

THE  
**LifeDAO**

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# THE LIFEDAO SHARIAH PAPER

[thelifedao.io](http://thelifedao.io)

## Purpose

Shariah compliance aims to uphold values that are guided by **islamic teachings** and guidelines.

At Takadao, we ensure that all activities, products, and services provided by our organization are in accordance with Shariah principles. A Shariah board has been in place with the following prerogatives:

- Provide a system for governing all the business activities of the company in order to ensure Shariah compliance at all times and at all levels
- Establish procedure to manage risk and monitor performance
- Research and investigate the issues raised
- Issue a report and make recommendations
- Monitor the implementation by providing corrective actions and remediation
- Instill Shariah awareness for employees at all levels to ensure their understanding of Shariah principles and compliance requirements

## Scope

This standard operational procedure applies to all Takadao's employees who are involved in activities subject to Shariah compliance requirements. It encompasses all aspects of the organization's operations and offerings.

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# INTRODUCTION SHARIAH PAPER

# Introduction

At Takadao, we share the belief that halal decentralized financial solutions should be globally accessible at a fair price and with impeccable transparency for every person who does not agree with the way conventional finance is facilitated today.

Unlike traditional finance, Islamic finance offers services that cater to religious sensitivities by honoring financial and moral obligations to Allah and then to its stakeholders. Islamic finance focuses on spiritual, and socio-economic justice, and increased goodwill through a fair and balanced society, despite its benefits, the adoption by Muslims of Shariah-compliant financial alternatives has been hamstrung by several challenges. The most notable of which is the lack of transparency, resulting in low consumer trust and a lack of business and operational excellence.

Aspect	Traditional Finance	Islamic Finance
Purpose	Profit	Justice
Ethics	Secular	Shariah
Trust	Variable	Low (due to opacity)

At Takadao, we aim for excellence and every business decision and technical foundation is guided by a deep consideration for Islamic principles as well as integrity to ensure end-to-end shariah compliance.

The ultimate goal of our organization is to bring financial solutions to the global landscape in order to provide financial stability to participants having adverse life experiences by leveraging the power of blockchain technology.

One of these financial solutions is called The LifeDAO which stems from a desire to solve the problems faced by cooperative Islamic Insurance today.





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# CONCEPT OF ISLAMIC ALTERNATIVE TO INSURANCE

## Concept of Islamic alternative to Insurance

Various kinds of alternative insurance schemes existed in the pre-Islamic period in the Arab world, many of which continued into the Islamic era. Under Umar ibn Al Khattab, the second rightly guided caliph, the government encouraged residents to perform "Al Aqilah" which was the practice of sharing blood money, a compensation paid by an offender to the family of the victim, among a specified group of people. The system of Aqilah was further expanded in the second century of the Islamic era when Muslim Arabs began trading in India and Asia. Groups of traders would enter into a joint guarantee to help one another in times of disaster or misfortune.

In practice, a group of individuals pool funds together with the intention of providing financial assistance to one another as insurance against a defined risk. The intention "Niyah" is that of mutual aid and stems from the fact that the funds are contributed as donations, partial or full, for the specific purpose of insuring against risks. The funds are used to compensate the Operator (the company that manages the funds on behalf of the participants), to cover membership payouts against adverse events, and invested for returns. In case there is surplus remaining after these activities, they are redistributed back to the original contributors.

The permissibility of applying tabarru` in Islamic alternative to insurance is consistent with the resolution of the OIC Fiqh Academy which recommends its application in developing cooperative insurance institutions. Under the concept of tabarru', the contributors do not expect any return.

In the following narration, an analogy has been made to show how repulsive and disgusting it is that a person takes back the gift he has already given to someone.

Abdullah ibn 'Abbas reported that the Prophet of Allah ﷺ said, "**One who takes back the gift (which he has already given) is like one who swallows its vomit.**" (Sahih Al bukhari 2589).

Islamic alternative to insurance is defined as "a scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose."

Islamic alternative to insurance based on tabarru` mutual protection is superior to conventional insurance in several ways:

- ❑ More cost effective as underwriting surpluses are redistributed among the participants
- ❑ Strong emphasis on transparency due to its collaborative nature
- ❑ Supports ethical investments and eschews investments that support undesirable industries
- ❑ Shariah-compliant alternative to conventional insurance, one that emphasizes community betterment and mutual assistance
- ❑ Free from prohibitive elements

The majority of Muslim scholars agree that most of the injunctions of the Shariah were revealed with certain objectives and reasons called 'Maqasid Shariah', also referred to as the five fundamental needs "Al Darurat Al Khamsah" which consist on establishing that which is beneficial and prevent that which is harmful.

