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Insurance

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Fatwa no. 3249:

Q: We had a project that necessitated dealing with the bank; as we needed to obtain a bank guarantee known as "good execution guarantee," which means that the bank will guarantee the execution of the obligations stated in the contract. We were surprised to know that the bank should receive a profit in return for issuing this guarantee (letter of guarantee). When we referred to the books of Fiqh (Islamic jurisprudence) which we have, we found that guarantees or warranties are a type of donation. Thus, we got confused and suspended the project until we know the correct ruling according to Shari`ah (Islamic law) substantiated with legal evidence. We thought of sending you our question after hearing of your knowledge, piety, and devoutness. We hope your Eminence will tell us your opinion substantiated with legal evidence. Is it permissible to receive payment for issuing a warranty or a guarantee? We are also asking about the ruling on insurance on goods, accidents insurance and life insurance. What is the opinion of the Islamic Law on such contracts? The Committee received a similar question number (6227) to which it answered that these insurance types were commercial insurance. We thought that it is enough to cite the detailed question and state the answer to the questions mentioned above to avoid repetition. May Allah grant us success! The question says: The inquirer asked about the following types of insurance:

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1. Insurance on imported merchandise: This type provides protection for the imported goods on a yearly basis or for every cargo shipped individually against the risks of land, sea, and air freight in a way that achieves the benefits and wishes of the insurers. 2. Vehicle insurance: This type provides insurance for all cars on request, depending on the car model and the nature of its use, that is, whether it is a private car or a truck. Cars are insured against all risks, including the damages incurred in an accident or as a result of fire or theft. It is also possible to provide insurance for the third party against physical injuries or damages caused to their properties. Moreover, it is possible to provide insurance for the third party only in case they have an accident caused by the insured vehicle. 3. Land freighter insurance: This type provides insurance for the cargo carried by the vehicles of the insurer to and from any place in the Kingdom of Saudi Arabia, according to an annual contract including the maximum limit of liability for each cargo, in case the vehicle carrying it has an accident, such as a collision, rollover, fire,

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explosion, or falling from a bridge or into a river. 4. Land freight insurance: It is possible to provide insurance for the cargo shipped by land on request against the following: (a) All risks that might be caused by the freighter to and from any place inside and outside Saudi Arabia. b) The dangers of it being damaged or lost if the freighter has an accident in transit to and from any place in Saudi Arabia. 5. Property insurance: It provides protection against risks to property, such as fire, theft, and floods. Stores, warehouses, factories, employees' accommodations, and workplaces can be insured against fire, theft, and floods. 6. Insurance against breach of trust: This type provides insurance for important documents, stocks, jewelry, and valuable possessions against embezzlement. 7. Home insurance: It provides protection for buildings, villas, and compartments, against risks, such as fire, rifts, collapses, floods,

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thunderbolts, explosions, aviation risks, collision, and other damages that may be caused due to violence. 8. Contractor insurance: This type provides insurance for construction projects and factories against all risks that might take place while carrying out the project or constructing the factory. 9. Civil liability insurance: It provides protection against any damages resulting from catastrophes befalling the third party. 10. Workers' compensation insurance: The coverage is carried out according to the operative regulations and systems of the labor office in Saudi Arabia. 11. Personal accident insurance: It provides insurance for the individuals by offering the necessary health care and paying an agreed upon sum of money in case of accidents, Allah forbid, that result in permanent physical disability, loss of a bodily member, or death.

A: Firstly, it is not permissible to give the bank a profit in return for its guarantee for you before any party with which you are committed to execute a contract. This profit is considered

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forbidden usurious fees, and Riba (usury) is Haram (prohibited) according to the Qur'an, Sunnah, and Ijma` (consensus of scholars). **Secondly, commercial insurance is Haram, because of the following:** 1. Commercial insurance is a contract of presumed financial compensation which involves clear uncertainty, because the insurer cannot know at the time of signing the contract the amount which they will pay or be given. They may pay one installment or two and then an accident takes place, qualifying them to take what the insurance company has been committed to pay. On the other hand, no accident may take place and thus the insurer pays all the installments and takes nothing. In addition, the insurance company cannot determine the amount it might give or take according to each contract it signs. It is stated in an authentic Hadith that the Prophet (peace be upon him) prohibited the Gharar sale (uncertain sale). 2. Commercial insurance is a type of gambling, because it involves risk in financial compensation, loss without any reason, and gain without exerting any effort. For example, the insurer can pay one installment then have an accident, thus causing the insurance company to pay all the insurance money. Conversely, no accident might take place and the insurer will pay all the installments without a return. These uncertain contracts are gambling and the general evidence prohibiting gambling are thus applicable to them. Allah (may He be Exalted) says, ﴿ O you who believe! Intoxicants (all kinds of alcoholic drinks), and gambling, and Al-Ansâb, and Al-Azîâm (arrows for seeking luck or decision) are an abomination of Shaitân's (Satan) handiwork. So avoid (strictly all) that (abomination) in order that you may be successful... ﴾

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3. Commercial insurance involves Riba Al-Fadl (usury of excess, selling an item for another of the same type, on the spot, but in excess) and Riba Al-Nasi'ah (usury of delay, conditional excess for delay of payment). If the insurance company pays the insurer, their heirs, or the beneficiary more than the money they paid, then this is Riba Al-Fadl. If the insurance company pays this sum of money to the insurer after the term of the contract, then this is Riba Al-Nasi'ah. If the insurance company pays to the insurer the same amount the latter paid to it, then this is Riba Al-Nasi'ah. Both kinds of Riba are prohibited according to Nas (Islamic text from the Qur'an or the Sunnah) and Ijma'. 4. Commercial insurance is a type of prohibited wager, because both of them include uncertainty and gambling. Shari'ah has only permitted wagers that can support Islam through evidence and strength. The Prophet (peace be upon him) restricted the permissibility of wagers to three things, by saying, (Wagers are allowed only for racing camels or horses or shooting arrows.) Insurance is not one of these types of wagers or even like any of them; that is why it is prohibited. 5. Commercial insurance involves taking others' money unjustly, which is prohibited in commercial compensation contracts because of being included in the general prohibition specified in the following Ayah (Qur'anic verse), (O you who believe! Eat not up your property among yourselves unjustly except it be a trade amongst you, by mutual consent.)

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6. Commercial insurance is a commitment to do something that is not legally obligatory. The insurance company is not responsible for the accident; it only makes a contract with the insurer to protect them against accidents, in case they take place, in return for a sum of money which the insurer pays to the insurance company and the latter does nothing for the insurer to deserve this money. Hence, commercial insurance is Haram. We hope that what we have said is useful for the inquirer. May Allah grant us success! May peace and blessings be upon our Prophet Muhammad, his family, and Companions!

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