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Exploring Ethical Dimensions of Islamic Insurance: Implications for Market Acceptance in Malaysia

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Abstract
The exploration of ethics within Islamic insurance, or Takaful, is a significant endeavor in understanding its fundamental principles and implications for market acceptance and consumer perception. This study delves into the perceived existence and application of ethics in Islamic insurance, particularly in the context of its potential acceptance in non-Muslim markets. The findings of the study reveal that the ethics purportedly associated with Islamic insurance are primarily rooted in religious values, making them potentially challenging for non-Muslim markets and consumers to readily accept. This highlights an important consideration regarding the cultural and religious underpinnings of ethical frameworks and their compatibility with diverse market environments. Moreover, the study suggests that the perceived ethics within Islamic insurance may be more superficial in nature, with limited tangible effects observed in the utilization of funds or operational practices. This raises questions about the practical implementation of ethical principles within Islamic insurance institutions and underscores the need for greater transparency and accountability in aligning actions with stated values. In light of these findings, the study offers recommendations aimed at enhancing the market penetration and acceptance of Islamic insurance, particularly in non-Muslim markets. One key recommendation is the adoption of an effective rating or pricing system, which can serve as an alternative approach to gaining acceptance in diverse market segments. By demonstrating competitive pricing and value proposition, Islamic insurance providers may be able to attract a broader base of consumers, including those outside the Muslim community. Additionally, the study emphasizes the importance of establishing ethical charging practices that align with Qur'anic contractual agreements. This involves ensuring fairness, transparency, and adherence to ethical principles in all aspects of insurance operations, from pricing and underwriting to claims settlement and customer service. By integrating ethical considerations into the core practices of Islamic insurance, providers can enhance trust and credibility among consumers, irrespective of their religious background. This study contributes valuable insights into the dynamics of ethics within Islamic insurance and its implications for market acceptance. By addressing the challenges and opportunities associated with ethical principles in insurance, policymakers and industry stakeholders can work towards building a more inclusive and sustainable insurance market that serves the needs of diverse populations while upholding the principles of fairness, integrity, and social responsibility.
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1. INTRODUCTION

Navigating the intersection of religious principles and market demands, the Islamic insurance sector faces a dual challenge: upholding the ethical standards prescribed by Islam while vying for a meaningful foothold in the realm of financial protection (Islamic Globe, 2012). This delicate balance requires the industry to innovate Sharia-compliant solutions that resonate with both Islamic values and contemporary consumer needs. As stakeholders strive to align their offerings with the ethical framework of Islamic law, they must also contend with the competitive landscape of the broader insurance market. In this dynamic environment, the path forward for Islamic insurers hinges on their ability to forge a distinctive identity rooted in faith-based integrity while fostering trust and relevance among diverse clientele. To bolster its competitive position, the Islamic insurance sector has embarked on a multifaceted approach characterized by continuous innovation and adaptation (Farooq et al., 2010). This entails not only the development of new insurance products tailored to Islamic principles but also the enhancement of customer service experiences and the cultivation of strategic alliances with key stakeholders. Moreover, the industry has invested in educational initiatives aimed at raising awareness about the merits of Islamic insurance and dispelling misconceptions surrounding its offerings. By nurturing a culture of transparency, accountability, and customer-centricity, Islamic insurers endeavor to differentiate themselves in a crowded marketplace and foster long-term relationships built on trust and mutual benefit. As the industry continues to evolve, stakeholders remain vigilant in their pursuit of excellence, leveraging every opportunity to solidify their position and contribute meaningfully to

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the financial well-being of their clientele. In response to the formidable challenge of penetrating a market long dominated by conventional insurers, the Islamic insurance sector has embraced innovative strategies aimed at appealing to both Muslim and non-Muslim consumers. Recognizing the importance of religious values and ethical considerations in consumer decision-making, Islamic insurers have underscored the Sharia-compliant nature of their products as a key selling point (Farooq et al., 2010). By highlighting the alignment of Islamic insurance principles with ethical and moral standards, these companies seek to cultivate trust and credibility among potential policyholders.

