TAKĀFUL IN NIGERIA.

BY

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CERTIFICATION

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DEDICATION

This research work is dedicated to

THE MEMORY OF MY PARENTS

ALHAJI MUSTAFA AJALA ADEPOJU (FORMER CHIEF IMAM OF ATAN, IN ADO-ODO/OTA LGA OF OGUN STATE)

AND

HAJIA SIDQAT ADEPOJU

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Razaq Idowu Adepoju

TABLE OF CONTENTS

CHAPTER FIVE

5.0 PRESENTATION OF DATA AND DISCUSSION OF FINDINGS

CHAPTER SIX

6.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

LIST OF TABLES

LIST OF FIGURES

GLOSSARY OF NON-ENGLISH WORDS

Ab initio	from the on set
Ajo	Yoruba term for daily contributions
Anṣār	Madinites who welcomed and accepted the Muslim emigrants from Makkah
'Aqdu	Contract
'Āqilah	Paternal relatives of a killer who pay blood wit
Aṣāba	Close relatives of a murderer
Banū Awf	Tribe of Awf
Banū Ḥārith	Tribe of Harith
Banū Sa'īda	Tribe of Saida
Banū Jusham	Tribe of Jusham
Banū Najjār	Tribe of Najjar
Banū 'Amr	Tribe of Amr
Banū Nabeet	Tribe of Nabeet
Banū Aws	Tribe of Aws
Barakat	Blessings
Caveat emptor	Buyers beware
Dār al Islām	land of Islam
Dār al ḥarb	land of infidels
Dirham	a penny
Diyyah	blood money by the aqilah to a deceased relative
Dīwān al Mujahiddīn	Register of Soldiers
Esusu	Yoruba term for money saved for future use
Fatwa	Juristic opinion
Fidyah	Ransom
Fiqh	Islamic jurisprudence
Gharār	uncertainty
Geniza	Hebrew documents
Ḥadīth	Sayings of the Prophet
Ḥarām	Forbidden
Hijrah	Prophet's migration form Mecca to Medinah

Ḥilf	Confederation
Istijārah	Asylum
Jo'alah	Transaction based on commission
Kafala	To guarantee
Kazeeruniyyah	A Sufi order popular in the 14th century around the port cities
Khalīfah	Ruler of the Muslim state
Maisir	Gambling
Mufti	Jurist
Muhājirūn	Emigrants from Makkah to Madinah
Muḍārabah	Partnership
Muḍārib	Entrepreneur
Musaqah	Orchards or Garden contract
Muwālat	Clientage with friendly cooperation
Muzāra 'ah	Farmland contract
Nadwat al 'Ulamā'	Assembly of Scholars
Naqshabandiyyah	A Sufi order
Niyyah	Intention
Pignus	A form of sea loan contract
Qadar	Destiny
Qasāmah	Oath taking
Rabb al Māl	Capital provider
Respondentia	Bottomry loan practiced in Greece
Ribā	Usury
Sharī 'ah	Islamic legal code
Sigorta	Turkish term for insurance
Signare	Early Italian term for Marine insurance
Ṣūfī	Ascetic
Sukara	Security
Sunnah	Prophetic tradition
Syarikah	Malay word for 'Company'
Tabarru'	Donation
Ta'mīn	The earliest Arabic term for insurance
Takāful	Islamic insurance

Tawwakkul	Dependence on Allah
Uberimah fides	Utmost good faith
Ummah	Muslim community
Umrah	Lesser hajj
Wakāla	Agency
Wakīl	Agent
Waqf	Endowment
Zakāt	Religious tax

ABSTRACT

Takāful, Islamic mutual cooperative insurance, is fast gaining grounds all over the world and many countries have tapped into its potentials to grow their economies. Nigeria also licensed *Takāful* windows to three conventional insurance outfits (African Alliance PLC, Niger Insurance PLC and Cornerstone Insurance PLC). Studies have addressed banking and other aspects of Islamic finance in Nigeria but none has examined the practice of *Takāful*. This study, therefore, investigates the extent and form of practice, level of awareness of operations and patronage of *Takāful* in Nigeria with a view to determining the challenges and prospects of its full operation.

The study adopted Pascal and Fermat's theory of probability which determines actuarial calculations and risk assessment in insurance business. Survey design involving the use of random and purposive sampling methods was adopted in the administration of copies of a questionnaire to 270 Civil Servants, 102 Engineers, 105 Accountants, 100 Bankers, 210 Teachers, 80 Lawyers and 33 Artisans in six randomly selected states (Kano, Gombe, Kwara, Edo, Imo and Ogun) in Nigeria's geo-political regions and purposively selected Lagos and Abuja, for their economic and political importance respectively. In-depth interviews were conducted with nine top *Takāful* officials of the windows. Qualitative data were subjected to content analysis, qualitative data were analysed using percentages.

Takāful practice in Nigeria remained at the windows level. The windows offered both general and life *Takāful* products. They adopted *Al-Muḍārabah* (Profit-and-loss sharing) model and operated the account components required of *Takāful* operation (Participants' Account and Participants' Special Account) in line with standard international practice. The windows did not disclose the volume of subscription but confirmed low patronage. They were found not to have done enough in awareness creation, hence, the low patronage could be consequent on public's poor knowledge of the workings of *Takāful*. *Takāful* officials identified lack of support institutions like Central *Sharī 'ah* Council, liquid secondary market, *re-takāful* outfits and few *Sharī 'ah*-compliant investment products as challenges to confront full *Takāful* operations. They mentioned the need for personnel, education and awareness creation as germane. Meanwhile, 69.8% of respondents were aware of the existence of the windows, but very few (26.5%) subscribed to *Takāful* products. About half of these were satisfied with their subscriptions. Moreover, 65.2% of respondents were willing to subscribe to *Takāful* plans. A large percentage of respondents

(83.6%) opined that full *Takāful* operation would succeed in Nigeria. Furthermore, respondents believed that the following could serve as prospects for *Takāful*: the Muslim population (70.3%), existence of many Islamic organisations (76.0%), poverty level in Nigeria (71.5%) and the existence of *ḥalāl* (lawful) investment products in Nigeria (68.8%). In addition, 57.7% of respondents supported the need for appropriate regulations for *Takāful*.

Takāful in Nigeria, though still at the windows level, is consistent with acceptable global practice. Awareness and patronage are still low but there is a great potential for the country to benefit maximally from this system. Thus, government needs to create awareness, build institutions and provide regulations for its full take off.

CHAPTER ONE

1.0 Introduction

The world has moved in a direction that calls for constant caution and with the level of calamities prevalent in human societies, it can hardly be imagined how man can survive without a coordinated system of managing risks and uncertainty.

This chapter gives a background to the topic of this research work. It defines the problem of the research and states the objectives of the work. It also explains the methodology adopted for the work and the scope of the research.

1.1 Background to the study

From time immemorial, risk, in the sense of chance of loss, has been the bane of human existence. Indeed from the cradle to the grave, human beings are exposed to risks and hazards day in day out.They live in constant fear of the possibility of losing one of their possessions or even their lives or limbs. While some people, by virtue of their occupation or physical conditions, may be more exposed to risks, it is apparent that all of us are subject to the hazards of life one way or the other. Whether man likes it or not and however careful he may be, he is exposed to the risks of, for instance, fire, earthquake, storm, burglary, attack by armed robbers, accidents of all sorts, injuries from tortuous acts of others and several other hazards.

In the sphere of economic activities, risks and uncertainties are accompanied by the fear of financial loss or hope of gain or both heightening our awareness of them (Siddiqi, 1985:14). What then is risk? It must be said that to have an accurate and generally accepted definition of risk will be difficult. The Longman Dictionary of contemporary English defines risk as “the possibility that something bad, unpleasant, or dangerous may happen”.Isimoya (1999:1) sees risk as the “possibility of an unfortunate occurrence”. Alex and Norman (1990:6) define risk as “the doubt concerning the outcome in a given situation”. They also opined that it could mean “the chance of a loss”

If risk is so central the bane to human life, then there must be ways of solving or overcoming it. Experts have posited three likely ways of handling the problem of risk (Isimoya 1999:11). The first is ‘risk prevention’. Where the loss can be anticipated, steps could be taken to prevent it from happening. But unfortunately, experience has shown that many of these losses happen unexpectedly and no amount of precaution or carefulness can prevent them from occurring, although reasonable precaution may reduce the chances of its occurrence.

The second method is 'risk assumption' by the individual exposed to risk. Thus, he is aware of the risk and if a loss occurs, he bears it himself to the best of his ability. Again, this may be alright for minor risks. But where the value of the property at risk is substantial, it could be unwise to adopt the risk assumption method.

The third and easily the most efficient method, is by means of insurance. Where, as experience has shown, the other two methods were unsatisfactory in coping with risk, insurance has been devised as a more satisfactory means of combating it (Isimoya 1999:11).

The Encyclopaedia Britannica defined insurance thus:

> Insurance is a method of coping with risk. Its primary function is to substitute certainty for uncertainty as regards the economic cost of loss- producing events.(Vol. 21p.684)

It continues:

> Insurance may be defined more formally as a system under which the insurer, for a consideration usually agreed upon in advance, promises to reimburse the insured or to render services to the insured in the event that certain accidental occurrences result in losses during a given period. (Vol. 21 p.684)

Rejda (1982:23) defined insurance as;

> The pooling of fortuitous losses by transfer of such risks to insurers who agree to indemnify the insured for such losses, to provide other pecuniary benefits on their occurrence or to render services connected with the risk.

It is also defined as:

> ….. a social device for reducing risk by combining a sufficient number of exposure units to make their individual losses collectively predictable. The predictable loss is then shared proportionally by all those in the combination. (Mehr and Emerson, 1972:32)

This definition implies both that uncertainty is reduced and that losses are shared…From the point of view of the individual insured, insurance is a device that makes it possible for him to substitute a small definite, cost (the premium) for a large but uncertain loss (up to the amount of the insurance) under an arrangement whereby the fortunate many who escape loss will help to compensate the unfortunate few who suffer loss (Mehr& Emerson, 1972:32). It is in this sense that Isimoya (1999:14) percieved insurance as a social scheme which provides financial compensation for the effects of a misfortune. This financial compensation is provided from the pool of accumulated contributions of all members participating in the scheme.

Under the insurance system, a professional risk-bearer, usually an insurance company assumes a risk in return for a monetary consideration known as premium. It could therefore be said that the main object of insurance is to eliminate the adverse effects of risks. It has the major advantage of substituting certainty for uncertainty.

The philosophy behind the idea of insurance is as old as human civilization. Humanity across epochs has developed one means or the other towards managing risk. Trenery (1926:107) suggested that a system of insurance had existed in the classical times, though not formal. He maintained that formal insurance contracts were made before the end of the16th century. In his words:

> By the time of William Shakespeare the practice of insurance had become firmly established in the United Kingdom. For as long ago as 1601 during the reign of Elizabeth I of England an Act was passed by the British parliament which had set up a Court of arbitration for the purpose of settling disputes on marine insurance policies.

The preamble to the Act is as follows:

> Whereas it hath been time out of mind and usage amongst merchants, both of this realm and of foreign nations, when they make any great adventu1re (especially into remote parts), to give some consideration of money to other persons (which commonly are in no small number) to have from them assurance made of their goods, merchandises, ships and things adventured, or some part thereof, at such rates and in such sort as the parties assurers and the parties assured can agree, which course of dealing is commonly termed a policy of assurance; by means of which policies of assurance it cometh to pass upon the loss or perishing of any ship, there followeth not the undoing of any man, but the loss lighteth rather easily upon many, than heavily upon few, and rather upon them that adventure not, than those that do adventure, whereby all merchants, especially the younger sort, are allured to adventure more willingly and more freely… (Trenery, 1926:108)

The insurance type described in the preamble to the 1601 Act was the marine insurance which was the earliest form of commercial insurance. In those days, there were no insurance companies compared to the present. Instead there were merchants and other traders who were engaged in trade by sea and who often got together and devised the means of sharing their losses. What they did was that at the beginning of each voyage, the merchants got together and agreed that at the end of a given period the owners of goods in the ships which arrived safely in port would contribute to compensate those merchants who had goods in the ships that failed to complete the journey. The effect of this was that the merchants got together, collected premium which they paid into a common fund out of which payment was made to those who suffered losses, thereby establishing the principle of "the burdens of the few were borne by the many". The success recorded in this early arrangement marked the beginning of marine insurance and could also be said to account for insurance consideration to other sectors (Verdict, 1985:17).

Aside from the merchants and ship owners arrangements, the Romans also used to gather together to form burial societies. They contributed to a fund and members of the fund had their burial expenses met by the society (Verdict, 1985:22).

In the dark and middle ages, most crafts-men were trained through the guild system. Apprentices spent their childhood working for masters for little or no pay. Once they became masters themselves, they paid dues to the guild and trained their own apprentices. The wealthier guilds had large coffers that acted as a type of insurance fund. If a master's shop burnt down, an incident common in the wooden hovels of medieval Europe, the guild would rebuild it using money from its coffers. If a master was robbed, the guild would cover his obligations until money started to flow in again. If a master suddenly became disabled or was killed, the guild would support him or his widow and family. This safety net encouraged more and more people to leave farming and take up trades. As a result, the amount of goods available for trade increased as the range of goods and services available also increased (Trenery, 1926:197).

A form of credit insurance was also included in the 'code of Hammurabi,' a collection of Babylonian laws said to predate the Law of Moses. The law made a provision that ship owners should not pay back loans obtained from investors if a catastrophe made it impossible e.g. disability, death, ship loss or ship wreck etc. (Vardit, 1985:15).

Tribal practice of *‘āqilah and diyyah* payment among the Arabs was a form of insurance in Arabia before Islam. (Madkur, 1980:46) The *diyyah* doctrine demanded that if a member of a tribe was killed by a member of another tribe, the heir of the victim would be paid an amount of money by close relatives of the killer. Those close relatives of the killer were addressed as *‘āqilah* in Arab terminology (Hughes, 1982:17).Where the relatives of the killer, *‘āqilah,* cannot pay *diyyah*, the relatives of the victim were entitled to vengeance. Therefore *diyyah* was often paid by the entire tribe from a special fund (Benat, nd, p.1). Thus through the support of the tribe, the murderer was exempted from criminal prosecution even if his immediate relatives (‘āqilah) were unable to provide compensation for murder. The readiness of the ancient Arabs at that time to pay compensation was a kind of financial protection for the heir of the deceased against the unexpected death of the victim (Ma ‘sum billah, nd, p.3). If the crime was committed by a slave, the bloodmoney was paid by his master, who could also sell the slave to repay all or part of the debt (Benat, nd, p. 2).

To provide protection against risks, traditional societies, across the world, had in the past developed informal insurance mechanisms such as selling assets, exchanging gifts (as a means of condolence), cash transfers and diversifying crops etc. Alternatively, to cope with a loss, people have sometimes resorted to emergency measures such as child labour, malnutrition and reducing children’s education and family healthcare. Also the fear of losses can mean sacrificing new technologies and profitable business opportunities. But unfortunately these have proved inadequate (Patel, 2002: 9- 10).

However, with the emergence of modern complex societies, there was the need for a coordinated system of risk management and compensation. Insurance emerged as a response to this need. It has been recognized as the most appropriate means for protection against highly unpredictable events. Insurance protects against unexpected losses by pooling the resources of the many to compensate for the losses of the few. The more uncertain an event, the more insurance becomes the most economical form of its protection. Thus, insurance is based on the discovery of a useful social scientific principle, according to which, after a small investment, individuals can be freed from incurring financial losses as a result of perils and accidents, whose incidence can be measured fairly accurately in relation to large human groups (Patel, n.d p.11).

Emphasising the importance of insurance, Siddiqi (1985:23) asserted:

> The ever-growing complexity of the economic system in the industrial age has increased the importance of risk management, i.e. reduction and removal of risks, in the productive process and commercial transactions.

He opined that the existence of pure risks obstruct the smooth conduct of businesses that such risks are associated with. It is very difficult for a person to undertake a venture that carries only pure risk, i.e. only fear of loss without any hope of gain (Siddiqi 1985:11).With insurance, individual is relieved of worry. He gets on with his business and takes those commercial decisions relating to those risks which are within his control. He does not need to tie capital down with the intention of paying for potential losses.

Insurance also affords the business men and women the opportunity of taking certain risks which they would not have been able to undertake without insurance. Such risks include: building new factories; sending goods by ship, experimenting with new discoveries etc. (Alex and Norman, 1990:10)

Discussing the benefits of insurance, Alex and Norman (1990:10) had this to say:

> The money received by the insurance companies in the form of premiums is put to work to earn interest. In non – life insurance, money is held until claims have to be paid but in life insurance, premiums may be held for many years until it is needed to be paid back in the form of a lump sum or pension. This money is invested in industry, commerce, rebuilding projects and loaned to local councils and the government. Investment income earned by Life Offices is used in a number of ways. It particularly benefits policy holders who have 'with profits' policies (as we shall see later) as well as the shareholders of the company.

There is no doubting the fact that insurance transaction is crucial to the modern economic wellbeing. Hence, Siddiqi (1985:25) said:

> …The present system of wealth creation and the present level of civilization are simply inconceivable without recourse to insurance. The absence of insurance is bound to lead to a lowering of the level of wealth-creation and to the decline of civilization.

However, Islamic considerations and sensitivity has created side by side conventional insurance in the world today, a cooperative risk sharing system known as *Takāful*. The word *Takāful* is an infinitive noun (masdar) which is derived from the root verb *'kafala'* which generally means joint guarantee. *Takāful* could therefore mean 'shared responsibility', 'shared guarantee', 'collective assurance', 'mutual undertakings' etc. It is an understanding among a group of people (called participants) who agree to reciprocally guarantee each other financially, should any event (as specified in the contract) occur.

The basic objective of a *Takāful* contract is to pay from a common fund, which is set up by the participants of the scheme. The fund thus created can be managed by the participants themselves or through professionals or by a registered *Takāful* operator (Ali, 2006:2). Hence, participants in *Takāful* scheme enter into a legal agreement to pay any of its members who falls into a specified mishap, an agreed amount from a percentage of the contribution earmarked as *tabarru'* (donation). This means that every participant will agree to relinquish a certain amount of *Takāful* contributions to fulfil his obligation of mutual help and joint guarantee.

Takāful originated from the pre-Islamic Arabian tribal practice of blood wit (*diyyah*) payment by the paternal relatives *('āqilah*) of a murderer to the heirs of the victim as a compensation for the sudden death of their benefactor. This ancient Arab practice was accepted and retained when Islam eventually came to Arabia (Ma 'sum billah**,** 1998:388). *Takāful* is therefore, an Islamic alternative to conventional insurance and it is based on the concepts of trusteeship and cooperation inspired by the beliefs of the followers of Islam. It must be stated that the objectives of Islamic economics is to create a society free from exploitation, promote human welfare by safeguarding their faith, life, property etc. and uplift the entire society. *Takāful* can be a catalyst towards achieving these.

With the establishment of the first *Sharī'ah*-based insurance company in Sudan, named the Islamic Insurance Company Ltd, in January 1979, *Takāful* as an Islamic way of mutual assistance to deal with uncertainties of life, ceased to be a mere theoretical issue or an ideal to be attained. Presently, *Takāful* organizations exist in the following countries: Algeria, Australia, Bahamas, Bahrain, Bangladesh, Brunei, Egypt, Ghana, Indonesia, Iran, Jordan, Kuwait, Luxemburg, Malaysia, Mauritania, Pakistan, Qatar, Saudi Arabia, Senegal, Singapore, South Africa, Sri Lanka, Sudan, Trinidad & Tobago, Turkey, United Arab Emirate, United Kingdom, United States of America etc. Commenting on the success of *Takāful* in most of these countries, Ali, (2006:4) says:

> In the recent past, the Muslim world is being stirred with an endless enthusiasm and impetus to occupy its real

> place among the community of nations and contribute its due share to humanity…Introduction of *Takāful* is an example of how the principle of *Sharīʻah* can help to create new socio-economic mechanism based on equity, justice and fair play.

1.2 Statement of the problem

Today's Muslims share similar economic challenges and risks with their non-Muslim counterparts. As they progress through life, they are confronted with how to fund children's education, marriage and the demands of family responsibilities as well as how to save for retirement or emergency, to defray expenses that may arise from illness or tragic misfortune and probably how to take care of their dependants in case of death. Such important yet mundane needs are typically addressed by conventional insurance policies (general or life) and associated long-term savings. But unfortunately, these schemes have been declared as fundamentally containing anti-*Sharīʻah* elements like: *al-riba* (interest), *al-maysir* (gambling) and *al-gharār* (uncertainty) which Islam has prohibited Muslims from engaging in if they are to see the favour of Allah.Various juridical opinions support the declaration of conventional insurance as containing these elements. Such include:

- Verdict of the Supreme Court of Egypt in December 27th, 1926
- Unanimous resolutions and *Fatwa* by scholars in the Muslim League Conference in Cairo in 1965
- Consensus of Muslim Scholars in a seminar held in Morocco in May 6th, 1972
- The *Fatwa* issued by National Religious Council of Malaysia in 1972
- The *Fatwa* issued by the *Fiqh* Council of World Muslim League in 1978 (Ma ʻsum billah, 1998:395)

There is no doubting the fact that there is substantial number of Muslims in Nigeria, (put at 111,921,818 by the 2009 CIA World Factbook), whose primary motive of being adherents is to seek the favour of Allah and conduct their affairs in manners acceptable to Him. There are also people of other faiths in Nigeria who abhor these elements. The desire to attend to these mundane needs has led a number of Muslims (and some other Nigerians) into insurance contract that has elements prohibited by Islam.

While there have been research efforts on some aspects of Islamic finance like Islamic banking, Zakat, Islamic micro finance, Poverty alleviation etc, and works like Gusau (1991), Akanni (2009), Alanamu (2010) Noibi (2011), Kareem (2011) and Umar (2011) readily come to mind, no study, to the best of the reseachers knowledge, has examined the practice of *Takāful* in Nigeria. The few literatures available on *Takāful* are centred on the general principle governing *Takāful*. However, there exist works on the practice of *Takāful* in the Arab world like Saudi Arabia and Kuwait and other countries in Asia, such as Malaysia and Indonesia. The pioneer role played by Sudan, an African nation, in the area of Islamic insurance has afforded it the opportunity of having scholarly works available on its operation in that country.

This study therefore hopes to investigate into *Takāful* practice in Nigeria. This is necessary because of the increasing awareness on Islam's prohibition of conventional insurance practise among Muslims and the emergence of a young generation of educated and affluent Muslims seeking a substitute for this important aspect of commerce and personal finance.

1.3 Objectives of the research

This research work is carried out to know the extent of practice of *Takāful* in Nigeria. It is also to determine the form of practice, the level of awareness among Nigerians, the extent of patronage of *Takāful* products and its impacts on users. This is with a view to determining the challenges and prospects of its full operation in the country.

1.4 Scope of the study

The focus of this work is the practise of *Takāful* in Nigeria from year 2000 to 2011. Six states were randomly sampled from the six geo-political zones of the country- Kano (North West), Gombe (North East), Kwara (North Central), Edo (South South) Imo (South East) and Ogun (South West). Lagos and Abuja were also sampled because of their economic and political importance to the country respectively. Lagos was chosen as the economic nerve centre of the country and Abuja as the capital of the country.

1.5 Justification of the study

The country is chosen as an entity worthy of studying for this work because of certain considerations; the large population of Muslims in the country, which controvercially has been put at 111,921,818 by the 2009 CIA World Factbook, is a motivating factor towards conducting this research.

The emergence of a young generation of educated and affluent Muslims who are seeking Islamic substitute in the aspect of commerce and investment in the country is another motivation for this work. The emergence of this educated Muslims can be traced to increasing number of educated Muslims and the activities of Assalatu groups such as NASFAT, QUAREEB etc who have attempted to re-present Islam to hitherto nominal educated Muslims. This increased, to some extent, awareness and commitment to Islamic teaching.

Also, since mid 90s, the emergence of Islamic-based cooperative societies has been on the increase across the country. This has increased the Nigeria Muslim's awareness on the ideals of Islamic economics concerning cooperation, mutual assistance, mutual trust and self-help which are basic to the practice of *Takāful*. Examples of such organisations include; *Al-hayat* Relief Foundation, Ijebu Ode, *Abu zur* Islamic Empowerment Centre, Katsina, *As-salam* Devlopment Foundation, Ijebu Ode, *Al-Ikhlas* cooperative Investment and Credit Society, Ibadan, Islamic Reliefs Foundation, Ado-Ekiti, Young Muslims Multi-purpose Cooperative Society, Lagos, The Muslim Congress, Lagos etc.