**One of these five objectives is the protection of wealth.**

Acquiring property is a basic human ambition and right. Islam has ordered that no one should transgress and acquire the property of others without legitimate reasons and without a proper contract.

فَقَالَ تَعَالَى: "وَلَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ وَتُدْلُوْا بِهَا إِلَى الْحُكَّامِ  
لِتَأْكُلُوا فَرِيقًا مِّنْ أَمْوَالِ النَّاسِ بِالْإِثْمِ وَأَنْتُمْ تَعْلَمُونَ"

Allah, exalted be He said (what means):"And do not consume one another's wealth unjustly (in any illegal way e.g. stealing, robbing, deceiving, etc.), or send it [in bribery] to the rulers (judges before presenting your cases) in order that [they might aid] you [to] consume a portion of the wealth of the people in sin, while you know [it is unlawful]."  
[Quran 2: 188]

There are several ways of acquiring the property of others illegitimately. Shariah law prohibits all these means.

### Free From Non-Compliant Elements



Riba  
(Interest)



Maisir  
(gambling)



Gharar  
(uncertainty)



Taghrir  
(deception)

### Prohibition of Riba (Interest)

Tabarru` mutual protection funds are invested in shariah-compliant investment portfolios that are free from riba. Moreover, because contributions are intended as donations for a specific purpose, they are not loans with interest.

### Prohibition of Maisir (gambling)

The lifeDao contracts are not exchange contracts but rather for mutual aid. Contributions are made as donations, aligning everyone's interests without the risk of loss.

### **Prohibition of Gharar (uncertainty)**

Gharar means excessive uncertainty and is associated with deception involving uncertainty and risk. It is a broad concept that can be found in conventional insurance when the policyholder enters into a contract where his liability and the right are uncertain. To eliminate Gharar, the contract made is based on tabarru' (donation) which is an unilateral arrangement. According to the Maliki School, Gharar has no impact on donation contracts.

### **Prohibition of Taghrir (deception)**

The concealment of unattractive features under a deceptive attractive appearance is forbidden by the Islamic law. Tabarru` mutual protection schemes are by essence exempt from deceptive practices that mislead consumers since they are community-owned.

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# WHAT IS INSURTECH

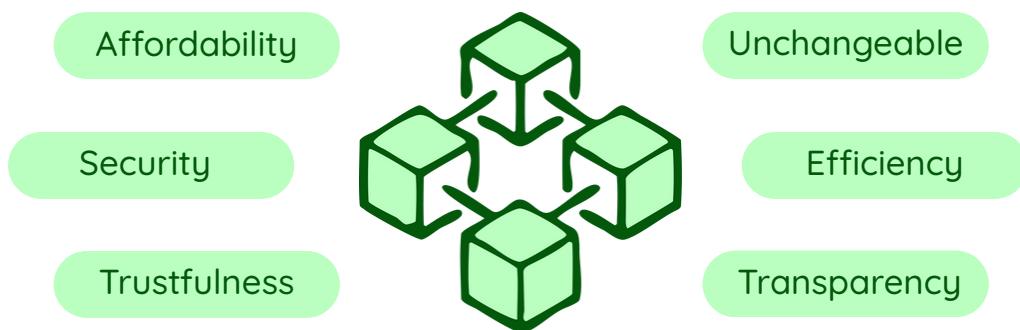
Not unlike the rest of the insurance industry, Islamic alternative to insurance suffers from the lack of investments in product development and technology transformation.

“Software eats the world” industries are aggressively taking on a software-first approach to re-inventing themselves.

That is what Takadao intends to do in the insurance industry while using disruptive technology such as Blockchain, Smart Contracts and DAO governance.

Blockchain is a distributed ledger network, meaning that the enlargement of the dataset is not possible without the agreement of everyone in the network. In this process, some of the nodes use the computing power of their CPUs/GPUs to confirm that the new block of information is consistent with the previous information stored in all previous blocks. By doing so, the new block is added to the existing ones in a way that it becomes impossible to tamper with the whole content of the dataset, referred to as immutability.

