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Transformative Trade Credit Takaful Model: A Progressive Alternative to Credit Insurance

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Abstract

Trade credit insurance is a common method of risk management used by suppliers to safeguard themselves against non-payment by credit buyers. The manufacturer extending trade credit risks facing cash flow problems and potential customer non-payment. Manufacturers can increase sales with the aid of trade credit insurance and significantly reduce their default risk. A few companies in certain countries have introduced trade credit insurance as a relatively new service. However, they do not offer the Takaful model. Generally, people increasingly seek Shariah-compliant solutions, such as Islamic banking, to address their financial needs. Therefore, the government must bolster its presence in this domain. The overarching objective of this study is to propose an innovative Credit-related Takaful industry product for consideration. This study employed a qualitative approach, with unstructured interviews conducted to gather insights. The study sample comprises experts from the Shariah compliance department, Shariah scholars, and the Takaful industry experts, who were interviewed to gain a comprehensive understanding of Shariah principles. These interviews were conducted to gather insights into which Takaful model would be most suitable for Trade Credit in Pakistan. The majority of Shariah Scholars recommended the Waqf Wakalah model for the implementation of Credit Takaful in Pakistan. The findings of this study will help the Takaful industry of Pakistan to launch a new product for credit trading. This study will help further to know the importance of Credit Takaful and tap the gap in the Credit Takaful market, especially in Pakistan. Lastly, the findings will help the regulators of the Takaful industry to introduce new rules for the industry, providing a baseline for researchers to enhance their knowledge. Further investigation into Credit Takaful in Pakistan will build off the findings of this study to fill out the full circle of the Islamic financial system. It is a step in the right direction toward ending poverty and income inequality and increasing public awareness of the importance of Credit Takaful in today's world.

Keywords: Insurance, Takaful, Trade Credit Insurance, Trade Credit Takaful, Risk Management.

1. Introduction

Trade credit insurance referred to as credit insurance or export credit insurance, is a type of financial product used by companies to guard against the possibility that their clients won't pay. In the contemporary global economy, where enterprises routinely participate in cross-border transactions and grant credit to clients, trade credit insurance is indispensable in reducing credit risk and protecting cash flow and allows businesses to grow their clientele and trade with confidence without worrying about suffering financial losses from default (Bhatti, et *al.*, 2023). Moreover, it also attracts and maintains buyers, offers a competitive advantage, develops strong connections, assists in cash flow management, supports small businesses, improves market reach, handles seasonal difficulties, and adds to differentiation initiatives. The advantages of trade credit may be divided into four categories: (i) lower operational expenses, (ii) higher sales, (iii) the emergence of an attractive rate of return, and (iv) the establishment of long-term commercial partnerships with customers (Tang, 2014).

Trade credit insurance usually protects companies against commercial risks like customer insolvency or bankruptcy as well as political risks like export restrictions, political unrest, and currency inconvertibility. It covers both domestic and international trade transactions (Li, et al., 2016). With trade credit insurance, the policyholder/seller may be confident that either the debtor will pay his debt, or the trade credit insurer will pay non-disputed receivables within the terms and conditions of their policy (ur Rehman, et al., 2023). In trade credit insurance the policyholder assures that his cash flows are maintained, capital is secured, repayments and loan servicing are improved, and earnings are protected from these events of default. Credit insurance strategy additionally permits organizations to feel secure in stretching out more credit to current clients or to seek after new, bigger clients that would have appeared to be excessively risky. The protection it gives permits an organization to increase deals to develop its business with existing clients (Hermes, 2015). The terms and extent of coverage of the insurance policy may change based on variables like the type of business, the industry, the customers' location, and their creditworthiness.

