

# Insurance Products in Rastin Banking

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## Abstract

Financial activities defined in Rastin Banking need new insurance products and policies. Therefore, in addition to usual insurance products, some new insurance products will also be defined. We will refer to 14 kinds of insurance products, some of which are new products, which have not been used before. Insurance products in Rastin banking are Certificate Insurance, Insurance of Market Value of Certificate, Responsibility/Engineering Insurance, Insurance of Accidents Concerning the Article of Sharing, Collateral Insurance, Loss Margin Insurance, Profit Margin Insurance, Merchandise Transportation Insurance, Production Equipment and Installations Insurance, Product Quality Insurance, Insurance of Commodity under Production, Inventory Insurance, Production Limited Loss Insurance, Transaction Limited Loss Insurance.

The mentioned insurance policies have no conflict with indisputable legal principles, and insurance companies can supply these insurance products to banks, depositors and entrepreneurs based on their own actuary calculations.

Keywords: *Insurance, Rastin Banking, Insurance Products, Insurance policy*

## Introduction

Insurance in Persian is called “*Bimeh*” derived from the word “*Bima*”, and has Sanskrit root<sup>2</sup> and has also the same root of the verb “*Bim*” (to fear) in Persian. Some others believe that this term comes from the translation of a Russian word of “*Astrakhan*” from philological point of view that means as opposite of fear; this is because Russians introduced insurance in Iran for the first time. Some others believe “*Bimeh*” is the name of a town in *Tabaristan* and *Deilam*.<sup>3</sup>

Daily applied meaning of *Bimeh* is the organized grouped guarantee or coverage for facing the aftermaths of perils and losses or future unwelcoming events in socioeconomic life. Insurance is defined as a contract according to which the insurer underwrites to indemnify another (insured person) in the event of loss or damage. Insurer is a person or company offering insurance policies in return for premiums. Insured person is a person whose interests are protected by an insurance policy. On the other hand, he is a person who contracts for an insurance policy that indemnifies him against loss of property or life or health etc. (insured article).<sup>4</sup> In other words, the insurer and insured person will transact and share the costs of a specific risk of the article insured.<sup>5</sup>

## Insurance Products

Economic/business insurances have a long previous record of about 6500 years. According to

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<sup>2</sup> Moin, Mohammad (1971) Moin Persian Dictionary. AmirKabir Publishing Institute. In Persian.

<sup>3</sup> Salehi, Jan Ali Mahmoud, (2002). Insurance law. Bimeh Markazi, Iran. Training and Publication Department. In Persian.

<sup>4</sup> <http://www.thefreedictionary.com/insurance>

<sup>5</sup> See: Mehr, Robert I., (1985) Principles of Insurance. Richard D Irwin; 8<sup>th</sup> edition.  
Vaughn, Emmett J.(1989) Fundamentals of Risk and Insurance.5<sup>th</sup> edition, Wiley.

discovered Papyrus, stonecutters of ancient Egypt had established a joint fund to protect themselves in case of accident. Hammurabi the king of Babylon enacted a law in which those in charge of transportation were responsible to safeguarding of merchandises in 2250 BC. Also in Greece, there were associations, which helped their members who paid fees to an established fund if they had suffered any loss in 588-640 BC. Similar activity has also been seen in ancient Rome.<sup>6</sup> Many similar activities have also been observed in medieval times.<sup>7</sup> Business insurances today are as more or less in the following context:

1. Life insurance
2. Personal accident insurance
3. Medical and Medicare insurance
4. Fire insurance and subordinate dangers such as explosion, theft, earthquake, flood, air crash and even terrorism attack
5. Transportation insurance
6. Civil responsibility of transportation means (marine, air and land transportations)
7. General responsibility (legal and professional) insurance
8. Full risk coverage insurance of contractual works, installing and related civil responsibly
9. Money in fund and in action insurance
10. Staff's honesty and trust insurance
11. Oil exploration and extraction and related industries insurances
12. Agricultural products insurance
13. Export insurances

In all the above-mentioned insurances, by receiving insurance fee, the insurer will provide financial risk coverage for the insured person about the article insured.

### **Insurance Products in Rastin Banking**

Financial activities of Rastin banking<sup>8</sup> need new insurance products and policies. In addition to prevailing insurances, some new insurance products ware cite here. To safeguard the interests of depositors<sup>9</sup> and to decrease risk and cover the probable losses of financial activities and also to alleviate confidence of the parties of Rastin PLS<sup>10</sup> banking<sup>11</sup> contracts (in Base<sup>12</sup> System and in its Subsystems<sup>13</sup>), some insurance coverage have been anticipated as follows:

1. **Certificate Insurance:** By paying fee, bank or depositors can ask insurer companies to insure the total or a portion of the nominal value of their Rastin Certificate<sup>14</sup> according to the request of depositor or

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<sup>6</sup> Salehi, JanAli Mahmoud, (2002). Insurance law, Bimeh Markazi Iran. Training and Publication Department. In Persian, pp. 65-73.