1.6 Research methodology

This study is both descriptive and analytical in nature. It adopts descriptive survey research method and the data for the work were collected by means of questionnaire and scheduled interviews. Interviews were held with nine professionals and officers (Managers, Unit Managers, Team leaders, Marketers) who are directly involved in *Takāful* practice in the three Insurance companies which already have *Takāful* windows in Lagos and Abuja-African Alliance Insurance PLC., Niger Insurance PLC. and Cornerstone Insurance PLC.The questionnaire used for the study was designed by the researcher to sample the opinion of the respondents on *Takāful* insurance in Nigeria. The questionnaire was titled "*Takāful* in Nigeria Questionnaire (TINQ) (see Appendix 1)

A total of 900 copies of the questionnaire were randomly administered to 270 Civil Servants, 102 Engineers, 105 Accountants, 100 Bankers, 210 Teachers, 80 Lawyers and 33 Artisans. In selecting the sample, both random and purposive sampling techniques were adopted. While six states Kano (North West), Gombe (North East), Kwara (North Central), Edo (South South) Imo (South East) and Ogun (South West) were randomly selected from the existing six geo-political zones in Nigeria, Lagos and Abuja were purposively selected. Lagos was selected because it is the commercial nerve centre of the country where there are large number of conventional insurance organizations. Abuja, the capital of Nigeria, apart from housing head offices of the insurance organizations, also has government offices and large business organisations and concerns. With these government ministries and large business offices, insurace companies may want to explore the locational advantage of Abuja. The returned questionnaires amounted to 871.

The TINQ consists of three sections. Section 'A' focused on the biometrics and distribution of respondents. This includes religion, educational background, age, state of origin and profession.

Section 'B' contained eight questions testing the respondents' level of awareness and knowledge of *Takāful* in Nigeria . Section 'C' contained 20 propositions on a 4-point Likert scale format and respondents are expected to tick their opinion on the items. They are to agree or disagree on the given propositions chosing between Strongly Agree (SA), Agree (A), Strongly Disagree (SD) and Disagree (D). Respondents were allowed to make final comments on the success or otherwise of *Takāful* insurance in Nigeria in an open ended manner.

The data collected through questionnaire were analysed using frequency and simple percentages.While the data gathered through interviews were content analysed.

The secondary sources of information to this work were documented materials such as text- books, Journals, Dissertations, Theses, Magazines and Internet resources.

1.7 Research questions

This work intends to answer the following questions:

How does *Takāful* operate? Are Nigerians aware of *Takāful* insurance? Is it in operation? To what extent has it been practiced? What is the level of patronage? Are Nigerians ready to subscribe to it? Is the current insurance regulation in Nigeria favourable to *Takāful*? What would be the impact of Nigeria's multi-religious status on the operations and patronage of *Takāful*? Is *Takāful* viable in Nigeria? Can it succeed? What are the pointers to its viability? What are its prospects? What are the likely challenges that *Takāful* can face in Nigeria? What benefits can Nigeria and Nigerians derive from *Takāful*? These questions would form the basis of our findings and discussions.

1.8 Limitations

In the process of gathering data, some problems were encountered. During questionnaire administration, some respondents were not interested in the completion of the instrument. It took persuasions, pleadings and promptings before some of them showed interest. Even when they finally showed interest, we had to visit some offices three or four times to retrieve the questionnaires. This attitude of respondents could be traced to lack of confidence in research efforts as a number of research findings have not been utilised to the benefits of Nigerians. This we got from personal interactions with some of our respondents.

Added to this some of the officials interviewed in the organisations offering *Takāful* windows were not forthcoming because they thought they might be divulging their product information to their competitors. It took extensive explanations and personal identification to get their cooperation.

However, it should be remarked that we enjoyed maximum cooperation of many of our respondents across the country, both at the questionnaire administration period and at the interview stage.

Conclusion

So far, it has been discussed that insurance is the most efficient method of coping with risk when compared to other methods that have been devised over centuries. It is a system of sharing loss so that the burden of the few is borne by the many and the level of uncertainty in business or personal decisions is drastically reduced.

However, conventional insurance practice is prohibited by Islam because it consists of elements that are offensive to *Sharī'ah*; *Ribā* (Usury), *Maysir* (Gambling) and *Gharār* (Uncertainty). The existence of these elements makes the participation of Muslims in conventional insurance *ḥarām* (unlawful). But it must be noted that Muslims, like their counterparts who are not Muslims, are also exposed to risks and other economic challenges such as funding children's education, defraying expenses that may arise from illnesses, saving for retirement and taking care of dependants in case of death. These are some of the needs addressed by conventional insurance policies.

It is in response to this that the Islamic world has come out with an insurance system called *Takāful* which is consistent, in form and practice, with the letter and intent of *Sharī'ah.* The objective of this insurance type is to create mutual cooperation and assistance, mutual protection and shared responsibility among the participants so that every participant apart from insuring him/herself is equally assisting his or her brother or sister, which in itself is considered a religious duty.

Takāful organisations are found all over the world doing businesss in all areas of insurance. But what is the situation with Nigeria? The answer to this question would come as this work continues.

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CHAPTER TWO

REVIEW OF LITERATURE

2.1 Introduction

This chapter is aimed at reviewing all relevant literature available on *Takāful* and *Takāful* in Nigeria. The chapter will look at the pre-Islamic evolution of *Takāful*, the development of *Takāful* over the centuries and the views of scholars on insurance practise. It will also state the conceptual and theoretical frameworks of this research work.

2.2 Literature review

Our review of related literature will begin with works on pre-Islamic Arabian society which provided background information on *Takāful*. The works of Ahmad (1944), Coulson (1974), Hitti (1977), Brockelmann (1980), Ali (1980), Rahim (2001), Nicholson (1964), presented the Arabian society before the advent of Islam as a complex one full of activities that were unfavourable to religious reform as well as political union or natural regeneration.

From one author to the other, the story of Arabia in those years preceding Islam has been that of woe, confusion, anarchy, immorality and indiscipline in all facets of that society's existence. Politically, Arabia was in no sense a nation as can be understood. It never had one government that might have united the different tribes into one people and tribal individuality was the core of their political existence. Beyond the tribe everything was foreign to the Arab mind, every tribe was the enemy of the other and blood vengeance was sought for, in every case (Ahmad, 1944: 22) Thus, there was no sense of any political unity, whatsoever among the Arabs and Arabia itself was only a mere geographical expression without a political organization. It was purely a state of complete anarchy of tribe versus tribe, of clan versus clan and even of individual versus individual because as Noldeke (quoted by Ahmad, p. 24), put it,

> A murder or even grievous injury may provoke long years of feuds between families closely akin and the passion of revenge for an Arab's slaughtered kin can lash him to furious blood thirstiness.

The political history of the Arabs was therefore characterized by tribal wars, loots and destructions principally because of the absence of any central authority. It is on this abnormal state of affairs that the Holy Qur’an said:

"وَاذْكُرُوا نِعْمَةَ اللهِ عَلَيْكُمْ إِذْ كُنْتُمْ أَعْدَاءً فَأَلَّفَ بَيْنَ قُلُوبِكُمْ فَأَصْبَحْتُمْ
بِنِعْمَتِهِ إِخْوَانًا, وَكُنْتُمْ عَلَى شَفَا حُفْرَةٍ مِنَ النَّارِ فَأَنْقَذَكُمْ مِنْهَا كَذَلِكَ
يُبَيِّنُ اللهُ لَكُمْ ءَايَاتِهِ لَعَلَّكُمْ تَهْتَدُونَ"

And remember the favour of Allah on you when you were enemies, then He united your hearts so by His favour you became brethren, and you were on the brink of a pit of fire, then He saved you from it, thus does Allah make clear to you His communications that you may follow the right way. (Q3: 103)

This decadence, anarchy and confusion pervading the political history of Arabia reflected in other aspects of their life. In religion, the Arabs followed the religious customs of their ancestors out of mere respect for tradition. The Qur’an strengthened this position when it said:

"وَإِذَا قِيلَ لَهُمْ تَعَالَوْا إِلَى مَا أَنْزَلَ اللهُ وَإِلَى الرَّسُولِ قَالُوا حَسْبُنَا مَا
وَجَدْنَا عَلَيْهِ ءَابَاؤُنَا. . ."

And when it is said to them, come to what Allah has revealed and to the Apostle, they say: That on which we found our fathers is sufficient for us (Q5: 104)

Thus the whole of Arabia cling fast to idolatry worshipping three hundred and sixty deities, one for each day of the year. Aside the idols, Arabs also worshipped heavenly bodies like the moon, sun, star, trees, animals and even, inanimate objects like Time and fortune were also objects of their adoration. But Brockelmann (1980:11) observed and his observation was corroborated by Rahim (2001:8) that the religion of the Arabs then was a matter of form only and it was devoid of any spiritual impulse or genuine devotion. In other words, it was more of a matter of convenience rather than of conviction. Imrul Qays, an Arab poet, was reported to have kicked down the oracle god as it did not respond to his request (Rahim, 2001:8)

However, it must be mentioned that, while the whole of Arabia was engulfed in this miserable idolatry and polytheism, a few individual, dissatisfied with the religion of the idol, tried to find out the light of Allah- the Divine laws of nature as typified by the religion of Prophet Ibrahim (A.S). They were known as *Ḥanifs* and their religious view is described as Hanifism. Ahmad (1944:28) quoted lines of poems as composed by one of them, Zaid thus:

1. Should I worship one God or thousands when even the duties of religion have been divided by the people?
2. I have forsaken Lat and Uzza and such is always done by a keen and patient man.
3. And I do not worship Ghanam though I regarded him my Rab when I had little wisdom.
4. With thee O God I am contented and religion I should adopt.

The socio-political set up of the *Jāhilli* Arabs which revolved round the clan and tribe showed their level of organisation. Hitti (1977:26) said concerning their set up:

> The clan organisation is the basis of Bedouin society. Every tent represents a family; an encampment of tents forms a hayy; members of one hayy constitute a clan (qawm). A number of kindred clans grouped together to make a tribe (qabilah). All members of the same clan consider each other as of one blood; submit to the authority of but one chief- the senior member of the clan- and use one battle- cry. "Banu" (children of) is the title with which they prefix their joint name.

Emphasizing the loyalty of the Bedouin to his clan and tribe, Hitti (1977: 27) further said:

> 'Asabiyyah is the spirit of the clan. It implies boundless and unconditional loyalty to fellow clansmen and corresponds in general to patriotism of the passionate, chauvinistic type… This ineradicable particularism in the clan, which is the individualism of the member of the clan magnified, assumes that the clan or tribe as its legitimate victim and object of plunder or murder.

Ali Asghar (1980:14) corroborated Hitti's position when he wrote that apart from tending camels, sheep and goats, making raids on other tribes was an economic necessity for them; so much so that ghazwa (intertribal raiding) was raised to the rank of national institution. With this tribal individuality, the Arabs were completely incorporated in acts of indiscipline and social vices. Ahmad (1944:30) affirmed that wine, women and war were the only three objects which claimed the love and the devotion of the Arab. Their social vices covered acts such as gambling, infanticides, sexual immorality, slavery, raiding and plundering, eating of dead animals etc. So while

Arabia was politically in a state of war, its social, religious and moral life was also in problem.

However within the clan and tribe a little bit of organization existed. Nicholson (1946:16) and Hitti (1977:28) explained that the clan was represented by its titular head, the Sheikh, who was the senior member of the tribe whose leadership asserts itself in the sober counsel, in generosity and courage. Seniority in age and personal qualifications determined the choice. In judicial, military and other affairs of common concern, the Sheikh was not the absolute authority; he must consult with the tribal council composed of the heads of the component families. His tenure of office lasted during the goodwill of his constituency.

This intra-tribal affinity placed certain responsibilities on the members of the tribe. What constitute honour to a Bedouin required that a man should stand by his own people through thick and thin. Therefore when kinsmen sought help, it was given promptly without regards to the merits of giving it, even if they were wrong, it had to be suffered in silence as loyalty and honour demanded. This accounts for the incessant blood feuds recorded by history texts on Arabia, sometimes lasting for forty years as in the case of the Basus war between the Banu –Bakr and the Banu-Taghlib.

Nevertheless, this terrible picture of Arabia that has been painted, it may be surprising to say that some of the authors agreed that hospitality and generosity were virtues expected of the Bedouin Arabs within the primitive laws of the desert. For example, Hitti, (1977:25) said:

> The principle of hospitality, however, mitigates in some measure the evils of ghazw. However dreadful as an enemy he may be, the Bedouin is also within his laws of friendship a loyal and generous friend. Pre-Islamic poets, the journalists of their day, were never tired of singing the praises of diyafah (hospitality) which with hamasah (fortitude and enthusiasm) and muru'ah (manliness) is considered one of the supreme virtues of the race.

This positive aspect of the Arabs life allowed certain cultural practices and customs which were prevalent in those days to be retained during the Islamic reformation of the Arab nation. Some of these cultural practises have developed into modern welfare institutions and a good example is *Takāful*

Works of many authors like Vardit (1991:142), Vardit (1985:143), Ma'sum billah, (n.dp. 2), Fisher and Taylor (2000:4) and Benat (n.d p.1) have posited that it is difficult to say precisely when insurance was first introduced into Islamic civilization, as much as it is difficult to determine when insurance was first introduced into World civilization and that it may be safe to conclude based on the nature of Insurance contracts today, that insurance had been practiced before the time of Prophet Muhammad (SAW). Certain tribal customs of the pre-Islamic Arabs have been seen by these scholars as resembling community self-help and cooperative assistance which the modern day *Takāful* stands for.They mentioned certain tribal practices of Pre-Islamic Arabs like the doctrines of *'āqilah / diyyah* and *ḥilf* as forms of insurance in Arabia before Islam. As we earlier mentioned, the sense of retaliation and vengeance of the Arabs, demanded blood for blood. Hitti (1977:26) said:

> Blood according to the primitive law of the desert, calls for blood; the nearest of kin is supposed to assume primary responsibility. A blood feud may last forty years as in the case of the Basus war between Banu Bakr and the Banu Taghlib. In all the ayyam al' Arab, those intertribal battles of Pre-Islamic days, the chroniclers emphasize the blood feud motif, though underlying economic reasons must have motivated many of the events. Sometimes a blood wit (diyyah) is accepted.

The *diyyah* doctrine which was adopted by the Arabs when in their right frame of mind demanded that if a member of a tribe was killed by a member of different tribe, the heir of the victim would be paid an amount of money by close relatives of the killer. Those close relatives of the killer were addressed as *'āqilah* in Arab terminology (Hughes, 1982:17)

Khan, (1979: 34) in his translation of Ṣ*aḥīḥ al Bukhārī* established that the word 'ā*qilah* means *aṣāba* which denotes paternal relatives of the killer. Benat (n.d, P.1) supports this view when he wrote:

> In Pre-Islamic times, the obligation to pay diyyah rested on the paternal relatives ('āqilah) of the murderer who pay the blood money to the heirs of the murdered member of the other tribe.

Though, the Hanafites did not support this view but rather maintained that all persons who are obliged to help one another (such as the members of the guild to which the perpetrator belongs, his neighbours, or the inhabitants of the same part of the town etc.) should be compelled to share in the payment (Gibb, 2008: 29c). The bottom line was that if they did not or cannot pay *diyyah*, the relatives of the victim were entitled to vengeance. Therefore *diyyah* was often paid by the entire tribe from a special fund. (Benat, nd, p.1) Thus through the support of the tribe, the murderer was exempted from criminal prosecution even if his immediate relatives (‘āqilah) were unable to provide compensation for murder. The readiness of the ancient Arabs at that time to pay compensation seemed to be a kind of financial protection for the heir of the deceased against unexpected, due to the death of the victim (Ma ‘sum billah, nd, p.3) If the crime was committed by a slave, the blood money was paid by his master, who could also sell the slave to repay all or part of the debt (Benat, nd, p.2) The concept of diyyah was retained by Islam during the era of reformation of the Arabs.

Another practice of the Arabs which also revolved round co-operative self help was the practice of *ḥilf* (confederation) or guaranteeing a help through mutual agreement. In Arabia the agreement of *ḥilf* used to take place between individuals and tribes; between individuals and individuals; between tribes and among groups of people. Among the well-known *ḥilf in* the Jahiliyyah were *ḥilf al-muṭṭayybîn, ḥilf al-Aḥlāf and ḥilf al- fudūl* (Ma ‘sum billah, n.d P.3&4)

The *ḥilf al-muttayyibin* was a *ḥilf* among the tribes of Manaf, Azd, Zuhrah and Tamîm, the people of Abubakr ®. While the *ḥilf al- Ahlāf* was between the tribe of Gamah, Sahm, Makhzūm and the Adĭ, people of Umar ®. While the *ḥilf al-fudūl* was a pact among a group of people twenty years before Prophet Muhammad’s (SAW) call to prophet hood. The Prophet (SAW) and his Companion Abubakr participated in this *ḥilf*. *Ḥilf al- fudūl* was a response to a public appeal made by a Yemen merchant who was defrauded by a Qurayshi merchant. (Ma ‘sum billah, nd p.4) *Ḥilf*, seen as a cooperative agreement to support each other, is part of the philosophy and nature of the modern day *Takāful* practice. The prophet (SAW) also practiced *ḥilf* after the revelation of Islam. He established *ḥilf* between the Muhājirūn and Anṣār, Muslims in Medina and some Arab tribes.

Certain other doctrines were noted at the advent of Islam which could also be said to be part of the Arab practices and customs in the pre- Islamic days. These need to be mentioned because they tend towards security, cooperation and self help. They include *al-Qasāmah* (oath swear*), al-fidyah* (ransom), *Istijārah* (asylum) and *al-muwālāt* (clientage with friendly cooperation) (Ma ‘sum billah, nd pp.1&5).

Al-Qasāmah in Islamic jurisprudence is an oath taken by fifty members of a tribe or a locality, to refute accusations of homicide. According to Imam Malik ® fifty of the men (in a locality) swear fifty oaths. If they are not up to fifty, more oaths will be taken by those who already swore and if there is only one defendant he swears fifty oaths for him to be acquitted. (Muwatta', 44:2) A practical example of this ruling is given by Ma 'sum billah (n.d P.1) thus:

> If a corpse is found in a certain locality with signs of death on it, the legal heirs of the victim (deceased) are entitled to call upon fifty residents of the place whom they may select to take the oath that none of them killed him. If they take the oath, then all the residents will have to pay diyyah (blood wit) otherwise, they have to serve a term of imprisonment. Similarly if a dead body is found at the door of a man's corridor, he shall also be given the oath and if he swears that he did not kill him, his 'āqilah (paternal relatives) shall share the payment of blood wit.

Under this doctrine of *al-Qasāmah*, it seems that the payment of *diyyah* (more so in the case of fifty men) had been shared by members of the community to financially secure the legal heirs of the deceased against economic hardship which they are likely to encounter as a result of the loss of their loved ones. It must be emphasized that *Takāful* as conceived and practised today, has a basis in the doctrine of al *Qasāmah.*

Fidyah is a compensation paid by relatives, tribe or friends to free or rescue a prisoner from the hands of enemies. *Fidyah* was practised by the pre-Islamic Arabs as a means of expressing concern for their tribesmen, relatives or friends (Ma 'sum billah, n.d p.2). It was also practised by the Prophet (SAW). Quraysh captives at the battle of Badr were kept by Muslim, for ransom (*fidyah*) (Brockelmann, 1980:24). Some of the captives were given ten children to be taught proficient reading and writing while some paid ransom. However, those who could neither pay nor teach were set free without compensation.

Istijārah is a type of protection or refuge given to someone who is helpless and lacks protection. It was used in the pre-Islamic days as a means of providing security succour to those who are in need of it. There were occasions when the Prophet (SAW) and his companions were provided asylum by the Quraysh against some notorious individuals among the *Kuffār* (unbelievers) of Makkah (Ma 'sum billah, n.d p.3).

The Prophet's (SAW) journey to Tāif alongside his freed slave, Zaid, to invite the people to Islam met a very stiff opposition of the Tāif people. On his way back from Tāif, the Prophet (SAW) could not return to Makkah openly. He therefore sent Zaid to seek asylum for him among his friends in Makkah. A Makkan, Mut'im bn. ' Ādi eventually provided asylum to him. (Ma'sum billah, n.d p.4) If this happened in the early days of Islam, it means the Arabs were used to asylum, even before Islam.

Muwālah is described as a contract between a man who has no next of kin and a man who has next of kin. The implication of this type of contract is that any liability against the first is borne by the second's relatives and the second inherits the whole property of the first (Ma'sum billah, n.d p.3)

Aside these tribal practices, Rahman, (1979:215) noted that the merchants of Makkah used to form a mutual fund to help the victims or survivors of natural hazards during their commercial ventures into Syria, Iraq and other places. Muhammad (before prophet hood) himself, while still trading with the capital of (his wife to be, then) Khadǐjah contributed to such fund. Such practice, we can conclude, is in conformity with modern mutual insurance called *Takāful*

The advent of Islam, which was signified by Prophet Muhammad's (SAW) call to prophet hood in A. D 610, was a revolution and reformation in the life of the Arabs. Islam abolished the tribal system based on blood ties and replaced it by the community of faith in one God (Allah). The society became moulded in accordance to the Divine law of Allah. Pride of nobility and the arrogance of *Jāhiliyyah* (ignorance days) dwindled into insignificance. The basic concepts of civilized society were enjoined upon man. All abominable customs were discarded and man was reckoned as an individual with his rights and obligations (Muslehuddin, 1986:64). Such customs that were not harmful but were capable of contributing to human civilization were retained by Islam. The new faith was therefore concerned about everything that makes life meaningful to man.

Ma 'sum billah, (1998:388) discussing the development of *Takāful*, mentioned that the Prophet (SAW) made significant contribution to insurance practice from two broad angles; Islam's acceptance of the ancient practices of *'āqilah, Diyyah, Hilf, fidyah* and some others and the provisions of a kind of social insurance in the first constitution of Madina in 622 A. D

(i) ***Acceptance of the ancient Arab practices*:**

Islam accepted *Diyyah* and *'āqilah* as practiced by the ancient Arabs. The Qur'an legitimized *diyyah* considering its potential in stopping intertribal feud and uniting all the tribes and people into a single Muslim community. The Qur'an said:

"وَمَا كَانَ لِمُؤْمِنٍ أَنْ يَقْتُلَ مُؤْمِنًا إِلاَّ خَطَئًا, وَمَنْ قَتَلَ مُؤْمِنًا
خَطَأً فَتَحْرِيرُ رَقَبَةٍ مُؤْمِنَةٍ وَدِيَةٌ مُسَلَّمَةٌ إِلَى أَهْلِهِ إِلاَّ أَنْ يَصَّدَّقُوا, فَإِنْ
كَانَ مِنْ قَوْمٍ عَدُوٍّ لَكُمْ وَهُوَ مُؤْمِنٌ فَتَحْرِيرُ رَقَبَةٍ مُؤْمِنَةٍ, وَإِنْ كَانَ مِنْ

قَوْمٍ بَيْنَكُمْ وَبَيْنَهُم مِّيثَاقٌ فَدِيَةٌ مُّسَلَّمَةٌ إِلَى أَهْلِهِ وَتَحْرِيرُ رَقَبَةٍ مُّؤْمِنَةٍ,
فَمَن لَّمْ يَجِدْ فَصِيَامُ شَهْرَيْنِ مُتَتَابِعَيْنِ تَوْبَةً مِنَ اللهِ, وَكَانَ اللهُ عَلِيمًا
حَكِيمًا"

> Never should a believer kill a believer except by mistake. And whoever kills a believer by mistake, it is ordained that he should free a believing slave and pay blood money to the deceased's family, unless they remit it freely. If the deceased belonged to a people at war with you, and he was a believer, the freeing of a believing slave (is enough). If he belongs to a people with whom you have treaty of mutual alliance, blood money should be paid to his family and a believing slave be freed. For those who find this beyond their means, (is prescribed) a fast for two months running, by way of repentance to Allah; for Allah has all knowledge and all wisdom (Qur'an 4:92)

In a Hadîth narrated by Abū Hurairah (R) the Prophet (SAW) gave a verdict thus; while settling a dispute.

> Once, two women from the tribe of Hudhayl clashed when one of them hit the other with a stone which killed her and the foetus in the victim's womb. The heirs of the victim brought an action to the court of the Holy Prophet (SAW), who gave a verdict that the compensation for the foetus is freeing a male or female slave while the compensation for the killed woman is blood money (diyyah) to be paid by the *'āqilah* (the paternal relatives) of the accused (Bukhāri, cited by Khan, 1979:34, vol.9)

There are different other judgments given by the Prophet (SAW) on the principle of *diyyah* and payment by the *'āqilah*. (see Ṣahih Bukhāri vol.9 *Kitābu Diyyah*)

The Prophet (SAW) also practised *ḥilf* and encouraged it among his companions. For instance, he established *ḥilf* between the *Muhājirūn*, *Anṣār* and Muslims and some tribes of the Arabs. (Ma 'sum billah, n.d p.4). He (SAW) was also reported to have commented on the *ḥilf al-fudūl* after the establishment of Islam, thus:

> I witnessed in the house of 'Abdullah Ibn Jad'ān so excellent a pact that I would not exchange any part of it for a herd of red camels and if (now) in Islam, I were summoned unto it I would gladly respond (Ma'sum billah, n.d p.4)

The acceptance of these practices by Islam at its emergence was an encouragement towards cooperative self-help schemes in Islam.

(ii) ***The provisions in the first Madinah Constitution***:

The first constitution of Madinah was prepared by the Holy Prophet (SAW) shortly after his migration to Madinah in 622 A.D and was meant for the people of Madinah i.e. the *Muhājirūn*, the *Anṣār*, the Jews and the Christians. The constitution introduced social insurance practices which appeared in three forms (Ma 'sum billah, 1998:389).