Trade credit insurance is a comprehensive risk mitigation tool that facilitates management to implement the basic measures to avoid and decrease late payments and defaults, decrease the risk of the receivables portfolio and improve the ability to use commercial credit as a viable instrument (Riestra, 2003). The indirect promotion of cross-border trade in goods and services is increasingly significant in the current growth phase of worldwide trade (Li, et al., 2020). Since security is seen as the fundamental motivation to utilize suitable instruments, the boundless instrument is the monetary help as exchange credit protection to cover hazards that happen during exchanges. Various risky factors in worldwide exchange prove the need for help in holes that may influence exporters' movement. Stakeholders use trade credit insurance in order to maximize trade dimensions and, at the same time, minimize the risks of exporters, which might be considered a significant tool for managing the risk of delaying payments or failure to pay (Sokolovska, 2016). On the other side, if trade credit insurance is not used properly, companies can face problems regarding their receivables. In the absence of trade credit insurance, and to avoid credit risk-related losses, suppliers would have no choice but to rely on either full pre-payment for goods and services by buyers or to seek a third party willing to take the credit risk for a price.

For several decades, trade credit insurance has been a vital component of risk management plans for companies doing business internationally (Aslam, Azam, & Iqbal, 2020; Aslam & Haron, 2021). This traditional method gives businesses a safety net against the unpredictability of customer non-payment, enabling them to handle trade with more assurance. Conventional trade credit insurance models, however, might not always be in line with the moral and legal standards of all companies, especially those that follow the principles of Islamic finance (Aslam, Ur-Rehman, & Iqbal, 2021). Credit insurance is a product of insurance that protects businesses from non-payment of commercial debt. Non-payment may be due to a customer's insolvency, bankruptcy, or a similar situation. We need to protect our trading debt to raise the quality of our credit business (Jones, 2010).

Some prominent cases were highlighted by Zafar Bhutta talking about the PSO's receivables in The Express Tribune, on April 5th, 2023. He said that Pakistan State Oil (PSO) is facing a financial crisis amidst the ongoing freefall of the Pakistani rupee against the US dollar. The company has booked claims of Rs 6.7 billion against gas Utility-Sui Northern Gas Pipeline Limited (SNGPL) for Liquefied Natural Gas (LNG) supply. PSO ventured into the LNG business during the previous government's tenure in 2015, which resulted in financial challenges as the company faced difficulties in recovering multibillion rupees owed for its supplies. Among the total receivables, PSO is awaiting Rs 178 billion from the power sector for oil supply utilized in electricity generation. Notably, generation companies constitute the primary defaulters, with a significant outstanding amount of Rs 147.6 billion, including Rs 25.3 billion owed by Hubco and Rs 5 billion by Kapco. On the other hand, PSO has to pay Rs 88 billion to oil refineries for fuel supply. It owes Rs 52.9 billion to the Pak-Arab Refinery Company, Rs 12 billion to Pakistan Refinery Limited, Rs 3.2 billion to National Refinery Limited, Rs 16.3 billion to Attock Refinery Limited, and Rs 2.6 million to Enar. It has to pay Rs 228 billion to retire letters of credit, standby letters of credit (SBLC), and Kuwait Petroleum Corporation for LNG payments (Bhutta, 2023).

Based on the discussion, we find there is no way to ensure credits in the light of Shariah because, currently, in the Islamic financial system, no model can insure/ensure commercial debts. In the Islamic economic system, credit transactions are mostly based on trust (Aslam, Ashraf, & Iqbal, 2022). This might not be enough to boost commercial debt volume across faith and borders. Takaful is an alternative solution to conventional insurance. There is a need for much research in this area because many questions arise regarding the model, Shariah structure, and the need for Credit Takaful while different countries are using credit insurance. Takaful is a mechanism that is acceptable for Shariah. Different companies like "Euler Hermes" and "Zurich" have recently begun providing credit insurance in various countries. They are not offering a Takaful model for Trading Credits. Insurance companies are providing insurance for this sector, but people prefer Takaful policies instead of insurance. That's why a Takaful model for business industries is needed so an organization can cover its losses using a mechanism aligned with Shariah rulings. Hence, a growing number of people are interested in investigating alternative risk management strategies that meet Islamic ethical standards while also being effective in addressing this challenge. Therefore, this study aims to explore the solutions for credit insurance and identify the most suitable model for Credit Takaful in Pakistan.