Moreover, the industry has placed a strong emphasis on targeted marketing efforts tailored to diverse demographic segments. By customizing messaging and outreach initiatives to resonate with the specific needs and preferences of different consumer groups, Islamic insurers aim to broaden their appeal and attract a more diverse clientele. Despite these efforts, the reception of Islamic insurance varies across different regions and markets. In North America, for example, the insurance industry has traditionally been less receptive to Islamic financial products, presenting a unique set of challenges for Islamic insurers seeking to establish a foothold in the market (WTR, 2012). Nevertheless, with perseverance and strategic adaptation, the Islamic insurance sector continues to explore new avenues for growth and expansion, driven by its commitment to offering ethical and Sharia-compliant alternatives in the global insurance landscape. The challenge for Islamic insurers extends beyond simply persuading consumers to recognize the religious value of Sharia-compliant products. In markets where Islam is not the predominant faith, potential policyholders may not prioritize the spiritual rewards promised in the hereafter, as they do not subscribe to the tenets of Islam. This poses a significant hurdle for Islamic insurers, as they must devise alternative value propositions to attract non-Muslim customers and compete effectively with conventional insurance offerings. Furthermore, critiques of the Islamic insurance industry highlight limitations and concerns regarding the availability and affordability of Sharia-compliant products. Reports such as Alpen Capital’s (2010) analysis have raised issues regarding the comparatively restricted range of Islamic insurance options available to consumers. Additionally, concerns have been voiced regarding the perceived higher cost associated with Islamic insurance products compared to their conventional counterparts. Addressing these challenges requires Islamic insurers to innovate and diversify their product offerings while simultaneously addressing cost considerations to enhance affordability and accessibility. By broadening the scope of available products and adopting competitive pricing strategies, Islamic insurers can work towards expanding their market reach and appealing to a wider audience, irrespective of religious affiliation.

The emergence of Islamic insurance faced formidable pressure from the established conventional insurance sector. To support the fledgling Islamic insurance industry, governments in regions supportive of Islamic finance implemented legislative measures aimed at fostering its growth. Countries such as Saudi Arabia, Malaysia, and Qatar enacted successive laws and regulations designed to facilitate the development of Islamic insurance. Central banks and monetary regulatory authorities in these jurisdictions allocated special budgets and resources to support the industry's expansion, signaling their commitment to its success. Concurrently, conventional insurance companies in these regions encountered restrictions on their operations, further opening up opportunities for Islamic insurers. Despite these supportive regulatory environments, industry players recognized the need for proactive marketing strategies to overcome challenges in attracting clientele. Ethical marketing emerged as a key approach to appeal to conservative Muslims, as well as individuals and markets beyond the Muslim community. By emphasizing the ethical and Sharia-compliant nature of Islamic insurance products, insurers sought to broaden their appeal and encourage participation from diverse demographics and regions. The concept of ethics in financial markets, including insurance, can indeed be ambiguous and challenging to define in universally acceptable terms. While Islamic insurance endeavors to incorporate ethical principles rooted in Islamic teachings, the application and interpretation of ethical standards may vary across different markets and institutions. In an increasingly globalized financial landscape, where diverse cultural and regulatory frameworks coexist, the notion of what constitutes ethical behavior can differ significantly. Many banks, both conventional and Islamic, have adopted ethical messaging as part of their marketing strategies to appeal to socially conscious consumers. For instance, banks like "The Co-operative Bank" in the UK have employed similar slogans emphasizing ethical values to attract and retain customers (Murray-West, 2012). However, the effectiveness of such messaging may vary depending on the target audience and their perceptions of ethics within the financial industry.

The integration of ethical principles into financial practices has been a longstanding endeavor, predating the emergence of Islamic finance. Scholars such as Choudhury (2001), Moghul (2007), and Winship (2009) have highlighted the significance of ethical considerations in finance, emphasizing the need to balance wealth generation with wealth redistribution. Islamic finance, upon its inception, sought to reconcile economic activities with Islamic principles, particularly the concept of equitable distribution of wealth. Drawing inspiration from historical institutions like the baytul al-mal (Islamic bank) from early Islamic civilization, scholars such as Farook (2007) and Dusuki (2008) emphasized the importance of ensuring fair participation and benefit-sharing among all stakeholders in the community where Islamic finance operates. By adopting ethical practices, Islamic financial institutions (IFIs) aim to uphold principles of fairness, justice, and inclusivity, aligning their operations with the broader objectives of Islamic finance. This entails not only generating profits but also ensuring that the benefits of economic activities are distributed equitably among individuals and communities, in accordance with Islamic teachings. In navigating the complexities of the modern global financial landscape, Islamic financial institutions (IFIs) face various challenges that may influence the extent to which ethical considerations can be effectively integrated into their operations. Factors such as the prevailing economic structure, political environment, and regulatory framework can shape the approach of IFIs towards ethical practices.