Due to these properties, Blockchain technology not only provides a way to secure the content of the data from loss and unilateral retroactive change but also several other advantages as described in the following:



Instead of relying on paper-based agreements, traditional financial institutions are also adopting another disruptive technology called Smart Contracts, which are computer programs that help to facilitate the transfer of money and assets. Smart Contracts are now understood as agreements with automated execution. Parties involved in such contractual relations agree ex-ante on a set of conditional statements that are coded in the smart contract. When these conditions are met, the agreed provisions are executed automatically.

A Decentralized Autonomous Organization is governed by auditable smart contracts that cannot be changed by any one person. This enables a “trustless” entity, one that doesn’t require a centralized authority like national courts or police to enforce. Smart contracts are computer code that don’t have biases or fears and don’t make decisions based on emotions.

Since a ledger is simply a record of transactions, Shariah compliance is a non-issue. The basic principle regarding the use of a new technology is of permissibility until evidence indicates that it is forbidden by Shariah.

Al-Hafiz Ibn Hajar said in Fath Al-Bari that the principle is that things are permissible until the Shariah says otherwise.

While blockchain technology is innocuous, the project and underlying transaction which the ledger records does need to be scrutinized by qualified scholars to determine whether it is Shariah-compliant or not. Scholars are unequivocal that each project should be analyzed against Shariah principles before participation.

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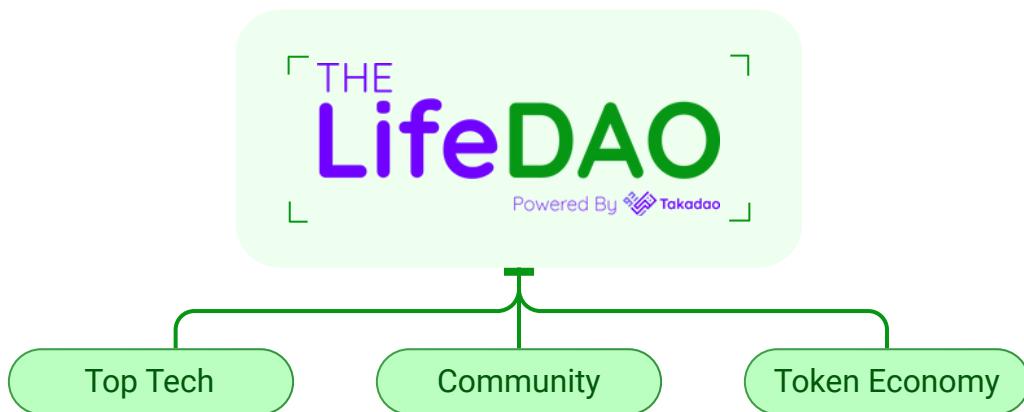
# THE LIFEDAO MODEL

## The LifeDAO Model

Islamic alternative to insurance still represents less than 1% of the global insurance market despite its numerous benefits. Adoption has been hamstrung by a lack of transparency, a lack of regulatory consistency and a lack of access for people outside of Muslim countries.

To respond to these challenges, Takadao came up with The LifeDAO (TLD), a web3 technology-first approach to building alternative insurance products of the future.

The LifeDAO is articulated around three pillars which makes it unique in its kinds:



### Community

A DAO is an independent entity that is owned and managed by its members. Organized as a DAO, TLD allows people to come together and contribute to a fund that is professionally managed and fully owned by the members of the community. As an alternative to conventional insurance, TLD has been developed by promoting ta'awun among a group of individuals to mutually guarantee and aid each other. Such cooperation involves contribution of money by all members for a specific purpose.