2. Literature Review

2.1. Credit Insurance Products

2.1.1 Domestic Credit Insurance

In today's business environments, domestic credit insurance, a subset of trade credit insurance, is essential because it reduces the risks involved in giving credit to domestic customers. Domestic credit insurance is designed to meet the specific requirements of companies that operate in a particular nation. It offers protection against long-term default by customers, insolvency, and political risks that could compromise timely payment receipt (Aslam, Ur Rehman, & Iqbal, 2024). Insurers assess the creditworthiness of insured customers through stringent risk assessment and underwriting procedures, which empowers companies to make well-informed decisions regarding credit terms. Domestic credit insurance creates an environment that is favourable to business growth and resilience in the face of economic uncertainties by transferring risk and fostering confidence in credit transactions. This kind of insurance policy protects against losses resulting from the non-receipt of payments due and payable due to selling products or services by a seller (the policyholder) in one country to a buyer (the risk) in the same country. The payment periods are typically no longer than six months, and insurance coverage usually begins immediately after delivery. The buyer's insolvency (or presumed insolvency) or protracted default must be the reason for non-receipt of payment (Leisewitz, 2005).

2.1.2 Short-Term Export Credit Insurance

A specialized financial instrument called short-term export credit insurance shields exporters from the possibility that overseas buyers will not pay. It offers protection for trade agreements that are completed within a few months to a year, on average. Exporters can reduce the risk of non-payment due to customer insolvency, political unrest, or commercial disputes by obtaining export credit insurance. Through short-term export credit insurance, exporters can increase sales abroad, confidently enter new markets, and improve cash flow management by having a safety net against possible losses. Small and medium-sized businesses (SMEs) looking to reduce the financial risks involved in exporting goods or services to foreign markets will find this insurance product especially beneficial. In short-term export, exporters sell goods and services on short credit terms (less than twelve months from the date of shipment) and can purchase export credit insurance that also covers a bad debt loss resulting from the exporter's sale of goods or services to an importer. An export policy may cover losses resulting from repudiation or political causes and losses resulting from the importer's insolvency or prolonged defaults (Leisewitz, 2005).

2.1.3 Medium/Long-Term Contracts Cover Insurance

Medium- and long-term contracts insurance, sometimes referred to as trade credit insurance or export credit insurance, is a specific type of financial product made to shield companies involved in international trade from the long-term risk of non-payment by foreign buyers. These contracts usually have payment terms that are longer than the usual short-term range, frequently numbering in several years. Insurance for medium- and long-term contracts covers commercial and political risks, such as export limitations, currency inconvertibility, customer insolvency, and default (Ahmad, et al., 2019). Exporters can pursue medium- to long-term contracts with confidence, obtain financing from lenders, and increase their market share abroad thanks to this insurance product's risk mitigation capabilities. Furthermore, by protecting cash flow and reducing the financial impact of non-payment on insured businesses, it promotes business sustainability and expansion. All things considered, medium- and long-term contract insurance is essential to promoting global investment and trade because it gives companies the security and safety they need to conduct long-term business dealings across borders. These types of contracts are meant to ensure a specific transaction involving the export of capital goods /services on medium-term (1 to 5 years) or long-term (5 to 10 years) credit terms, including a pre-shipment/delivery time based on the conditions of the export contract. A short-term export credit insurance policy may additionally offer indemnities against foreign exchange risks and certain other unexpected losses, in addition to the sources of loss covered by the policy. Credit insurance is necessary because it enables the exporter to defer or sell the credit risk and refinance independently. Products sold on these credit terms are frequently significant, and it is difficult for an exporter to hold such a significant credit on his books for the lengthy period required (Leisewitz, 2005).

2.2 International Credit Insurance & Surety Association

The International Credit Insurance & Surety Association (ICISA) is an agency that puts together the world's leading providers of trade credit insurance and surety bonds. The current members account for over 95 percent of the world's private credit insurance industry, having been established in 1928 as the first trade credit insurance association. ICISA

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encourages long-term technological excellence, industry creativity, and quality credibility while also addressing market issues brought on by regulations. It serves its members' interests by promoting a free exchange of knowledge and ideas and the trade credit insurance and surety bonding industries' interests to international legislative, supervisory, and regulatory bodies.