However, despite these external influences, the researcher posits that the true measure of ethics within IFIs lies in the character traits exhibited by their personnel. According to Rokhman (2010), the ethical stance of IFIs is reflected in the values and conduct of their employees, encompassing aspects such as integrity, honesty, and social responsibility. These character traits are manifested in various facets of IFI operations, including policy formulation, managerial decision-making, and fulfillment of social responsibilities. By prioritizing Islamic commercial principles over mere profit maximization, IFIs demonstrate a commitment to ethical conduct and the promotion of values that align with the principles of Islamic finance. The incorporation of ethical principles into conventional financial institutions, including banks, has been observed for centuries (Choudhury, 2001). This historical precedent underscores the enduring importance of ethical considerations in financial transactions and underscores the evolving nature of ethical norms within the financial sector.

Over time, the integration of ethical principles into financial practices has become increasingly sophisticated, reflecting a growing recognition of the broader societal impacts of financial activities. Today, ethical finance encompasses a wide range of considerations, including environmental sustainability, social responsibility, and corporate governance. Financial institutions are increasingly expected to demonstrate a commitment to ethical conduct and responsible business practices, both by regulators and by consumers. Incorporating ethical principles into banking operations involves not only adherence to legal and regulatory requirements but also a proactive approach to addressing social and environmental concerns. This may include initiatives such as promoting financial inclusion, supporting community development projects, and implementing sustainable investment strategies. By aligning their activities with ethical values, banks can enhance their reputation, mitigate risk, and contribute to long-term financial stability. Moreover, the adoption of ethical principles is not only beneficial for society but also for banks themselves. Research suggests that ethical banking practices can lead to improved financial performance, increased customer loyalty, and enhanced employee morale (Moghul, 2007). By cultivating a culture of integrity and accountability, banks can strengthen their relationships with stakeholders and position themselves for long-term success in an increasingly competitive marketplace. As financial institutions continue to navigate complex economic, social, and regulatory landscapes, the importance of ethical finance is likely to grow. By embracing ethical principles and integrating them into their operations, banks can demonstrate their commitment to responsible business practices and contribute to a more sustainable and equitable financial system.

In the context of ethical banking, the Co-operative Bank in the U.K. stands out as a prominent example, renowned for its commitment to ethical finance principles (Murray-West, 2012). However, despite the universal use of the term "ethical," its interpretation can vary significantly from one financial institution to another within the contemporary global finance landscape. Recent scandals, such as those involving Barclays, have raised doubts about the credibility of ethical banking as a viable alternative to the conventional capitalist banking model. The discrepancies in ethical practices among different organizations highlight the subjective nature of ethical standards within the financial industry. Each organization may have its own interpretation of what constitutes ethical behavior, leading to diverse ethical dimensions across the sector. Consequently, it becomes essential for stakeholders, including customers, investors, and regulators, to scrutinize and evaluate the ethical practices of financial institutions based on their individual standards and values.

2. THE CO-OPERATIVE BANK

The Co-operative Banking Group, a U.K.-based bank, traces its roots back to 1872 and is an integral part of The Co-operative Group. One distinctive feature of the bank is that every customer has the option to become a member of The Co-operative Group, fostering a sense of community ownership. Over the years, the bank has expanded its services and influence, having merged with the Britannia Building Society and establishing its own insurance company. Known for its popularity and high customer satisfaction ratings, The Co-operative Banking Group offers competitive interest rates to its customers. Notably, the bank emphasizes ethical practices and social responsibility in its operations. For instance, it operates a standard current account that does not pay interest on credit balances, reflecting its commitment to transparent banking practices. Additionally, its current cash Individual Savings Account (ISA) offers a competitive rate of 0.5%, providing customers with a secure and accessible savings option. In addition to these core services, The Co-operative Banking Group offers a variety of financial products to meet the diverse needs of its customers. For example, it provides a three-year bond that offers a competitive interest rate of 3.93%, paid on a monthly basis. These offerings demonstrate the bank's dedication to providing accessible and attractive financial solutions while upholding its ethical principles (Murray-West, 2012).