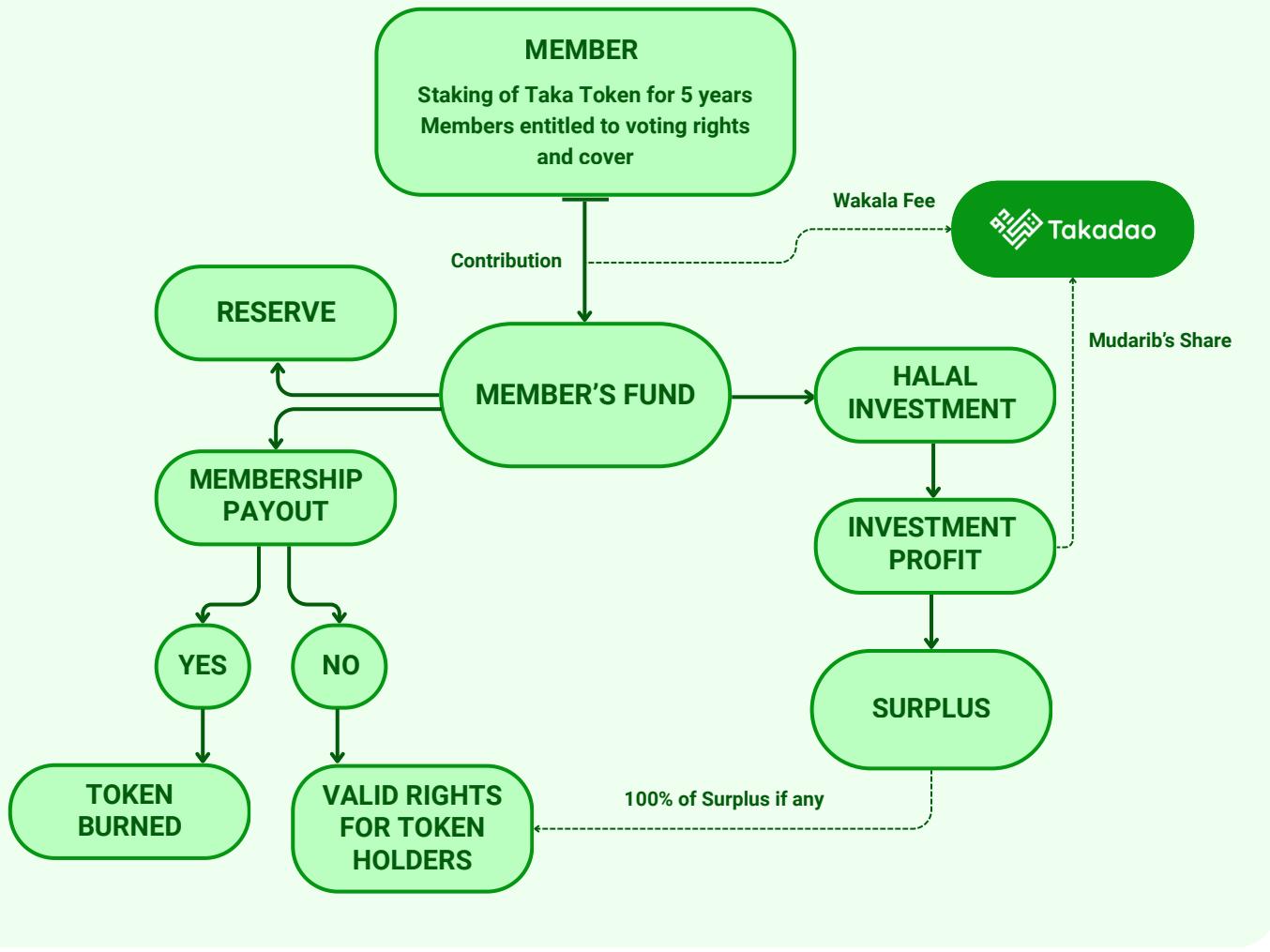
The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in **Standard No. 26 paragraph 3** according to Islamic jurisprudence states the following:

*Islamic insurance is based on the commitment of the participants to make donations for the sake of their own interest. The participants, therefore, protect their group by payment of the insurance fund, and assign the management of that fund to a committee of policyholders, or to a joint stock company that possesses the license of practicing insurance business. In the latter case, the company assumes this job on the basis of a remunerated Wakalah (agency) contract. In addition to managing the insurance operations, the committee policyholders or the company also assumes the responsibility of investing the assets of the funds through Mudarabah or investment agency.*

*3/1 - The company is entitled to its own capital and returns on capital, the agency fees, and its specific share of the profit earned by investing the insurance assets through Mudarabah or investment agency. The company also bears all the expenses of its operations including those relating to its tasks for investing the insurance assets.*

TLD has adopted this common model, known as hybrid Wakalah-Mudarabah business model, based on Wakalah for managing underwriting operations and Mudarabah in investments. This model provides diversification in terms of sources of income and transparency in managing funds.

## The LifeDao Model



Wakalah (agency) is a contract between a party (principal) who appoints another party (agent) to perform a certain duty on behalf of the principal in representable or assignable matters according to the shariah perspective. So as a wakil, Takadao which is a for-profit service provider, manages the underwriting and technology functions on behalf of the DAO fund. This is in exchange for a previously set fee, estimated as a percentage of total contributions made to the fund, known as the agency or wakalah fee charged on subscriptions. Scholars have unanimously agreed on the permissibility of wakalah in a tabarru` mutual protection business.