ICISA is a key player in consulting and training domestic and global authorities and organizations on credit insurance and surety bond matters. This spread and internationalization of trade credit and surety insurance have significantly increased professionalism in conducting more profitable and productive domestic and foreign exchange. The association was based in Switzerland from its founding until 1999 and is still registered under the Swiss Civil Code. ICISA provides a common platform for the trade credit insurance & surety industries. Their members benefit from a wide exchange of information, regular industry meetings, and studies aimed at specific concerns or issues. Members benefit from various types of meetings, ranging from annual plenary sessions to technical committee meetings and issue-driven workshops. ICISA is a dynamic and open member platform, encouraging communication and sharing of best practices between members on a non-competitive basis in accordance with our rules regarding compliance and prevention of non-competitive behavior.

2.3. Practical Aspect of Credit Insurance

2.3.1 Customer Information

The policyholder requests a credit limit before starting a partnership with the customer. Then the policyholder receives detailed advice about that company. The credibility of the policyholder will be assessed so that the policyholder can accurately determine whether a customer is a good payer or not. Regular follow-up and monitoring ensure that policyholders are always aware of the risks and have the most up-to-date information. The credit limit indicates how much policyholders are insured (Hermes, 2015).

2.3.2 Debt Collection

Even if payment is not made and anything goes wrong, policyholders may be confident they will receive most of their money back. A professional debt recovery firm will play its role for policyholders in the defaulter's country. Often in a friendly manner, firstly in order to maintain policyholder business relations is necessary as much as possible (Hermes, 2015).

2.3.3 Compensation

If the policyholders cannot pay, then the insurance company will return the unpaid invoice to the holder after 60 days, according to the agreed terms and circumstances and coverage percentage. Credit insurance comprises three components: protection, collection, and compensation. Credit insurance provides information about the creditworthiness of the customers and prospects, ensures that previous payments are collected, and reimburses outstanding payments (Hermes, 2015).

2.4 Empirical Review

Li, Bi, Yuan, and Wang (2020) explored the role of commercial credit insurance in a supply chain market. They concentrate on how insurance impacts the income of any business and the risk of multiple participants in the supply chain. They conclude that insurance helps the retailer to gain more trade credit with less restrictive terms of finance. Lezgovko and Jakovlev (2017) analyzed the trade credit insurance and tested it as a credit risk management tool in the sense of the Lithuanian trade Market. They used different techniques that combined practical and theoretical research methods. In international trade, with a big portfolio of buyers and high trades, they concluded that commercial credit insurance is the most efficient and reasonable way to handle credit risk.

Hanif and Iqbal (2017) stated that Islamic finance is a relatively new market segment with positive results. Islamic finance has begun penetrating other industries, such as financial markets, insurance, and banking. They evaluate the newly developing Takaful industry in the Pakistani market. They provide an overview of the insurance market, as well as a Takaful comparative financial study of the Takaful industry with conventional insurance, an understanding of the accounting and legal system for Takaful, a customer survey to document customer perceptions of the Takaful firm and an understanding and documentation of Takaful operations problems. Findings suggested by honourable researchers are that the Takaful business has a small market share but is rising rapidly. The company's past financial success tends to be weak, but it has a lot of promise, as shown by its healthy expansion. There is still a reasonably good regulatory framework in place. Overall, consumer perceptions of Takaful insurance in Pakistan are very positive.

Sokolovska (2016) examined the problems in insurance markets due to various asymmetrical information, such as adverse selection problems. He described the main developmental stages of trade credit insurance in worldwide countries. He identified the major tools, advantages, and disadvantages of managing risks in international trade. He used different techniques that combined comparative and graphical analysis. He briefly assesses the dynamics of claims and recoveries for long-term, short-term and medium-term trade credit insurance in the global world. He analyzed the data of 2005–2015 on claims paid and recoveries by using different econometric Techniques. He finds that commercial

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risk claims for medium- and long-term trade credits have surpassed the recoveries in recent years.

Li, Zhen and Cai (2016) stated that trade credit insurance is one of the most significant risk mitigations techniques, and has usually been used in companies' daily operations. The company that is a trade credit provider may face customer non-payment risk and a problem of capital shortage at the same time. The company that permits clients to deferral payment for products already obtains trade credit insurance to transfer and decrease the risk of non-payment and borrows money from a bank to manage the issue of capital constraint. They investigated the effect of trade credit insurance on bank financing. They find that using trade credit insurance helps the company to increase sales, which is compatible with what would be expected. In the meantime, it also can successfully decrease the company's default risk, which reflects the influence of the insurance industry on the finance market. Auboin and Engemann (2014) analyzed the effect of trade credit on trade on a macro level. They analyzed the data from 2005–2011 by using different econometric Techniques. They find that insured trade credit has a positive effect on trade, and he says this effect is very significant and remains steady over the cycle and does not differ between crises and phases of non-crisis.