One of the foundational pillars of The Co-operative Banking Group's ethical practices is its commitment to allowing its members to shape its investment policy. As a result, the bank has taken proactive measures to align its investment activities with the values and preferences of its customers. For instance, it has announced the suspension of over £1 billion in funds from financing business activities that its customers have identified as unethical. These prohibited activities encompass a wide range of sectors and practices that run counter to the bank's ethical principles. Among the excluded activities are funding extremist organizations, supporting arms manufacturing, engaging in businesses that exploit child labor, and investing in companies that restrict access to vital medicines in the developing world. By taking a firm stance against these unethical practices, The Co-operative Banking Group demonstrates its commitment to responsible and socially conscious banking (Murray-West, 2012). The Islamic Bank of Britain plc holds the distinction of being the first standalone, Shari'ah-compliant retail bank in the UK authorized by the Financial Services Authority (FSA). Founded in 2004, the bank is committed to offering a welcoming, inclusive, and personalized service to all its customers, irrespective of their religious affiliations. One of its key objectives is to provide products and services that cater to the needs and preferences of both Muslim and non-Muslim customers who prioritize banking with institutions that adhere to rigorous ethical standards. According to reports, the Islamic Bank of Britain plc offers a range of products that appeal to individuals seeking banking services aligned with Shari'ah principles and exacting ethical criteria. This approach positions the bank as a viable option for customers who prioritize ethical considerations and wish to engage with a financial institution that reflects their values (Murray-West, 2012).

The Islamic Bank of Britain plc distinguishes itself as the sole ethical bank offering a current account that operates in accordance with Islamic principles of QarÌ Hasan, which entails providing loans without interest. In addition to this unique current account offering, the bank provides a range of services, including debit cards, chequebooks, and access to ATMs, ensuring that customers have access to essential banking facilities. Furthermore, the bank's savings accounts are structured to provide profits to account holders rather than traditional interest payments, aligning with Islamic financial principles. The bank aims to deliver a target profit of 2% on its 120-day notice account and 3% on its two-year deposit account, providing competitive returns while adhering to Shari'ah-compliant practices. Moreover, the Islamic Bank of Britain plc offers a home purchase plan designed to facilitate home financing in a manner consistent with Shari'ah principles. This plan enables individuals to finance their homes in a manner that is compliant with Islamic financial guidelines, offering an alternative option for those seeking ethical and religiously aligned banking solutions (Murray-West, 2012).

Triodos Bank, originating from the Netherlands, began its journey as a foundation in 1971, dedicated to supporting innovative projects and companies through gifts and loans. By 1980, it had evolved into a fully-fledged bank, boasting a net book value of 540,000 EUR. Today, Triodos Bank stands as a global pioneer in sustainable banking, striving to leverage financial resources for the betterment of society, the environment, and culture. With branches spanning across European countries, including the UK, Triodos Bank has established itself as an ethical institution committed to fostering positive change. While it does not offer current accounts, Triodos Bank provides a range of financial products and services, including cash individual savings accounts (ISAs) and investment accounts. By aligning its operations with ethical principles and sustainability goals, Triodos Bank empowers individuals and businesses to invest in a more socially and environmentally responsible manner.

3. ETHICAL INTO ISLAMIC INSURANCE INDUSTRY

Despite decades of governmental protections through policies, laws, and regulations, the issues plaguing the Islamic insurance industry remained unresolved. Market players and industry stakeholders sought to address these challenges by adopting the term "ethical" as a means to fill the void, rather than addressing the fundamental shortcomings within the industry itself. This approach highlighted the unequal levels of direct transplantation between the Islamic banking and Islamic insurance systems, revealing underlying issues that persisted despite regulatory interventions (Khaldi and Hamdouni, 2011). The introduction of the concept of "aqad" into Islamic insurance, borrowing from the practices of Islamic banking, reflects an attempt to establish contractual frameworks within the insurance industry that align with Islamic principles. However, this approach has been met with various challenges and criticisms. One significant issue revolves around the application of muÌharabah and wakalah contracts within the context of insurance.

