130761 - Why Is Commercial Insurance Prohibited?

the question

What is the evidence for commercial insurance being prohibited?

Summary of answer

Commercial insurance is prohibited in Islam due to its involvement in ambiguity, gambling, and Riba, all of which are forbidden in the Quran and Sunnah. Moreover, it leads to the unlawful consumption of wealth, imposes non-Shar'i obligations, and can cause harm to individuals and society.

Detailed answer

Praise be to Allah.

Understanding the prohibition of commercial insurance

Commercial insurance which is offered by most insurance companies is a kind of prohibited contract, whether it is insurance covering one's life or possessions or anything else. The fact that it is prohibited is indicated by a number of texts and Shar`i principles, such as:

The ambiguity in insurance contracts

- Insurance is a transaction that involves ambiguity, and transactions that involve ambiguity are forbidden according to Shari`ah.

Muslim (1513) narrated from Abu Hurayrah (may Allah be pleased with him) that the Prophet (peace and blessings of Allah be upon him) forbade ambiguous transactions.

Gharar in Arabic means a risk which is not certain; it may happen or not, such as selling fish in the

water or birds in the air, because the purchaser may or may not get it.

Al-Azhari (may Allah have mercy on him) said: Gharar transactions include any transactions in which something is not known. (Mu`jam Maqayees Al-Lughah, 4/380-381; Lisan Al-`Arab (6/317).

Al-Khattabi (may Allah have mercy on him) said:

The root meaning of the word ambiguity is that which is wrapped up and concealed from you. Any transaction which is based on ambiguity or on inability to achieve something is Gharar. There are many kinds of ambiguity, which all involve not knowing exactly what the transaction involves. (End quote)

An-Nawawi (may Allah have mercy on him) said:

With regard to the prohibition on ambiguous transactions, this is a very important principle with regard to commercial transactions, and includes many issues, such as selling things that are not present or are unknown, and so on. All of these are invalid transactions because there is ambiguity with no reason for that.

Some kinds of ambiguity may be tolerated when engaging in a transaction if there was a reason for it, such as not knowing about the foundations of the house; this transaction is still valid because the foundations belong to what can be seen of the house, and because there is a reason for this, as it is not possible to see the foundations.

They unanimously agreed that it is invalid to sell foetuses that are in utero and birds in the air. The scholars said: The reason for it being invalid is because of ambiguity. (End quote)

The scholars agreed that a great deal of ambiguity is not permissible, but a little of it may be overlooked. They differed as to what constitutes a little or a great deal. (Bidayat Al-Mujtahid, 2/187; An-Nawawi said something similar in Sharh Muslim)

Insurance policies are among the contracts that involve a great deal of ambiguity; even lawmakers themselves have affirmed that insurance contracts are based on probabilities, which means

ambiguous, because neither the insurer nor the insured can know at the time of entering into the contract what he will give or take. The person who takes out insurance may pay one instalment, then an accident may happen and the insurer is obliged to give what he agreed to give to him, or perhaps nothing will happen at all, so he will pay all the instalments and not take anything.

The element of gambling in insurance

- Insurance contracts are a kind of gambling

Gambling is prohibited, as it was forbidden by Allah, when He said (interpretation of the meaning):

{Intoxicants (all kinds of alcoholic drinks), and gambling, and Al-Ansab (stone altars for sacrifices to idols etc), and Al-Azlam (arrows for seeking luck or decision) are an abomination of satan's handiwork. So avoid (strictly all) that (abomination) in order that you may be successful.} [Al-Ma'idah 5:90]

What is meant by gambling is when a person pays something of his own money and takes a risk: either he will gain more than it or he will lose the money that he paid.

Insurance is a transaction that is connected to a risk that may or may not happen, so it is, in effect, gambling, because the person who takes out insurance is taking the risk by paying the premium. Either he will take more than it or he will lose it if the risk against which he is insured does not happen.

The person who is insured may pay twenty and take one thousand, or he may pay one thousand and take one thousand, or he may pay one thousand and not take anything if the risk against which he was insured does not happen.

Is this not taking risks and gambling?

The presence of Riba in insurance contracts

- Insurance involves Riba An-Nasi'ah and Riba Al-Fadl, in the event that compensation is paid

Muslim (1587) narrated that `Ubadah ibn As-Samit (may Allah be pleased with him) said: The Messenger of Allah (blessings and peace of Allah be upon him) said: “Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, salt for salt, like for like, same for same, hand to hand. But if these commodities differ, then sell as you like, as long as it is hand to hand.”