Mudarabah is a profit-sharing arrangement between two or more parties. This Arabic word can be translated as the mutual action of two people. It refers to a form of business contract in which one party brings capital whereas the other provides the professional, managerial, skill, expertise to carry out the business.

The contract was commonly used by the Prophet ﷺ tribe in pre Islamic times.

When Islam came, the Prophet ﷺ continued to approve of the contract. The capital provider is known as rab al mal and the entrepreneur as Mudarib.

In Islamic Jurisprudence, different duties and responsibilities have been assigned to each party. As a matter of principle, rab al mal does not interfere in the management of the enterprise. However, he has the right to specify some conditions that would ensure better management of his money. An important characteristic of Mudarabah is the arrangement of profit sharing. The proportionate share in profit is determined by mutual agreement. If there is a loss, it is only borne by the financier while the entrepreneur loses the fruit of his labor. The profit, if any, is shared in pre-agreed ratios. There is no loss sharing in a Mudarabah contract. The capital provider usually bears the loss, if any, unless it is caused by negligence or in violation of the terms of the contract by the agent who actually runs the business.

## Reserve

Islam emphasizes on the management of life, among other, by ensuring the orderly economic aspect and Islamic mu'amalat. Therefore, it encourages preemptive measures to counter any unpredictable future event. In line with the objectives of shariah, the allocation of reserves as a pre-emptive measure will be established to ensure the efficiency of the members' fund in meeting its liabilities.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in Standard No. 26 paragraph 10/5 according to Islamic jurisprudence states the following:

*For the sake of serving the policyholders interest, it is permissible to deduct part of their funds or profits to be used as reserves or allocations pertaining to the insurance fund. Such deductions, however, should by no means belong to the shareholders of the Joint Stock Company. The accumulated balance of the insurance account shall be spent on charity purposes in case of liquidations.*

## Surplus

Assuming no claims were made and no insurance benefits paid out, at insurance contract maturity TAKAs will be unstaked and released to the member. Unstaked tokens can be redeemed by members against their share of the underwriting surplus. The underwriting surplus are the digital assets left over in the DAO fund after payouts and expenses are paid and investment returns realized.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in Standard No. 26 paragraph 5/5 according to Islamic jurisprudence states the following:

The adopted rules may comprise disposal of the surplus in a way that serves the cause of common interest of the participants, such as accumulation of reserves, reduction of the contribution, charitable donations and partial/full distribution of the surplus among the participants. The managing company is not entitled to any share of the surplus.

## Top Technology

A DAO is far superior than a real world company in that it is governed by auditable smart contracts that cannot be changed by any one person. This allows a “trustless” entity, one that doesn’t require a centralized authority to enforce.

## Featuring the Benefit Multiplier

In any insurance-type product, there is an expected amount of losses that are incurred from claims, called the “loss ratio”.

The loss ratio is based on the amount of risk that is taken on as a result of the underwriting process. Therefore, the solvency of the DAO fund, which results in the ability to honor all membership payouts, is always the ultimate goal of all underwriting and financial decisions. The key point is that all risk and reward accrue to the DAO fund only and not the operator.

The worst thing that can happen to a risk sharing fund is that the fund runs out of money and is discontinued. This would mean a total loss for all the members who would lose their coverage and all their contributions as well. Hence, dynamic underwriting is applied to prevent this scenario by adjusting benefit amounts to maintain fund solvency.

For this very reason, with TLD’s dynamic underwriting model, hereby referred to as Takawriting, the benefit, or membership payouts is not strictly defined. It is not a sum assured. Instead the model starts by determining a targeted loss ratio and underwriting surplus and works backwards to determine the benefit amount based on the amount that was contributed by the member and his individual risk. Rating will depend on age, residence, occupation and lifestyle, among other factors. The better the rating, the lower the risk and the higher the ensuing benefit multiplier.

At any given time, there is a balance between the loss ratios and benefit payouts that optimize for the solvency of the fund. In case the loss ratios become too high to threaten the fund solvency, the benefit payouts will be reduced to bring the loss ratios back to the desired level. TLD's most important role is to ensure that its members are protected and benefit from mutual aid and assistance in times of adversity so the decrease is shared among many so that not one single individual will be disproportionately impacted. However, since benefit payouts are a multiplier of an individual's contributions, the minimum benefit payout that can be received will equal that individual's contribution. In the event of a payout, the beneficiary will receive at least what was paid in. In the event that loss ratios are lower than expected, meaning the fund is performing better than expected, then benefit payouts and underwriting surplus are increased, benefiting all members of the fund.