(a) ***The constitutional enactment of Diyyah***:

Diyyah (blood money) payment was enacted by the constitution, to be paid mutually by the *'āqilah* (the paternal relatives of the killer) to the heir of the deceased so that the killer could become rescued from legal burden of criminal prosecution. Article (4) of the constitution which was titled **'validation and enforcement of the former tribal laws of blood money from the emigrant Quraysh'** stated thus:

> The emigrants from Quraysh shall be responsible for their word and they shall according to their former approved practice, jointly pay the blood money in mutual collaboration (Muhammad, n.d p.13).

In the same vein, articles (5-12) of the constitution validated payment of blood money to the following groups living in Madinah,

Article 5 for Banu Awf.

Article 6 for Banu Haritt.

Article 7 for Banu Saida

Article 8 for Banu Jusham

Article 9 for Banu Najjar

Article 10 for Banu Amr.

Article 11for Banu Nabeet

Article 12for Banu Awz.

All these groups were to pay blood money in mutual collaboration regarding the doctrine of *'āqilah* as entrenched in the constitution

(b) Payment of ransom (fidyah)

The prophet (SAW) also enacted in the constitution a provision on rescuing the life of the prisoners. The provision validated payment of ransom (*fidyah*) for the life of a person captured as a prisoner of war by his *'āqilah* to the enemy for the captive to be freed. The constitutional provision read:

> …and every group shall secure the release of their prisoners by paying the ransom. Moreover, the deal among the believers shall be in accordance with the recognized principles of law and justice (Hamidullah, 1983:146)

This provision was also applicable to other groups living in Madinah at that time, as earlier mentioned. This contribution towards rescuing a prisoner by relatives could as well be considered as another form of social insurance (Ma ‘sum billah, 1998: 389)

(c) ***Other forms of Social Insurance:***

The constitution also included other forms of social insurance which mentioned that the society shall be responsible for establishing a joint venture with a mutual understanding towards the provision of necessary aids for the needy, ill and poor (Ma ‘sum billah, 1998: 389)

All these constitutional provisions had in them elements of Social Insurance towards a peaceful and healthy society. According to Osama, (n.d p.18) the aim of these provisions was not to reinforce the spirit of tribalism among the tribes (as it may seem to some people) but to benefit from the system of the clan in order to bear the burdens of its members.

Hamidullah (n.d p.18) commenting on the Prophet’s (SAW) contribution to social insurance said as follows:

> Thus in the constitution of the city-state of Medinah of the first year of the Hijrah, there was this insurance called ma’aqil and it worked in the following manner. If someone was made prisoner of war by an enemy, payment of ransom was needed for purchasing his liberation. Similarly, all bodily forts or culpable homicides require payment of damages or blood money. This often exceeded the means of the individual concerned prisoner or criminal. The Prophet organized the insurance on the basis of mutuality: the members of a tribe could count on the central treasury of their tribe, to which everybody contributed according to his means, and if the treasury of the tribe proved inadequate, other related or neighbouring tribes were under obligation to render aid. A hierarchy was established for organising the units into a complete whole. At Medina, the tribes of the Ansarites were well known; the Prophet ordered the Meccan refugees there, who belonged originally to the various tribes of Mecca, or were Abyssinians or Arabs belonging to different regions, should all constitute a new

'tribe' of their own, for purposes of the said social insurance.

With the demise of the Prophet (SAW), the administration of the second Khalĭf 'Umar b. al Khaṭṭâb ® was regarded by many historians as the 'golden age' of Islam in every respect (Khan, n.d p.6). It was during his reign that major contributions were noticeable regarding mutual insurance in the Islamic empire. Umar ® organized the mutualities or the units of insurance on the basis of professions, civil or military administrations to which one belonged, or even of regions. Whenever needed, the central or provincial government came to the succour of the units. In other words, he introduced what was known as '*Dîwān of Mujāhidîn'* in various districts and those whose names were recorded or contained in the *'Dîwān'* owed one another a mutual cooperation to contribute sincerely the blood money for manslaughter committed by any one of their tribe (Ma 'sum billah, n.d p.5). That was a kind of further development of the doctrine of *'āqilah.*

Another social institution developed by Umar ® was the system of pension for all the inhabitants of the country including the non-Muslim subjects (Hamidullah, n.dp.18). As soon as a child was born, he began to receive certain pension. The adults received the minimum necessary for living. At the beginning, the Khalĭf practiced a kind of discrimination among the beneficiaries such that if the minimum was 1 the most favoured person received 40. But towards the end of his life, he decided to observe complete equality. But unfortunately, the reform could not be carried out before he died (Hamidullah, n.d p. 19).

Vardit, (1991:142), citing other sources on insurance, claimed that institutionalized insurance started around the 13th or 14th centuries in the Italian Cities.This lends credence to the claim that the word 'insurance' (and other local names) was coined only in the 13th or 14th centuries in Europe. But it may be hard to say that Muslims have not practiced institutionalized insurance before the 14th century. Indeed Fazlur (1979:82) claimed that it was the Muslims of Spain who taught the Europeans what insurance was and not the other way. While this claim may contradict most sources on the history of insurance, it can be established that, at least, Muslims were involved in marine activities in the Mediterranean and the Indian Ocean from the 7th centuries. Contacts had existed between Islam and Christianity in Spain, Sicily, Italy, Cyprus and Malta. Thus Muslims must have been exposed, at least to the

European Marine insurance, which was part of the usual conduct of trade in the middle ages (Vardit, 1985:143).

A major development recorded within the 14th and 17th Centuries on Islamic insurance according to Vardit, (1991:155) and Ma'sum billah (1998:390) was the activities of a *Ṣūfī* order of the *Kazeeruniyyah*. The order was active, most especially in port cities in Malabar and China. It served as a kind of maritime travel insurance, offering life and property insurance.

The *Ṣūfī* order was associated with the tomb of a *Ṣūfī* personality named Abū Ishāq Ibrahim Ibn Shahariyahb (963-1035 CE). He was credited with the Islamisation of 24,000 fire worshippers and Jews in Persia, India and China (Vardit, 1991:156). The *barakāt* (blessings) of Abu Ishāq were considered a protection against peril during the sea voyage. Therefore, merchants, while embarking on a trip by sea to Malabar or China, would sign a note specifying the amount pledged the order upon safe arrival at their destinations. At the port of destination, agents of the order would come on board the ship to collect the amount pledged from all passengers who held notes carrying the order's stamp.

According to Ibn Batūta (1984: 567) the order accumulated a huge sum of money which enabled it to maintain agents or to send agents to distant places to collect the pledges. However, due to reasons not apparent, the order of *Kazeeruniyyah* ceased to exist in the Seventeenth century and its remnants joined the *Naqshabandi* order (Vardit, 1991:156).

Certain reasons have been insinuated for the cessation of the order; either the *barakah* faded (Trimingham, 1973:236) or other growing orders narrowed the economic activity of the Kazeeruniyyah order and consequently went into extinction. It could also be that the European insurance Companies which got to the Indian Ocean offered a more attractive alternative (Vardit, 1991:156)

Notwithstanding the cessation, it may be pertinent to review the practice of the order vis-à-vis risk sharing concept of insurance. The amount pledged by merchants represented a kind of delayed premium. However, to qualify as an insurance transaction, there should have been a shift of risk from the traveller to the *Ṣūfī* order. The sources did not furnish us with the information that the order secured the ships during voyages or owned the ships to an extent that would make the order take the risk on behalf of the passengers. The only pseudo-risk taken by the order was that the amount pledged could not be collected when the ship sank without survivors. In other words the order provided only the *barakah* of Abū Ishāq, which if it 'worked', the 'insured' had to pay for it. This may be an analysis of the order's practice as it were. In reality the many passengers who made pledges to Abū Ishāq believed that the shift of risk indeed occurred. When they paid the agents of the order at the port of destination, the merchants in their beliefs, were paying for services that had been rendered (Vardit, 1991: 157)

It was in the 19th century that Ibn 'Ābidǐn (1784-1836) a Hanafi lawyer first discussed the idea of modern insurance, its meaning and legal character, and thereby taking insurance out of customary practice (Anwar, 1994:1315). It was also the first time that modern insurance was mentioned in Islamic sources (Vardit, 1985:28). Ibn 'Ābidǐn's opinion on insurance practice, being a legal institution was an eye-opener to many Muslims who before, did not accept the legality of insurance practice and it prompted them to accept insurance business (Ma 'sum billah, 1998:390). According to Klingmuller (1969:30), Muslims began to practice insurance business not only by buying it from foreign companies but also by establishing insurance business and being insurers themselves. Ibn 'Ābidǐn was also the first Muslim to use the word *Sukāra,* which means *security* or *securite*, for insurance. He was said to have been influenced by the Italian term *Signare* (which was an early Italian term for marine insurance) and the Turkish *Sigorta* (which means insurance) (Vardit, 1985:28).In his discussion of insurance (Sukāra) contract, Ibn 'Ābidǐn prohibited the use in Dār al-Islām (land of Islam) and legitimized its use for contracts signed and executed in Dār al-Harb (land of infidels) (Vardit, 1985:.31).

It was also reported that in the nineteenth century, in Makkah, a wealthy Shafi'ite Scholar insured merchandise which was shipped overseas despite its prohibition in the land of Islam (Vardit, 1985:31). While the authenticity of this report cannot be immediately confirmed or denied, the report lends credence to the fact that the Arabs and indeed Muslims have also been involved in modern insurance practice.

The 20th century saw a steady growth of insurance business, more importantly the *Sharī 'ah* based insurance practice in the Islamic world. It was in this century that the Arabic term for insurance, *ta'mīn,* was coined (Ma 'sum billah, 1998:391). It must be noted that the *fatwas* (legal opinions) given by Muhammad 'Abduh, a well known Islamic jurist, were a landmark in the development of insurance business in the twentieth century. Muhammad 'Abduh gave two juristic opinions that:

i. An insurance transaction is like the transaction of *al-muḍārabah* financing technique.

ii. A transaction which is similar to endowment or life insurance is legal. (Vardit, 1985:32)

The growth of *Sharī'ah* based insurance business started in 1979 with the establishment of the Islamic Insurance Company Ltd in Sudan. The successful establishment of the Dubai Islamic Bank and the Islamic Development Bank as the starting point of Islamic banking movement, gave the then King Faisal of Saudi Arabia the encouragement to establish more Islamic banks in other parts of the world. The initiative yielded the Faisal Islamic Bank in Sudan. It was the bank authorities that initiated studies on the establishment of a co-operative insurance company which gave birth to the first ever insurance company established in the world to transact business according to the *Shari'ah* (Ali, 1991:30)

Since its establishment, there had been many Islamic-based insurance companies. Today there are not less than two hundred and fifty *Takāful*/Islamic insurance companies spread over countries of the world, providing insurance coverage both in life and non-life sectors. It is also remarkable that some of them are also located in non-Muslim nations in Europe, North America and Australia (Ali, 2006:8). These companies include:

COUNTRY	TAKĀFUL COMPANY
Algeria	Salama
Australia	Australia Takaful Association Inc.
Bangladesh	Islamic Insurance Company Ltd Bangladesh Far East Islamic Life Insurance Ltd. Islamic Commercial Insurance Co. Takaful Islamic Insurance Ltd. Prime Life Insurance Ltd.
Bahamas	Islamic Takaful & Retakaful (Bahamas)
Bahrain	Al-Salam Islamic Takaful Company Islamic Insurance &Re-insurance Co (IIRCO) Takaful International Company (Formerly Bahrain Islamic Insurance Co.)

	Takafol Islamic Insurance Co EC Gulf Insurance Institute Sarikat Takaful al-Islamiyyah Solidarity Islamic Takaful and Retakaful Co.
Brunei	Insurance Islam Taib Sendiran Berhad (IITSB) Takafol IBB Berhad Takaful BIBD Sdn Bhd Takafuul IDBB
Egypt	Egyptian Saudi Home Insurance
Geneva	Darul-Mal Al-Islami
Ghana	Metropolitan Insurance Company Ltd
Indonesia	PT Asuransi Takaful Keluarga PT Asuransi Takaful Umum Takaful Asuransi MUBARAKAH PT Syarikat Takaful Indonesia Islamic Insurance Society Takmin
Iran	Alborz Insurance co. Asia Insurance Co. Bimeh Markazi Dana Insurance Co. Day Insurance Co. Export and Investment Insurance Company EIIC Hafez Insurance Co. Karafarin Insurance Co. Mellat Insurance Co. Omid Insurance Co. Razi Insurance Co. Saman Insurance Co.
Jordan	Islamic Insurance Company Plc Arab American Takaful
Kuwait	1st Takaful Insurance Co. Al Safat Takaful Co. Gulf Takaful Insurance Co. National Takaful Insurance Wethaq Takaful

Luxembourg	Takafol S.A. International Insurance Co
Malaysia	Asean Ratakaful International (L) Ltd The Malaysian Insurance Institute Syakirat Takaful Malaysia, SDN BHJ Takaful Nasional Sdn Berhad Takaful Ikhlas Prudential BSN Takaful Berhad Commerce Takaful Berhad Mayban Takaful Berhad
Mauritania	SMAI Islamique Taamin Assurances Islamiques
Pakistan	Pak Qatar Family Takaful Pak Qatar general Takaful Pak-Kuwait Takaful Company Ltd. Takaful Pakistan Ltd. First Takaful Insurance
Qatar	Qatar Islamic Insurance Co Islamic Takaful
Saudi Arabia	International Islamic Insurance Co Islamic Arab Company for Insurance Islamic Arab Insurance Co. (Dallah Al Barka Group) Islamic Insurance Co. Ltd., Riyadh Islamic Insurance & Reinsurance Co. Islamic International Insurance Co. (Salamat) Islamic Rajhi Co, for Co-operative Insurance (Al-Aman) Islamic Takafol & Retakafol Company National Company for Co-operative Insurance Takafol Islamic Insurance Company, Riyadh Arab Eastern Insurance Co. Ltd., E.C. (Registered in Bahrain), Jeddah Bank Aljazira Takaful Ta'awuni Operation Al Ahlia Insurance Co. for Cooperative Insurance Al- Sagr Saudi Insurance Co. Al-Aman Cooperative Insurance (Al-Rajhi) Allied Cooperative Insurance Group (ACIG)

	Al-Tawfeek Co. Arabian Malaysian Takaful Commercial Services Company Arabia Family Takaful Global Islamic Insurance Co. Islamic Security Islamic Universal Insurance SACIR Salama Saudi Arabian Insurance Co. BSC Saudi United Co-operative Insurance Saudi General Insurance Co. EC Trade Union Insurance Co. Saudi National Insurance BSC UCA Insurance Co. E.C.UCA
Singapore	AMPRO Singapore Keppel Insurance Syarikat Takaful Singapore
Senegal	Sosar Al Amane (Al Baraka Group) Salama
Sudan	The National Reinsurance Company (Sudan) Ltd The United Insurance Company (Sudan) Ltd Watania Co-operative Insurance Co Al Salama Insurance Co. Al-Baraka Blue Nile Insurance Co. El Nilein Insurance Co. General Insurance Co. Islamic Insurance Co.Ltd. JUBA Insurance Co. Middle East Insurance Co. Sheikhan Insurance and Reinsurance
South Africa	Al-Noor
Trinidad & Tobago	Takaful T & T Friendly Society
Tunisia	B.E.S.T. – RE
Turkey	Ihlas Sigorta A.S.

	Isik Insurance Co.
United Arab Emirate	Oman Insurance Company, Dubai Abu Dhabi National Takaful Co. Dubai Islamic Insurance & Reinsurance Co. Salama UAE The Islamic Arab Insurance Co.
United Kingdom	Takafol UK
United States of America	Takaful USA

Table 2.1: Names of *Takāful* companies in the world and countries of their domicile.
Adapted from the Institute of Islamic Banking and Insurance 2000 Directory and International Cooperative and Mutual Insurance Federation (ICMIF) website www.icmif.org

Aside the countries mentioned, Islamic insurance is also developing in Lebanon, Nigeria and the non-Muslim world like Belgium and Switzerland (Ali, 2006:8). Efforts are also on by the Organization of Islamic Conference (OIC) to establish an international Re-insurance corporation (Ali, 2006: 9)

On *Takāful* in Nigeria, it must be mentioned that While there have been research efforts in some aspects of Islamic economics and finance like Zakat, Islamic banking, poverty alleviation, Islamic social security, Islamic micro financing etc, and works like that of Gusau (1991), Akanni (2009), Alanamu (2010) Noibi (2011), Kareem (2011) and Umar (2011) readily come to mind, it has been very difficult to gather materials on *Takāful* with particular focus on its practice in Nigeria. This should not be unconnected with the fact that full fledge *Takāful* companies are yet to take off in Nigeria.

However, Ahmed (2006:530) in his book, "Islamic Banking, Finance and Insurance, A global overview" giving a country wise *Takāful* operation made a mere mention of the activities of African Alliance Insurance company in its introduction of Family *Takāful* window as a measure that would contribute to the wellbeing of Nigerians. He also talked about the various applications by conventional insurers to NAICOM to underwrite *Takāful*.

Yakubu (2011: 35) in the article, "*Takāful* insurance: A viable alternative to Agricultural insurance in Nigeria" sees *Takāful* as capable of alleviating the suffering of Nigerian farmers and making them succeed more since the unfairness in conventional insurance has been removed by Islamic insurance. The journal article did not discuss *Takāful* practise in Nigeria

Umar (2011:7) in his paper “Islamic Finance in Nigeria: Issues and Challenges” only looked at the general efforts at institutionalising Islamic finance in Nigeria and the potential impact of Islamic finance on Nigerian economy. He confirmed that the Nigeria Deposit Insurance Corporation (NDIC) released draft framework for non-interest Deposit insurance scheme in Nigeria as far back as September, 2010.

2.2.1 Scholars’ views on the validity of insurance

There are differences of opinions among Islamic Scholars on the validity of Insurance business. Scholars’ opinions on insurance can be categorized into three, but our discussion of their views would be broadly discussed under Opponents and proponents of insurance:

2.2.2 Opponents of insurance

The opponents of insurance can be categorised into two groups. The first group accepted general insurance practices but objected to life insurance policy on the grounds that:

(i) It involves the elements of gambling (Maysir) and uncertainty (gharār)

(ii) It is contrary to the principle of *mīrāth* and *waṣiyyah*. This is because in a life insurance policy, the nominee(s) is (are) absolute beneficiary (ies) over the policy after the demise of the insured. This either gives to the nominee(s) undue advantage over the heirs or deprive the heirs of their legal rights as enshrined in the principles of inheritance in the Qur’an and Sunnah.

(iii) Some of the scholars held that taking a life insurance policy is like insuring one’s life against death and that such practice is not Islamic. This view emanated from various gatherings of Islamic scholars on the insurance issues like the seminar held in Morocco on the 6th May, 1972, the publication of the Muslim brotherhood in 1914 and verdict of the supreme Islamic court in Egypt on December, 27th 1926 (Ma ‘sum billah, 1998:413). This opinion is based on the Qur’anic message contained in chapter 31 verse 34;

"إِنَّ اللهَ عِنْدَهُ عِلْمُ السَّاعَةِ وَيُنَزِّلُ الْغَيْثَ وَيَعْلَمُ مَا فِي الأَرْحَامِ وَمَا
تَدْرِي نَفْسٌ مَاذَا تَكْسِبُ غَدًا وَمَا تَدْرِي نَفْسٌ بِأَيِّ أَرْضٍ تَمُوتُ, إِنَّ
اللهَ عَلِيمٌ خَبِيرٌ"

> Verily the knowledge of the Hour is with God (alone). It is He who sends down rain and He who know what is in the wombs. Nor does anyone knows what it is that will earn tomorrow. Nor does anyone knows in what land he is to die. Verily God is all knowing and He is acquainted (with all things).

(v) Sheikh al Azhar, Zad al-Haqq ‘Ali Zad al-Haqq in a *fatwa* session advised the Muslim Ummah against practicing a life insurance policy as it involves unlawful elements and therefore Muslims should not be making money or profits through unlawful means (Hadagha,1995:15).

He argued that a contract which is based on unlawful elements is not binding, since the prophet (SAW) has said:

> ….. Muslims are bound by their conditions except the condition which prohibits the lawful one or the one which permits the unlawful one (Tirmizi as quoted by Haqq, 1995: 60).

Among the scholars in this group are Abdur Rahman ‘Isa Ahmad Ibrahim, Sheikh Shawkat Ali Khan, Muhamad Musa, Mufti Muhammed Bakheet, Muhammad Abu Zutrah, Sheikh al- Azhar, Jerid al-Haq Ali Jad al-Haq. (Ma‘sum billah, 1998:410). Earlier the Muslim brotherhood publication of 1914 and the Muslim league conference in 1965 have canvassed this opinion (Klingmuller, 1969:35).

The second group of scholars, among the opponents, totally rejected the practice of any kind of insurance on the grounds that:

(i) It involves the elements of *ribā*, *maysir*, and *gharrar* which are strictly prohibited by the *Sharī‘ah.*

(ii) There is no express authority from the divine messages justifying the permissibility of the insurance business. It was therefore argued that any transaction that is not consistent with the teachings and injunctions of the holy Qur’an and the Sunnah of the prophet (SAW) should be held void. The Qur ‘an, according to them says:

"وَمَنْ يَبْتَغِ غَيْرَ الإِسْلاَمِ دِينًا فَلَنْ يُقْبَلَ مِنْهُ وَهُوَ فِي الآخِرَةِ مِنَ
الْخَاسِرِينَ"

> If anyone desires a system (din) other than Islam never will it be accepted of him and in the hereafter, he will be in the ranks of those who have lost. (Q3:85)

(iii) They also argued that insurance business runs contrary to the principle of *tawakkul* (absolute dependence on God). According to them in an insurance operation, the insured places his trust in the insurer to protect him against unexpected loss instead of placing his trust in Allah. The Qur'an says on *tawakkul*:

". . . وَعَلَى اللهِ فَتَوَكَّلُوا إِنْ كُنْتُمْ مُؤْمِنِينَ"

…..But on Allah put your trust if you have faith. (Q5:23)

Among the scholars who hold this view are Mustafa Zaid, Abdullah al Qalqeeh, Jalal Mustafa al-Sayyad and Shawkat 'Ali Khan (Siddiqi, 1980:216).

2.2.3 Proponents of insurance

This group of scholars held that insurance practice is entirely and absolutely lawful provided it is free from the element of *ribā* or usury. These scholars therefore approved the concept of Islamic model of insurance (*Takāful*) which does not involve the elements of *ribā*. It is practiced based on the principle of *Muḍārabah* financing mode, in which both the insurer and the insured share the profit and dividends made from the paid premiums in an agreed proportion. Such a transaction is based on mutual agreement between the parties. Such manner of insurance practice does not contravene the letters and intent of the *Sharī'ah* but rather justifies the divine principle of mutual transaction as Allah says in the Qur'an:

"يَا أَيُّهَا الَّذِينَ آمَنُوا لاَ تَأْكُلُوا أَمْوَالَكُم بَيْنَكُمْ بِالْبَاطِلِ إِلاَّ أَنْ تَكُونَ
تِجَارَةً عَنْ تَرَاضٍ مِنْكُمْ . . ."

O you who believe do not misappropriate your property among yourselves in vanities, but let there be among you traffic and trade by mutual goodwill… (Q4:29)

There are a number of *fatāwa* (juristic opinions) on the validity of *Takāful* insurance by various *Sharī'ah* boards of *Takāful* companies that can be cited.

(i) The *Sharī'ah* supervisory board of the first *Takāful* company, the Islamic insurance company in Sudan, held that the *Takāful* transaction does not contravene the *Sharī 'ah* nor does it contain any unlawful element. (Rules of Sharī'ah Supervisory board).

(ii) The *Sharī'ah* Committee of Bank al-Jazīrah in Saudi Arabia, over a period of Eighteen months studied and reviewed the *Takāful Ta 'āwwunî* programme, the various contracts, procedures and mechanism. After adjustment the committee came out with the following fatwa:

> **In The Name of Allah, Most Gracious, Most Merciful**.
> With thanks to Allah, the Universe Creator, and blessings on the master of messangers Muhammed and all his kins and companions.
> Bank al-jazîîra's Sharī'ah Committee has sighted the framework of Takāful Ta 'āwwunî programme developed by Bank al-jazîrah through its papers and documents. After the Committee has comprehensively studied and reviewed the whole inherent details of the programme and recommended some changes which have been fully taken into consideration, it has approved the programme.
> Accordingly, the Sharī'ah Committee deems that the programme is in compliance with the rule of Islamic Sharī 'ah and is considered a suitable substitute, from the Sharī 'ah perspective, for life insurance. We wish bank al-jazīrah all success and prosperity (www.takaful.com)

(iii) Fiqh Council of World Muslim League (1398H/1978 and Fiqh Council of Organisation of Islamic Conference (1405H/1985) in Jeddah resolved that:

> ….conventional Insurance as presently practiced is harām (forbidden) and Cooperative insurance (*Takāful*) is permissible and fully consistent with Sharī'ah principles''. (Bank al jazîrah websit www. Takāful.com)

(iv) The Grand Council of Islamic Scholars in Makkah, in 1985, approved the *Takāful* System as the correct alternative to conventional insurance in full compliance with *Sharī'ah* (Fisher and Taylor, 2000:4)

(v) The *Sharī'ah* Supervisory Council of Malaysia *Takāful* Operation approved the underwritten guidelines and procedures on general *Takāful* on July 1st 1994. (Ma 'sum billah, 1998:406)

Among the scholars who share this view are the Muslim jurists Muhammad Abduh, the Hanafi lawyer, Sheikh ibn 'Ābidîn, Muhammad Taqi Amini, Sheikh Mahmud Ahmad, Mustafa Ahmad Zarqa, Sayyid Muhammad Sadeeq al-Ruhani, Muhammad Nejatullah Siddiqi, Muhammad Muslehudeen, Ayyatullah Khomeni, 'Ali Jamaludeen Awad and others (Ma 'sum billah, 1998:410).

