

## **Saving-based Cooperative Insurance System in Turkey: A Case Study of Eminevim Group, Analytical Study**

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<b>Article History:</b> <b>Received:</b> 15 Sep, 2021 <b>Accepted:</b> 22 Dec, 2021	<b>ABSTRACT</b> <p>This paper aims to study the Saving-based Cooperative Insurance System in Turkey. It takes A case study of Eminevim Group. First it explains the history of the establishment of this company, what are the objectives it seeks, and its relationship to the Islamic economy, and the most important - the differences between it and the traditional financing systems. The study analyzes the regulations of this company and tries to find a legitimate fiqhi Islamic adaptation covering its activities. The paper presented several jurisprudential adaptations of the company, analyzed and critiqued them, and chose an adaptation that is considered to be the closest and strongest to the idea of the company. This company can be classified as one of the Islamic Takaful companies, it provides financing services to its members in return for very reasonable fees that are lower than the interest rate in banks. The closest adaptation to it is the diminishing company. It needs simple modifications and some clarifications in its operational program, in order to gain Islamic jurisprudence legitimacy.</p> <p><b>Key Words:</b> Eminevim Group, Cooperative, Insurance System, Takaful, Jurisprudence</p>
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### **Introduction**

During the process of preparing this study, focus remained upon dividing the introduction into three main points; an overview of these organizations and their philosophy, a historical overview of the Eminevim Group, and a summary of the most important previous studies that tackled this topic.

### **Saving-based Cooperative Insurance Systems [SBCI], Philosophy and Objectives**

These cooperative organizations are one of the types of intermediary organizations [Board Broker], which serve as a middleman among diverse parties. They are savings funds that operate according to the principle of public benefit. They visualize themselves as non-profit organizations, aiming to provide usury-free financing systems, and to provide capital to their customers in accordance with Islamic law. This practice is unlike the financing systems in traditional banks that provide these funds in exchange for banks' usury. Also, it is unlike the financing systems in Islamic banks that adopt Murabaha system, which is almost more expensive for customers than the bank interest itself.

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These organizations first appeared in 1980s, and aimed to enable people, who want to own cars, to obtain them through the principle of solidarity in collecting financial savings. Later, the system was developed and expanded to cover home and real estate purchases. The origin of the idea is very simple, it starts by gathering one hundred people and letting them pay a thousand Lira every month individually. So, a hundred-thousand Lira accumulates every month, and this amount will be given to one of the participants to buy a house or a car with the money. Then the next month the next participant receives the money and the process proceeds until everyone finishes receiving money. A draw is used to arrange the order of receivers. Then the group closes when everything is finished.

However, these organizations do not offer homes for customers, but rather finance the purchasing process and let them choose their homes freely. For their service these organizations receive a fixed percentage of the agreed amount of money, which include organizing, ensuring and following up the process.

### **A Brief History of the Eminevim Group: Founder and Origins**

The organization was established in 1991, by Mr. Emin Üstün, a Turkish businessman. He allocated the organization for purchasing cars only. Then, in 2007, it developed into real estate, and now it provides services for purchasing cars, real estate, homes, shops and land. The organization now has more than 127 branches, employing 2050 employees. The number of house purchases funded by the organization has reached nearly forty-thousand homes. Totally 177,152 purchases were done including homes, cars and real estate. Mr. Emin passed away in December 2019.

The Eminevim Organization is still not funded or guaranteed by the Turkish Central Bank. Indeed, the founder once stated that “banks fought us and we were subjected to much harassment before the current government came to power and facilitated our work. In addition, more than two-hundred organizations were established to compete with us through the way we work, with solidarity” (Emin 2010).

With the development and expansion of the organization's work, Mr. Emin's fortune has grown, so he launched a charity organization for social welfare. On the other hand, the Eminevim Organization started to provide services in real estate and construction, in the production of electricity from solar energy, and in the production of plant and animal wealth. It also has commercial projects in Germany and America, along with projects in tourism and medical sectors.