The evaluation of traditional insurance suggests that the preferred option for Muslims is an Islamic alternative, hence the advent of mutual insurance known as Takaful. However, this structure also faces obstacles when trying to encapsulate Islamic values. One must, however, accept that monumental bridges to the Islamization of financial services have been crossed. Takaful insurance is thus still the best choice for Muslims, considering the existence of some practices and values which should be subject to greater inspection (Aslam, et al.2024). The Takaful method, rendered by numerous Shariah scholars, is still emerging with various observations. Therefore, this evolution must be promoted by debates, consultations and alternate approaches. A standardized consensus-based structure will be applied (Pasha & Hussain, 2013).

All past studies related to credit insurance have not studied Takaful models for trading credits that substantiate a research gap. Therefore, this study aims to introduce a new Takaful model of trading credits for the business industry.

3. Research Methodology

This research uses the qualitative approach because our main focus is to introduce the new Credit Takaful model, which can be helpful for the mitigation of credit risk. So, we will estimate our result by interviewing different Shariah scholars and industry experts, including operators of Takaful industry. Furthermore, thematic analysis is used for this research because one of the goals and objectives of this study involves understanding people's experiences or views of something about Credit Takaful.

3.1 Study Sample and Data Collection

Given the research objective of exploring the new model of debt Takaful, conducting interviews emerges as the most appropriate data collection method. To delve deeper into debt Takaful, interviews and personal meetings were conducted with senior managers of Takaful companies, business representatives, and Shariah scholars in Pakistan. Additionally, a structured questionnaire was designed specifically for this research to gather detailed insights. This study involved 10 participants, including Shariah advisers, business representatives, and Takaful operators. The selection of prospective interviewees was guided by the key informant interviewing approach, which aligns closely with the study's objective. This approach ensures that individuals with relevant expertise and experience in debt Takaful are included in the research process, thus enriching the data collection and analysis phases. A sample size of 3 to 15 (Creswell & Poth, 2016) and at least six (Morse, 2000) are recommended, whereas Boddy (2016) suggests that a sample size of 12 is appropriate. Therefore, the present study conducted Ten (10) interviewees based on precise criteria. The criteria include experience, position, role and qualification (Ayedh & Echchabi, 2015). The details of the interviewees are also mentioned in Table 1.

Table 1 – Interview Particulars

S. NO	DESIGNATION	INSTITUTION
1	Takaful representative (Head of Takaful)	SPI Salama Window Takaful
2	Takaful representative (Country Head)	Security General Insurance Company LTD. (Window Takaful Operations)
3	Takaful representative (Shariah Advisor)	United Insurance Company LTD (Tameem Window Takaful Operations)
4	Business Representative (CFO)	Ayesha Spinning Mills
5	Business Representative (CFO)	Olympia Feeds (Pvt) Ltd

6	Business Representative (CFO)	Bilal Switchgear Engineering Pvt Ltd
7	Shariah Board Member	The Bank of Punjab, Taqwa Islamic Banking
8	Resident Shariah Board Member	The Bank of Punjab, Taqwa Islamic Banking
9	Assistant Manager Shariah Compliance	Faysal Bank Limited
10	Trainer Shariah Scholar (SCD Department)	The Bank of Punjab, Taqwa Islamic Banking

This research conducted interviews on phone calls and through WhatsApp. Conversations are recorded in audio and written form and then documented. The write-up or document can be read, edited for accuracy, commented, coded, and analyzed later. Three types of questions were prepared for this research because our respondents belong to three industries and its validity check through the industry experts. Questions are developed focusing on the expertise of each industry.

Questionnaire for Businessman

- Does your business deal in credit? What is the credit volume of your company?
- Does your business face credit risk, and how do you mitigate the credit?
- Does the insurance system provide a suitable insurance mechanism against credit risk? Has your company tried to acquire the insurance/takaful against credit?
- Have you or your industry tried to communicate insurance/takaful sector to develop a suitable product?
- Which one is preferable credit takaful or credit risk?
- What sort of support the industry needs?