However, It may be pertinent that some of the opinions of scholars who are against the insurance practice are reconsidered in the light of *Takāful* insurance and see if all the allegations are capable of rendering the concept and operation of *Takāful* insurance invalid. Ma 'sum billah (1998:391) said, while reacting to allegations and counter views by scholars:

> ….it is also sad that many contemporary scholars oppose the practice of insurance, especially life insurance, without suggesting an alternative for the Muslim Ummah. It is undeniable that there are some elements involved in today's conventional insurance practices which are not recognized by the Shari 'ah, but this does not mean that insurance practice is entirely unlawful and illegal. It is however that even though certain aspects of conventional insurance could not be practiced by Muslims due to its involvement of some unlawful elements in the eyes of the Shari 'ah, it is now the responsibility of present Islamic scholars to be innovative and come up with an alternative model of Islamic insurance which eliminates all the elements prohibited by Islamic law, in order to ensure that the Muslim Ummah is rescued from any form of unexpected risk or peril.

The proponent of insurance among the scholars maintained that Islamic insurance policy does not involve the element of gambling or betting. Zarka (1984:46) argued that gamblers in a transaction of gambling or betting are always hoping for a material gain in the spirit of defeating each other rather than cooperating. But in an insurance contract, parties are bound together in a manner of mutual cooperation and goodwill to provide material security for orphans, widows and other dependants as well as one's self against unexpected future loss, damage or peril.

It was further argued by the advocates of insurance that insurance is different from gambling in the sense that a specified event must occur by the appointed time and one of the parties must win or lose in gambling. But in the case of insurance, the specified event may or may not happen during the policy period.

Further to that, in the subject matter of insurance, the insured holds a specific financial interest, called 'insurable interest'. He is entitled to compensation only if he suffers any loss or damage and indemnity is limited to the actual loss or damage. But in gambling, the parties have no other interest than the sum to be won or lost by the determination of an event (Anwar, 1994:1317)

Siddiqi (1985:27-35) argued that the act of gambling creates a new risk while insurance tries to manage inherent, though predictable, risks to make losses bearable to the individuals susceptible to such risks. The advocates of insurance also maintain that the risk of financial loss courted by a gambler can be avoided if desired, but the inherent risk cannot be avoided (Anwar, 1994:1317).

What can be said with clarity in the opinion of this work is that if conventional insurance cannot be completely cleansed of gambling, *Takāful*, the Islamic insurance mode does not involve *al- maisir* and therefore is acceptable to Muslims.

That an insurance policy cannot be justified by express divine sanction and therefore is *harām* (unlawful), it is argued that while the Qur'an may not have expressly mentioned insurance and neither the tradition of the prophet, there are a couple of divine provisions in the Holy Qur'an and Sunnah of the prophet (SAW) approving the Islamic principles of mutual cooperation, solidarity and mutual protection. The same could be said of *al-muḍārabah* financing technique.

Added to that, the idea of insurance policy and practice could be said to have originated from the traditional doctrine of *al-'āqila*, which was later approved by the Prophet (SAW) and gave a verdict on its basis between two women of the Hudhayl tribe, as earlier mentioned in this work. The *'āqila* doctrine was subsequently approved, improved upon and commanded by the second Khalif Umar b. Khaṭṭāb. Thus they argued that it is groundless to allege that insurance policy and practice have no basis for justification (Ma 'sum billah, 1998:415)

The idea of protection against future material constraints which insurance is seeking to render for those who are in need is equally supported by the following tradition of the Prophet (SAW) narrated by Abu Hurairah (R)

> Whosoever removes a worldly hardship from a believer, Allah will remove from him one of the hardships of the day of judgement. Whosoever alleviates difficulty from one, Allah will alleviate his lot in this word and the next... (Hadith 36 of Nawawi cited by Orewole, 2004:48)

On the view that the practice of insurance is contrary to the principle of *tawakkul* (placing trust in Allah) and the tenets of *al- Qadar* (destiny). It is argued that the insurer and the insured in a policy, mutually agreed to take an initiative for the protection of the insured against an unexpected risks, loss or damage to the subject matter, but ultimately they must still place their trust in Almighty Allah because the occurrence or otherwise of the risk still depends on the trust of Almighty Allah. The initiative taken by both parties does not deviate from the principle of *tawakkul* because it is just an effort made to the best of their ability to overcome future unexpected difficulties and hardship.

The concept of *al-Qadar* (destiny) in Islam means that Allah had assigned what happens to every soul in this world even before creation. Allah says in the Qur'an:

"مَا أَصَابَ مِنْ مُصِيبَةٍ فِي الأَرْضِ وَلاَ فِي أَنْفُسِكُمْ إِلاَّ فِي كِتَابٍ مِنْ قَبْلِ أَنْ نَبْرَأَهَا إِنَّ ذَلِكَ عَلَى اللهِ يَسِيرٌ . لِكَيْلاَ تَأْسَوا عَلَى مَافَاتَكُمْ وَلاَ تَفْرَحُوا بِمَا آتَاكُمْ إِنَّ اللهَ لاَ يُحِبُّ كُلَّ مُخْتَالٍ فَخُورٍ"

> No misfortune can happen on earth or in your souls but is recorded in a decree before we bring it into existence: that is truly easy for God. In order that ye may not despair over matters that pass you by or exult over favours bestowed on you. For God loves not any vainglorious boaster (Q57:22-23)

Allah also said:

"وَمَا تَشَاؤُونَ إِلاَّ أَنْ يَشَآءَ اللهُ رَبُّ الْعَالَمِينَ"

> But you shall not will except as God wills- The Cherisher of the Worlds (Q81:29)

The Prophet (SAW) enunciated the philosophy of *al-Qadar* when he told Ibn ‘Abbas;

> Know that whatever happens to you would not have missed you and whatever misses you would not have happened to you (Hadith 19 of Nawawi cited by Orewole, 2004:27)

A misunderstanding of the concept and philosophy of al-Qadar may lead to abandoning human efforts towards achieving anything in life. In a hadith reported by Ali ®, the Prophet (SAW) discouraged this. The hadith goes thus:

> While we were sitting with the Prophet (SAW) who had a stick with which he was scrapping the earth, he lowered his head and said; “There is none of you but has his place assigned either in the Fire or in Paradise.” Thereupon a man from the people said, “Shall we not depend upon this, O Allah’s apostle?” The Prophet (SAW) said, “No, but carry on your deeds, for everybody finds it easy to do such deeds (as will lead him to his place)” (Bukhāri, cited by Khan, 1979:392, vol.8)

The Prophet (SAW) was reported to have admonished the companions thus:

> Struggle hopefully for that which will benefit you, but seek the support and assistance of Allah, and do not say: if I had done so and so, so and so would have happened. Just say: that is the Decree of Allah, and it is what He willed that He did. Verily! saying ‘if’ opens the (gate) to devil’s work (Muslim, cited by Matraji, 1993:111 vol.5)

Shehu (2009:18) corroborated this stand that belief in *al-Qadar* does not mean that human efforts should be abandoned. He quoted Imam al-Qayyim as saying:

> The fact that the destiny of everything preceded existence (especially pertaining to the pre-decreed division of people of heaven and hell), does not sanction abandoning work. It actually sanctions struggling and hoping.

He further quoted him as saying:

> The Prophet (SAW) had therefore, informed them (his companions about Qadar, and that it happens to creatures through certain means. A servant meets his Qadar (destiny) through the very means he is able to employ and prepare. Thus if he uses such means it would lead him to the Qadar which was already decreed for him in the mother of the Book (i.e. in which all destinies were recorded). The harder a person strives in getting and applying the means, the more likely he is to get at what had been destined for him. In this regard, if it had been predestined that a person would be the most learned person of the people of his time, he cannot get that position except with diligence and hard work in learning (pursuit of knowledge and its means). Similarly, if it had been destined that a person would be blessed with a son, he would not get that unless with marriage and copulation. And if it had been decreed that a person would get some (abundant) proceeds from his farm, he can only get that by sowing and other agricultural means…

From the explanation provided above, it should be clear that planning for one's life against unexpected peril (at least from human angle) does not contradict the concept and philosophy of *al-Qadar*. What is important is that, whatever a person undertakes, he should believe and bear in mind that Allah is the ultimate Disposer of everything and that everything depends on His Divine Will.

Moreover, the Islamic concept of *Tawakkul* is such that allows man to strive to the best of his ability over an act before leaving one's fate and destiny in the hands of Allah. This concept had been demonstrated by the Prophet (SAW) in one of his traditions which goes thus;

> Narrated by Anas b. Malik (R) The Holy Prophet (SAW) told a bedioun Arab who left his camel untied trusting it to the will of Allah; Tie up your camel first and then put your trust in Allah. (Sunan Tirmidhi vol.4 No. 2517 p. 668)

This conversation and the final admonition of the Prophet (SAW) depict not only how Muslims should accept their fate but also indicates how Muslims should reduce the risk of loss and calamities.

It can also be said that insurance ensures taking certain measures towards elimination of hardship and bringing about a comfortable standard of living. This is in line with Allah's wish for His creatures as expressed in the holy Qur'an:

". . . يُرِيدُ اللهُ بِكُمُ الْيُسْرَ وَلاَ يُرِيدُ بِكُمُ الْعُسْرَ. . . "

> ……. Allah intends ease for you and He does not want hardship…….. (Q2:185)

Added to this, Allah enjoined Muslims to work hard and by implication be strategic in the affairs of their life in order to be able to change their conditions Allah says:

". . . إِنَّ اللهَ لاَ يُغَيِّرُ مَا بِقَوْمٍ حَتَّى يُغَيِّرُوا مَا بِأَنْفُسِهِمْ"

> …Verily Allah will not change the condition of a people until they change it themselves. (Q13: 11)

The Qur'an presented stories of Allah's Prophets (AS) so that Muslims can learn from their experiences. The story of Prophet Yusuf (AS), for instance, enlightens us on economic planning. In the story of Prophet Ya 'qub (AS), risk management could be learnt when he commanded his sons to enter Egypt from different gates. The Qur'an states:

"وَقَالَ يَا بَنِيَّ لاَ تَدْخُلُوا مِنْ بَابٍ وَاحِدٍ وَادْخُلُوا مِنْ أَبْوَابٍ مُتَفَرِّقَةٍ,
وَمَا أُغْنِي عَنْكُمْ مِنَ اللهِ مِنْ شَيْءٍ إِنِ الْحُكْمُ إِلاَّ لِلَّهِ عَلَيْهِ تَوَكَّلْتُ وَعَلَيْهِ
فَلْيَتَوَكَّلِ الْمُتَوَكِّلُونَ"

> Further he said: 'O my sons! Enter not all by one gate: enter ye by different gates. Not that I can profit aught against God (with my advice): none can command except God: on Him do I put my trust: and let all that trust put their trust on Him.' (Q12:67)

In the history of Prophet Muhammad (SAW), there are a lot to learn on taking measures towards reducing risk while we still maintain our trust in Allah. For example, while drawing the plan to leave Makkah for Madinah, the Prophet (SAW) reduced the risk of getting killed by asking 'Ali ® to sleep on his bed. The unbelievers kept vigil all night thinking he was the one in bed.

On the view that a life insurance policy contradicts the principles of *mīrāth* and *waṣiyyah*, it can be said that this may not be exactly correct. Ma ‘sum billah (1996:20) argued that:

> In a life insurance policy, the nominee(s) is nothing more than a trustee (as held by the High Court of Karachi in the case Karim v. Hanifa), who is under an obligation to receive the benefits over the policy on behalf of the heirs of the deceased (assured) and distribute the benefits among the heirs of the deceased in accordance with the Islamic principles of *mīrāth* and *waṣiyyah*.

The nominee(s) in the instance of life insurance is not an absolute beneficiary (ies) but a mere trustee and may only receive a portion of the benefits if he or she is one of the legal heirs of the deceased. Anwar (1994:1318) argued that if the Qur'an has ordained compensation including monetary benefits to a victim's family for inadvertent killing as contained in the Qur'an chapter 4 verse 92, then there is no harm in obtaining monetary gain on the death of a family member and this justifies the conduct of life insurance. He concluded thus:

> In fact, liability insurance covering compensation to victims of (say) accidents should be made compulsory in Muslim countries to ensure compliance with the Qur'anic injunction, particularly when damage is done by the financially weak or runaway aggressors.

That life insurance policy is a transaction which ensures one's life and insuring one's life by a creature is not permissible in the *Sharīʻah*. The principles underlying life insurance does not hold back the life of the insured when the time to die comes. In fact the Qur'an has emphasized:

"وَلِكُلِّ أُمَّةٍ أَجَلٌ فَإِذَا جَاءَ أَجَلُهُمْ لاَ يَسْتَأْخِرُونَ سَاعَةً وَلاَ يَسْتَقْدِمُونَ"

> To every people is a term appointed. When their term is reached, not an hour can they cause delay, or (an hour) can they advance (it in anticipation) (Q7:34)

So no human action can change the Will of Allah. Whether a person takes insurance or not has no effect on future events. But life insurance policy is an initiative towards making provisions for the orphans, widows and other dependant of the deceased from future hardship after the demise of the supposed breadwinner. Making adequate provision for the heirs before or at the point of death is considered a good deed as clarified by the Prophet (SAW) in this hadith:

> Reported on the authority of Sa‘d bin Abi Waqqas: He says:
> I took very ill during the year of the conquest of Mecca and felt that I was about to die. The prophet visited me and I asked: O messenger of Allah, I own a good deal of property and I have no heir except my daughter; May I make a will leaving all my property for religious and charitable property? He (the prophet) replied ‘No’. I again asked may I do so in respect of 2/3 of my property? He replied ‘No’ I asked: may I do so with one half of it? He replied ‘No’ I again asked: may I do so with 1/3 of it’. The prophet (SAW) replied: ‘make a will disposing of one third in that manner because one third is quite enough of the wealth that you possess. Verily if you die and leave your heirs rich is better than leaving them poor and begging. Verily the money that you spend for the pleasure of Allah will be rewarded even a morsel that you lifted up to your wife’s mouth (Bukhāri, cited by Khan, 1979:477, vol.8)

It could therefore be concluded that a life insurance policy does not in the real sense of the word, insure one’s own life but it is a consideration and contribution towards the future welfare of orphans, widows and other dependants. (Ma ‘sum billah; n. d. p10).

The consensus of opinion of majority of scholars and indeed, the opinion of this work is that an insurance policy which is based on the Islamic principle of *al-muḍārabah* and is devoid of all elements prohibited by the *Sharī ‘ah* is valid and acceptable to Islam whether organized as a private or public venture. The earlier cited juristic opinions of scholars are in support of this assertion. This is because it adopts mutual assistance, cooperation, brotherhood, piety and ethical consideration as the basis of its operation. Hence *Takāful* is referred to as cooperative or mutual insurance.

However, we agree with scolars on the condemnation of commercial insurance (conventional insurance) on the grounds that it contains elements offensive to Islamic principles. Responding to an online question whether insurance transactions are permissible in the light of the *Sharī‘ah,* a group of Muftis had this to say:

> …As regards your question, we would like to stress that insurance companies emerged as corporate bodies carrying out some sort of transaction new to the Islamic fiqh, for it was not known at the time of revelation of the Shari ‘ah nor at the time of the great scholars who founded the known fiqh schools. Insurance companies offer variety of services, including what is called commercial insurance, All categories of this kind of

> insurance are haram from the Sharīʻah point of view since they are interest- oriented dealings, and this is something textually prohibited according to the Glorious Qur'an and the Prophetic hadith. What also makes such transaction haram is the fact that they involve gambling which is unlawful and gharar (undue uncertainty) which is also prohibited for it entails devouring people's property wrongfully. (Fatwa Bank, islamonline.net, issued March 6th, 2006)

The Muftis, while trying to give details on the issue, cited another fatwa given by a prominent Saudi scholar and author, Sheikh Muhammad Salih al-Munajid thus:

> All types of commercial insurance no doubt entail Riba (interest) because you pay a specific sum of money and take a larger or smaller amount should a risk occur. Accordingly, this coverage contains Riba an-Nasi ʻah (interest on lent money) and Riba al-fadl (exchanging a superior thing of the same kind with an inferior of the same kind). For as we know, the insurers take premiums from those under this coverage and promise to give them smaller or larger amounts should a risk occur to the insured. No doubt this is the very same Riba which is prohibited according to many Qur'anic verses. (islamonline.net, retrieved on 5th August, 2005)

Sabbir Patel of the International Cooperative and Mutual Insurance Federation (ICMIF), United Kingdom, in his work, *Takāful and poverty alleviation,* elaborated on the elements which make conventional insurance unacceptable in the light of *Sharīʻah*. According to him conventional insurance contract contains uncertainty (*al-gharār*) due to;

- uncertainty whether the payment (claim) will be made as promised
- the amount to be paid is not known
- when the payment will be made

For example where a payment is not made, the insurance company acquires all the premiums while the policy holder goes home with nothing. The loss of the entire premium on cancellation of a life insurance policy by the holder and the practise of making a proportional refund if the insurance company terminates the contract are not ethical to Islam. He concluded that any form of contract which is lopsided in favour of one party at the expense and unjust loss to the other is classified as gharar (Patel, 2002:5)

On the gambling (*maisir*) aspect, he itemized the following as the gambling content of commercial insurance;

- participants contribute a small amount of premium in hope to gain a large sum
- the participant loses the money paid for the premium when the insured event does not occur
- the insurance company will be in deficit if claims are higher than contributions.

So when a life insurance policy holder dies after paying just one premium , his dependants receive a sum which the policy holder may not have been informed of, most especially, about its source.

Concerning *Ribā*, he said:

> An element of interest exists in conventional life insurance products as the insured, on his death, is entitled to get much more than he has paid. Insurance funds are invested in financial instruments such as bonds and stocks which also have *Ribā* inbuilt (Patel, 2002:6)

Vardit (1985:49) in her discussion on the problems of insurance in Islam said:

> The Muslims who condemn *ribā* as one of the major 'defects' of insurance, are influenced by the wider notion of the term ribā, not by that which is tied to loans and debts. This wider notion includes the fact that insurance compensations are collected without work and that the amount deposited with the company (the premium) is never returned to the insured in its original sum. It may be returned partially (in property and liability), tens of times more than its original amount (in life insurance), or not at all. In the latter case, the company collects all the profit.

2.3 Conceptual frameworks

Generally speaking, the word *Takāful* has become acceptable as a terminology for Islamic Insurance practise in the world today. Majority, if not all, of authors who discussed the subject matters of Insurance in the Islamic world lately, have used the word *'Takāful'* for the subject. Before now, other words have been used to designate insurance. Such other words include; Sukāra which was first used by a Hanifite jurist, Ibn 'Ābidîn (d.1836) (Verdit, 1985:27). The word *Ta'mîn* was coined for Islamic Insurance only in the twentieth Century (Verdit, 1991:142) and a lot of works were written by scholars in this name. Few of such works include:

1. *Atta'mîn wa mawqif ash-sharī'at al-Islamiyyah minhu* by Al-Dasuki Muhammad as-sayed, 1967, published in Cairo.

2. *Nizam at- Ta'mîn* by Al-Zarka Mustafa, 1984, published by mu'ssasatul-Risalah, Beirut.
3. *'Aqd at-ta'mîn wa mawaqif-Sh-Sharī'ah minhu* by Zarqah Ahmad, 1962 published in Damascus.
4. *Hukmu al-Islām fī at-ta'mîn* by Alwan 'Abdullah, 1987, published by Dārul-Islam, Egypt.

There are equally a number of articles in journals published using ta'mîn as a terminology for Islamic insurance. It must however be pointed out that how *Takāful* came to usage instead of *ta'mīn* is yet to be detected as none of the available sources attempted an explanation on it.

The word *Takāful* originated from the Arabic root word *'Kafala'* meaning 'to support' or 'to guarantee' (Ahmed, 2006:512). Cowan (1961:834) in line with this meaning, refers to *Takāful* as 'mutual or joint responsibility.

Fisher (1999:19) defines *Takāful* as a system based on solidarity, peace of mind and mutual protection which provides mutual financial and other forms of aids to members (of the group) in case of specific needs, whereby members mutually agree to contribute money to support this common goal.

Fisher and Taylor (2000:13) saw *Takāful* as cooperative risk sharing that is acceptable to the Muslims and is in accordance with the *Sharī'ah* (Islamic Law) and the teachings of prophet Muhammed (SAW). They further explained that it is an ethical system with absolute and normative values revealed by God which is not subject to periodical re-interpretation.

The Malaysia Insurance Institute in the Institute's 2005 Directory, defined *Takāful* as a protection plan based on *Sharī 'ah* principles, where one contributes a sum of money to a common *Takāful* fund in form of participatory contribution (tabarru') and one undertakes a contract ('aqd) to become one of the participants by agreeing to mutually help one another should any of the participants suffer a defined loss.

takāfulactuary.com states that *Takāful* insurance is a system of providing mutual protection and joint risk sharing in the event of a loss by one of its members (Oyetayo, 2006: 154).

Bank al-Jazîrah (www.takaful.com) described *Takāful* as a system of mutual cooperation for financial assistance and protection based upon the Qur'anic principles of *"ta 'āwun*" or mutual assistance.

Ali (2006:2) commented thus on *Takāful:*

> *Takāful* is a social scheme based on the principles of brotherhood, solidarity and mutual assistance. It provides mutual financial aid and assistance to those who are members of the *Takāful* scheme and voluntarily agree to contribute a certain amount of money for that purpose. It is a mutual agreement among the participants of the scheme. This has its origin in the concept of collective sharing of individual's loss.

From all the definitions certain elements could be fundamental to the concept and operation of *Takāful*. These elements could be stated as;

i. mutual responsibility

ii. mutual cooperation

iii. mutual protection

In other words, *Takāful* is an alternative insurance mode which is acceptable to the Muslims because it is based on the Islamic virtues of mutuality, cooperation and shared responsibility. Conceptually, *Takāful* is a financial transaction of a mutual cooperation between two parties towards providing a financial security for one of them against an unexpected material risk (Ma 'sum billah, 1999:347)

It is the pooling of resources together to help those who are in need. A concept which in spirit is close to the principles of compensation and shared responsibility as practised between the *Muhājirūn* (emigrants from Makkah) who accompanied Prophet Muhammed (SAW) during his *Hijrah* (migration) from Makkah to Madinah and the *Anṣār* (helpers), people of Madinah who provided the emigrants with food, accommodation and necessary security (Ahmed 2006:512).

According to Ma 'sum billah (1999:348) the concept of *Takāful* is acceptable to Islamic jurists for the following reasons:

- the policy holders would cooperate among themselves for their common good;
- Every policy holder would pay his subscription in order to assist those of them who need assistance.
- It falls under the donation contract which is intended to divide losses and spread liability according to the common unity pooling system.
- The element of uncertainty is eliminated in so far as subscription and compensation are concerned.
- It does not aim at deriving advantage at the cost of other individuals.

The frame work of *Takāful* is based on purely religious virtues as taught by the Qur'an and the *Sunnah* of the Prophet (SAW). The virtues of mutual responsibility, cooperation and protection are core to *Takāful*. The feeling of responsibility towards one another is the foundation of solidarity of the Islamic Community. The poor feel safe being sheltered by the rich and the sick does not feel much hurt because he knows the community will provide help. The Islamic brotherhood is constantly emphasized in the Qur'an and *Sunnah* as an admonition towards responsibility, cooperation and protection. The Qur'an said:

"إِنَّمَا الْمُؤْمِنُونَ إِخْوَةٌ فَأَصْلِحُوا بَيْنَ أَخَوَيْكُمْ وَاتَّقُوا اللهَ لَعَلَّكُمْ تُرْحَمُونَ"

> The believers are but a single brotherhood: so make peace and reconciliation between your two (contending) brothers and fear Allah that ye may receive mercy (Q49:10)

Allah also said:

"وَاعْتَصِمُوا بِحَبْلِ اللهِ جَمِيعًا وَلَا تَفَرَّقُوا, وَاذْكُرُوا نِعْمَةَ اللهِ عَلَيْكُمْ إِذْ
كُنْتُمْ أَعْدَاءً فَأَلَّفَ بَيْنَ قُلُوبِكُمْ فَأَصْبَحْتُمْ بِنِعْمَتِهِ إِخْوَانًا, وَكُنْتُمْ عَلَى
شَفَا حُفْرَةٍ مِنَ النَّارِ فَأَنْقَذَكُمْ مِنْهَا كَذَلِكَ يُبَيِّنُ اللهُ لَكُمْ ءَايَاتِهِ لَعَلَّكُمْ
تَهْتَدُونَ"

> And hold fast, all together, by the rope which God (stretches out for you), and be not divided among yourselves; And remember with gratitude God's favour on you: for you were enemies and He joined your hearts in love, so that by His Grace, you became brethren; and you were on the brink of the Pit of Fire, and He saved you from it. Thus doth God make His Signs clear to you: that you may be guided (Q3: 103)

The Prophet (SAW) expatiated on this verse when he said

> …A Muslim is the brother of a Muslim: he neither oppresses him nor disgraces him, he neither lies to him nor does he hold him in contempt… It is evil enough for a man to hold his brother Muslim in contempt. The whole of a Muslim for another Muslim is inviolable: his blood, his property and his honour (Hadith 35 of Nawawi cited by Orewole, 2004:47)

In another hadith, the Prophet (SAW) explained what should be the relationship between Muslims in the society, The Prophet (SAW) says:

> A believer to another believer is like a building whose different parts reinforce each other. The Prophet (SAW)

> then clasped his hands with the fingers interlaced (Bukhāri, cited by Khan, 1979:34, vol.8)

To further encourage brotherhood, the Prophet (SAW) was reported to have said, in a hadith narrated on the authority of Abu Hamzah Anas ibn Mālik;

> None of you is (truly) a believer until he wishes for his brother what he wishes for himself (Bukhāri, cited by Khan, 1979:19, vol.1)

A man once asked the Prophet (SAW) “Whose Islam is good?’’