MuÌharabah contracts, which involve an investment arrangement, and wakalah contracts, which function on the basis of agency, are fundamental components of Islamic finance. While these contracts have been successfully utilized in Islamic banking to facilitate transactions such as profit-sharing and agency relationships, their adaptation to the insurance sector has been met with skepticism. Critics argue that the nature of insurance, particularly the pooling of risk and the guarantee of compensation in the event of loss, poses unique challenges that may not be adequately addressed by traditional Islamic financial contracts. In insurance, policyholders expect a degree of certainty and security in their coverage, which may not align perfectly with the profit-sharing mechanisms inherent in muÌharabah contracts or the agency relationships established through wakalah contracts. Furthermore, the complexity of insurance operations, including actuarial calculations, claims management, and risk assessment, introduces additional layers of complexity that may not be fully addressed by existing Islamic finance contracts. As a result, the transplantation of these contracts into the realm of Islamic insurance may not provide the robust regulatory framework and consumer protection measures necessary for a thriving and sustainable industry.

Farook's (2007) findings underscore the cautious approach adopted by Islamic financial institutions (IFIs) to ensure their operational integrity by steering clear of negative activities. This strategy involves adhering to Sharia principles that prohibit involvement in unethical or morally questionable practices such as interest-based transactions, speculative activities, and investments in industries deemed harmful to society or the environment. However, Farook highlights a significant disparity among IFIs regarding their approaches to positive actions or ethical initiatives. Unlike the clear guidelines governing the avoidance of negative activities, there appears to be a lack of standardization in the realm of positive actions within the Islamic finance industry. This variability in approach may stem from differences in interpretation of Sharia principles, varying degrees of commitment to ethical standards, and divergent strategic priorities among IFIs. The absence of standardized guidelines for positive actions poses challenges for IFIs seeking to enhance their social impact and contribute positively to the communities they serve. Without clear benchmarks or best practices, IFIs may struggle to develop consistent and effective strategies for promoting social responsibility, sustainable development, and ethical conduct across their operations. Addressing this challenge requires concerted efforts from industry stakeholders, including regulators, scholars, and practitioners, to develop comprehensive frameworks and guidelines for ethical conduct and positive actions within the Islamic finance sector. By establishing clear standards and expectations, IFIs can better align their operations with ethical principles and contribute meaningfully to the well-being of society while maintaining their adherence to Sharia principles.

The introduction of the term "ethics" into the realm of Islamic insurance appears to be a strategic move aimed at expanding market penetration and appealing to a broader segment of consumers. While Islamic insurance, like its conventional counterpart, fundamentally operates as a protection industry, the incorporation of ethical principles seeks to differentiate it from conventional insurance models (Moghul, 2007). However, to ensure fairness and transparency, it is imperative to critically evaluate the nature of ethics inherent in the various models utilized within the Islamic insurance industry. This evaluation should encompass an analysis of the ethical frameworks, principles, and practices that underpin Islamic insurance operations, as well as their alignment with Sharia principles and the ethical expectations of stakeholders. By conducting a thorough assessment of the ethical dimensions of Islamic insurance models, stakeholders can gain insights into the industry's commitment to ethical conduct, social responsibility, and consumer protection. This evaluation can also serve as a basis for identifying areas of improvement and implementing measures to enhance the ethical integrity and effectiveness of Islamic insurance practices. Ultimately, such efforts can contribute to the development of a more robust and trustworthy Islamic insurance sector that fulfills its ethical obligations while meeting the needs of consumers and society at large.