<sup>7</sup> Various insurances, at least, commercial insurances were used in Arabian Peninsula before Islam. This may be the reason why the holy Prophet has not mention about it explicitly because he only entered economic subjects whenever necessary.

<sup>8</sup> Rastin PLS banking documents are accessible through: <http://www.bidabad.com>

<sup>9</sup> - Depositor is real person or legal entity with a certain amount of fund (cash) asks PLS bank to participate in Rastin PLS banking products through direct contact with PLS bank, or via internet and buys Rastin Certificate of one of the PLS banking products.

<sup>10</sup> Profit and Loss Sharing (PLS)

<sup>11</sup> Rastin Profit and Loss Sharing (PLS) is an activity in Rastin Banking based on participation of depositors in investment and economic activities of entrepreneur based on real yield of projects in order to land interest-free banking according to Islamic commandments and ethics.

In Rastin PLS banking, bank is a unit, which allocates resources from depositors to those who look for financing (entrepreneur) and according to specific contracts; the obtained profit or loss is divided between depositor and entrepreneur. By receiving commission (*Jol*), bank provides capital management services for depositors, and invest their resources according to their choices and in return, provides them by Rastin PLS banking Certificate. Bank has to use all his specialized potentialities to protect depositors' rights.

<sup>12</sup> Base System of PLS banking includes the main general rules and terms of Rastin PLS banking.

<sup>13</sup> - Financial Subsystems of Rastin PLS banking system refer to different defined financing methods and services. These Subsystems are governed by Rastin PLS Base System's regulations.

<sup>14</sup> Rastin Certificates are a collection of certificates designed and issued in PLS Base system and financial Subsystems of Rastin

Rastin Certificate holder in charge and interest and name of depositor or Rastin Certificate holder. Bank and insurance company can offer Rastin Certificate insurance rate and policy in Rastin Certificate Market<sup>15</sup> web portal. Insuring Rastin Certificate is optional for depositor in Rastin Banking.

2. **Insurance of Market Value of Certificate:** Rastin Certificate holder can insure his certificate against market price fluctuations at a higher price than nominal value in his charge and interest and name. This insurance is also optional.

3. **Responsibility/Engineering Insurance:** Responsibility/engineering insurance for covering probable losses of unexpected technical and human accidents during the execution of project period is compulsory for entrepreneurs<sup>16</sup> of PLS projects<sup>17</sup>. Entrepreneur must buy corresponding insurance policies to cover the unexpected accidents in his charge and interest and name.

4. **Insurance of Accidents Concerning the Article of Sharing:** Entrepreneur must insure the article of sharing against natural calamities, fire accident, explosion, and other unexpected accidents at least equal to the amount of provided and used sources in charge of project, and in interest and name of bank. This insurance fee is an acceptable cost item of the project.

5. **Collateral Insurance:** Entrepreneur must insure his provided collaterals in charge of himself and interest and name of bank at least equal to the value of bank share in project during the project execution period. Entrepreneur must reinsure the collateral until the end of execution period so that the collaterals should be insured for all times of execution period.

6. **Loss Margin Insurance:** Entrepreneur can insure the project against probable loss equal to the amount of loss he expects. This insurance is optional or compulsory in various Rastin PLS Banking Subsystems. In the case of being compulsory, the entrepreneur is responsible to compensate the occurred losses according to the regulations of that subsystem if he had not bought the necessary insurance policy.

7. **Profit Margin Insurance:** In order to guarantee the probable profit margin, entrepreneur can insure this margin in his charge and interest and name. This insurance is optional or compulsory according to different Rastin PLS Banking Subsystems applications.

8. **Merchandise Transportation Insurance:** Contract parties can insure the merchandises of the article of contract against probable risks of transportation, by mutual agreement. The assessment unit<sup>18</sup> of PLS department of bank will determine the necessity of this insurance according to the financial Subsystem used. If transported commodity, raw material and intermediate good comprise the interests of both parties, this insurance will be compulsory for both sender and receiver of the goods. The parties should provide this insurance policy at specified time determined by assessment unit in charge of sender and receiver and in name and interest of bank.

