mutual assistance and aid so to avoid adverse events (risks) when *takaful* participants voluntarily contribute their funds to a special-purpose pool and intend to get reimbursements in case of unfavorable (insurable) events and gain from pooled fund investment provided they manage the pool on their own or through a hired managing company on the Shariah principles. V.O. Fedorovich offered a tiered hierarchical system of key interlinked constituents and groups (agents, targets, principles, methods, tools, etc.) and methods of their interaction, including the integration and disintegration, which, afoot or subsequently, harmonize economic relationships (interests) of the State, business and public structures. In my opinion, Fedorovich's system is the best to address objectives of this research [7].

The organizational and economic mechanism for adopting and implementing the family *takaful* scheme shall mean a system of mutual relations among participants of the financial system, including the insurance market, management methods, rules, principles, functions, which address goals and objectives of the Islamic insurance.

Analyzing the main approaches to formulating the organizational and economic mechanism [8–10], it is possible to conclude that the mechanism is composed of management agents, management targets, goals and objectives to be attained with the mechanism, practical principles of the mechanism, participants' duties, applicable methods and tools to address objectives of the mechanism, interaction factors of agents.

Considering the current insurance system in Russia [11–13] and the possibility of supplementing it with the Islamic insurance mechanism, I can outline a general sequence of steps that shall be undertaken to integrate the organizational and economic mechanism of *takaful* (Fig. 1).

The insurance system and legal framework, the way they are existing in Russia, do not necessitate a separate regulatory document in order to completely implement the Islamic insurance scheme. The existing legislation on insurance⁶ might be edited and amended from the following perspectives:

⁶ Law of the Russian Federation On Setting Up Insurance Practices in the Russian Federation of November 27, 1992 № 4015-1.

- supplementing legislative principles with new business and legal forms applicable to the specifics of *takaful* operators;
- setting a legal environment for the Islamic insurance as part of the mechanism of non-governmental pension funds.

It is reasonable to clarify the structural content of the organizational and economic content of the Islamic insurance so to specify the proposed sequence of steps to adopt and implement it. Based on the *takaful* specifics [14] and the said constituents of the organizational and economic mechanism, I can frame the structure of the organizational and economic mechanism for adopting and implementing the Islamic insurance in Russia (Fig. 2).

I proceed with scrutinizing the substance of each constituent in the mechanism. The purpose of the mechanism considerably carves what other constituents imply, setting the effective and Shariah-compliant system of the Islamic insurance in Russia. This goal entails the following interim objectives to be met in setting up the organizational and economic mechanism:

- choosing the Islamic insurance participants and assigning duties to each of them;
- articulating practical principles and rules for the mechanism;
- determining methods, tools and approaches to implement the mechanism, both organizational and economic ones;
- laying the groundwork for running various business models of the Islamic insurance.

This scheme nominates the principal agents of the mechanism:

- 1) *takaful* operators or insurers are entities that are incorporated as joint-stock companies or cooperative insurance vehicles to deliver the Islamic insurance services [15];
- 2) public regulators are authorized governmental bodies in charge of the regulatory compliance of *takaful* operations, and improvement of the underlying laws;

- 3) institutions for support and development are non-governmental entities (usually non-profit) that develop and promote the Islamic insurance in Russia. This party can be represented with a union (association) of *takaful* operators of Russia.

The proposed mechanism puts the family insurance scheme as a target of management. The family *takaful* mainly has a saving function and provides for the issue of various policies, which, to a certain extent, correspond with conventional insurance.

I suppose, the system and principles of non-governmental pension funds would be the most appropriate as the groundwork for implementing the organizational and economic mechanism of the Islamic insurance. I opt for non-governmental pension funds as possible participants of the Islamic insurance mechanism since they are very akin to the *takaful* specifics, including the *takaful* focus on savings, rather than insurance only. As another factor that juxtaposes non-governmental pension funds with requirements of the Islamic insurance, personal insurance in Russia is mainly effectuated through pension insurance instruments. This distinctive feature of the Russian system, that engenders *inter alia* distrust of the existing schemes of personal voluntary insurance, bolsters a growing potential of the Islamic insurance in Russia.

Any organizational and economic mechanism should draw upon principles and policies that considerably determine the substance of its constituents, including functions and tools the Islamic insurance participants apply. I suggest splitting the entire population of the Islamic insurance principles in two groups:

- 1) generic principles of the Islamic insurance system as part of the national insurance system, including [16]:
 - the existence of an insurable interest;
 - risk insurability;
 - equivalence;
 - mutual trust of participants;
 - adequacy of reimbursement in relation to factual losses;
 - cause-and-effect relationship between the loss and the trigger;

- contribution;
- 2) particular (specific) principles of the Islamic insurance system that originally stem from its religious background, including:
 - zero uncertainty;
 - voluntary will;
 - the Shariah-permitted income;
 - risk sharing.

These principles outline the rules for the organizational and economic mechanism. The rules shall be enshrined in laws and internal regulations of *takaful* operators.