The analysis underscores a critical aspect of Islamic insurance, emphasizing its resemblance to an investment strategy rather than a traditional insurance model. Indeed, Islamic insurance operates on the basis of investment contracts, where investors provide capital to entrepreneurs for investment purposes, with profits shared on predetermined terms. Importantly, in the event of investment losses, the capital provider assumes responsibility, provided the losses occur within the natural course of business operations. This profit and loss sharing arrangement underscores the primary focus of Islamic insurance contracts on generating returns rather than solely providing protection against risks. Consequently, there may be ambiguity regarding the nature of services offered by Islamic insurance companies—are they primarily investment vehicles or protection providers? This uncertainty raises questions about the true objectives of participants—are they seeking investment opportunities or safeguarding against unforeseen losses? To address these concerns, it is essential to clarify the core objectives of Islamic insurance and ensure alignment with Islamic legal principles governing investments. By clearly defining the role and objectives of Islamic insurance entities, stakeholders can mitigate ambiguity and better meet the needs of participants within the framework of Sharia-compliant practices. Additionally, adapting Islamic insurance practices to accommodate modern market requirements while upholding ethical and legal standards will enhance the industry's credibility and effectiveness in meeting the diverse needs of stakeholders.

4. FORM OF INVESTMENT

The proponents of Islamic insurance adhere strictly to the principles outlined in the Qur'an and Prophetic traditions, ensuring that their investments align with Islamic ethics of commercial contracts (Brownlow 2009). This commitment entails avoiding involvement in usurious activities, indiscriminate profit-making ventures, and businesses that promote social vices such as lotteries and casinos. Additionally, Islamic insurance proponents refrain from investing in industries related to armaments or other activities deemed harmful to humanity and the environment. By adhering to these ethical guidelines, Islamic insurance companies uphold the values of fairness, social responsibility, and sustainability inherent in Islamic teachings. This ethical stance not only safeguards against morally questionable practices but also fosters trust and confidence among stakeholders, reinforcing the industry's commitment to serving the community while adhering to Sharia principles. While Islamic insurance companies prioritize ethical investments in accordance with Sharia principles, there may be unintended consequences associated with abstaining from certain activities. For instance, alternative investments pursued by Islamic insurers, such as shares in Dow Jones Index and FTSE Global Islamic Index, must meet specific criteria to be considered Sharia-compliant. However, these indices may still contain a portion of transactions deemed haram (forbidden) under Islamic law, with some sources indicating that up to 33% of the holdings may involve such activities (Hussein 2004).

This raises questions about the extent to which Islamic insurers can effectively avoid all unethical practices in their investment portfolios. While they strive to adhere to Islamic principles, the practical challenges of identifying and excluding haram activities entirely may pose limitations. Moreover, the potential overlap between permissible and impermissible investments within widely diversified indices underscores the complexities involved in maintaining strict adherence to Sharia guidelines while seeking viable investment opportunities.

The contemporary interpretation allowing up to 33% of investments in haram activities, as per the criteria of Dow Jones Islamic Index and FTSE Global Islamic Index, raises theological questions concerning adherence to Islamic principles. While this ruling may be permissible under current interpretations, it conflicts with the Quranic injunction against engaging in any form of usury or forbidden acts, regardless of the percentage involved (Hussein 2004). According to Islamic teachings, even the slightest involvement in forbidden activities, such as trading in pork or alcohol, is considered punishable by Allah, making the allowance of 33% particularly contentious. Moreover, simply avoiding certain investments does not necessarily demonstrate ethical behavior; individuals or organizations may refrain from such activities due to practical considerations or fear of divine retribution, rather than a genuine commitment to ethical conduct. Additionally, the appropriateness of investment methods and the potential misuse of participants' funds by managers are important ethical considerations that require careful examination within the context of Islamic insurance operations (AM Best 2013). Given these complexities and ambiguities surrounding ethical standards in Islamic insurance, there is a need for greater clarity and transparency in defining and implementing ethical practices within the industry. Without clear guidelines and robust oversight mechanisms, assertions of ethical behavior within Islamic insurance may lack substantive basis and fail to instill confidence among stakeholders.

The assertion of redistributing underwriting returns to participants is a common marketing strategy employed by Islamic insurance providers. While this principle may be enshrined in written policies, its practical implementation varies significantly across different regions and companies within the industry (AM Best 2013). Discrepancies in distribution practices are evident even among Islamic insurance systems within the same country, let alone across international borders.