9. **Production Equipment and Installations Insurance:** For better safe and performance of Rastin PLS Banking activity, entrepreneur can insure his production equipment and installations against fire accidents, explosion, natural accidents, and calamities, and the risk concerns of the second party at his

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PLS banking. Supervisory feature of the trustee unit of PLS bank on these certificates, distinguishes them from other financial papers and have prefix of "certificate". Being nameless, negotiable in secondary virtual Rastin Certificates Market, market price based on supply and demand of certificates, settlement by the last certificate holder are some characteristics of Rastin Certificates. Settlement of these certificates are carried out under supervision of trustee unit of PLS bank.

<sup>15</sup> Rastin Certificate Market is a web-based settlement system for transaction and transfer of Rastin Certificates and Papers of Rastin bank.

<sup>16</sup> - Entrepreneur is a real person or legal entity who proposes a project to PLS bank for financing through PLS banking system and executes the project until the end. In addition to have legal, financial, technical and performance capabilities, entrepreneur should have the other capabilities and facilities/possibility to carry out the job.

<sup>17</sup> - Project is a collection of economic activities with specified and concrete plan with defined cost and terms for making profit through Rastin PLS banking offered to PLS bank.

<sup>18</sup> - Assessment unit is a unit in PLS department of Rastin PLS bank which assesses the competence and capabilities of entrepreneur and his proposal.

own charge, interest and name. According to the applied financial subsystem, assessment unit of PLS department of bank will determine the compulsion or optionality of this insurance.

10. **Product Quality Insurance:** In order to ensure quality of the produced goods and attracting buyers, entrepreneur can insure the quality of his products according to conventional standards. The subject of this insurance policy is compensation of probable vital and financial losses to consumers and third party regarding the produced commodities because of unsafe, defective and shortcomings processes of production. This insurance policy is optional.

11. **Insurance of Commodity under Production:** Entrepreneur must insure the producing commodity at least equal to the nominal value of the raw material bought or delivered, beside an insurer company confirmed by bank for production period, in charge of entrepreneur and in name and interest of bank.

12. **Inventory Insurance:** For better safeguarding of performance of Rastin PLS Banking activities, entrepreneur can insure the raw materials and products inventories against risks of fire accident, explosion, natural accidents and calamities, theft and also other party's risk concerns at his charge, name and interest. According to the applied financial Subsystem, the assessment unit of PLS department of bank will determine compulsion or optionality of this insurance.

13. **Production Limited Loss Insurance:** If the market or estimated price of the construction project (at the end of construction period) is less than its cost price, "production limited loss insurance" can be used to compensate the loss.

14. **Transaction Limited Loss Insurance:** Entrepreneur can insure the risk of transaction activities equal to the amount he is concerned about probable failure in his transaction activity at his own charge, name and interest. If entrepreneur does not insure this risk, he will bear the probable risk.

15. **Transfer of Money Insurance:** Bank can insure risk of transfer of money equal to the amount he is concerned about probable failure in money transaction at his own charge, name and interest. If bank does not insure this risk, he will bear the probable risk.

It is possible to use coinsurance and reinsurance in all above cases. Insurer can use these kinds of insurances to pro rata the aftermaths of the occurred risks. In coinsurance, several companies will jointly insure a risk. This insurance is usually used to cover large risks such as fire accident or explosion and similar things in factories and each insurer company bears a portion of the risk. In reinsurance, the first (direct) insurer company covers a portion of the risk, and the remaining risk will be covered by second insurer company. In other words, the direct insurance company will insure a portion of risk in another company.

Complementary insurances are a kind of insurance used by insuring companies to obtain more support for other accidents concerning the article insured. This is different from double insurance, which is referred to multiple insurances of an article insured. By considering the applied financial Subsystem, the assessment unit of the PLS department will define the necessity and kind of needed insurance before signing contracts. Several kinds of insurances as complementary insurances can be used. The necessary insurances for various financial Subsystems are documented in Draft of Operational Bylaw of Rastin Banking<sup>19</sup>.

The listed insurance products have no conflict with well-known legal principles. Insurer companies can supply these insurance policies according to their actuary calculations to bank, depositor and entrepreneur.<sup>20</sup>

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<sup>19</sup> بیژن بیدآباد، آذرننگ امیراستوار، سعید عبداللهی، محمود الهیاری فرد، اسکندر پردل، مریم حیدری، علیرضا شفیعی، محمدعلی پوربهروز، پیشنویس آئین نامه اجرائی بانکداری راستین، بانک ملی ایران، ۱۳۹۱. <http://www.bidabad.com/doc/rastin-banking-regulation.pdf>

<sup>20</sup> Erfani, Tofigh, (1992). Insurance Contract in Islam and Iran, Keyhan Publications. In Persian.

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