The Prophet replied: “One who feeds others and greets those whom he knows and those whom he does not know’’ (Bukhāri, cited by Khan, 1979:19, vol.1)

The Qur’an established the principle of cooperation and mutual assistance in the following verses:

"وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَى وَلاَ تَعَاوَنُوا عَلَى الإِثْمِ وَالْعُدْوَانِ"

> Cooperate with one another in furthering virtue and Gods consciousness and do not cooperate with one another in furthering evil and enmity (Q 5:2)

It said further;

"لَيْسَ الْبِرَّ أَنْ تُوَلُّوا وُجُوهَكُمْ قِبَلَ الْمَشْرِقِ وَالْمَغْرِبِ وَلَكِنَّ الْبِرَّ مَنْ
ءَامَنَ بِاللهِ وَالْيَوْمِ الآخِرِ وَالْمَلآئِكَةِ وَالْكِتَابِ وَالنَّبِيِّينَ وَءَاتَى الْمَالَ عَلَى
حُبِّهِ ذَوِي الْقُرْبَى وَالْيَتَامَى وَالْمَسَاكِينَ وَابْنَ السَّبِيلِ وَالسَّائِلِينَ وَفِي
الرِّقَابِ وَأَقَامَ الصَّلَوةَ وَءَاتَى الزَّكَوةَ وَالْمُوفُونَ بِعَهْدِهِمْ إِذَا عَاهَدُوا. . ."

> It is not righteousness that you turn your faces towards east or west; but it is righteousness to believe in God and the Last Day, and the Angels, and the Books, and the Messengers; To spend of your substance, out of love for Him, for your kin, for orphans, for the needy, for the wayfarer, for those who ask, and for the ransom of slaves; To be steadfast in prayer, and practice regular charity; To fulfill the contract which you have made…
> (Q 2:177)

Life *Takāful* plan is also a provision for Orphans in the event of death of their benefactors. Commanding assistance to the Orphans, the Qur’an says:

"وَيَسْأَلُونَكَ عَنِ الْيَتَامَى قُلْ إِصْلاَحٌ لَهُمْ خَيْرٌ, وَإِنْ تُخَالِطُوهُمْ
فَإِخْوَانُكُمْ وَاللهُ يَعْلَمُ الْمُفْسِدَ مِنَ الْمُصْلِحِ وَلَوْ شَاءَ اللهُ لأَعْنَتَكُمْ إِنَّ
اللهَ عَزِيزٌ حَكِيمٌ"

> …They ask thee concerning orphans. Say: "The best thing to do is what is for their good; If you mix their affairs with yours, they are your brethren; But God knows the man who means mischief from the man who means good. And if God had wished, He could have put you into difficulties: He is indeed Exalted in Power, Wise (Q2:220)

Allah described the attitude of the *Anṣār* (the Medinites) in their reception of the *Muhājirūn* (Emigrants), as an encouragement towards mutual assistance and cooperation, in the following words:

"وَالَّذِينَ تَبَوَّؤُوا الدَّارَ الإِيمَانَ مِنْ قَبْلِهِمْ يُحِبُّونَ مَنْ هَاجَرَ إِلَيْهِمْ وَلاَ
يَجِدُونَ فِي صُدُورِهِمْ حَاجَةً مِمَّا أُوتُوا وَيُؤْثِرُونَ عَلَى أَنْفُسِهِمْ وَلَوْ كَانَ
بِهِمْ خَصَاصَةٌ وَمَنْ يُوقَ شُحَّ نَفْسِهِ فَأُولَئِكَ هُمُ الْمُفْلِحُونَ"

> But those who before them, had homes (in Medina) and had adopted the Faith, showed their affection
> to such as came to them for refuge, and entertain no desire in their hearts for things given to the (latter), but give them preference over themselves, even though poverty was their (own lot). And those saved from the covetousness of their own souls, they are the ones that achieve prosperity (Q59:9)

There are a number of *Ahādith* encouraging Muslims on mutual cooperation and mutual assistance. A Prophetic tradition said:

> Whosoever removes a worldly grief from a believer, Allah will remove from him thegrieves of the Day of Judgment. Whosoever alleviates (the lot of) a needy person, Allah will alleviate (his lot) in this world and the next. Allah is in the help of a servant (mankind) the more the servant is in the help of his brother… (Hadith 36 of Nawawi cited by Orewole, 2004:48)

In another tradition, the Prophet (SAW) admonished the community towards assisting the unjust in the community. He said:

> Help your brother, whether he is an oppressor or he is an oppressed one. People asked. 'O Allah's Apostle! It is all right to help him if he is oppressed but how should we help if he is an oppressor?' The Prophet (SAW) said 'By

preventing him from oppressing others.'(Bukhāri, cited by Khan, 1979:373, vol.3)

On mutual protection, Allah mentioned in several places in the Qur'an, protection from hunger and fear. He said:

"الَّذِي أَطْعَمَهُمْ مِنْ جُوعٍ وَآمَنَهُمْ مِّنْ خَوْفٍ"

... (He) who has fed them against hunger and has made them safe from fear (Q 106:4)

He also said:

"وَإِذْ قَالَ إِبْرَاهِيمُ رَبِّ اجْعَلْ هَذَا بَلَدًا آمِنًا"

"And remember when Abraham said "my Lord make this city (Makkah) a place of security" (Q2:126)

Allah's mention of hunger, fear and the prayer offered by Abraham on security signified that the dangers inherent in fear and lack of food are great for mankind and any cooperative efforts made by Muslims to safe their brothers or sisters from these dangers would be considered acts of worship and rewarded by Allah. Indeed such cooperative efforts fall within the ideals of *Takāful*.

There are also a number of Hadith on the provision of security and protection to mankind. The Prophet (SAW) was reported to have said:

"Indeed a believer is one who can give security and protection to the life and property of mankind."(Ibn Majāh, cited by Kazi, 1992:105)

He said in another tradition:

…Whosoever shields a Muslim, Allah will shield him in this world and the next… (Muslim, cited by Kazi, 1992:99)

He also said:

"By God in Whose power Iam under, one will not enter paradise unless he provides protection to a neighbour in difficulty." (Ahmad Cited by Kazi, 1992:103)

The beloved wife of the Prophet (SAW), Aisha (R) reported that the Prophet (SAW) said:

Jibreel impressed upon me the kind treatment towards neighbours so much that I thought as if he would confer upon them the rights of inheritance (Muslim, Cited by Kazi, 1992:106)

From the mentioned Qur'ānic references and Prophetic traditions it can be said that though the word *Takāful* is not mentioned in the Qur'an, the principles upon which it works are strongly canvassed virtues in the Qur'ān and Sunnah.

In a *Takāful* transaction, the party called the participant (insured) pays a particular amount of money known as contribution (Premium) to another known as *Takāful* operator (insurer), with a mutual agreement that the operator is under a legal responsibility to provide the participant with a financial security against unexpected loss or damage caused to the subject matter of the policy (defined risk) should one occur within the agreed period of the policy (Ma 'sum billah, 1999:348)

The above presupposes that certain elements must be prevalent before a *Takāful* contract could be said to be in place. The elements are:

i. The insurer- which can be a *Takāful* operator or a group.

ii. The insured- Individual participants or a group of people coming together under *Takāful* contract.

iii. Premium- Amount agreed upon as subscription within a specified period.

iv. Policy subject- A carefully defined and agreed upon risk which if occurs entitles the insured to a fixed claim.

v. Indemnity- A fixed amount payable as a claim to whoever suffers the defined risk.

vi. The parties to the contract must have legal capacity i.e. should not be a minor as stipulated in the *Shari'ah*.

vii. The presence of mutual consent between the parties involved in *Takāful* contract as stipulated in the Qur'ānic verse:

"يَا أَيُّهَا الَّذِينَ آمَنُوا لاَ تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ إِلاَّ أَنْ تَكُونَ
تِجَارَةً عَنْ تَرَاضٍ مِنْكُمْ . . ."

> ….O ye who believe! Eat not your property among yourselves in vanities but let there be amongst you Traffic and trade by mutual goodwill…. (Q4:29).

viii Time-frame for the policy.

ix Formal agreement expressing offer and acceptance between the insurer and the insured (Ma 'sum billah, 2000:207).

Also very specific to the business of *Takāful* are concepts like,

i. *Muḍārabah*: Literally is about profit loss sharing. The *Takāful* operator accepts and invests the *Takāful* contributions (premiums) received from the *Takāfu*l participants.

The contract will specify how the profit will be shared between the participants and the *Takāful* operator. For example, ratio may be on 60:40 bases.

ii. *Tabarru'*: This refers to the element of 'donation' in *Takāful* practise. Each participant agrees to relinquish a portion of *Takāful* contribution to a common fund that is used to pay a member that suffers a loss (Fadzli. 1996:13)

The implication of these two concepts on *Takāful* operation is germane. In other words to ensure that a *Takāful* scheme operates within the principles of Islamic teachings, the transactional aspects of the system must be subjected to Islamic contractual laws. Hence *Takāful* contracts are based on the principle of *Muḍārabah* (limited partnership) which means profit and loss sharing. Also when a contract is made between the operator of a *Takāful* life scheme and the participants of that scheme, the concept of *tabarru'* (donation) is incorporated in it. This means that a participant will have to agree to relinquish a certain amount of *Takāful* contributions to fulfil his obligation of mutual help and joint guarantee, should any of the fellow participants under the scheme suffer a loss caused by specified peril and or hazards of life (Ali, 2006:2). It is in this respect that for *Takāful* operation to be consistent with the Shariah stipulation, participants are expected to have two types of accounts; Participants' Special Account (PSA) which serves as the *Tabarru*' (donation) account and Participant Account (PA) which serves as the savings account for the participants.

According to Fisher and Taylor (2000:13), when drafting the framework of *Takāful*, the operators must be aware of certain fundamental guidelines. The guidelines are,

i. The practice must adhere strictly to the Islamic principles of business or commerce.

ii. Business must be conducted openly in accordance with the principle of utmost good faith, honesty, full disclosure, truthfulness and fairness in all aspects,

iii. Cooperative risk sharing and mutual assistance amongst the participants.

iv. Awareness amongst the group members that they are facing similar risks and are willing to contribute to any unfortunate member.

Ma 'sum billah, (1998:392) equally affirmed that the nature of the principles of *Takāful* is fundamentally different from the principles of conventional insurance. He enumerated a number of principles thus:

- The operation of *Takāful* must be in line with the *Sharī'ah* principles. A *Takāful* operation may be held void *ab initio* if any aspects of its operation is proved to be contrary to the *Shari'ah* principles.
- The operation of *Takāful* is generally based on the governing principles of *Al-muḍārabah*, profits and loss sharing financing technique, which is an alternative to the interest (ribā) based financing technique adopted by the conventional insurance practices.
- The operation of *Takāful* practices is generally supervised by an independent body called the *Shari'ah* supervisory council. It is the duty of the council to advise the *Takāful* operator(s) in any given organization on their operations for the purpose of ensuring that no aspect of the company's operations involves any element that is not approved by the *Shari'ah* principles. In other words, the establishment of a *Sharī'ah* supervisory council for every *Takāful* operator is a prerequisite to the commencement of operations.
- It is also within the fundamental principles of *Takāful* operation to maintain utmost good faith. This is because a *Takāful* policy can at any time be called to question should either of the party (operator or participant) be able to prove the other party's breach of good faith in the material matters or facts of a policy. Therefore the duty to disclose material facts or matters is imposed on both the operator and the participant equally.

So, in essence *Takāful*, just like the conventional insurance, is also based on the principles of insurable interest, indemnity, subrogation and utmost good faith. The utmost good faith clause is required for the disclosure of all material facts as encouraged in Islamic economic transactions. The Qur'ān said:

"يَا أَيُّهَا الَّذِينَ آمَنُوا لاَ تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ إِلاَّ أَنْ تَكُونَ
تِجَارَةً عَنْ تَرَاضٍ مِنْكُمْ . . ."

> ….O ye who believe do not misappropriate your property amongst yourselves in vanities but let there be amongst you Traffic and trade by mutual goodwill…. (Q4:29).

Non disclosure of material facts, misrepresentation, false statement and other fraudulent practices, are some of the elements which can invalidate a policy of insurance and any other contract or transaction in Islam. The principle of *caveat emptor* (buyers beware), which applies in secular commercial contract does not have a place in Islam. It was reported that the prophet (SAW) said:

> If both the buyer and the seller explain the good and bad points concerning the transaction and hide nothing and give sincere advice, they are blessed in their bargain (Bukhāri, cited by Khan, 1979:165, vol.3)

Otherwise, the Prophet (SAW) said:

> The buyer and the seller have the option to cancel or to confirm the deal, so long as they have not parted or till they part and if they spoke the truth and told each other the defects of the things, then blessings would be in their deal, and if they hid something and told lies, the blessing of the deal would be lost(Bukhāri, cited by Khan, 1979:167, vol.3)

The Apostle of Allah (SAW) entered the market one day and saw a grain seller sitting by his grain. The Prophet (SAW) dipped his hand into the grain and he saw that it was wet. The Prophet asked him why it was so. He explained that it was rain. He (SAW) asked him why he concealed the wet part. The Prophet (SAW) then said: "He who deceives us is not of us" (Muslim, cited by Matraji, 1993:131 vol. IA)

Subrogation entitles insurers to claim from a third party on behalf of the insured. Indemnity implies that a claim can be made only to the extent of actual financial loss to the insured. Insurable interest ensures that a client can obtain insurance only if susceptible to loss for which insurance is sought (Anwar, 1994:1323)

Islamic insurance practice differs from conventional insurance in many respects. Aside the fact that the elements like *al-Gharrār* (uncertainty), *al- ribā* (interest) and *al-maysir* (Gambling) are avoided in its operation, (All these elements and others are features of conventional insurance) Islamic insurance policy are operated based on the concept of *al-Muḍārabah*, a profit loss sharing scheme.

Fisher and Taylor (2000:4) opined that there are five elements that must exist in establishing a proper framework for a *Takāful* System. According to them they are

- **Niyyah** or utmost sincerity of intention for knowingly following the guidance and adhering to the rule and purposes of *Takāful*
- Integration of **Sharī'ah conditions**, namely risk sharing under ta'āwwun principles, coincidence of ownership, participation in management by policy holders, avoidance of ribā and other prohibited elements and investments, and

inclusion of *al-Muḍārabah* and/ or *al-Wakālah* principles for management practices.

- Presence of **Moral Value and Ethics**, whereby business is conducted openly in accordance with utmost good faith, honesty, truthfulness and fairness in all dealings.
- Absence of **unlawful elements** that contravenes Sharī‘ah provisions and strict adherence to Islamic rules of commercial contract e,g

i. Parties have legal capacity and are mentally fit
ii. There is insurable interest
iii. Principle of indemnity prevails
iv. Payment of premium.
v. Mutual consent
vi. Specific time period of policy.

*Appointment of **Sharī‘ah Advisory Council** or Committee to oversee the development and Islamic auditing of *Takāful* operation.

Generally speaking, while there are limitations set by the provision of *Sharī ‘ah* for the purpose of purifying insurance transactions, the scope of Islamic insurance is wide and flexible so as to ensure a smooth life in the society. After all, Muslims are enjoined in the holy Qur’an to ask for happiness and comfort of the two worlds

". . . رَبَّنَا آتِنَا فِي الدُّنْيَا حَسَنَةً وَفِي الآخِرَةِ حَسَنَةً وَقِنَا عَذَابَ النَّارِ"

… Our lord, give us happiness in this world and happiness in the hereafter and save us from the torment of the fire (Q2:201)

2.4 Theoretical framework

The theory upon which insurance predictions and calculations have been based is the theory of probability. (Siddiqi, 1985:15). The theory is a branch of Mathematics concerned with determining the likelihood that a given event will occur. This likelihood is determined by dividing the number of selected events by a number of total events possible.

Probability theory was originally inspired by gambling problems encountered by the seventeenth century gamblers. In 1654, a gambler known as Chevalier de Méré invented an approach for gambling that he was convinced would make money. He decided to bet that he could roll at least one twelve in twenty four rolls of two dice.

However when it was apparent he was losing money, he asked his Mathematician friend Blaise Pascal (1623-1662) to analyse his gambling system. Pascal discovered that his friends approach would continue to lose about 51% of the time. Pascal therefore became so interested in probability that he began to study more problems in this field. He also discussed them with another famous Mathematician Pierre de Fermat (1601-1665) and together they laid the foundation of probability theory. Probability theory today has a much broader range of applications than just in gambling and is not just taught in Mathematics but can be seen in practical fields such as insurance. It is applied in everyday life in risk assessment (www.scienceclarified.com).

The theory simply states that although one cannot predict the chances of the actual occurrence of one particular result of an experiment out of a number of results on the basis of just one experiment, the relative chances of that particular arising can be determined from a large number of experiments (Siddiqi, 1985:18).

In his discussion of the nature of Insurance, Siddiqi (1985:19) applied the principle of probability to the insurance field thus:

> Suppose a particular shop in a market on occasion catches fire. Some of the causes of fire are known to us. There may be some other causes not yet fully within the scope of our knowledge. Our knowledge is especially defective as to why these causes sometimes coincide that they result in the outbreak of fire. There are a large number of such markets in each one of which such accidents do occur. This has been happening for a very long time. If the average of incidences of fire is calculated from the record of fires in a large number of markets covering an extensive period, it is possible to calculate the number of shops catching fire out of say a hundred thousand in a year.

The reliability of this number can be tested by the actual experience of the next few years, provided that no extraordinary security and preventive measures were taken against such accidents. The gap between the probable and the actual numbers of these accidents can also be thus determined. In the light of continued experience, one can also ascertain the extent of the widening or narrowing of this gap between the probable and the actual. Inferences drawn from all these computation can be used to work out compensatory formulae for the financial implications of these accidents. As the security and other conditions continue to change with time, appropriate revision of the calculations and the formulae will be needed. Chances of error will remain, of course, and allowances will have to be made for them. (Siddiqi, 1985:19)

Giving another instance on the operations of life insurance, Siddiqi (1985:20) writes:

> The moment of any individual's death is uncertain. Will a person who has entered the twenty-first year of his life go to enter his twenty-second? This question cannot be answered with absolute certainty. But the number of individuals out of, say, a hundred thousand similar people, who will survive after twenty-one can be worked out with near certainty. The basis of this is the long experience of the past. The probable numbers of people dying at the age of twenty-one, as well as the chances of error in the computation of this probability, have been calculated from the study of the record of a very large number of people. These calculations moreover continue to be revised in the light of subsequent experience.

He however noted that the calculations refer to will only have greater reliability if they relate to persons living in similar climatic and hygienic conditions and having similar health and food habits.

In the Marine industry, let us assume that the average of shipwrecks is one per thousand per year and that the average price of a ship is a hundred thousand pounds. All the shipping Companies can together pool the price of one ship by contributing a hundred pounds annually and agree to give such pooled money to the company that suffers shipwreck. This risk sharing, which may be burdensome to a single individual from his own efforts, provides security to all the companies against the possible loss of a hundred thousand pounds in the event of a shipwreck. It also has far-reaching economic and social consequences (Siddiqi (1985:20).

There is no doubt that the theory of probability has been useful to insurance (including *Takāful*) in the measurement of the chances of error which finally makes the computations and formulations more valuable, reliable and fruitful. It is these actuarial calculations that make it easy for individuals in groups to cope with financial burdens posed by the measurable risks and paved way for the payment of small sums of money as premium which eventually entitles the payee to indemnity (Mehr and Emerson, 1972:43).

Conclusion

This chapter reviewed the related scholarly works on *Takāful*. It examined the evolution of *Takāful* from the Arab practise of *'āqilah* and *diyyah*. It also linked some other Arab practises like *ḥilf*, *al-Qasāmah*, *Istijārah* and *fidyah* to the ideals of *Takāful*. It also discussed the contributions of the Prophet (SAW) and his companions to *'āqilah*. The development of *Takāful* over the centuries and legal contributions of scholars were also examined. The opinions of scholars on Insurance practise were reviewed and the permissibility of *Takāful* was established. It is the opinion of this work that while commercial (conventional) insurance contains elements like *Ribā*, *Gharrār* and *maysīr* which are offensive to *Sharī'ah*, *Takāful* is free from these anti-*Sharī'ah* elements and it is therefore permissible for Muslims.

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CHAPTER THREE
CONVENTIONAL INSURANCE: ORIGIN, NATURE AND PRACTICE IN NIGERIA.

3.1 Introduction

Misfortune is a thing detested by humanity but it happens every day. It is common to see people's property stolen, or burnt by undesired fire incidence. Accident victims are seen everyday and we witness all sorts of losses incurred by man on daily basis.

In all cases of changes in fortune, man had gotten a way of reacting to them or a way of seeking protection against them. All cultures and civilizations derived methods and legal means to secure parts of their possessions and transactions against loss or to minimize the impact of loss once it happened. People throughout the world and throughout history have developed different organisations and structures to take care of misfortune in life. The Roman Colleges and the Anglo Saxon guilds were examples of ancient institutions notable for wealth and adversity protection (Vardit, 1985:14). The "Ajo" or "Esusu" system represent an early form of insurance among the South-Western Nigerians, and is still very much around with them today. So the philosophy behind the idea of all insurance contracts is as old as human civilization (Akhigbe & Lawrence, 1990:12)

To cope with loss, people have sometimes resorted to emergency measures such as child labour, malnutrition and reducing children's education and family healthcare. Also the fear of losses can mean sacrificing new technologies and profitable business opportunities (Patel, 2002:9)

However, with the emergence of modern complex societies, there was the need for a coordinated system of risk management and compensation. Insurance has emerged as a response to this need. It has been recognized as the most appropriate means for protection against highly unpredictable events.

Insurance protects against unexpected losses by pooling the resources of the many to compensate for the losses of the few. The more uncertain an event, the more insurance becomes the most economical form of its protection.

It is based on the discovery of a useful social scientific principle, according to which, after a small investment, individuals can be freed from incurring financial losses as a result of perils and accidents, whose incidence can be measured fairly accurately in relation to large human groups (Patel, 2002:11).

This chapter discusses the orgin and development of conventional insurance with the view to linking the various branches of insurance business together. The chapter also looks at the nature of insurance transaction and insurance practice in Nigeria.

