



Life Insurance and the Extent to which it is Permitted in a Case of Need

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For the average Person, What is Insurance and How does it work



- » It is a purely economic decision: Shifting risk
- » Pay money, for the money to make me whole after a loss—it is money for money, plain and simple
- » Anecdotal
- » How does it work: A black box for most people



Technical Definition of Insurance

- » An insurance contract must have an element of contingency—that is, the event insured against must be possible but not certain to occur in a given period of time and must be substantially beyond the control of either insured or insurer (Encarta)
- » An aleatory promise is conditional on the happening of a fortuitous event, or an event supposed by the parties to be fortuitous. Thus, an insurance company's promise to pay a sum of money in the event of fire or other casualty supplies consideration for the insured's payment of a premium even if no casualty occurs... [T]he promise is aleatory; it constitutes consideration because it is conditional on a fortuitous event not within the total control of the promisor. (Calamari and Perillo)
- » The Point Being: Aleatory, Risk, Not in Control, Unknown Outcome



How Does Life Insurance Work (1): Term Life

» Term Life Insurance
– 10, 20, 30 Years





How Does Life Insurance Work (2): Permanent Life

- » Premiums Fixed over Expected Lifespan
- » Portions of Premium Put into Cash Value Account
- » Have the Option of Cashing Out



How Does Life Insurance Work (3): Individual Life Annuities

» A stream of income after
paying premiums





How do Life Insurance Companies Make Money

- » Underwriting, the law of large numbers, risk-sharing, risk-pooling (to determine premiums)
- » Investment income (they receive money now to be paid out later; float)
- » Cash Value Payouts
- » Lapsed Coverage—extremely important
 - 2008: about 1.1 million life insurance policies of all types - universal, variable, whole, and term life - controlled by Americans over the age of 65 were allowed to lapse, according to a report from Life Health Pro
 - Insurance companies make money because a massive amount of all life insurance coverage lapses (Page)
 - The number and amount of lapsed life insurance policies by U.S. seniors over age 65 is astounding (Bayston)



Fiqhi Arguments Presented in Defense of Insurance

- » The Premium is a Charitable Donation from a Consenting Party
 - Don't try that with the IRS
- » Peace of Mind Argument
- » Security Guard Argument
- » Proving that mutual or collective insurance may be haram does not prove that commercial insurance is permissible
- » The Default Ruling of Permissibility





Life Insurance and the Law of Necessity

» The Conditions for the Law of Necessity to be
Invoked

Life Insurance and the Principle of Need

- » Who “Needs” Life Insurance
- » Some Very Limited Scenarios (possibly)
- » Financial Struggles and the Nature of Ibtilaa
 - Ribaa-Options?



Conclusions

» Drinking beer to avoid kidney stones