Questionnaire for Takaful Operators

- Does your company conduct surveys to find new avenues for takaful?
- Have your company had meetings with the industry to develop takaful for credit risk which is widely covered by insurance in the world?
- Why has the industry not yet developed any product that can cover the credit risk?
- If we are to develop a credit takaful model which model you prefer?

Questionnaire for Shariah Scholars

- In your opinion does Islam allow businesses to acquire assurance against credit agreements?
- What is your kind opinion about the alternative proposed solutions of credit insurance?
- What is your perception towards the legitimacy of Debt Takaful?
- What could be the possible contractual agreement used to form debt takaful?
- What Shariah issues can be faced in the implementation of Debt Takaful?

4. Results and Discussions

4.1 Response Received from Business Representatives:

4.1.1 Does your business deal in credit? What is the credit volume of your company?

Most respondents said that we deal in credit, but our company's credit volume depends on our country's economic condition. Nowadays we deal in credit about 40 to 50 percent due to low Sales. But if there is a good economic condition then demand for our product is also high, in such case our credit volume reduces to 5 to 10 percent.

4.1.2 Does your business face credit risk, and how do you mitigate the credit?

Yes, we face credit risk and we do not have any reasonable way to mitigate our credit risk. If a customer defaults, we try to pressurize him with a lawyer and will go to Court. But in this way, we can't get our 100 percent recoveries.

4.1.3 Does the insurance system provide a suitable insurance mechanism against credit risk? Has your company tried to acquire the insurance/takaful against credit?

The insurance system does not provide any suitable insurance mechanism against credit risk. We have tried to acquire insurance, but insurance companies have not any product to ensure the credit risk.

4.1.4 Have you or your industry tried to communicate insurance/takaful sector to develop a suitable product?

The majority of respondents said that they have not contacted the Insurance/takaful sector to develop suitable products.

4.1.5 Which one is preferable credit takaful or credit Insurance?

They said that Credit Takaful is preferable because Takaful is a mechanism that works according to Shariah.

4.1.6 What sort of support does the industry need?

The majority of respondents said they need a Takaful system with low premiums so we can grow our business with low production cost.

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4.2. Response Received from Takaful Representative:

4.2.1 Do your company conduct surveys to find new avenues for takaful?

The respondent said that we are conducting different surveys at different times but can't conduct surveys about credit takaful products.

4.2.2 Have your company had meetings with the industry to develop takaful for credit risk which is widely covered by insurance in the world?

The majority of respondents said they do not have meetings with the industry to develop takaful for credit risk, which is widely covered by insurance in the world.

4.2.3 Why has the industry not yet developed any product that can cover the credit risk?

In the response of this question Takaful representatives said that there are many reasons that the industry has not yet developed any product that can cover the credit risk in Pakistan. First, we don’t have yet any product structure or design and have not received any recommendation and idea form researchers. Secondly, People are not honest and Re takaful companies are not available. But we will be working on this idea in future.

4.2.4 If we are developing a credit takaful model which model do you prefer?

Takaful companies can use the waqf, wakalah model to implement Credit Takaful in Pakistan. This preference is because of the easy implementation, low risk and clean Shariah rulings of the suggested model**.**

4.3 Response Received from Shariah Scholars:

4.3.1 What is your kind opinion about the alternative proposed solutions of Credit Insurance?

Most of the participants believed that Credit Takaful is an alternate proposed solution to credit insurance. In contrast, one of the participants suggested that there may be many other proposed steps to ensure the credit risk of the company. He said before starting a business with any other party to whom you may start credit, you should check the credibility, credit history and repute in a particular business segment. On the safe side, we should cap the credit limit as per the strength of other companies to whom we are going to start the credit. We should have a highly professionally trained team because the most important is our Account Receivable Management, which improves your cash flow via professional collection services and provides credit protection for your accounts receivable. At least appoint one credit risk Manager who will be the key person and will segregate the credit age-wise and provide you monthly reports to make the best strategy to overcome the current situation. Make close interaction with your all customers and try to develop a personalised relationship with all business partners. Moreover, the credit cycle is also very important and needs to check the credit cycle to all business partners separately as per their volume of business and previous repute with you.