3.2 Origin and Development of conventional insurance practice.

The need to protect humanity against risks and changes in fortune is as old as civilization. Since ancient times, communities have pooled some of their resources to help individuals who suffer loss. About 3,500 years ago, Moses instructed the nation of Israel to contribute a portion of their produce periodically for "the alien resident and the fatherless boy and the widow" (Awake! February, 2001)

It may not be an easy task to determine when insurance was first practiced. One of the reasons for this difficulty arises from the terminology. Neither the term insurance nor any of its local variations was used until the thirteenth or fourteenth century.The other reason for the difficulty is that insurance in its earliest stage was so closely connected to loan contracts that it is hard to distinguish between the two transactions (Vardit, 1985:14)

However, many sources considered marine insurance as the earliest class of insurance as a business. It was linked with the bottomry loan which was initiated in Babylonia in the third millennium B. C. The bottomry loan was a maritime contract by which the owner of a ship borrowed money for a definite time in order to repair or equip his vessel, pledging the ship as security for the loan (Vardit, 1985:15). The bottomry loan had a significant impact most especially on large commercial journeys which required the services of a travelling merchant. If the journey yielded profits, the merchant received his share after repaying the loan with interest. If, however, the journey did not yield profits, the merchant had to repay the loan with his own goods or even indenture himself or a member of his family (Vardit, 1985:15)

However, the Hammurabi code, earlier mentioned, introduced an element of insurance into the bottomry contract when it offered that if no negligence was proved against the travelling merchant and the goods were destroyed, the merchant was free from debt (principal and interest). But since many ships returned safely, the interest paid by numerous ship-owners covered the risk to the lenders (Vardit, 1985:16)

Bottomry was also practiced by the Hindus as far back as 600 B.C and was well understood in ancient Greece as early as the 4th century B. C. In the case of bottomry among the Indians, the interest was dependent on the risk and the length of the journey and seemed to function much more like the modern premium. Like the premium it was also collected prior to the journey. The borrower was free of debt even if the goods were damaged in shipment, not only in the case of total loss (Encyclopaedia Britannica, vol. 21 p.753)

In Greece the bottomry loan was called *respondentia.* It was deposited in a bank and the security was at least twice the sum advanced. The interest was 10-12% for an outward voyage and 22% for a round trip. The risks which were covered by this arrangement were total or partial loss of ship and cargo, and ransom (Vardit, 1985:19)

The Romans inherited the bottomry from the Greeks and the first bottomry contract appeared in the Greek colonies Cunae and Sicily in 700 B.C. The contract was slightly modified limiting the cases of loss for the lender while still completely exempting the borrower from any liability. The first recorded case of a government being involved in insurance was in 215 B.C when the Roman government insured for a premium, the safe arrival of supplies shipped by a private company (Trenerry, 1926:198)

Another facet in the development of marine insurance was the sea loan which was very common in medieval Europe. It seems to be a more elaborate form of the bottomry loan and a later development of it. The Byzantines were well acquainted with the sea loan and the Italians must have learnt the practice of the sea loan from the Byzantines due to the trade affinity between them (Vardit, 1985:17). The sea loan was a combination of a loan contract and an insurance contract. A merchant who needed cash to buy goods for a commercial voyage, used to borrow money at interest from a lender. The lender did not share in the profits of the venture. His income was limited to the amount advanced to him by the borrower (usually the interest, serving as the equivalent of the premium) and the amount due upon safe arrival of the ship. If the ship did not return, the advanced amount i.e. the equivalent of a premium, was all the money the lender would receive and the borrower or his heirs were free from debt. If the ship returned; the lender would receive his entire loan back. Repayment of the loan was due only 15-30 days after safe return to the original port, thus giving the borrowing merchant enough time to sell his goods and then repay the loan. In some instances the collateral given for repayment of the loan was real estate, in some cases friends and relatives of the borrower were his surety. By the end of the thirteenth century, the credit of the merchant, his stock and goods could also be used as surety (Trenerry, 1926:199) Interest rate for sea loans varied. For instance, the rate to Syria was 50% to Sicily 25-30%, to North Africa 20-30% e.t.c.The amount mentioned, sometimes, in the contract was larger than the loan amount, the difference constituting the interest. The church, then, did not consider the premium as interest but as a compensation for risk and therefore did not forbid it (Vardit, 1985:17)

By the twelfth century, three types of sea loans were in practice:

(i) The real sea loan described above.

(ii) The "Pignus"- a contract which lent money to a merchant who did not engage in sea trade. The borrower pledged his goods, the value of which had to cover at least the loan and the interest.

(iii) An unusual loan that is not real sea loan but a disguise for a loan at interest

In the middle of the thirteenth century, the use of sea loan became insignificant as Pope Gregory IX declared it to be a usurious loan (Hoover, 1926:511). It could therefore be claimed that early forms of modern marine insurance had existed in the Italian city states of Genoa and Palermo as far as the thirteenth century (Encyclopaedia Britannica, Vol. 21 p.743)

However, in the fourteenth century, the first insurance contracts were drawn, involving a specific amount or a specific percentage paid by the borrower to the lender. This was probably the premium in its nascent stage. There was a complete liability of the lender but still no involvement of a third party. Genoa was the center for such contracts and from there it spread to other Italian cities. The Italian term for insurance in the fourteenth century was *siguare* (Trennerry, 1926:9). According to contemporary sources, by 1500 marine insurance was available in France, Spain, Flanders and England, having already flourished in the Italian cities (Beatle, 2008:2)

It must however be mentioned that premiums in the fourteenth century were higher than they are today and varied according to distance, the time of year, the political situation, pirate activity, type of vessel and so on. Many merchants could not afford the price of insurance and had to ship their goods uninsured (Vardit, 1985:20)

In the fifteenth century, marine insurance became highly developed, more stable and secured. The travelling merchants gave way to the sedentary one. The brokers looked up to the local merchants as future insurers. This distributed the risk among many people, according to the spirit of mutual insurance (Vardit, 1985:20)

In the sixteenth century, insurance forms were printed for the first time (Vardit, 1985:21). In the seventeenth century, insurance was either self or mutual. Merchants would own a small share in each of many ships or share each other's losses pro rata (Vardit, 1985:21)

Insurance companies on a grand scale started only in eighteenth century. England was then a force to be reckoned with in the development of insurance. England was also responsible for carrying out insurance and managing it in America until the American Revolution of 1776 (Encyclopaedia Britannica, Vol. 21 p.743)

The first corporate marine insurers in Europe as distinct from the individual marine underwriters were the Royal Exchange Assurance and the London Assurance Corporations, both established in London in 1720. From 1720 to 1824, no other English Corporate bodies were permitted to write marine insurance. This embargo fostered the growth in London of individual underwriters who by 1712 had adopted the name of Lloyds as a business address from the Coffee house of Edward Lloyd (Beattle, 2008:2)

No discussion of the early development of insurance in Europe would be complete without reference to Lloyds of London, the International Insurance Market. It began in the 17th century as a coffee house patronized by merchants bankers and insurance underwriters, and gradually became recognized as the most likely place to find underwriters for marine insurance. Edward Lloyd supplied his customers with shipping information gathered from the docks and other sources; this eventually grew into the publication *Lloyd's list* still in existence. Lloyds was recognized in 1769 as a formal group of underwriters accepting marine risks. With the growth of British sea power, Lloyds became the dominant insurer of marine risks to which were later added fire and other property risks. Today Lloyds is a major reinsurer as well as primary insurer but it does not itself transact insurance business, this is done by the member underwriters who accept insurance on their own account and bear the full risk in competition with each other (Awake! February, 2001)

3.2.1 Fire insurance

Fire insurance, although predated by marine business, was the first to achieve corporate status. Municipal or state-funded fire insurance originated in Germany in 1623, with the establishment of *the Great Werder Fire Fund* in Prussia. But the first fire insurance companies were established in England. Around 1681, the *Fire office* was established in London by Dr. Nicholas Bourbon. It was followed by the *friendly society* in 1683 and the *Hand-in-Hand fire and life insurance society* in 1720 (Beattle, 2008:2)

All the early British fire insurance companies initially restricted their business to London and to buildings (only) and had to extend to include contents (of the buildings) around 1708 and to accept business outside London from 1710. Some companies, such as the *phoenix fire office*, were also exploiting business overseas before the end of the century, but most had to wait until the mid-nineteenth century when the opportunity arose to expand overseas and establish agencies in the British Colonies (AVIVA Plc website, retrieved March, 23 2009)

In the new world, the development of towns and cities and appearance of European companies led to the establishment of local insurance companies such as *the New Zealand insurance company*, the first underwriting company in New Zealand (AVIVA Plc website, retrieved March, 23 2009)

3.2.2 Life insurance

It could be claimed that the Romans had life insurance in the second or third century C.E. Mutual life insurance was provided in Rome through Civilian societies, which collected monthly membership dues and provided burial benefits (Trenerry, 1926:10). Added to these, were Veteran societies which were designed to serve discharged soldiers who, at age 46 could not join the civilian societies. There were also the military societies which among other things provided compensation for the untimely death of a soldier (Vardit, 1985:20)

The civilian societies were guided by a religious motive, since honouring the divinity required a proper burial. The societies provided a form of life insurance as well as form of endowment life insurance to those members who lived to the end of the term (Trenerry, 1926:20)

The Romans also had non-mutual life insurance. Two tables of annuities existed; one was prepared by Macer and the other by Ulpian. Ulpian's table of annuities was in use in Northern Italy until the end of the eighteenth century (Trenerry, 1926:20)

It has been argued that the signing of the first marine insurance contract in Italy in 1347 C.E marked the beginning of life insurance also, since the ship was insured for its content which of course included the people on board (Vardit, 1985:23)

Among the *Geniza* documents, a kind of life insurance or endowment insurance can be traced. A man gave money to a merchant to trade with and demanded that capital plus profits be given to his two daughters when they reached maturity. In this instance, the term was fixed, the beneficiaries known, as well the single premium which was handed to the travelling merchant. This could be termed a variation of life insurance (Trenerry, 1926: 20)

In the beginning of the fifteenth century, the governor of Catalonia (an autonomous region in northeastern Spain) issued a life insurance programme to insure slave owners against the desertion of their "property" (Smith, 1941:57)

Since ancient times, merchants insured their own lives against captivity by pirates. The policy value was dictated by the rate of ransom. It was only later that natural death at sea was insured as well. The life of a pope or ruler was sometimes insured (Smith, 1941: 58)

However, around the year 1575 C.E, there was a strong movement against life insurance in the Catholic countries and it was forbidden in the Low Countries (Trenerry, 1926:277). Life insurance contracts were also prohibited in countries like Netherlands and France until much later and in North America, the earliest efforts of the insurance company of North America to write life policies in a commercial manner primarily for the sailors, who took the risk of capture by marine marauders, was not successful because life insurance was looked upon as something undesirable (Mehr and Emerson, 1972:754)

The earliest attempt at life insurance in the United Kingdom dated back to 1588. But life insurance as a corporate business did not develop until 1699 C.E with the establishment in England of the *society of Assurance for widows and orphans*, followed a year later by the second *society of Assurance for widows and orphans* (Vardit, 1985:24). This was a mutual society where each member contributed the equivalent of $1.20 a week and the face value of the policy at a member's death was $2400. Like modern life insurance policy, the society screened those insured according to age and state of health, and excluded the risk of war from the risks covered. A period of grace for the payment of premiums was granted. In 1706, *the amicable society* was also formed as a life insurance society (Mehr and Emerson, 1972:750)

It must however be pointed out that these early societies insured a limited number of people, charging the same premium for each member and fixing them within a narrow age range, typically between age 12 and 45.

Having been turned down because his age fell outside this range, James Dodson a Mathematics teacher who was then 46, developed a scientific selection rating that based premiums on age and life expectation or mortality rate (how many people of given age die during a year) and compound interest (Lawrence and Akhigbe, 1990:18). This led to the foundation of the *society for Equitable Assurances on lives and survivorships*, to operate the new scheme which allowed all types of lives to be insured (Lawrence and Akhigbe, 1990:18). Although Dodson died before operations started, the idea of the scheme was that each entrant paid an annual premium for life based on age at entry, and for a particular sum insured. Within twenty years, the company had a surplus and gave a bonus to its policy holders to be added to the sum insured. This was the first 'reversionary' bonus (AVIVA Plc website, retrieved March, 23 2009).

In these early days of life insurance contracts, there was little difference between insurance and gambling. For example it is estimated that 30 to 50 per cent of lives in the United Kingdom were assured by a third party either as business indemnities, partners protecting their interests or as a speculation and purposely with the hope of making profit.This form of betting on lives was outlawed via the passing of the Life Assurance Act 1774 which made it mandatory that anyone insuring the life of another person had to prove that they had a legally recognized interest in the life or death of the person insured. The provisions of the Act thereby restricted life insurance to those insuring their own lives or the lives of those owing them money (AVIVA Plc website, retrieved March, 23 2009).

Throughout the early development of life insurance, burial societies continued to grow. More and more people moved into the town and away from the possible supports of their families and there was a need for protection in sickness and old age. Life insurance through out that period involved the payment of annual premiums or lump sums which were impossible for the working man, who was paid daily or weekly, to find. Furthermore, the sum insured were too high for an ordinary worker. So by mid-nineteenth century, the percentage of those with life insurance was still relatively small and majority of them came from the landed, professional and commercial classes (Lawrence and Akhigbe, 1990:19).

The first company to enter this vast untapped market was the *Prudential Assurance Company* established by *the Provident Clerks' Mutual Benefit Association* in 1848 to organize group life assurance scheme in the United Kingdom (AVIVA Plc website, retrieved March, 23 2009). The coming on board of this organisation opened up the market, allowing companies to pay the premiums for providing life assurance to their employees as a benefit of employment. The organisation also sent their agents to the homes of the workers to sell them life insurance and to call weekly to collect the premiums. This was the beginning of the business of Industrial life insurance, known presently as Home Service Insurance (Lawrence and Akhigbe, 1990:19).

By 1852, Industrial policies were introduced by the *Family Friend Society* that provided life cover in exchange for small weekly payments and life insurance became accessible to all (Lawrence and Akhigbe, 1990:19). Today there are many insurance companies and collecting friendly societies engaged in this business. Between them there are a large number of employees, who are not only able to transact industrial life insurance but also sell most of the ordinary life, household and business insurances needed by householders and small businessmen. Acts of parliament have been passed and amended right from 1923 to protect buyers of insurance in this category (AVIVA Plc website, retrieved March, 23 2009).

3.2.3 Pensions and annuities

Concerning pension and annuities, the 1706 charter of the *Amicable Society* permitted the company to grant annuities, though it may be said that annuities were not used as it is used today. By the first quarter of the 18th century, annuity societies such as *Beech Oil* Annuities and the *Brotherly Society of Annuitants* operated schemes intended to allow provision of an income for dependants (AVIVA Plc website, retrieved March, 23 2009). The schemes were particularly recommended to those whose income was purely based on their profession rather than on an estate or business which could be passed on through inheritance.

Annuities were used, in the early stage of its development, as a form of pension provisions as we understand it today. Occupational pension schemes surfaced by the 1880s when the Norwich Fire Insurance Society instituted a superannuation scheme for its own staff. But the schemes were not popular until the 1920s and 1930s (AVIVA Plc website, retrieved March, 23 2009).

3.2.4 Accident insurance

Accident insurance is recognized as the youngest branch of insurance and certainly the most diversified in the sense that it includes all sorts of unrelated kinds of insurance. It is also opined that the term accident insurance is used to describe all types of commercial insurance other than marine, aviation, fire and life (Trenerry, 1926:268).

Among the earliest accident insurance were those established to insure against damage caused by hailstorms (a storm with downpour of hail), a form of insurance pioneered by the *Mecklenburg Hall Insurance Association*, established in Germany in 1779. This form of insurance began in France in 1822 and came into the United Kingdom in the 1840s with the establishment of the *Farmers' and Gardeners' Hailstorm Insurance Company* in 1842 (Trenerry, 1926:268).

3.2.5 Livestock insurance

The protection of farmers from loss caused by disease to their animal, originated from North Germany in the 1720s. It existed in Denmark by 1774 and was only successfully introduced in Britain in the mid-nineteenth century with the establishment of firms such a *the Farmers' and Graziers' Cattle Insurance Company* in 1844 and the *Norfolk Farmers' Cattle Insurance Society* in 1849 (AVIVA Plc website, retrieved March, 23 2009).

3.2.6 The plate glass insurance

This type of insurance was particularly intended to protect shopkeepers from the high expense of repairing large shop windows. It originated in France in 1829 with the establishment of *la-parisienne*. Its development in the United Kingdom was inhibited by the window tax levied until 1851. The first United Kingdom plate glass insurer, the *Plate Glass Universal Insurance Company* was established in 1852 (AVIVA Plc website, retrieved March, 23 2009).

3.2.7 Fidelity insurance was the earliest form of accident insurance successfully offered by corporate bodies in the United Kingdom. It was instituted in 1840 by the Guarantee Society, which was established to protect employers from fraud or embezzlement by staff. The society appears to precede the foundation of fidelity insurers elsewhere in Europe (Trenerry, 1926:268).

3.2.8 Personal accident insurance

The insurance against death or injury caused by accidents, known as personal accident insurance, developed during the railway age and originated in England with the establishment of *the Universal Railway Casualty Compensation Company* in 1848. It was followed a year later by the *first Accidental Death Insurance Company*, which insured against death and injury caused by accidents of all kinds not limiting itself to those caused by travel. The idea was taken to the United States by James G Batterson who established the *Travellers* in 1863. He got the idea after buying a Railway passengers journey ticket in 1859. Three years later, personal accident insurance was introduced into Australia and France (AVIVA Plc website, retrieved March, 23 2009).

3.2.9 Burglary insurance

It originated at Lloyds in London in1887. The first Company to issue policies was the *Mercantile Accident and Guarantee of Glasgow* in 1889 (AVIVA Plc website, retrieved March, 23 2009).

3.2.10 Steam boilers insurance

Steam boilers insurance or more accurately put the insurance of their owners against loss of life or damage caused by boiler explosions was another popular class of accident insurance. It appears to have originated in the United Kingdom, which in the 1850s, contained the largest concentration of steam boilers in the world. The Steam Boiler Assurance Company, established in 1858, pioneered this class of insurance, followed by the Midland Steam Boiler Inspection and Assurance Company in1862 (AVIVA Plc website, retrieved March, 23 2009).

3.2.11 Employers' liability insurance

This could also be said to have originated in the United Kingdom in 1880 was a response to the Employers Liability Act. The Employers Liability Assurance Corporation was established to insure employers against losses caused by claims from employees injured at work. The Company introduced this form of insurance to America six years later (Lawrence and Akhigbe, 1990:20).

3.2.12 Motor Insurance

The fastest growing sector of accident insurance in the 20th century was **motor insurance**. It was introduced in the United Kingdom in 1896. Both the *Scottish Employers' Liability and Accident Assurance Company*, and *the General Accident Fire and Life Assurance Corporation*, were claimed to be forerunners in this field, although evidence of policies issued are not readily available(AVIVA Plc website, retrieved March, 23 2009). Early motor policies were based on those previously used for horse-drawn vehicles. But the first motor insurance based on variable premiums depending on the horsepower, age and type of vehicle was introduced in 1906 by the *Red Cross Indemnity Assurance Company* (Encyclopaedia Britannica Vol. 21 p.743).

As earlier mentioned that Accident insurance engulfs all sorts of unrelated ranges of insurance policies, in the insurance world today, all forms of risks insurance and different forms of liability and contingency insurances including such strange insurances as weather insurance and twin-birth insurance, are available.Today because of the great expansion in the world trade and the extent to which business firms make investment outside their home country, the market for insurance on a worldwide scale has expanded rapidly and it is a major contributor to world economy (Rejda, 1982:32)

3.3 Nature of insurance transaction.

One of the methods adopted in the modern time for the organisation of economy and finance is insurance. It has a key role in present industrial development as well as in large scale organisation of commerce, industry and agriculture. The insurance contract is legally seen as

> A contract whereby a person called the insurer or assurer, agrees in consideration of money paid to him, called the premium, by another person, called the insured or assured; to indemnify the latter against loss resulting to him on the happening of certain events. The policy is the document in which is contained the terms of the contract (Isimoya, 1999:3)

From this and earlier discussions, certain deductions could be made which form essential characteristics of insurance practice. They include;

i. There must be pooling of losses, so that in the process, average loss is substituted for actual loss.

ii. The compensation must cover an unforeseen loss.

iii. The risk is transferred from the insured to the insurer who is in a better financial situation to bear the loss.

iv. The victim of the loss (the insured) is compensated for the loss.

v. For the insured to be entitled to the compensation, he must also fulfil his obligation of paying the premium.

vi. The risk must be insurable and certain requirements have to be fulfilled before it qualifies as one

Basically the object of insurance is the management of risk and elimination of its adverse effects. Isimoya (1999:4) puts it this way:

> Uncertainty surrounds everything we do in life. For example as students we do not know if we will pass our examination. As a potential job seeker, one does not know if one will be successful in an interview or that one would gain promotion after employment. In business, uncertainty also abounds. The businessman is not certain if he invests in new machinery i.e. whether his output will increase as expected. Will his employees co-operate to work with the machinery such as the computer?. Will the new intended bonus scheme for employees motivate them to work harder?. Will the store room get destroyed by fire? Or will thieves plunder the warehouse?

In insurance, risks have been categorized into the following classes;

- Fundamental risks
- Peculiar risks
- Speculative risks
- Pure risks (Lawrence and Akhigbe, 1990:6)

Fundamental risks affect the society as a whole. They are impersonal in origin and consequence. They are fundamental because they arise out of the nature of the society we live in e.g. earthquake, windstorm, floods and war e.t.c

Peculiar risks have their origin and consequence from the individual's decision and actions. The causes and effects are personal e.g. decision to own a car, to own a house e.t.c have their associated risks. Example of peculiar risks include; theft of one's property, accidental damage of one's car, fire in a factory e.t.c.

Speculative risks are those which offer the possibility of either gain or loss. Examples include; buying of stocks and shares in a stock exchange, launching of a new product, exporting and importing of goods e.t.c.

Pure risks have the possibility of a loss only for instance, fire occurrence in a factory produces only a loss. Examples are shipwreck, motor accident e.t.c (Isimoya, 1999:7).

However, risks are either insurable or uninsurable. From the standpoint of the insurer, risks are insurable if they meet the following requirements:

i. The objects to be insured must be numerous enough and homogenous enough to allow a reasonably close calculation of the probable frequency and severity of losses.

ii. The insured objects must not be subject to simultaneous destruction. For example, if all the building to be insured are in an area subject to flood, and a flood occurs, the loss may be catastrophic to the insurance underwriter.

iii. The possible loss must be accidental in nature and beyond the control of the insured. If the insured could cause the loss, the element of randomness and predictability would be destroyed.

iv. There must be some ways to determine whether a loss has occurred and how great that loss is. This is why insurance contracts specify very definitely, what event must take place, what constitutes loss and how it is to be measured (Isimoya, 1999:9).

v. It must not lead to profit because the purpose of insurance is to put an individual back, as nearly as possible, in the same financial position he was immediately before he suffered the loss (Isimoya, 1999:9)

Insurable risks include, losses to property resulting from fire, explosion, windstorm, losses of life or health; and the legal liability arising out of use of automobiles, Occupancy of buildings, employment or manufacture.

Uninsurable risks include losses resulting from price changes and competitive conditions in the market (all speculative risks are not insurable). Political risks such as war or currency debasement are usually not insurable by private parties but may be insurable by governmental institutions (Lawrence and Akhigbe, 1990:6). Very often contracts can be drawn in such a way that 'uninsurable' risk can be turned into an "insurable" one through restrictions on losses, redefinitions of perils or other methods. But essentially insurance is concerned with measurable pure risks (Isimoya, 1999:11).

However, the contract of insurance works on some basic principles which need explanation. The principles are discussed here as follows:

(i) Insurable Interest:

Isimoya (1999:65) defined insurable interest literarily thus:

> Financial involvement which is capable of being insured. It is the legal right to insure arising out of a financial relationship recognized at law between the insured and the subject matter of insurance.

Simply put, insurable interest means that the person going into insurance contract with the insurer stands a loss if the subject matter of insurance (SMI) is physically damaged or destroyed. For instance A is a friend to B, if B cannot insure his car comprehensively due to lack of funds, and A chooses to insure generously for him, in insurance jargon, A does not have an insurable interest in that car. If on the other hands, B's car is out of use and B takes it to C (a mechanic) for repairs, and while in C's custody, C decides to insure it, in insurance understanding, C has insurable interest.

There are some legal requirements of insurable interest. They include;

(a) Legal relationship with the subject matter of insurance: This implies that, he must be the owner of the object or part owner.

(b) Financial loss: This stipulates that the insured must lose financially if the object is destroyed or damaged by the insured event.

(c) Extent of insurable interest: An insured cannot insure the SMI more than the amount of his financial interest.

(d) The subject matter insurance (SMI): There must be some property, rights, interest, life potential liability etc. which must constitute the subject matter of insurance; and are capable of being insured.

(e) Recognition by law: The relationship between the subject matter of insurance and the insured must be recognized by the law of the land (Isimoya, 1999:68).

Added to the above, it must also be said that there are various interest of insurance in the different classes of insurance; for example, insurable interest in the life of a person has no limit and one can insure it for any amount he wishes (subject to being medically fit) provided he can afford the premium (Isimoya, 1999:69).

Concerning other people, husband and wife both have a mutual unlimited insurable interest in the life of each other. Creditors have insurable interest in the lives of their debtors because a creditor loses his money if his debtor dies. The insurable interest of the creditor is up to the tune of the amount owed him. Business partners can insure one another. This is because; the business unit survivor would suffer a financial loss if one partner dies. In terms of properties, insurable interest can be established on the basis of the following, ownership, agents, trusteeship, bailees and mortgagor. All these have financial losses to record if the property in their possession is damaged, stolen or lost (Isimoya, 1999:70).

(ii) Utmost good faith:

This means that each party to a proposed insurance contract is legally bound to reveal all the necessary information which would influence the other's decision to enter the contract whether such information is asked or not. This implies that each contracting party must tell the truth, the whole truth and nothing but the truth about the proposed contract (Lawrence and Akhigbe, 1990:43). For instance if A buys a second hand car, and he discovered after purchase that the engine has been changed (modified) as compared to the type in that model of car, he is bound to reveal this to the insurers when he decides to insure his car comprehensively. Such a question about engine modification may not be available on the proposal form. The insurer also owes it a duty not to with-hold any information which could lead a prospective insured to enter into a less favourable contract e.g. the effects of under insurance (Isimoya, 1999:74).

