Preface

Islamic finance distinguishes itself from conventional finance on the basis of its strong emphasis on the moral consequences of financial transactions; hence, it prohibits interest, excessive uncertainty and financing of harmful businesses. When it comes to risk mitigation, Islamic finance differs from conventional finance by its emphasis on risk sharing rather than trading and shifting of risk. Many observers, however, believe that regulatory environment and market forces have not allowed Islamic finance to remain attached to its core values. One way is to revisit and reemphasize the importance of solidarity, welfare and risk sharing in the financial system. Risk is an unavoidable part of our lives and businesses. Management of risk therefore assumes key significance in avoiding harm and achieving success. The two most common approaches to handling risk is by spreading it (through mutual cooperation) or trading it (risk shifting) through agencies or institutions that are better equipped to handle them. Both these approaches have their own advantages and consequences.

This book is a major attempt to highlight the importance of risk sharing under the overall theme of ‘Takaful and Islamic Cooperative Finance.’ The book discusses various models of risk sharing and cooperation and critically analyses their performance. Unlike many publications on Islamic finance, the book presents critical assessments of Islamic insurance models or takaful. Another important aspect of the book is the role of alternate financing mechanisms, not only for the purpose of introducing different sustainable financial practices but also from the point of view of greater stability of the financial system as a whole. Several case studies greatly add to the value of the book. Over the years it has been observed that liberalization and globalization of the financial system have led to a homogenized financial system with the same set of incentives and motivation. This trend, according to many experts, has added to the instability of the financial system across the globe. Hence, diversity in the structure is considered a stabilizing factor.

The book provides a critical assessment of various takaful models and the practices of Islamic Cooperative Finance. It analyses the challenges and opportunities in the takaful sector, and also explores the possibility
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of cooperative finance from the point of efficiency and overall stability of the financial system. Specifically, as an authoritative book on Takaful and Cooperative Finance, the book provides:

- a historical account of the takaful journey since its birth in the late 1970s
- a critical assessment of various takaful models
- detailed discussion on the dynamics of cooperative finance
- discussion on dispute resolution and its importance for Islamic finance in general and takaful in particular
- high-level analysis on shari‘ah compliances and its nuances
- emphasis on the importance of solidarity, cooperation, mutuality and reciprocity
- a close examination of the objectives and methods of prohibition of interest and uncertainty from classical sources of Islamic law.

Chapters included in this book were carefully selected from the pool of over 200 submissions for the 11th Harvard University Forum on Islamic Finance held on 25 to 27 April 2014. With the closure of the Islamic Finance Project at Harvard Law School (HLS), my new responsibilities as full Professor and Director of the Center for Islamic Economics and Finance at Hamad Bin Khalifa University (HBKU) in Doha led to some uncertainties with regard to the publication of this book. However, persistent engagement and enthusiasm shown by contributors made it possible to finalize the book. I thank all the contributors fervently for their enthusiasm and active cooperation. In addition, the HLS administration and in particular the Islamic Legal Studies Program must be commended for their commitment to knowledge dissemination which is evidenced by their permission to publish this book.

The Forum, where the selected papers were presented, would not have been possible without the efforts and support of many individuals and organizations. I wish to especially thank our sponsors, the National Commercial Bank, Mohammed & Abdullah I. Alsubeai Investment Company (MASIC) and Al Bilad Bank for their encouragement and generous support. It is their support that kept us focused on our work at Harvard. I wish to record my appreciation of Professor Samuel Hayes, Professor Baber Johansen, Professor Frank E. Vogel, Thomas D. Mullins and staff and several faculty members of various Harvard schools who have been continuous sources of strength and encouragement. Several IFP affiliates and student volunteers at various Harvard schools made my task much easier and smoother. I wish to extend my appreciation to Yarrow Ruqiyyah Nu’Man, researcher at HBKU for her assistance in
reviewing and advising me in arranging this book. My coeditor, Professor Shariq Nisar, played a key role in organizing the 11th Forum and willingly accepted the responsibility of co-authoring an additional chapter on the advice of the expert reviewer. I extend my deep sense of appreciation and gratitude to Shariq for all his efforts and advice throughout his stay at HLS.

I sincerely hope the readers will find this book an important addition to the growing body of knowledge in the field of Takaful and Islamic Cooperative Finance.

S. Nazim Ali, October 2015