Considering the goals, objectives, principles, targets and rules of the organizational and economic mechanism of the Islamic insurance in Russia, respective participants choose appropriate methods and tools to put this mechanism into practice. Whereas there is a plethora of methods and tools to manage and promote the Islamic insurance, it is reasonable to consider key duties and functions of the respective participants (*Table 1*).

Whereas Russia lacks a robust legal, organizational and economic framework for implementing the Islamic insurance, it significantly obstructs its effective and productive development. The constituents of the organizational and economic mechanism – I propose in this research – constitute a comprehensive set of research and methodological tools to implement the Islamic insurance in Russia. It envisages key aspects of its application in Russia in terms of goals, objectives, participants, targets, principles and rules. I admit the complexity of the organizational and economic mechanism of the Islamic insurance as well as the difficulty to unfold this mechanism in detail within this particular research. Hence, each of the given constituents needs to be specified and assessed for its feasibility in the Russian systems of law and insurance.

Therefore, future researches shall pursue the following objectives:

- providing a detailed view of organizational and legal regulations governing the Islamic insurance in Russia;
- detailing functions of the Islamic insurance participants, i.e. governmental regulators, *takaful* operators and institutes for developing and supporting this insurance market;
- specifying organizational aspects of the interaction among the Islamic insurance participants.

Russia's insurance market may be reasonably supplemented with *takaful* companies due to the following reasons:

- *takaful* operators carry out their activity in Russia without violating the existing laws on insurance. The would be customers – over 20–25 million of ethnic Muslims – may be involved into insurance deals;
- many trade and financial partners of Russia from the Middle East are reluctant to invest in various mutually beneficial projects due to instability of the economic situation and bad faith in the Russian counterparts;
- Russia's insurance market demonstrates high levels of competition. The market will be diversified after *takaful* operators offer their schemes and plans, thus supporting the development of the insurance in Russia;
- it is very relevant and opportune to examine various aspects of the *takaful* insurance and its application in the Russian practice. The *takaful* insurance extends business and legal forms adopted in the Russian insurance market in accord with the respective trends worldwide. This will also increase the variety of insurance products since they will include the insurance against the reimbursement risk upon the insurable occurrence. It is expected to stabilize the social situation.

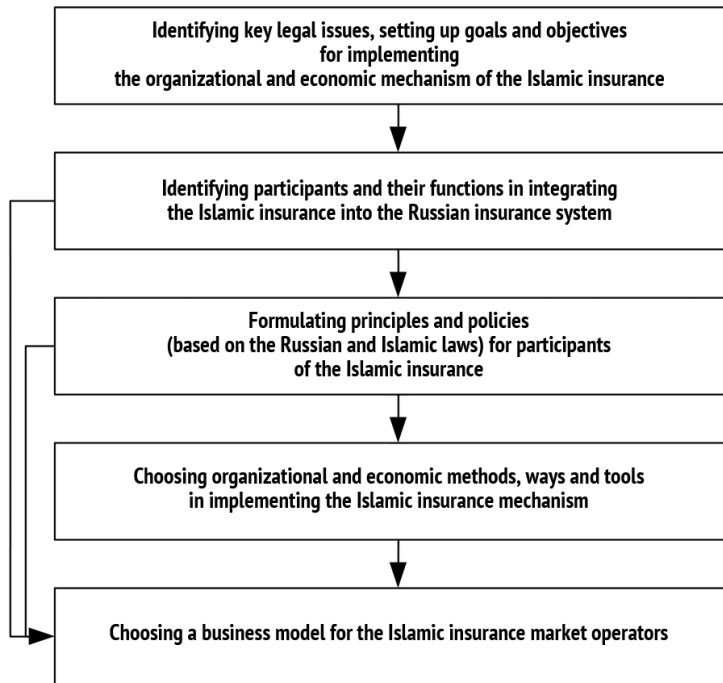
Table 1**Functions of parties to the Islamic insurance system**

Islamic Insurance Participant	Functions
Governmental regulators (represented by authorized governmental bodies)	Licensing of <i>takaful</i> operators. Compliance control over the consumption of the Islamic financial services. Control over performance risks of <i>takaful</i> fund operators. Regulation, control and oversight over insurance and investment deals
<i>Takaful</i> companies	<ol style="list-style-type: none"> 1. Protective (saving) functions: <ul style="list-style-type: none"> – assessment of insurance risks; – insurance reimbursements; – reallocation of funds among participants of the <i>takaful</i> scheme and others. 2. Accumulative functions: <ul style="list-style-type: none"> – accumulating profit of <i>takaful</i>-holders from investment of the <i>takaful</i> funds; – distribution of profit among <i>takaful</i>-holders. 3. Preventive functions: <ul style="list-style-type: none"> – assessment of insurance risks; – accrual of claims reserves (as part of <i>takaful</i> funds), etc. 4. Investment functions [17]: <ul style="list-style-type: none"> – charging fees to <i>takaful</i> funds; – distribution of funds; – investing pooled funds for <i>halal</i> purposes; – acceptance of contributions to the <i>takaful</i> fund from <i>takaful</i> operators. 5. Organizational functions: <ul style="list-style-type: none"> – preparation of contracts with individuals and legal entities and the issuance of personal <i>takaful</i> policies; – regional promotion of the Islamic insurance services; – arrangement of compensation benefits to be paid under personal insurance plans; – arrangement of earnings to be paid under family insurance plans; – arrangement of the acceptance of insurance contributions, etc.
Supporting and developing institutions	Compliance control of insurance products with the Shariah requirements [18, 19]. Professional advancement of <i>takaful</i> operators' staff on gratuitous and tuition-fee basis. Setting up standards of <i>takaful</i> operators' financial activities and participating in their implementation. Liaison with authorized governmental bodies for legal and organizational alignment of the <i>takaful</i> insurance in line with the Russian legislation. Promotion of the Islamic insurance at the federal and regional level, etc.