These adjustments are not arbitrary and are based on published financial models and also coded into smart contracts that are open source and publicly auditable. This precautionary mechanism aims to protect the interest of the members as a whole.

This is in line with the following fiqh maxim: "Public interest is given priority over specific interest. Harm must be removed".

## Token Economy

The issuance of DAO tokens by Takadao to members is an unparalleled innovation in mutual protection fund management since tokens represent ownership and voting power in the fund and are digitally tracked on the blockchain, reducing human error and fraud.

Cryptocurrencies have many names and are used for various purposes. For example, Tokens represent assets or various commodities that can be distributed, such as physical or digital assets, shares, votes, membership, loyalty bonuses and other utilities. Tokens are created through the smart contract platform that is built on blockchain technology used by other digital currencies, such as ERC-20, that can only be developed using the Ethereum blockchain.

Cryptocurrency or 'crypto' is a class of digital or virtual assets created using encryption algorithms which makes it nearly impossible to counterfeit. Crypto-assets come under

Shariah principles and rulings regarding utility, benefits, or future services are relevant to such tokens. Those principles and rulings should be adhered to for Shariah-compliant tokens in order to differentiate them from ungenuine tokens that have little to no actual use case or value, but are instead created solely for speculative purposes. Therefore, it is important to approach each project on its own merits and consider factors such as its underlying technology, use case, and overall market demand before making any judgments.

In Islamic Jurisprudence, the 'fuqahas' say, "a judgment can only be passed on something when a prior conceptualization of that thing has been embedded in a person". According to Cheikh Al Islam Ibn Taymiyyah: « The ruling [shariah] of a thing is based on its [actual] knowledge [and understanding]»

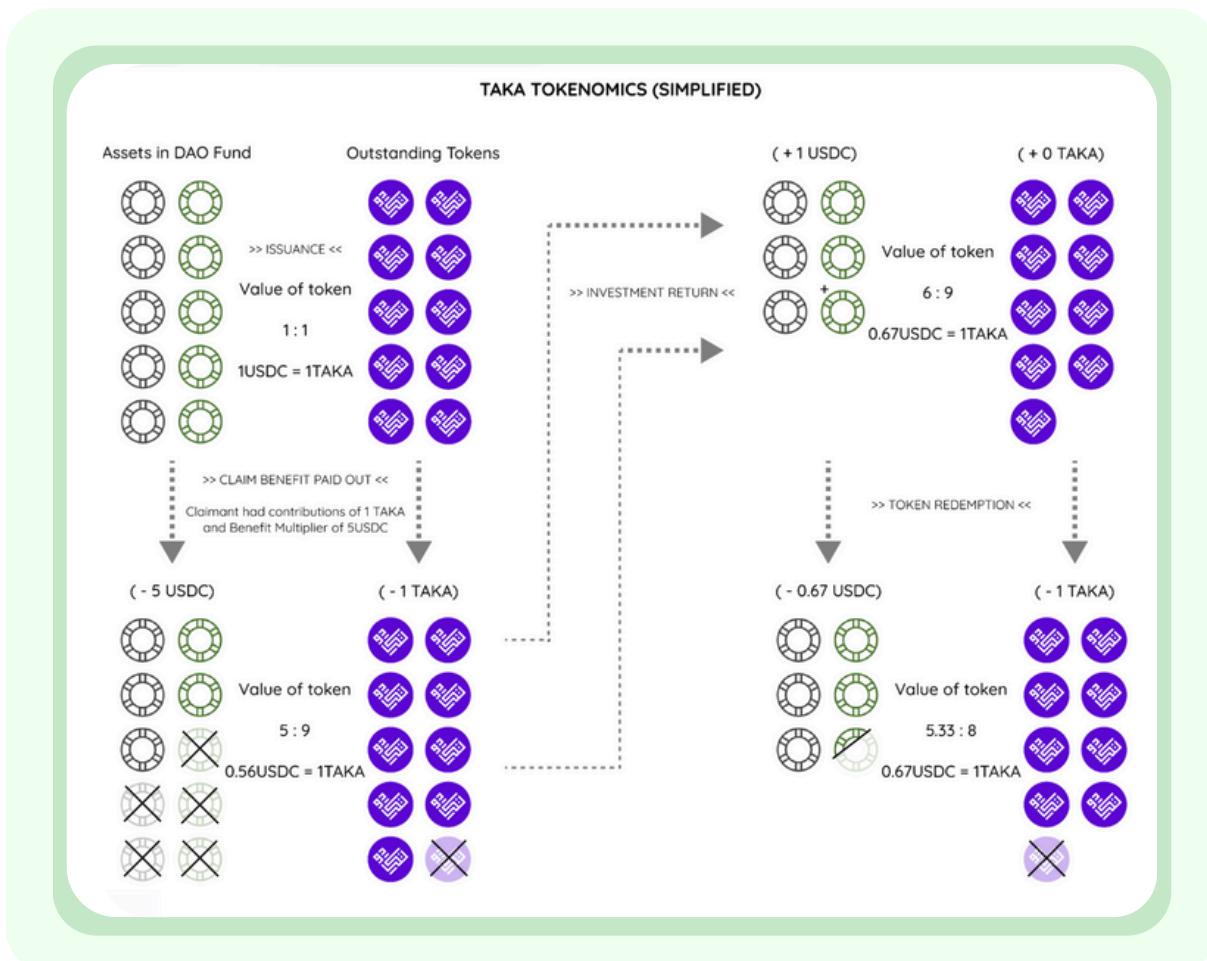
( Majmu' al Fatawa. Madinah: Majma' Al Malik Fahd Publishing House 1994)

