Q: Is it possible to carry on insurance business on the transactions between two Muslim States or a Muslim and non-Muslim State?

A: Interest is not permissible on economic/financial transactions occurring between two Muslim countries. Muslim countries can eliminate interest from their economy provided they make sincere and serious efforts. What is needed is to muster the public confidence. When this is achieved, the Islamic state can realize more tax revenue through extra taxes as well as through interest-free loans and voluntary contributions. Then, there may not be any need to raise interest-based loans.

However, in cases of extreme needs, a Muslim country can seek interest-based loans for as shall amount and for as shorter period, as possible.

The Islamic state provides for risks of poverty, sickness or any other calamity from the Bait-ul-Mal, Zakat-based social security. Insurance administered by the State take care of incidences of this nature.

Insurance business can be organized in the private sector on the basis of the principles of cooperation and mutual security. The important thing is to ensure that the elements of Riba and gambling do not enter into the functioning of the insurance business. This can be done by forming mutual insurance companies where policy holders contribute to the insurance fund by way of gifts. The insurance fund may be invested on the basis of Mudaarabah and may also be available as Qarz-e-Hasana to the policy holders. The payment to a policy holder at the time of any calamity may be considered as a gift from the rest of the policy holders. The profits earned on the insurance fund may be distributed on the basis of the relative contributions to the fund.

The above-mentioned insurance scheme may be Islamically accepted as it is purged of the elements of gambling and interest.

Contemporary fatawaa