For instance, in Saudi Arabia, the percentage of profits allocated to participants differs from the distribution system in Kuwait, where shareholders receive a larger share of the profits, leaving nothing for the participants (Haydir 2009). Similarly, in Malaysia, there appears to be no standardized system for profit distribution, and the timing of such distributions remains unspecified. These inconsistencies raise questions about the ethical integrity of Islamic insurance marketing campaigns, particularly in persuading non-Muslims to participate. Without clear and consistent practices for profit distribution, potential participants may question the fairness and transparency of the system. Moreover, the fate of excess funds withheld by operators remains uncertain, prompting further concerns about accountability and equitable treatment of participants.

Indeed, if Islamic insurance is to overcome its challenges and attract a broader market base, it must adopt innovative and inclusive marketing strategies that transcend religious and cultural boundaries. The conventional approach of relying solely on religious or ethical appeals has not proven effective in expanding the industry's reach (Alpen Capital 2010; IFN 2012; WTR 2012; AM Best 2013; Siddiqui 2013), and has, in fact, contributed to the segmentation of markets along religious lines. One promising strategy proposed in this study involves reevaluating the method of rating or pricing Islamic insurance products and services. This approach suggests incorporating underwriting returns into the rating model of the Islamic insurance industry, thereby aligning pricing practices with Shariah-compliant principles. To implement this strategy, it may be necessary to develop a new rating model or adapt existing actuarial models to ensure compliance with Shariah guidelines. By integrating underwriting returns into the rating process, Islamic insurance providers can offer competitive pricing while remaining true to their ethical and religious principles. This approach

5. CONCLUSION

Having a robust pricing system is crucial for any industry, especially in the competitive landscape of the financial markets. By incorporating underwriting returns into the pricing model, Islamic insurance providers can ensure that their products remain attractive and competitive while adhering to Shariah principles. This approach not only promotes transparency and accountability but also demonstrates a commitment to ethical business practices. Furthermore, early detection of potential issues and proactive risk management are hallmarks of prudent financial management. By embracing innovative pricing strategies that reflect the unique features of Islamic insurance, providers can better anticipate and address challenges, thereby enhancing their resilience and sustainability in the marketplace. Merely avoiding prohibited activities is essentially adhering to legal and regulatory requirements rather than embodying a truly ethical approach. In the realm of finance, including Islamic finance, ethical marketing should encompass more than just compliance with laws and regulations. It should reflect a deeper commitment to principles of fairness, transparency, and social responsibility. Using ethics as a marketing tool requires going beyond legal compliance and actively promoting values that resonate with customers and stakeholders. This can involve initiatives such as promoting financial literacy, supporting community development projects, and advocating for environmental sustainability. By embracing a holistic approach to ethics in their marketing strategies, financial institutions can build trust, enhance reputation, and foster long-term relationships with their customers. Islamic ethics are rooted in the teachings of the Quran and the Sunnah (traditions) of the Prophet Muhammad, emphasizing principles such as honesty, justice, compassion, and social responsibility. These ethical guidelines serve as the moral foundation for individual behavior and societal interactions in Muslim communities. In contrast, Islamic law, known as Shariah, encompasses a broader framework that includes both ethical principles and legal regulations governing various aspects of life, including commerce, finance, family, and governance. Shariah law is derived from the Quran, Sunnah, consensus among Islamic scholars (ijma), and analogical reasoning (qiyas). Within the realm of business and finance, Shariah-compliant practices are guided by both ethical considerations and legal prescriptions. Transactions and contracts must not only adhere to ethical principles such as fairness, transparency, and avoidance of harm but also comply with specific legal requirements outlined in Shariah. For example, Islamic finance prohibits transactions involving riba (usury or interest), gharar (excessive uncertainty or ambiguity), and maysir (gambling or speculation). These prohibitions are not merely ethical guidelines but are legally binding injunctions that govern the structuring of financial products and contracts in accordance with Shariah principles. Similarly, ethical considerations extend beyond mere compliance with legal requirements to encompass broader societal welfare and ethical objectives. Islamic finance aims to promote economic justice, equitable distribution of wealth, and the well-being of communities, aligning with the overarching ethical goals of Islam. Overall, Islamic business and finance operate within a comprehensive framework that integrates ethical principles with legal mandates derived from Shariah. Adherence to both ethical guidelines and legal requirements is essential for ensuring the integrity, legitimacy, and ethical soundness of Islamic financial practices.

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