This enhances the understanding of the reality of that thing before developing a shariah ruling.

### **TAKA Token**

The Takadao ecosystem's native token, the TAKA token underpins all the financial operations of the DAO fund. Taka tokens are not pre-mined so they are only issued when new money is added into the DAO fund. At issuance, the token price is pegged 1:1 to USDC but the token value redemption will be different for functional reasons.

Members are allowed to participate in governance voting and are entitled to a share of the underwriting surpluses of the fund. To become a member of the DAO, individuals should purchase TAKA tokens and stake them. In order to obtain insurance coverage, members need to lock up their tokens into an insurance smart contract that defines the parameters of the coverage. When the TAKAs are locked up, they cannot be withdrawn out of the smart contract and so they cannot be traded nor redeemed. As long as the TAKAs stay staked, the insurance coverage is in force.



Once a token is redeemed, digital assets equivalent to the token value is transferred out of the DAO fund to the token owner and the token is burned or destroyed. This ensures that the remaining tokens maintain their value and are not affected by the reduction in overall assets.

## Investment in Liquidity Provisioning

According to shariah principles compliant basis the funds cannot be invested in prohibited products or activities such as tobacco, alcohol, or gambling among others.

In TLD, funds are staked in liquidity pools with our partners who offer halal staking solutions for the Muslim community. These partners acting as a 'wakil,' will receive a small portion of the earnings made by each member in the form of 'hujrah' or 'wakala' fee.

However, it's important to understand that participating in these financial solutions carries risks independent of our company's control, which may arise due to rare conditions like extreme market reversals.

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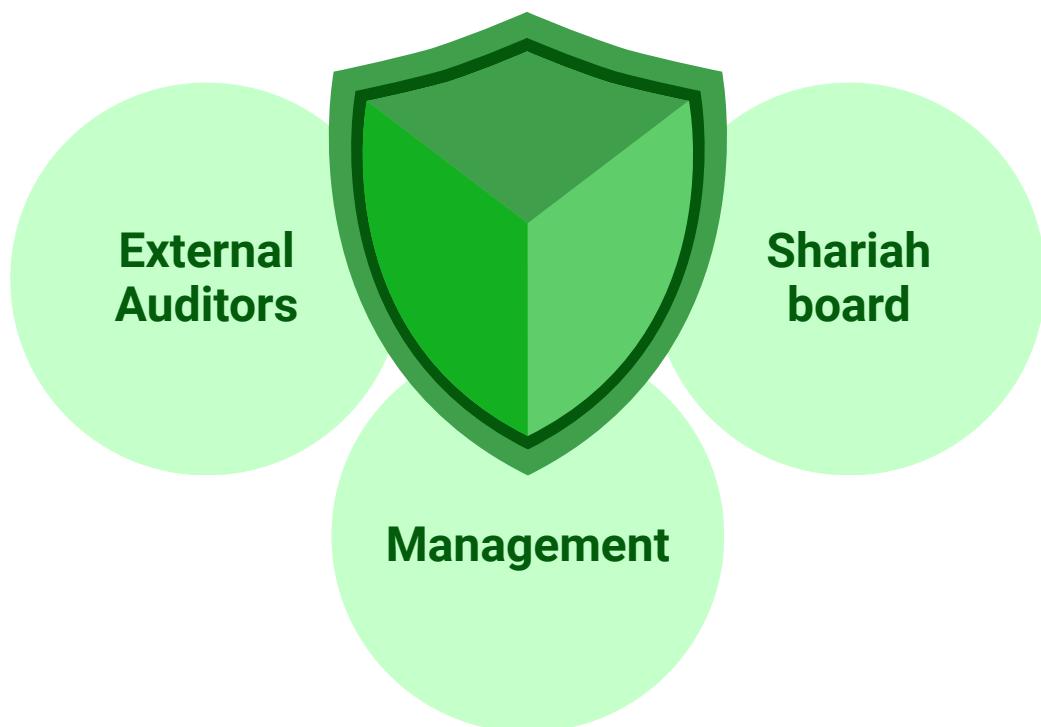
# SHARIAH GOVERNANCE

