



Credit from Insurance Companies

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<QUESTION>

What is the ruling on paying car insurance to companies in installments whereas they charge you added APR, instead of paying a one off installment? Also if you only wanted to use the car for a few months, you would be paying less than for the full year.

<ANSWER>

In the name of Allah, Most Compassionate, Most Merciful,

As you may be aware, all prevalent forms of commercial insurance are prohibited and against Islamic principles because they have an element of either interest (riba), gambling (qimar) or both. However, since third party insurance is a mandatory legal requirement for every car-owner in many countries, one is allowed to take out this kind of insurance, since it is not possible for one to avoid it. (Search for answers on insurance on this website for more details).

Now, when Shariah permits this kind of car insurance due to the legal requirement, it is permitted to pay for this insurance upfront or in regular installments, even if there are two prices for paying upfront and in installments. One should always remember that increase in the price of an item due to "time" is not always unlawful and Riba. All four Sunni schools of Islamic law have permitted the increasing of the price when a payment is deferred, for the seller has a right to sell his commodity at whatever price he wishes. However, it is necessary to fix the price and an agreement must be made as regards to which option the customer has taken. And once a price has been fixed, it cannot be changed. (This whole concept has been dealt with in earlier posts)

As such, it is permitted for you to pay for your car insurance in a one off payment or in regular installments, even if the price is increased due to the arrangement of paying in installments. However, you need to determine and agree on the final total price with the insurance company.

And Allah knows best

Muhammad ibn Adam

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Leicester , UK

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