4.3.2 In your opinion does Islam allow businesses to acquire assurance against credit agreements?

In the response of this question all participants said that Islam allows businesses to acquire assurance against credit agreements. Islam encourages every individual to save his wealth using permissible methods and discourages wasting the wealth.

4.3.3 What is your perception towards the legitimacy of Debt Takaful?

In response to this question (the legitimacy of Credit Takaful), all participants said that Credit Takaful is legitimate and not prohibited by Shariah if the Takaful Company works under the supervision of a certified Shariah advisor and his team. The Shariah team of Takaful Company will check all scenarios as per Shariah's prospects before introducing new products in the market.

4.3.4 What could be the possible contractual agreement used to form debt Takaful?

Takaful companies can use the waqf, wakalah model to implement Credit Takaful in Pakistan. This preference is because of the easy implementation, low risk and clean Shariah rulings of the suggested model**.**

4.3.5 What Shariah issues can be faced in the implementation of Credit Takaful?

The majority of participants say that there are no Shariah issues in the suggested Credit Takaful model if Takaful companies work based on waqf plus Mudarabah or waqf plus wakalah model.

After getting the responses from different experts this study describes the most suitable model for Credit Takaful. The result of this study is that companies need to carefully manage the potential hazards of credit transactions. To mitigate the risks associated with credit transactions companies use credit insurance. Credit Takaful is an alternate model of credit insurance. That's why a Takaful model for business industries is needed so that an organization can cover its losses using a mechanism that is aligned with Shariah rulings. According to the majority of Shariah Scholars waqf wakalah model is recommended for the implementation of Credit Takaful in Pakistan. This preference is because of the easy implementation, low risk and clean Shariah rulings of the suggested model. This research helps Takaful companies initiate the process of Credit Takaful based on the waqf wakalah model.

4.4 Waqf Wakalah Model for Credit Takaful

The waqf wakalah model may be used for Credit takaful. The participants and the operator directly relate to the Waqf fund in this waqf wakalah model. The Waqf fund's wakeel is the operator, and the participants pay a one-sided donation to the Waqf fund. In this model, the initial shareholder contribution generates a Waqf pool. The donation from participants goes directly to the Waqf fund. The operator of Takaful deducts its wakalah fee from the Waqf fund. The remaining sum is invested in instruments focused on Shariah. According to negotiated ratios, the Takaful operator, and participants both will gain benefit from the investment. This waqf pool will be used for the claims of those participants who suffer a loss due to the default of their clients. After excluding the claims, re-Takaful expenditures and service costs, the net surplus of 100 percent goes to members who do not have previous claims and is allocated to them as per their contribution ratio, see the detail in Figure 1. So, this model can work as per Shariah and as well as fulfil the needs of the business industry.