## **Data Review and Methodology**

There has not yet been a study in Arabic or English tackling these types of organizations. However, there are several important Turkish studies about them, and I have been greatly benefited from some, which are the following:

- Murat ERGÜVEN, A Model Recommendation for Saving Based Finance System in Compliance with Islamic Finance Principles, Master Thesis At İstanbul Sabahattin Zaim University, 2019.
- Mehmet BIRSIN, Hatice ÖTEGEÇELI, The Saving-Based Interest-Free Financing System and Evaluations on its Legitimacy in Islamic Fiqh. Journal of Mesned Divinity Researches. Vol 10, Issue 1, 2019.
- Murat Ergüven, Ferudun Kaya, Cooperation System in Housing Finance: An Investigation on Customers' Preferences for Cooperation System. Kastamonu University, Journal of Faculty of Economics and Administrative Sciences, Issue 13, 2016.

The nature of the study necessitated that the method used in it should be the inductive and descriptive-analytical methods. It started by extrapolating what was written on this subject, visiting the company in the field, and looking at the work mechanisms in it, and then analyzing this information according to the data and according to the original books of jurisprudence.

## **SBCI Organization Operating System**

Here are most important aspects on which the solidarity organizations are based:

- **The Organizational Structure**

Participatory saving-based financing system organizations receive a service fee from participants in exchange for their services. These fees are determined according to the method and payment plan that the customer prefers. The payments are distributed over five years. The client initially pays fees to the organization for its services, the guarantee and organization of the process, the amount of this fee is 6.5 percent of the total amount that the customer had submitted for. The total amount of the loan remains fixed without interest. However, the organization does not deliver the money to the customer in cash, but rather, it hands the money over to the owner of the property that the client wishes to purchase. When the customer's turn comes, he or she receives the benefit of the money.

Participatory saving-based financing system organizations require some assurances from the funded participants, namely: two guarantors and signing bonds in order to make the customer commit to pay all the installments. The organization is satisfied with this structure and terms. Moreover, it does not seize the purchased property, but only

prohibits its sale until all of the installments are paid. This is because the property remains a common property of all participants in the fund until the term is complete. When the process and the payments end, everyone gets full ownership of their own houses, with everyone assigning others' houses to the individual owners.

These types of organizations provide three advantages to their clients in cases of insolvency: the advantage of freezing installments, reducing the number of installments, and withdrawing from the system. All of that occurs within certain conditions and details. Often, Mr. Emin used to personally follow up the cases of late payment, and try to solve them by extending the time and reducing the installments as an exception. He also used to tell the applicants: If your name was not coming out within the first half of the estimated period, then I will give you the price of the house while you complete the remaining installments.

- **Ways of Benefiting from the Eminevim Organization**

As the official website of the company explains, there are several systems, up to four systems, and each system has several branches. But these system types can be gathered into two main types.

- ❖ **The First Type: The Draw System without a Down Payment**

Those who want to purchase a house meet in a group of a hundred or two hundred people, and they can be involved in the draw in two main ways: with a down payment or without. If they choose the draw without the down payment system, then the customer will not have any special benefits, and his installments will be higher than the installments of those who have a down payment. This will enable him or her to use the money from the fund later than those who paid the down payment.

- ❖ **The Second Type: The Draw System with a Down Payment**

The amount of the down payment affects determining the amount of the monthly installment and the period of time the customer must wait before using the money in the savings-based fund. This process is acknowledged by everyone from the beginning. The customer who pays a down payment has many advantages in several things, these include:

- To be among the early beneficiaries of the fund, and to receive the money early
- If money becomes available before the time of delivery, they will be notified of it and they receive their money very early
- Fixed monthly installments over all years

However, there are several groups that determine this matter and it is commensurated between the period and the first down payment. For example, whoever pays 20% of the

total amount first is placed in the 50th group, and whoever pays 40% first is placed in the 20th group, and so on.

But the exact amounts are often provided for all participants after the mid-term, even those who did not submit the down payment. Moreso, there are two different sources for this money:

- The surplus of the total fund made up of payments from other clients participating in other groups
- The surplus of the special fund that consists of the first down payments

#### ❖ **The Third Type: The Rent Assistance System**

It must be mentioned here that the Organization, after dividing the total amount into the above-mentioned installments, invented the so-called rent assistance system. It is an amount of money paid by the clients who have bought houses earlier, and they must pay it in addition to their monthly installments. For example, if the monthly installment was one thousand Liras, then they will pay one thousand and two hundred Liras after the house has been bought. This money will be paid into the group's fund. The organization has classified the money as rent for the house that was given to the client. The goal here is to achieve two things:

- The balance in the benefit, between the ones who purchase their houses early and the ones who had their names at the end of the list, because this increase is directly proportional to the reduction of the monthly installment for those whose names are at the end of the list.
- Achieving equality in benefiting from the money as a result of inflation and the fall in the value of the currency between those who receive their homes earlier and those who do so later.
- The amount of this money - in case of abundance- will be reflected in the final amount of money received by the late receivers

#### **The Jurisprudential Adaptation of the Solidarity Organizations Founded on Saving-Based Funds**

It must be noted that the jurisprudence study must first discuss the adaptation of the funds' activities, then the adaptation of the rent assistance, and after that the adaptation of the fees that the organization charges for its services. It must be noted that the organization only charges its clients for joining and organizing fees, and what remains goes back to all clients.

#### ❖ **Adapting the Savings Funds Function**

There are several approaches:

**The first approach says that it is an Istisna or Salam.** It is a contract between the company and the customers: But in reality, there is no similarity between this contract and the mechanism of the existing organizations. Because they are not companies that produce products, and they are not responsible for purchasing the properties.

**The second approach says that it is a Hiba contract with the condition of compensation.** It is contract between clients, while leaving conducting the business to the organization to carry out the procedures of the Hiba. This adaptation suits the case of the draw without the down payment. Moreover, all the members participating in the organization are donors and provide mutual aid. They also accept the Hiba and aid. This is similar to the following case; when I donate something to you with the knowledge that this donation will bear fruit for me later.

Suppose there are 60 people, each of them pays certain amount, for example 1,000 Turkish Lira. After deciding on the order, the first person takes 60,000 Liras, in fact one thousand belongs to him, and the remaining 59,000 are the donations of others to him. In return he has become obligated to 59 people to pay them 1,000 Liras per month, so that all sixty people purchase their homes, while maintaining the proxy contract for the company to carry out the process. [It is the opinion of Karaman and Talu].

**The third approach says that it is a Qardh al-Hasan.** It is a loan contract among clients, while maintaining the proxy contract for the company to carry out the qardh processes: This adaptation suits the case of the first payment. Bear in mind that it is necessary to make sure that the customers do not receive more than they give and do not pay more than they get.

Suppose a person participates in the organization with a down payment of 30,000 Turkish Lira, and then pays 1000 Turkish Lira per month. His payments are only lending to other people who have participated in this system. When his turn comes, he gets the total money. But this time, he borrows that money from the others in the system, on the condition that he pays it later and continues to pay, until his loan is paid fully. [This is Karaman's opinion].

The similarity between the first and second opinions can be noticed clearly. The problem with this adaptation is that it does not accept the rent assistance in any case, because it will be a loan that draws a benefit.

**The fourth approach says that it is a contract of a diminishing musharakah.** It is a contract between the partners themselves, while conducting the organization to manage the business: It is the type of partnership that dissolves with the owner of the money giving the property to the other party. So, the partners give every month an amount of money to one of them according to the order. Then they purchase the house for him, so everyone owns it jointly. On the other side, the client pays a rent for all of them on a

common basis, until everyone finishes paying the installments, then all the partners give each other the individual ownership of all the houses. Finally, they end the partnership contract.

Based on this adaptation, the amount of rent assistance is not problematic, and it does not require the capital paid at the beginning to be equal, like Al-Anan Company. This solves the problem of the difference in the amount of money that was paid firstly when entering into the partnership. However, the problem with this adaptation is that the partnership is not confirmed within its parties. The partners do not know each other because the corporation addresses each partner individually from the others. Also, the increase in the partner's ownership of his home over time with the paid installments does not affect the value of the rent he pays to his partners.

The first problem is not a serious issue, given that the organization here is entrusted with managing the process by everyone. While the second issue must be considered by the specialists in the organization. Therefore, this adaptation is the most appropriate jurisprudential one for the services provided by the organization.

Note: There is another adaptation says that the organization is also entering as a party in this partnership. Therefore, it does not need the power of attorney. However, the first problem remains the same.

#### ❖ **Adaptation of Service Fees**

The organization started as a cooperative, unpaid service provider. Then after its expansion, it started to charge fees for the provided services, which are the fees for organizing and managing the process, along with guaranteeing the money to be paid. A problem occurred in adapting these fees, whether they were counted as the legitimate regulatory fees or as financial interest on the loans.