The principle of utmost good faith makes the contract of insurance different from other business contracts. Whereas all business transactions are expected to be undertaken in good faith, which in effect implies that there should be an absence of fraud or fraudulent intent, the seller in a commercial contract is not under any obligation to point out the defects in the goods he is selling but if he makes a statement or answers questions, he must give truthful answers.The principle guiding all commercial contract is *caveat emptor* (buyers beware). Using our earlier example of a second hand car, in such a transaction, the seller must not deceive the buyer or misrepresent the car, but he is not obliged to reveal all the defects of the car e.g. that the engine has been changed or modified. It is the duty of the buyer to examine well and satisfy himself of the conditions of the car before paying for it (Isimoya, 1999:75).

In insurance contracts, the opposite is the case. Insurance contracts are governed by the principle of *Uberima fides* (utmost good faith). Insurance is based on mutual trust and confidence. The reasoning is that more usually than not only one person-in most cases the one proposing the business-knows all the facts relating to the proposed risk. It is therefore expected that such person has a duty to divulge all information relating thereto (including defects) even if such questions are not specifically asked by the other party (Lawrence and Akhigbe, 1990:43).

The information required by the insurer at the point of disclosure is known as **Material fact.** A material fact is defined as a fact that would influence the mind of a prudent underwriter to assessing a risk. The marine insurance Act 1906 states that ‘every circumstance is material which would influence the judgement of a prudent insurer in fixing a premium or determining whether he will take the risk’’ (Isimoya, 1999:74).

The duty of disclosure is in force throughout negotiation till when the contract is effected. At renewal of the policy, the duty on the insured to disclose all material facts is revived again, as renewal is assumed to be a fresh contract. An agent (broker, who represent an insured) is bound to disclose all material facts which he knows or ought to know about the risk both at negotiation or renewal (Isimoya, 1999:76).

Utmost good faith is considered breached when any of these happens,

(a) Non-disclosure.

(b) Innocent misrepresentation.

(c) Fraudulent misrepresentation.

(d) Concealment (Isimoya, 1999:77).

Any breach of utmost good faith gives the aggrieved party the automatic right to avoid the contract; but where he fails to avoid it, the following are options open to him:

(a) **Consider the contract void**

This is the first option, to avoid the contract *ab initio* or repudiate liability when claim arises. In most cases it is the insurer that is aggrieved. He will only write to notify the insured that he is coming off risk on the strength of breach of utmost good faith.

(b) **Sue for damage**

In case of fraudulent misrepresentation, the aggrieved party could sue for damages and the offending party is guilty of deceit or tort.

(c) **Waive the breach**

The aggrieved party may decide to overlook the breach thereby literally stating that a breach has never occurred. Waiving can also be interpreted if the party (insurer, most of the time) does not take action within a reasonable time (Isimoya, 1999:77).

(iii) Proximate cause

This is defined as the active, efficient cause that sets in motion a train of events which brings about a result, without the intervention of any force started and working actively from a new and independent source. In other words, claims can only succeed if the loss is proximately (nearest before or after) caused by an insured peril. Proximate cause may not be the most recent cause but the most active and efficient cause (which can be deduced by common sense) that sets in motion a train of events which brings about a result without intervention of another independent source (Isimoya, 1999:81).

For the purpose of clarity, it may be pertinent to state that there are three types of perils and for insurers to be liable, will want to determine the cause of a loss because not all perils are insured.The types of perils are:

(a) **Insured Perils:**

These are perils which are insurable and are therefore insured in an insurance policy. For instance, fire in a fire policy, theft in a theft or burglary policy, accidental death in personal accident policy or death excluding suicide in a life assurance policy.

(b) **Exempted or excluded perils:**

These constitute perils which have been excluded from insurance cover, because they are uninsurable. For example in a personal accident policy, suicide is excluded, fire as a result of earthquake or spontaneous combustion is exempted from a standard fire policy.

(c) **Uninsured perils:**

These are perils which though are insurable, but have not been insured or covered in specific policies. For instance, fire damage in a theft policy (Isimoya, 1999:81).

To understand the principle of proximate cause there may be the need to give some illustrations on sequence of events in determining what a proximate cause is. Isimoya (1999:82) discussed some illustrations under the headings thus.

(a) Unbroken sequence with no exemption (excluded) peril: This can be illustrated with a case of person who had a personal accident policy, who fell from a ladder and the fall brings about heart attack and subsequently killed him. Claim here can be successful because though heart attack is not an accident but it was not specifically excluded in the policy. The non-exclusion could be an omission and therefore it is covered.

(b) Unbroken sequence with exempted (excluded) peril: Let's illustrate with the same personal accident policy in which the policy holder fell from a ladder but this time broke his leg. He was taken to the hospital and in the hospital; he contacted a disease (tuberculosis) and died. Making a claim here will not succeed because sickness is specifically excluded in personal accident policy. Added to that, breaking of leg cannot naturally lead to contacting a disease.

(c) Broken sequence with no excluded peril: Let's illustrate with a fire policy which did not exclude explosion irrespective of source. If fire caused an explosion which eventually caused damage in another building insured, such claim will be paid because though explosion is the proximate cause not fire, explosion is not an exempted peril.

(d) Broken sequence with exempted peril: A person takes a personal accident policy. Accidentally, he falls down and breaks his neck. While recuperating, he contracted a disease and died. The proximate cause of death in this instance is the disease and not the accident and therefore making a claim here will not succeed.

(iv) Concurrent causes with exempted peril: Lets take a fire policy for illustration. Fire happened in a district and there was also riot which caused damage to an insured property. Claim for such a damage cannot succeed because riot or mob action is not an included peril in a fire policy.

(v) Principle of indemnity

This principle states that following a loss, an insurer should provide financial compensation which would restore the insured to the same financial position as he was immediately before the loss (Isimoya, 1999:87).

The basic concept of insurance business (as far as conventional insurance is concerned) is to compensate the unfortunate few for the loss they suffer out of the pool of the insured public. The object of insurance is not to create an opportunity for the insured to make profit out of a misfortune. To create this opportunity is to expect more perils in the society (Isimoya, 1999:87).

It is therefore basic in conventional insurance law that property and liability insurance are subjected to the principle of indemnity i.e. the insured is not allowed to recover more than his pecuniary loss arising from the event insured against. This implies that while an insurer may settle an insured for less than a complete indemnity, he cannot, as a rule, settle him for more. All classes of insurance are subject to indemnity except life. The principle of indemnity is closely linked to insurable interest in some respects. For example, in certain life policies as ones effected for the life of another e.g. creditor insuring a debtor, a business partner insuring the life of another partner, indemnity is only equal to insurable interest i.e. financial interest/ involvement (Isimoya, 1999:87).

It is important to say that the principle of indemnity is central to the operation of insurance and it is responsible for the many disputes and disagreements confronting insurance practitioner on daily basis. It is strongly believed by the insured public that at the point of claim making, insurers would do everything within their powers to pay as little as possible. Insurers by the policy wording, reserve the option of how indemnity will be provided (Isimoya, 1999:89).

According to Mehr and Emerson (1972:48) there are four basic modes of providing indemnity. They are;

(i) **Cash**: Payment made to the policy holder in cash, in reimbursement of the outlays in repairs or to third parties liabilities claim.

(ii) **Replacement**: Replacement can be done where the property is new before loss or it is an article of jewellery where depreciation is negotiable.

(iii) **Repairs**: This is common in motor insurance: where the insurer settles the bill of repair to the garage concern.

(iv) **Reinstatement**: This is often found in fire policy. Insurer may decide to rebuild the loss building.

However, there are some policy positions in insurance practise which can prevent full indemnity. Isimoya (1999:88) discussed them under the following headings:

(a) Sum insured: The maximum liability of an insurer is the sum insured though this amount might not represent full indemnity. This arises where the insured has not updated his policy in time with inflationary trend.

(b) Under insurance: Indemnity requires payment by the insurer of the full value of the loss. This assumes that the insured has declared and is paying the premium in respect of the full value of the insured property. However, where the sum insured is less than the value at risk, if there is a partial loss, such a loss will be subjected to the operation of average. The insured will be made to become a part insurer to himself.

An illustration may be necessary here for our understanding;

> Alhaji Sabo $ Co. had a fire in their shop and they claimed a loss of ₦5,000.00. The adjuster sent by the

insurers was satisfied that the loss claimed was correct but reported that rather than the ₦60,000.00 insurance cover, the worth of goods in stock was ₦80,000.00.

Using the formula for average which is;

$$\frac{\text{Sum insured}}{\text{Value at risk}} \times \frac{\text{Loss}}{1}$$

The loss is therefore adjusted as follows:

$$\frac{₦60{,}000.00}{₦80{,}000.00} \times ₦5{,}000.00$$

₦3,750.00

So, rather than the insurer settling a claim of =N=5,000.00 as demanded by the insured, he pays N3, 750.00. The explanation for this cut in indemnity is that Alhaji Sabo & Co. has paid premium less than what they should pay into the pool. This seems unfair on other insureds who contributed their proper share into the pool. Those who have been under insured must have their claims reduced proportionately (Lawrence and Akhigbe, 1990:47).

(c) Policy Excess: It is a condition imposed by insurance on the insured, so as to make them more cautious in the use and care of their insured property. An excess policy could stipulate that for every claim, the insured will bear the first ₦100.00 or so, of the cost of indemnity. A car insurance with a ₦250.00 excess implies that the insured pays the first ₦250.00 of any claim for damage to his car (Isimoya, 1999:89).

(d) Franchise: Franchise is very similar to the excess policy. In a policy subjected to franchise the insured pays the whole cost of repair, if the loss is less than a certain fixed amount say ₦500.00. Where the cost of repairs is above ₦500.00, the insurer pays for the whole cost including the value of the franchise (Isimoya, 1999:89).

(e) Limit per Article: This is another policy condition in the business of insurance. For instance, where a house owner insures the contents of his house, the policy condition could state that no one article should have an indemnity above say ₦2,000.00. If this is stated in the policy, then all articles valued more than ₦2,000.00 should be insured separately. Otherwise if there is a loss, the insurer will only be liable to the limit as stipulated in the policy (Isimoya, 1999:89).

(f) Deductible: This is a large excess. An insured with a large asset can voluntarily agree to pay part of the loss (total or partial) by undertaking a deductible to save part of the premium. If there is a loss, they will settle for loss than indemnity (Isimoya, 1999:89).

(v) Subrogation

Subrogation literally means standing in place of another. It is the legal right of one person to stand in the name of another and avail himself of all the rights and remedies of the other person, against third parties whether already enforced or not (Isimoya, 1999:96).

Subrogation rights are acquired by the insurer once he has indemnify the insured. This implies that the principle of subrogation is a corollary to the principle of indemnity. The principle simply is that an insured cannot recover his loss from two sources (Lawrence and Akhigbe, 1990:49)

For instance, a motorist (John) who insures his car comprehensively has two sources of compensation if another motorist (James) carelessly drives his car into John's car causing extensive damage. If he decides to make claim under the comprehensive insurance policy, his insurer will after or before paying his claim (depending on the policy condition) be subrogated to his rights of recovery against James, the careless driver. John cannot go ahead to claim damage from James, the insurer (alone) can claim John's car damage from James or his insurer. Subrogation rights can accrue to insurers in four major ways they are; in tort, by contract, by statute and by salvage (Isimoya, 1999:97). However, subrogation rights have been modified or waived by inter-company agreements which prohibit one insurer from exercising subrogation rights against another insurer. Examples of such inter-company agreements are;

(a) Knock for knock agreement: This is where insurers agreed to pay for the cost damage of their policy holders' vehicles in the event of a collision rather than taking subrogation rights against each others' policy holders (Isimoya, 1999:98).

(b) Third party sharing agreement: It is an agreement that if two or more motorists got involved in an accident and third parties are injured or their goods are damaged, the insurers for the motorists will settle their third parties claims on equally shared basis and forget about the issue of blame on the accident (Isimoya, 1999:98).

(c) Employer liability insurance: This is an agreement that in Employee's liability policy, insurers would not subrogate against a negligent employee in the name of his employer for damages caused to other employees as a result of his negligence (Isimoya, 1999:98).

(vi) Contribution

The principle of contribution grants an insurer, the right to call upon other insurers covering the same subject matter of insurance (SMI) to share the cost of indemnity payment. This principle arises where insured has double or multiple insurance in respect of the same loss. It implies that if indemnity has been paid, the insurer has the right to recoup part of his outlays from other insurers later and if not already paid, all the insurers involved will share the loss of indemnity in proportion to the sums insured (Isimoya, 1999:98).

Contribution seeks to ensure that an insured does not, through multiple insurance receive more than full indemnity or make profit from a misfortune. Akhigbe and Lawrence (1990:48) while explaining the principle of contribution gave this illustration:

> Okon was buying a house by means of a federal Mortgage Bank loan.The bank had arranged for him to insure with one company for the value which at time of purchase was N100,000. Recently his broker pointed out to him that as the house was now worth N250,000 he was under insured. He effected a further policy through the brokers for N150, 000 with a different company. Following a serious storm during which the corner of his roof was struck by lightening, Okon claimed the repair cost of N12, 000 from the policy through the mortgage bank. In reply to a question he declared the other policy and was asked to notify them too.

They gave the following as the adjusted payment for the above illustration:

Company A (N100,000.00 policy) will pay;

$$\frac{=N=100,000}{=N=250,000} \times 12,000 \quad =N4,800$$

Company B (N150, 000.00 policy) will pay;

$$\frac{=N=150,000}{=N=250,000} \times 12,000 =N7,200$$

Total=N12,000.00

From this illustration, the two insurers contributed according to the sum insured to pay the total loss claim of N12, 000.00.

In the course of transacting insurance business, certain agents (either individual or corporate bodies) play significant roles in making sure that the transactions go on smoothly. There may be the need to describe their role in the insurance market. Such agents include;

(a) Underwriter:

An underwriter is a person who assesses the risk offered by the intending insured and decides whether to accept or reject it. If he accepts, then he decides on the premium to be charged as well as the other terms to impose (Lawrence and Akhigbe, 1990:93). He can be,

(i) A Lloyd's underwriter who accepts part (or all) of a risk offered and receives that portion of the premium in return for agreeing to meet that share of any loss. He acts on behalf of a ''syndicate'' of individuals, each of whom is fully and personally liable for his own share of any loss. The Lloyd's underwriters are based and operate in the United Kingdom (Lawrence and Akhigbe, 1990:93).

(ii) An underwriter employed by an insurance company as an employee to decide on risk's acceptability, premium terms and conditions (Lawrence and Akhigbe, 1990:94).

(iii) An insurance company itself doing the job of an underwriter (Lawrence and Akhigbe, 1990:94).

(b) Insurance Broker:

An insurance broker is an individual or firm whose full time occupation is the placing of insurance with insurers. A broker is an expert in the field of insurance and so serves as intermediary between a client and an insurance company. The client or the insured can obtain independent advice on a wide range of insurance matters from a broker, often without direct cost to him (Lawrence and Akhigbe, 1990:35).

The broker can advise his clients on insurance needs, best type of cover and its restrictions, best market, claims procedure, obligations placed on the insured by the policy conditions and he also gives update information as time goes, taking into cognizance, the market changes. Brokers provide risk management services where clients are advised on risk identification and minimization in business (Lawrence and Akhigbe, 1990:35).

Brokers are registered and for that to be effected, at least in Nigeria, the broker must possess approved qualification of the Chattered Insurance Institute of Nigeria (CIIN). He must also be accepted by the Insurance Broker's Registration Council.

A broker is remunerated through the commission paid by the insurer (NAICOM website, www.naicomonline.org. Accessed Mar. 3, 2009).

(c) Insurance Agents:

An insurance agent is an individual or firm whose main occupation is in another field but is appointed as agent by an insurance company because their clients may require insurance cover. Insurance agents, therefore, serve as intermediaries between their clients and insurance providers. Examples of such fields where agents could be appointed include; Estate agents, Accountants, Solicitors, building societies, Surveyors, garage proprietors etc. Agents are also remunerated through commissions by the insurer (NAICOM website, www.naicomonline.org. Accessed Mar. 3, 2009).

(d) Loss adjuster:

An adjuster is any person or body (whether corporate or incorporate) who for money or other valuable consideration act for or on behalf of any insurer in adjusting claims arising from insurance contracts or policies issued by any such insurer or in negotiating for or effecting settlement of claims in connection with any such transaction (NAICOM website, www.naicomonline.org. Accessed Mar. 3, 2009).

3.4 Insurance practise in nigeria

The advent of modern Insurance practise in Nigeria dated back to the Colonial era precisely in the early 1920s. As such the earliest Insurance operating companies in Nigeria were agencies and branches of British Insurance Companies and were therefore subjected to the laws regulating Insurance in Britain (NAICOM website, www.naicomonline.org. Accessed Mar. 3, 2009).

The earliest statutory regulation of Insurance in Nigeria was the motor vehicles (third party insurance) Act of 1945 which was modelled after the Road Traffic Act of 1930 in Britain. The act made it compulsory for motorist, the insurance of liability to third parties victims, of a motor accident. The provision of the act therefore made it illegal to have any motor vehicle ply the public highways without insurance policy covering third party legal liability for accidents (Isimoya, 1999:194).

Another major step at regulating the activities of insurance business in Nigeria was through the efforts of J.C Obande commission of 1961 whose report resulted in the establishment of the department of insurance in the Federal Ministry of trade and was later transferred to the ministry of finance. The report also led to the enactment of the Insurance Companies Act of 1961 (Isimoya, 1999:194).

This Act provided a legal framework for a wholesome operation of insurance in Nigeria. It created the office of Registrar of insurance who was responsible for registering insurance companies. It also distinguished the locally based insurance companies from the foreign based and made their paid up capital =N=50,000.00 and =N=100,000.00 respectively. The Act essentially focussed on the activities of direct insurers and made provisions for registration and record keeping (Isimoya, 1999:195).

However, the 1961 act had some weaknesses. For example it did not regulate the management of insurance companies. The registered insurance companies, then, were not in the hands of professionally qualified executives. Added to that, the power invested on the registrar of insurance was found inadequate to effectively check the excesses of insurance companies. (Isimoya, 1999:196).

The insurance (miscellaneous provisions) Act of 1964 which came into operation in 1967 was another intervention in the insurance business in Nigeria. The Act made provisions for the investment of insurance funds. Every insurance companies operating in Nigeria was mandated through the Act to invest at least 40% of its fund (Net premium) in profitable investment in Nigeria. Such investment, according to the Act could be withdrawn to settle claims and replaced within 30days. It also provided that all risks within Nigeria must be underwritten by insurance companies incorporated in Nigeria (Isimoya, 1999:196).

The companies Act of 1968 which incorporated all commercial companies in Nigeria also affected insurance business. All insurance companies, foreign and local, were made to register under this act. This put an end to the dichotomy between Nigerian insurance companies and foreign insurance companies. The nationality of the companies became Nigeria (Isimoya, 1999:196).

Another major regulatory step was taken in 1976 with the insurance Act of 1976 (insurance decree 59 of 1976).The Act replaced the 1961Act and made far reaching provisions. Part of the provisions are that; to register as an insurer, one must recruit professionally qualified personnel for management positions and deposit the sum of =N=250,000.00 with the Central Bank of Nigeria, for life underwriters and =N=150,000.00 for non life underwriters. The Act also specified the conditions for registration of insurance intermediaries and prohibited the unilateral increase in premium rates (NAICOM website, www.naicomonline.org. Accessed Mar. 3, 2009). The decree also touched on conditions for authorization of insurers, mode of operation, amalgamation and transfer, administration, enforcement and penalties.

In 1988 concern was given to life Insurance business and it led to the enactment of

Decree 40 of 1988, which made Provisions among others, for assignment of life insurance Policy and named beneficiaries on life Insurance policy documents(NAICOM website, www.naicomonline.org. Accessed Mar. 3, 2009).

The need to strengthen Insurance supervision in Nigeria gave birth to the Insurance Special Supervisory Fund (ISSF) decree 20 of 1989. The Decree provided that, aside money granted the fund annually, the fund will gather funds from the premium income of every registered insurer or re-insurer, commissions of insurance brokers and fees of loss adjusters (Isimoya, 1999:199). The Minister of finance was empowered by the Decree to determine the percentage of contribution to be paid by these categories of people from time to time, based on the gross premium income of the insurer or reinsurer and on gross commission earnings of brokers and adjusters. The fund is administered by a committee comprising:

(i) The Director of Insurance as Chairman.

(ii) The Director of Finance in the Federal Ministry of Finance and Economic Development.

(iii) Two representatives of the Federal Ministry of Finance and Economic Development.

(iv) A representative of the Accountant General of the Federation.

(v) Two other persons knowledgeable in Insurance administration to be appointed by the Minister.

All payments to the fund are routed through the office of the Director of insurance (Nigerian Insurance Supervision Board) at the Federal Ministry of Finance. The fund account was with the Central Bank of Nigeria.The Decree also provided sanctions for defaulting insurers, reinsurers, brokers or adjusters. The sanctions ranged from revocation of license, arraignment in court and payment of fine up to ₦50, 000.00 (Isimoya, 1999:199).

In 1991 another Decree was promulgated tagged 'Insurance Decree No. 58'. It was promulgated purposely to strengthen the control and supervision of the Insurance industry in Nigeria. It was also to ensure financial stability of insurance operators and to encourage self regulation within the industry. The Decree re-enacted most of the provisions of the Insurance Act 1976 and provided remedies for its shortcomings. Some of the highlights of the Decree included, increased paid-up share capital of insurers and reinsurers in respect of non-life business and life business respectively, management of security fund and the practise of no-premium, no-cover (Isimoya, 1999:197). For instance, the Decree stipulated that companies seeking registration must have a minimum paid up capital of the following amount:

i.	A life business underwriter	₦ 5m
ii.	A non-life business	₦5m
iii.	A reinsurer	₦50m

And the amount must be deposited with the Central Bank of Nigeria. Some other provisions of the Decree are:

Management Staff: The Chief executive of an insurance company must be approved by the Director of Insurance, and all the departmental heads of an insurance company must be professionally qualified men or women with proven experience. Changes of management staff must be communicated to the Director of Insurance.

Insurance Premium: Section 37 of the Decree stipulates that no cover should be granted by an insurance company except the premium is received in advance. The implication of this is that insurance with unpaid premium is illegal and void (NAICOM website, www.naicomonline.org. Accessed Mar. 3, 2009).

Claim Settlement: Settlement of admitted motor accident claim must be within 90 days. If the claim is repudiated, it must be communicated within 90 days of notification of claim (Isimoya, 1999:198).

Financial Administration: The Decree made elaborate provisions on the accounts, auditing and reserve of funds for insurance companies. It prescribes the manner of keeping records regarding assets, claims, funds etc.

Investment: The Decree specified the scope and the level of investment of insurance companies. For instance it stipulates not less than 35% of an insurance company's income to be invested in securities specified under the Trustees Investment Act 1962 (Isimoya, 1999:198).

Life Assurance Claim: It states that once a named beneficiary in a life policy has been able to prove his identity, an insurer needs not insist on the production of letters of administration (Isimoya, 1999:198).

An amendment Decree to the Insurance Special Supervision Decree of 1989 was promulgated in 1992. The Decree was named, Insurance Special Supervision Fund Decree 62 of 1992. Part of the amendment was the establishment of the National Insurance Supervisory Board to control the fund. The Board comprises;

(i) A Chairman.

(ii) The Commissioner for insurance.

(iii) A representative each of:

(a) The Federal Ministry of Finance (not below the rank of Chief finance officer)

(b) The Central Bank of Nigeria.

(c) The Nigerian Insurance Association.

(d) Either the National Insurance Corporation of Nigeria (NICON) or the Nigerian Reinsurance Corporation.

(e) The Nigerian Corporation of Insurance Brokers.

(f) Two other persons knowledgeable in insurance and insurance administration.

The board is to submit at the end of the year to the Minister of Finance.

(a) Annual report of its activities during the financial year, and

(b) Reports on the operations of insurance business in Nigeria

(Isimoya, 1999:200).

With the establishment of the Board, insurance supervision was taken away from the core civil service and the designation director of insurance was changed to commissioner for insurance (*The Nation*. May 13, 2009 p.37).

Another Decree was promulgated in 1997 for the regulation of insurance business in Nigeria. It was titled insurance Decree No 1 and 2 of 1997. The Decree improved on the provisions of Decree No 58 of 1991 in the following areas; increase in paid up share capital for different categories of insurance companies , qualification of chief executive , insurance of government properties and so on. The decree also brought about the National Insurance Commission (NAICOM) (*Nigerian Tribune*. Jan. 22, 2008 p. 34).

However there were criticisms of most of the provisions of the 1997 decree as to its ability to redirect the practise of insurance industry for a better performance. The deficiencies of the law prompted the National Insurance Commission (NAICOM) to initiate a committee including key players in the insurance industry to review it and this gave birth to the new insurance Act 2003 which is the current regulatory laws of insurance practise in Nigeria (*African Business*. April 2007 p. 35).