Source: Authoring

Figure 1

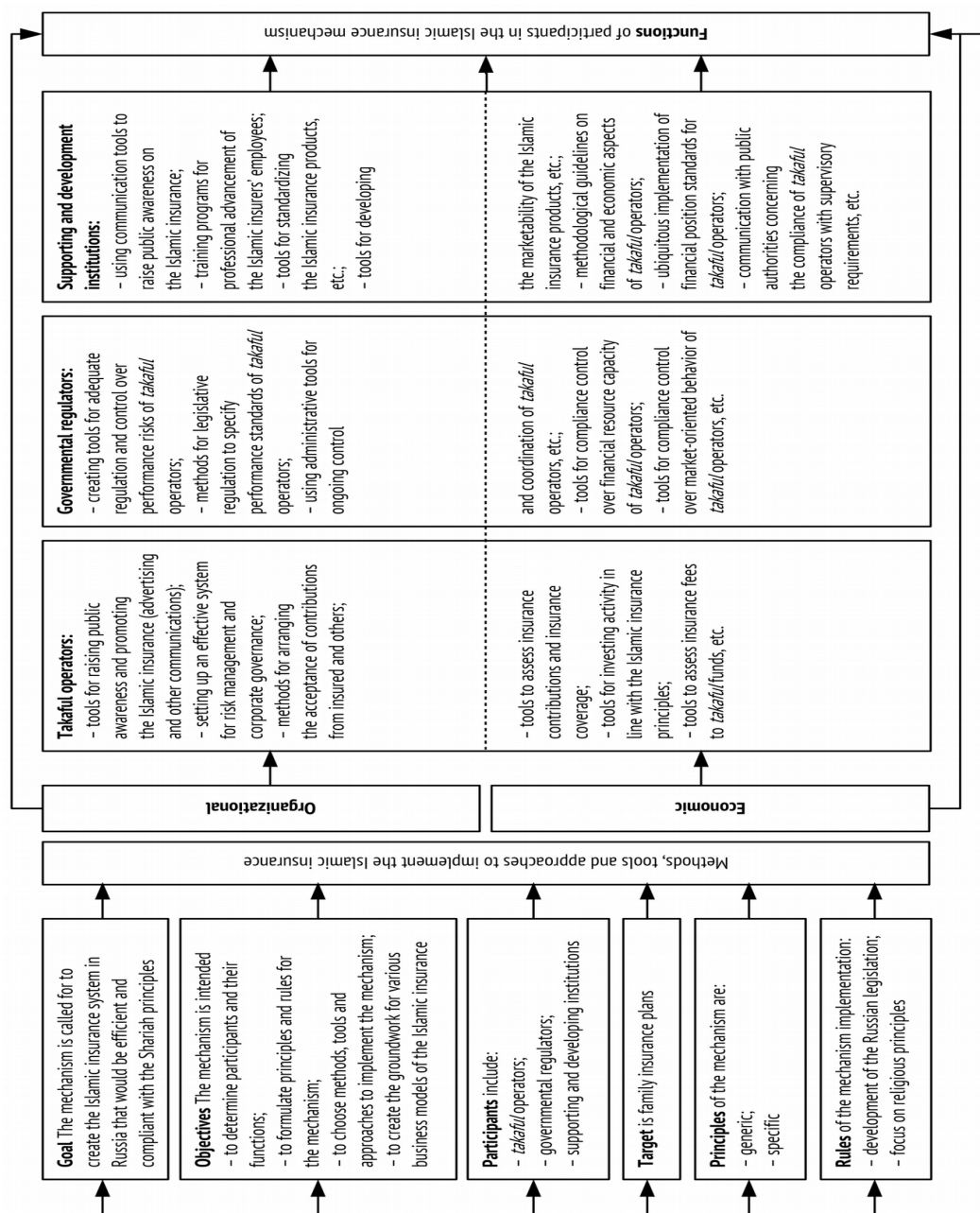
The algorithm for integrating and implementing the organizational and economic mechanism of the Islamic insurance



Source: Authoring

Figure 2

The model of the organizational and economic mechanism for integrating and implementing the Islamic insurance in Russia



Source: Authoring

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I, the author of this article, bindingly and explicitly declare of the partial and total lack of actual or potential conflict of interest with any other third party whatsoever, which may arise as a result of the publication of this article. This statement relates to the study, data collection and interpretation, writing and preparation of the article, and the decision to submit the manuscript for publication.