

## ABSTRACT

The existence of commercial contract of insurance since long time ago has greatly alleviated the impact of fortuitous happenings upon unfortunate community. This is due to its primary objective which is to provide a necessary economic security against unexpected catastrophes through the concept of risk sharing and mutual co-operation. Nevertheless, the conventional contract of insurance, which is based on the contract of sales, has been declared by most Muslim jurists as invalid from the sight of *Shari'ah*.

Alternatively, they have come up with the idea of *takaful* which is based on the contract of donation (*tabarru'*). Yet, many Muslims are still unaware that insurance is prohibited while *takaful* is permissible. Additionally, *takaful* contribution, which is claimed to be higher than conventional insurance premium, has caused many rational-minded Muslims to go for the latter.

The core objective of this study is thus to clarify the main reasons behind the prohibition of insurance as well as to elucidate the differences between the two systems thus eliminating the perception that both systems are the same. The study will also analyze some issues which relate to *takaful* pricing and performance as compared to conventional insurance in Malaysia.