## Shariah Governance

The fundamental principles of tabarru` mutual protection are widely accepted by Islamic scholars worldwide, including The Islamic Fiqh Academy, the Higher Council of Saudi Ulemas, the Fiqh Council of the World Muslim League, and the First International Conference for the Islamic Economy. In practice, the operational models of Islamic financial institutions still require regular auditing to ensure compliance with Shariah principles.

At Takadao, every business decision and technical foundation is guided by a deep understanding of Islamic principles as well as integrity to ensure end-to-end Shariah compliance.

### Layer 3 Defence



**The First Layer of Defense** is the Top Management who set the tone and whose primary goal is to enhance value and ensure that there are no violations of Shariah standards.

Shariah governance extends to products, service, systems and processes as well as people. Other important aspects include training the concerned staff and creating an overall culture of Shariah compliance.

The main objectives of our Shariah governance are to:

- Provide a structure and a system for governing all the business activities of the company in order to ensure Shariah compliance at all times and at all levels
- Enable Takadao to be acknowledged as Shariah compliant by the stakeholders, including the general public
- Protect our company from financial and reputational loss on account of Shariah non compliance.

Such governance includes arrangements to incorporate effective and independent oversight of Shariah compliance of the business activities. In order to verify that the organization and its operations are in the scope and parameters of Islamic Principles, Top Management relies on the guidance of internal and external Shariah Advisors.

**The Second Layer of Defense** is incumbent on the Shariah board who offers guidance and advice to the management of Takadao. They have complete ownership of ensuring Shariah compliance within the organization and possess veto power over any products, features, or services that they determine to be non-compliant. Their involvement extends to research and development, particularly due to the decentralized finance environment being a relatively new and evolving industry.

The responsibilities of the Shariah Board include monitoring the company commercial and social responsibility models, broadspectrum strategic intent, general commercial activities, product offering and services, throughout the company's development lifecycle and through its lifetime. It also includes, screening of protocols and marketing material among other documents to ensure that they are in compliance with the Islamic legislation.

All important determinations concerning Shariah compliance are given the necessary consideration, Significant Shariah decisions and approvals undergo a thorough endorsement process. This entails obtaining support and approval from the majority of the board members, with a minimum requirement of at least 3 members. This approach guarantees that decisions related to Shariah compliance are carefully deliberated upon and receive the collective agreement and backing of the board. Members must continuously develop and strengthen their knowledge and understanding of Islamic finance, as well as keep abreast of the developments that may impact Islamic financial business, to fulfill their responsibility.

Their collective expertise allows for a comprehensive evaluation of the organization's offerings and ensures a well-rounded understanding of the intersection between Shariah principles and the evolving financial landscape.

While the Shariah board primarily serves an advisory role, their decisions and recommendations regarding Shariah compliance carries a binding authority. This means that the management must adhere to the directives and guidelines provided by the Shariah board and hold the account for ensuring that the company operates in a manner that upholds the integrity and adherence to Shariah principles. This responsibility includes integrating Shariah compliance into the organization's policies, procedures, and practices, as well as overseeing day-to-day activities with a commitment to upholding the approved Shariah standards.

**The Third Layer of Defense** is incumbent on the external Shariah auditors who bring an independent evaluation of the level of compliance. Those Islamic economists and financial scholars will advise Takadao on matters relating to Shariah compliance and recommend general guidelines, consistent with Shariah law. Any verdict issued by the Shariah advisors in relation to any Shariah related matter would be final and enforceable by the Management.

Almighty Allah knows best. Praise be to Allah, the Lord of the Worlds and may His Blessings and Peace be upon our Prophet Muhammad ﷺ and upon all his Family and Companions.

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