This Hadith indicates that if a person sells gold for gold, it must be equal amounts and the exchange completed in the same sitting.

So it should be sold gram for gram, with nothing added, and the exchange must be completed in the same sitting. It is not permissible for the two parties to separate without each of them having taken what is due to him.

If a person sells gold for gold with a difference in the amount, then they have fallen into riba Al-fadl. If the exchange is not completed then they have fallen into Riba An-Nasi’ah, i.e., interest charged when hand-to-hand exchange is delayed.

If gold is sold for silver then the exchange must be completed in the same sitting, and it is permissible for there to be a difference in the amounts. So a gram of gold may be sold for 10 g of silver, for example, but it is not permissible for them to separate without the exchange having been completed.

Currency comes under the same ruling as gold and silver in this regard. It is not permissible to exchange one currency for another unless the exchange is completed in the same sitting. If the currency is all the same, then it must be like for like and the exchange should be completed, just as if gold were being exchanged for gold.

Insurance includes Riba of both types: Riba Al-Fadl and Riba An-Nasi’ah.

What that means is that what the insurance gives to the person who takes out insurance, or to his heirs, if the risk defined in the contract happens, will be one of three things: either it will be less than what he paid or more than that or equal to it.

In all these cases what the company gives to the insured person happens after he pays the

insurance instalments during a period of which the end is in fact unknown.

So the reality of the transaction is that it is paying money for money to be given at a later date.

If the amounts are equal, then this is Riba An-Nasi’ah; if more [or less] is paid, then it is Riba Al-Dadl and An-Nasi’ah, both of which are prohibited on their own so how about if they are combined?

Consuming wealth unlawfully through insurance

- Insurance is consuming people’s wealth unlawfully

Consuming people's wealth unlawfully is prohibited.

Allah Says (interpretation of the meaning): {O you who believe! Eat not up your property among yourselves unjustly except it be a trade amongst you, by mutual consent.} [An-Nisa’ 4:29]

What is invalid is every way which is not permitted by Shari`ah, and which involves stealing, betrayal, robbery, gambling, Riba-based contracts and corrupt transactions. This was stated by Abu Hayyan (may Allah have mercy on him) in his commentary on this verse.

What is meant by insurance involving consuming people’s wealth unlawfully is if the money paid by the insurance to the person who is insured is more than he paid -- such as if the risk occurs after paying just one instalment -- then on what basis is he entitled to this money? And if the risk does not occur, then on what basis is the insurance company entitled to the payments made by the person who was insured without anything in return?

Statistics by a German expert have proven that the ratio of payments made by insurance companies in compensation to individuals is equivalent to no more than 2.9% of the total amount of payments made.

On what basis is the insurance company entitled this money, and in return for what?

The imposition of Non-Shar`i obligations

- Insurance contracts make obligatory things that are not obligatory according to Shari`ah

Insurance contracts oblige the insurance company to pay compensation, if the risk against which insurance was taken happens. On what basis is this made binding? The insurance company did not cause the danger or make it happen; it did not commit any acts of aggression or shortcoming, so how can it be forced to pay compensation for something for which it is not liable according to Shari`ah?

The social and individual harm of insurance

- Insurance harms both individuals and society

In addition to what is mentioned above, insurance is not free of other harmful effects, among the most important of which are the following:

Taking things lightly: it makes the people insured careless about protecting their property against calamity; they may even go further than that and cause accidents or make accidents worse. This causes a great deal of harm to individuals. For example, some drivers whose lives and cars are insured may become careless and not pay heed to traffic laws and regulations, which exposes individuals to harm caused by accidents and car crashes.

Each one of these reasons is sufficient to indicate that commercial insurance is prohibited and that insurance contracts are invalid contracts which are not permitted by Shari`ah, and that it comes under the heading of consuming people's wealth unlawfully. So how about when all these reasons are combined?

Hence the majority of contemporary scholars have ruled that all forms of commercial insurance are prohibited. Statements have been issued by the Council of Senior Scholars in the Land of the Two Holy Sanctuaries and by the Islamic Fiqh Councils in Jeddah and Makkah, that commercial insurance is prohibited according to consensus, and not one member of the Council disagreed.

We have quoted a great deal of these statements and fatwas in the answers to various questions on our site.

See a lengthy discussion of commercial insurance in Abhath Hay`at Kibar Al-`Ulama`, 4/33-315.

And Allah knows best.