The problem increases because these fees are a percentage of the installment payment, which equals 6.5%, and it is not a fixed fee. However, their response to this issue is that the amount of payment is originally fixed among the participants in the same fund.

The amount of fees exceeds the amount of money the organization needs in handling the affairs of the process. This was evidenced by how the organization and its owners' have flourished through this work. The condition that must be met in these solidarity organizations is that no surplus remains in it, but rather it is all returned to the participants.

The guarantee that the organization provides as one of its services to clients is not a payable service, as stated in the Fiqh Council's decision.

This has made some call to adapt the fees as being reverse usury; meaning that the interest is paid first, and then the payment of the money is postponed until after, unlike the known usury in which the money is paid later with an increase. Therefore, the proposal is to make it a fixed amount proportional to the number of real services, and not to include the guarantee process. Thus, it becomes included in the permissible fees.

#### ❖ **Adaptation of Rent Support**

It must be noted that this rent is much less than the equivalent rent for houses, because the rent is in exchange for a common share in the house that corresponds to the remainder of the value of its installments. However, there is a known jurisprudential dispute regarding the permissibility of this situation [which is more likely that it is permissible]. This means that someone lives in a house in which he has partners, who own it with common shares that gradually decrease until he owns it completely. This is the most suitable adaptation, because it is not permissible to consider it as a replacement of a loan. Otherwise, it would become a forbidden usury.

#### **The Applied Study: Evaluation, Questionnaire, and Criticism**

##### ❖ **The Results of the Questionnaire**

The researchers Ergüven and Ferudun Kaya (2016) conducted a field study, from which we can benefit. The result of the study is based on the customers' opinions about the organization:

The most important reasons people head to these organizations are the following, in this order:

- It does not charge usury and the fits people's needs for halal financing.
- It offers loans at a cheaper rate than both bank interests and Islamic Murabaha.
- It offers flexibility in paying, and assistance during both insolvency and withdrawal situations. [The company returns all the installments that were paid by the customer except for the fees that they have paid at the beginning. They even accept the negotiation to return part of that fee in cases of serious insolvency]
- The amount of the installment payments is logical and it equals a house rent payment.
- Fund subscription procedures are fast and reliable.

The researchers noted several things, including:

- The higher bank interest rate in the country, the greater the demand for these organizations.

- Customers in general are satisfied with this experience and recommend others to take advantage of it.

### **The Most Important Criticism Directed at These Organizations**

- The lack of clarity of the mechanism for dealing with customer insolvency cases, and cases of quitting the contract. It is because these situations are left to individual discretion. [By the way, according to the Customer Complaints website in Turkey, the two most frequent complaints regarding Eminevim are these two].
- The lack of clarity of the mechanisms for investing liquidity in the organization or the surplus resulting from it; is it from legitimate commercial projects as the organization declares, or by dealing with usurious banks and keeping money in them as an investment deposit?
- The failure to explain the existence of a large surplus of funds in the organization. Since the basic principle in solidarity organizations is that the surplus or profit returns to the participants themselves.
- The lack of clarity in the organization's mechanisms during the high inflation that the Turkish economy suffers from.
- The ambiguity and loss that results from the principle of using the draw in the distribution of funds, in the sense that there is no legitimate justification for prioritizing one of the participants over another in giving the money. [It is the same disagreement in the case of the saving groups among employee's idea, which many believed is permissible]

### **Conclusion**

We can draw the following conclusions from our study:

- These organizations can be classified as one of the Islamic Takaful companies, and it provides financing services to its members in return for very reasonable fees that are lower than the interest rate in banks. The closest adaptation to it is the diminishing company. It needs simple modifications and some clarifications in its operational program, in order to gain Islamic jurisprudence legitimacy.
- These organizations could take care of the jurisprudence adaptations of their work, by adopting an incomplete participant role between the partners and the agency of the organization, because it is the only role that fully covers their work.
- These organizations could tend to obtain more support and guarantees from the government, and more state supervision could be asked over them which would require a solid legal infrastructure.

- They could tend to expand their clientele, so that the most important reason for referencing them is not merely to avoid usury. In addition, this requires more institutionalization, honesty and reliability, loyalty with scholars, and more investment in advertising and marketing.

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