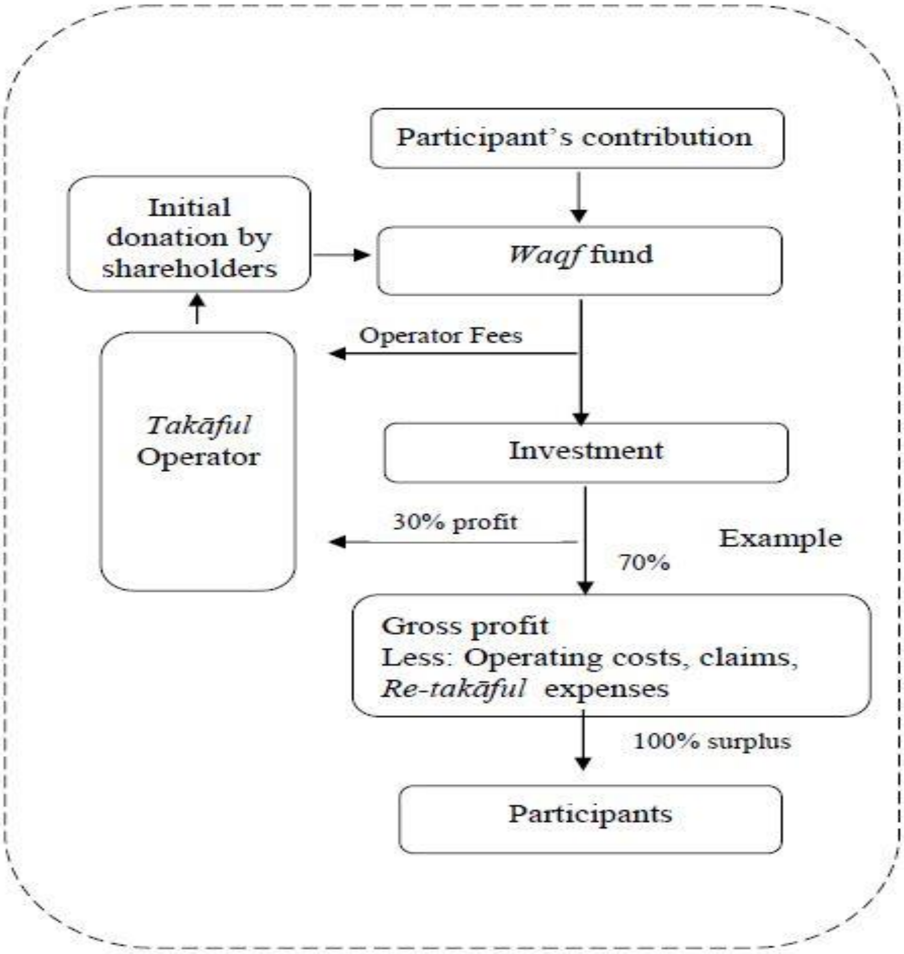

Figure 1

5. Conclusion & Recommendations

Islamic finance meets the contemporary demand for Shariah-compliant solutions, especially in sectors like Islamic banking. The government's involvement in the expansion of Islamic finance is critical, given the growing inclination towards ethical alternatives. Governments ensure that people and businesses have access to financial solutions that are in line with their values by offering Sharia-compliant options. This promotes inclusivity and economic stability. Adopting Islamic finance is a calculated step toward a more moral and open financial environment, not merely a reaction to market demand. Therefore, Takaful is a mechanism which is acceptable for Shariah. Some companies like "EULER HERMES" and "ZURICH" just started Credit insurance in different countries. They are not offering a Takaful model for trading debts. Although insurance companies are providing insurance for this sector, people demand Takaful policies instead of insurance. That's why we need a Credit Takaful model for business industries so an entity can cover its loss with a mechanism which is according to Shariah rulings.

This study justifies the objective by providing alternate solutions for credit insurance and provides the best suitable model for the Credit Takaful in the views of Takaful operators and Shariah advisors. The majority of Shariah

Scholars prefer the waqf wakalah model for the implementation of Credit Takaful in Pakistan. This preference is because of the easy implementation, low risk and clean Shariah rulings of the suggested model. This research helps Takaful companies initiate the process of Credit Takaful based on the waqf wakalah model.

This study will be used as a platform for further research into Credit Takaful in Pakistan to complete the Islamic financial cycle. It is a step towards raising public understanding of the need and significance of Credit Takaful in the modern world as well as breaking the cycle of poverty and wide income differences. This study provides an alternate solution to credit insurance that various companies employ in European countries. This research discusses different views of Islamic scholars on conventional insurance and Takaful models being practiced by different Takaful companies worldwide. This study is all about the new Shariah concept of insurance. The findings of this study will help the Takaful industry of Pakistan to launch a new product for credit trading. This study will help further to know the importance of Credit Takaful and tap the gap in the Credit Takaful market, especially in Pakistan. Lastly, the findings will help the regulators of the Takaful industry introduce new rules for the industry, providing a baseline for researchers to enhance their knowledge.

5.1 Recommendations

The following suggestions are being made for the Securities and Exchange Commission of Pakistan (SECP) and the Takaful business industry, and they should be implemented as a step towards establishing a growing Takaful sector in Pakistan. First, use Waqf, Wakalah Model for credit takaful. Second, fortify the institutional framework. Third, educate the overall population. Fourth, establish the central organization at the national level. Fifth, improve the management of credit takaful practices, and the last they should upgrade the inner control system.

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