In addition to government efforts to regulate the practise of Insurance in Nigeria, there are a number of self regulatory Associations in the Nigerian Insurance Industry. They include;

(i.) The chattered Insurance Institute (CIIN)

(ii) Nigerian Insurance Association (NIA)

(iii) Professional Reinsurers Association of Nigeria (PRAN)

(iv) The Nigerian Corporation of Insurance Brokers (NCIB)

(v) The Institute of Loss Adjusters of Nigeria (ILAN)

(vi) Nigerian Actuarial Society (NAS)

(vii) Risk and Insurance Management Society of Nigeria (RIMSON)

(viii) Nigerian Council of Registered Insurance Brokers (NCRIB) (Isimoya, 1999:206-222) and (Lawrence and Akhigbe, 1990:78-81)

The essence of this heavy regulations and control is to protect the insuring public from the following:

(a) **Fraud**: Insurance business is conducted on a large scale where thousands of policy holders (irrespective of class of business), pay several millions of Naira as premiums. This large fund could be a source of temptation to dishonest insurers (*Nigerian Tribune*. Jan. 22, 2008 p. 34).

(b) **Financial Security:** The insurance industry must be financially solvent to be able to provide the financial security which is the sole responsibility of the insurance industry. It is only when this is achieved that the industry can make meaningful contribution to the economic development of the country (*Nigerian Tribune*. Jan. 22, 2008 p. 34).

(c) **Failure**: The consequences of an insurer failing to make good his promises, sometimes as a result of fraud or commercial failure could be extremely disastrous. For instance the failure to meet motor insurance claims means that accident victims would be in jeopardy and failure of a life underwriter would be a tragedy for the dependants of a deceased policyholder (*Nigerian Tribune*. Jan. 22, 2008 p. 34).

(d) **Premiums**: It is also necessary to protect the insuring public against arbitrary increase in the premium rates. According to Oladele (*Nigerian Tribune*. Jan. 22, 2008 p. 34), most insurance consumers are not in a position to evaluate the insurance service products and compare their price as in the purchase of tangible products.

(e) **Investment**: Because insurance companies are institutional investors, they are very vital to the running of the economy. Their inefficiency could cause a major crisis in the economy. Therefore government must be concerned about their performances (*African Business*. April 2007 p. 35).

(f) **Competence**: Insurance business is predicated on trust. Those who manage the business themselves must be trustworthy. They must be men and women of proven competence and integrity (*African Business*. April 2007 p. 36).

It must be said that the insurance business in Nigeria has come a long way. Potentially, Nigeria has the biggest market in Africa but for quite some time the weakness of the industry has left most of the large insurance business to be underwritten by foreign companies. The industry has made very little contribution to the Gross Domestic Product (GDP) of the nation's economy (African Business, April 2007 p. 62). The sector's contribution to the nation's GDP is put at 0.5 percent. This indicates that the insurance industry is performing sub-optimally (*The Nation*. March 18, 2009 p.44).

It is in reaction to this low level of performance that the administration of Olusegun Obasanjo, in September, 2005 directed its searchlight of economic reform to the insurance sector. The agenda was to ensure that the industry grows and lives up to the standard of its counterpart around the world (*The Nation*. Mar. 4, 2009 p.44).

The consolidation programme in the insurance industry followed the same pattern in the banking sector. All the insurance companies were mandated to shore up their capital base if they wanted to remain in the business. For life insurance companies, minimum capitalization was raised to= N=2billion from =N=150million. General business operators were required to jack up their capital to=N=3billion from =N=200million. The re-insurance companies were to look for a minimum capital of =N=10billion from the previous level of =N=350million (*The Nation*. Mar.4, 2009 p.44).

According to *African Business* report, the objectives of the insurance sector reforms are:

- To increase the industry's low retention capacity, which had stunted its growth. Government was especially concerned about low local underwriting capacity for big ticket risks in the oil and gas, Aviation, marine and other special risk sectors and was determined to dam the huge foreign exchange outflow engendered by the situation.
- To attract foreign capital infusion into the industry for enhanced premium growth and profitability.
- To achieving a consolidation that will produce companies capable of meeting claims, obligations and compete at the continental and global levels.
- To enable operators to attract the wherewithal for strategic investments in human capital development -i.e. to attract trained and retain professionals able to utilize new technologies for greater efficiencies.
- To create a competitive environment which leads to brand activities, increased investments and better public awareness of the benefits of insurance to society at large.
- Achieving the necessary economies of scale that will make insurance affordable and accessible.
- To encourage the industry to leverage on synergies from mergers and acquisitions and other alignments to achieve superior product innovation, deeper market penetration and product distribution (African Business, April 2007 p.62)

The recapitalization exercise ended in February, 2007 and out of the 168 insurance and reinsurance companies that set out for the exercise, 51 survived the recapitalization. For their names, see Appendix 11.

The question to ask then is what has been the impact of recapitalisation on the Insurance Industry? Oladele tried to answer this question when he said:

> Obviously, a major merit of the whole exercise in the Insurance Sector is the rise in the level of awareness about Insurance, as Investors that hitherto never bothered to know about Insurance are now becoming interested as can be seen in the numbers released on Capital Market activities both in the primary and secondary Markets… For instance by August 2005, 22 Insurance companies

> were listed on the Exchange's Daily Official List with a total market value of ₦28.94 billion. However, by February 2007, being the deadline for the recapitalisation programme, the number of listed Insurance Companies increased to 25 with a market value of =N= 91.9 billion, despite that many of them at that time, had their price placed on either technical or full suspension (*Nigerian Tribune*. Jan. 22, 2008 p. 34).

Clinton Uranta, the Managing Director, Nigeria Insurance PLC speaking on the positive outlook that the Industry was wearing after the recapitalisation said:

> I will like to say that our Industry is now stronger than ever, our Industry is looking forward than before and the reason behind all these is very simple, when you have more money in your pocket, you can talk boldly (*The Nation*. Apr. 15, 2009 p.42).

To further concretise the gains of recapitalisation exercise, Oladele said:

> Current statistics indicate that there are 27 Insurance Companies listed on the Exchange. Obviously, the Insurance Stock has increased considerably unlike preconsolidation time (*Nigerian Tribune*. Jan. 22, 2008 p. 34).

With the recapitalisation exercise the Insurance Industry in Nigeria became equipped with the wherewithal to achieve exponential growth in personal lives through massive branch expansion and the development, distribution and marketing of low-priced life products which will deepen the market and expand the premium base of operators. The Industry also becomes more strengthened to be able to underwrite big ticket risks which had eluded the local Industry in the past due mainly to poor capitalisation (*Nigerian Tribune*. Jan. 22, 2008 p. 34),

However, this is not to say that the recapitalisation exercise proffered total solution to the challenges facing the Insurance Industry in Nigeria. There are a number of problems still facing the Industry.

3.5 Problems associated with insurance practise in nigeria.

In the area of insurance, Nigeria has not benefitted maximally from the Insurance industry because a number of Nigerians have either been unsatisfied with the operation of Conventional insurance practise or ignorant of the potentials of insurance. They have therefore not imbibed the insurance culture.

Undoubtedly, insurance is a catalyst for economic and social development in any given society. It is regarded as the vehicle through which other businesses survive. For business enterprises to operate without interruption and take risks for higher returns in the future there must be some kind of insurance protection that will guarantee peace of mind in case of loss (Aiyegoro, 1998:1)

There is no doubting the fact that the Insurance Industry in Nigeria is beset with a number of problems ranging from Ignorance, low level awareness to Image and such other problems created by the operators in the Industry. These problems will be highlighted one after the other.

(i) Ignorance and low level awareness:

Insurance Services have, historically not been popular with the Nigerian Public. Less than one percent of the country's population of 140 million, according to available statistics, has any form of Insurance policy (*African Business*. April, 2007 p.62). Aiyegoro (1998:1) claimed that inadequate education, coupled with the conservative attitude of practitioners to take risk of promoting insurance awareness are responsible for this.

The implication of this relatively low percentage of Insurance Services is according to the Swiss Re Global Report for 2004, the Nigerian Insurance Industry had only 0.02 % of the global Market. The Report ranked Nigeria 62 out of 88 countries in terms of annual premium volumes; 69th on life funds and a dismal 86th on Insurance density. (*African Business*. April ,2007 p.62).

The Industry will therefore require a massive education and sensitization of the Nigerian public on the socio-economic benefits of the Insurance Services.

(ii) Claim Settlement and Image

The bane of the Insurance Industry has been its poor image due, in the main, to a negative claims payment reputation. Even among those Nigerians that do know the benefits of insurance cover, there is a widespread perception that Nigerian insurers are reluctant to settle claims (*The Nation*. Mar. 4, 2008 p.44). This has created a very negative image for insurance practise in Nigeria.

Dele Ijere, President, Nigerian Council of Registered Insurance Brokers (NCRIB) Attributed the negative image of the industry to the activities of quacks and fake insurance operators. He observed that there is an urgent need to sanitize the insurance market by reducing the activities of quacks, adding that their activities have done great damage to the industry's image, and also pose a great challenge to the legitimate existence of the operators (*The Nation*. Mar. 4, 2008 p.44).

African Business noted that apart from the imperative of improving the claims performance of individual members, to regain the public confidence, the reputation problem must be tackled at industry level through strategic and intense awareness and branding campaigns to create a positive industry image (*African Business*. April, 2007 p.62).

It is as a response to this challenge of negative image that insurance operators gathered in Abuja, in February, 2009 to launch the industry's code of corporate governance that is to help improve information dissemination on the industry's operations to the public (*The Nation*. Mar. 4, 2009 p.44). The chairman, Nigerian Insurers Association (NIA), Wole Oshin at the launching said:

> The launch of the code of Corporate Governance signposts our preparedness to subject ourselves to scrutiny. It also provides a test of our openness and candour in doing business. It is indeed a true test of our resolve to lay bare our operations before all (*The Nation*. Mar. 4, 2009 p.44).

Encouraging the operators, the commissioner for Insurance, Fola Daniel urged insurance operators to embrace the code of corporate governance to boost their relationship with the public (*The Nation*. Mar. 4, 2009 p.44).

Corporate governance, for the purpose of information, is the system by which business are directed and controlled. The Corporate governance structure specifies the distribution of rights and responsibilities among different stakeholders in the corporation such as, the board, managers, shareholders and employees. It spells out the rules and procedures for making corporate decisions. It also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance. It promotes corporate fairness, transparency and accountability (*The Nation*. Mar. 4, 2009 p.44).

(iii) Undervaluation of Premium:

Otherwise known as 'rate cutting', the menace of undervaluation is one of the numerous challenges confronting insurance in Nigeria. It is an unethical practise where insurers cut the premium rate just to secure their clients at all cost i.e. insurers underwrite a cover below the industry's stipulated rate. This has led to situations where such insurers, find it difficult to pay claims on the undervalued risk (*The Nation*. Apr. 15, 2009 p.42).

According to Okonta (2009:42), the menace of rate cutting is a product of the operators' inability to expand their market scope through innovative products. Products in the industry are recycled with little or no added value to the insured. The recycled products are meant to chase the few members of the public who have interest on insurance. He said further in his analysis of the causative factor of rate cutting:

> As the law of market forces stipulates, when supply exceeds the demand, the best cannot be achieved. In a situation where the 51 insurance companies together with their foreign competitors are chasing just five percent of the population that have interest in the sector, the tendency to woo them with reduced price cannot be ruled out (*The Nation*. Apr. 15, 2009 p.42).

He then suggested:

> Therefore to tackle the problem, insurers must rise to the challenge of developing value added innovative products to woo the over 94 percent of the nation's population that are uninsured (*The Nation*. Apr.15, 2009 p.42).

Joe Irukwu, an insurance expert and a professor, gave a word of admonition on the problem of rate cutting thus:

> The insurance industry and its leadership should do some soul searching in a determined effort to put its house in order. In the process, steps should be taken to eliminate those features that tend to lower the public image of insurance. Higher level of professionalism should be encouraged in all sections of the industry. Erring members should be detected and promptly disciplined. The industry's code of conduct should be vigorously enforced (*The Nation*. Apr. 15, 2009 p.42).

Other challenges that are consequent of the re-capitalization exercise and which require urgent attention of the industry are:

- Boosting marine and maritime business: To be able to achieve high premium earnings in the marine sector, operations must develop technical capacity and high level of professionalism.
- Increased Competition: The industry is set for intense competition as companies faced unaccustomed returns on investment mandates from shareholders while at the same time battling for a share of a market already transformed by the exploitable opportunities which hitherto had been beyond the reach of most players (e.g. oil and gas, marine, aviation, branch expansion, ICT acquisition etc).

  It is expected that emerging frontline players will raise the bar in product development, branding and corporate governance. NAICOM should therefore braze up to prevent the unethical practices in the industry.
- Integration Issues: Merged companies face the challenge of achieving a smooth and effective integration of varied technical and human capital capacities arising from the differing business models and cultures. Further to that, acquisition of the right ICT infrastructure to deliver fast and efficient customer-centered services, staff restructuring, skill development and reorientation and attraction of skilled manpower are key integration issues (*African Business*. April, 2007 p.62).

To address these challenges with the utmost intention of proffering solution to them, insurance practitioners have been all out. Recently the Minister of state for finance, Remi Babalola inaugurated an eleven-man committee, chairman by Joe Irukwu, charged with the review of insurance Act, in Abuja. While inaugurating the committee, he said;

> The need to review these Act is a product of a rigorous situation appraisal of the insurance industry in Nigeria. In the financial service sector, insurance expectedly has the biggest income earning potential but the Nigerian Insurance industry has been operating sub-optimally (*The Nation*. Mar. 18, 2009 p.44).

But observers of the industry believe that efforts to reposition the industry should go beyond the review of the Act. It should remove those impediments that have stalled the growth of the industry so as to propel it towards its objectives. According to them, the review should go the whole hog in repositioning the industry for effective performance (*The Nation*. Mar. 18, 2009 p.44).

For the industry to be properly positioned, practitioners believe that more should be done in the areas such as education and awareness creation, ethical revolution, asset quality, design of innovative products, deployment of operations through modern technology, human capacity building, good distributive channels, active lobbying and more.

It could be said that more than ever before, insurance operators are now more concerned about the plight of the industry. This can be substantiated with the comments of Adedotun Sulaiman, chairman Cornerstone Insurance Plc, in a presentation at the 2008 National Insurance Conference organized by the Nigerian Council of Registered Insurance Brokers (NCRIB). He Said:

> We can no longer continue to behave as if everything is okay with our way of doing business. We must consistently uphold the principles of ethics, probity and empathy in order for this industry to have a future or else we would have wasted a golden opportunity that has been presented to us to make a difference (*The Nation*. Mar. 18, 2009 p.44).

Conclusion

Conventional insurance practise started with marine insurance which was linked to bottomry loan and later Sea loan. The bottomry loan was practised by different civilisations. The Sea loan was an elaborate form of the bottomry loan. It was a combination of a sea contract and an insurance contract. It was not until the fifteeth century that the marine insurance became highly developed, more organised and secured. Other branches of insurance businesses emerged afterwards.

In Nigeria, insurance practise was introduced by the Colonialists and as such the earliest insurance opereating companies were agencies and branches of British Insurance companies and were subjected to the laws regulating insurance in Britain. However, there have been various regulatory efforts since 1945 up to the present to make insurance business profitable. But inspite of these efforts, insurance business in Nigeria is still faced with a lot of challenges. Stakeholders in the industry would have to continue on their efforts at getting the industry sanitised.

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CHAPTER FOUR

TAKĀFUL PRACTISES AROUND THE WORLD

4.1 Introduction

Three decades since the first *Takāful* Company was introduced in Sudan, the concept of *Takāful* seems to have gained wider acceptance and continues to develop. Today in the world, hundreds of *Takāful* operators offer their complete range of products in more than 29 Countries of the world. In fact, Moody's rating Agency has identified that there are over 250 *Takāful* companies worldwide (Dingwall, 2005:1). Between then and now there should have been more. These organizations provide different types of *Takāful* coverage spanning:

(i) General *Takāful* Business (Property, Engineering, Miscellaneous, Accident, Marine, Motor etc.)

(ii) Family *Takāful* Business (Education, Marriage, Hajj & Umrah, Saving plans, Life insurance etc.)

(iii) Re-*Takāful*

There are also growing interests in some countries like Philippines, Sri Lanka. Nigeria and some of the former Soviet republics (Bank Al-Jazira ,www.takaful.com or www.baj.com.sa). *Takāful* has grown not only as an innovative financial instrument but also on religious principles as entrenched in the *Sharī'ah.*

Even in non-Muslim Countries, the response to *Takāful* among non Muslims is encouraging. For example, in Sri Lanka where less than 10 percent of the population is Muslim, some 15 percent of the policyholders of the sole *Takāful* company there are Muslims. The success of Islamic finance and *Takāful*, aside the fact that it is attributable to the perfection of *Sharī 'ah*, can also be explained from the angle that it provides an alternative means of savings, investment and finance to that which is currently available (kassim,n.d p.9)

Indeed, *Takāful* provides the Muslims with a unique opportunity to galvanise the savings of the individual for the good of the *Ummah*, institute financial discipline and encourage individuals to adopt suitable financial planning habits (Ma'sum billah, n.d p.11).

Though its acceptance in the Muslim world was slow at first, and that was because most of the Islamic countries suffer from the common attitude that insurance is undesirable. There was general lack of awareness among the Muslims about risk management and insurance including *Takāful*. In most of the Muslim dominated countries of the world, insurance accounted for only one percent (1%) of their GDP (Ali, 2006:8). This chapter intends to look generally at the performance of *Takāful* in the world and specifically at some countries where Islamic insurance has been practised over the years. Other issue like the prevailing models of practise would also be discussed.

4.2 General overview of *takāful* performance in the world

The new millennium has seen a quickening in the pace of *Takāful* acceptance. This has a lot to do with the emergence of a young generation of educated and affluent Muslims seeking a substitute for an important aspect of commerce and personal finance (kassim, n.d p.1).

By now *Takāful*, like Islamic Banking has become a viable reality and because of the inherent *Sharī'ah* principles involved in it and their universal nature, *Takāful* business would be more appealing in the coming years to both the Muslims and non-Muslim communities.

This can be corroborated with the fact that most of the Muslim countries having Islamic banks have also welcome *Takāful* as a necessary compliment to Islamic banking. Islamic banking cannot be fully *Sharī'ah*- based if there is no *Takāful* to take up its insurance business.

Added to that is the fact that, the confidence and faith of Muslim countries in Islamic economic system is gaining grounds. In March 1999, the Heads of state and Government of Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey (D-8 Countries) met in Dhaka for the second D-8 Summit with the objective of implementing projects and programmes of cooperation that are of vital importance to their citizens. Among other issues, the Summit endorsed the proposal to enhance the capacity of the existing retakaful company of Malaysia to meet the needs of member countries (Ali, 2006:9).

It was agreed further that the experts of these countries should meet to draw up the modus operandi and formulate appropriate strategies to promote *Takaful* and Retakaful.

In November 2002, a Convention was held by the D-8 countries on "The Emergence of *Takāful* in the Wake of Globalization" in Kuala Lumpur, Malaysia (Ayub, n.d P.2)

In June 2004, a memorandum of understanding was signed by the Islamic Development Bank with Bank Negara, Malaysia which among other things sought to promote and expand *Takāful* and Retakāful business among Organization of Islamic Conference (OIC) member countries.

In July 2004, the regulators of D-8 countries met in Malaysia and a mechanism for cooperation among the *Takāful* regulatory authorities was evolved. It was decided that two working groups on the areas of education and training as well as financial infrastructure development should be formed and be led by Malaysia and Egypt respectively (Ali, 2006:9).

In June 2005, the regulators of the D-8 established a twelve member committee comprising *Takāful* practitioners and regulators of the OIC member countries. The committee has recently identified and proposed actions plan to address the gaps in the development of *Takāful* and Retakāful. The actions plan has been divided into the following eight main areas:

- To provide customized support for establishing *Takāful* companies in targeted jurisdictions.
- To foster development of sound legal, regulatory and *Sharī 'ah* framework for *Takāful* companies throughout the world.
- To provide development of existing *Takāful* markets and investment overseas.
- To promote development of basic and full range of *Takāful* products to meet wider expectations of customers.
- To promote human capital support by way of education, training and research in the field of *Takāful* operation.
- To create awareness among the Muslim Ummah regarding the benefits of *Takāful* in socio-economic development.
- To increase capacity and support for Retakāful arrangements in OIC countries.
- To optimize existing framework of dispute resolution, in respect of *Shariah* and technical aspects of *Takāful* Industry (Ali, 2006:10)

It is therefore heartening to note that *Takāful* operators are organising series of Seminars and Conferences on a regular basis and exchanging ideas and information to make *Takāful* acceptable and viable.

There is no doubting the fact that the industry is moving as ascertained by Wiggles worth (2006:2) in his report. He said:

> Total *Takāful* premiums are expected to reach S7.4 billion by 201, and *Takāful* has become one of the impressive performers of the financial sector, boasting growth rates varying from 10% to 30% across the Asian, Arab and African regions. In 1993, direct *Takāful* premiums only amounted to S 30million, but are estimated at around S 2 billion in 2005, and the graphs are only pointing upwards.

But Noordin (2008:.511) said:

> Indeed a recent estimation of the global *Takāful* market shows that it might achieve US12.5 billion of premiums by 2015. This figure is a revision from an earlier similar estimate of US7.5 billion forecasted by market analysts in1999.

Giving reasons for the perceived growth, Wiggles worth (2006:2) said:

> Interest was previously the catch that hindered the growth of *Takāful*, but the proliferation of Islamic funds and investment vehicles has made it possible for *Takāful* operators to invest in non-interest divesting areas.

He said further:

> Chakib Abouzaid, the CEO of *Takāful* Re, an Islamic Reinsurance subsidiary of ARIG, said that the growth of Islamic finance has been the main factor in the growth of the industry, coupled with the "new Islamic 'wake-up', Or the emergence of strict religious practices"

The other factor which he mentioned that aided the growth of *Takāful* was the reform of regulatory and legal bodies. He cited the example of the Bahrain Monetary Agency (BMA) which has been at the vanguard of change, and was the first country to standardise and regulate the practice of *Takāful* through a framework that takes into account the special nature of the *Takāful* model and the unique relationship between participants and shareholders. This strengthened the *Takāful* industry in Bahrain. According to him, the efforts of BMA pushed Abdullah Saaty, the chairman of the Insurance Committee at the Jeddah Chamber of Commerce and Industry to campaign for the establishment of a dedicated insurance and *Takāful* authority in Saudi Arabia.
Noordin (2008:512) also mentioned factors responsible for the growth of *Takāful* thus:

> Several factors may have contributed to this faster Growth rate, which include increasing awareness amongst Muslims of the *Sharī'ah*-compliant risk management options and of continuous efforts made by

> *Takāful* operators to enhance their product coverage and distribution channels.

However, Wiggles worth noted that:

> The *Takāful* market has been hindered by the lack of large Re-*Takāful* companies. Like traditional insurers, all *Takāful* companies need to insure themselves against crippling claims, but no Re-*Takāful* company has been large enough to take on this role and there are not enough around to share the risk of insuring all the burgeoning *Takāful* companies.

Bhatty (2007:8) corroborated this when he said:

> Reinsurance of *Takāful* business on Islamic principle has been an area of much debate. Reinsurance on Islamic principle is known as retakāful. The problem has been one of lack of retakāful companies in the market. This has left the *Takāful* companies with a dilemma of having to reinsure on conventional basis, contrary to the customer's preference of seeking cover on Islamic principles.

This and other problems which would be highlighted later are subjects of discussion in the world of *Takāful* today and the more solutions are proffered to them, the more growth will be recorded in global *Takāful* business.

4.3 Models of *Takāful* practice

Despite the tremendous development of the *Takāful* industry, a considerable number of issues still confront the operators in the industry. Prominent among those issues is the appropriate *Takāful* business model. The question may be asked, why do we need a *Takāful* model? Why can't *Takāful* operate on the usual insurance system to manage expectations and risks? The answer to the questions is *Takāful* cannot operate on the conventional insurance model because it has its own value system centred on ethical considerations, community strength, social goodness and protection.

A perusal of the global *Takāful* market has revealed that there are currently, numerous models of *Takāful* in practice. Bhatty, (2007:10) mentioned five. They are:

* The co-operative model (also known as Ta'awwuni model)

* *Al-Muḍārabah* model

* *Al-wakāla* model

* *Waqf* model (Non-profit model)

* Hybrids of *wakāla* and *Maḍārabah* model

However, this may not be the consensus of *Takāful* scholars. Fisher and Taylor (2000:9) maintained that there are three *Takāful* models. They mentioned the following: Non-profit model, *Al-muḍārabah* model and *Al-wakāla* model. Khan (2008:11) mentioned the following as the widely used models: *Muḍārabah* model, *Wakāla* model and Hybrid model.

Noordin (2008: 511) agreed with Khan. He said:

> However, there are different business approaches or models to realising this vision, of which at least three are implemented by *Takāful* operators worldwide, namely: profit sharing (Muḍārabah), agency model (Wakālah) and hybrid model.

Jafari (2008:14) opined that there are three models of *Takāful* which are used all over the world. They are: *Muḍārabah* model, *Wakāla* model and *Wakāla*+ *Waqf* model. Raj (2007:86) mentioned the existing models as: *Muḍārabah* model, *Wakāla* model and *Waqf* model. Whear and Western (2006:20) agree with Raj's position when they said: 'There are three main structures' and they mentioned *Wakala*, *Muḍārabah* and Waqf

Wong-Fupuy et al (2008:3) in their 'A.M. BEST'S RATING Methodology of *Takāful* organizations' maintained that "there are now three primary operating models." According to them, they are: *Ta 'āwuni* model, *Muḍārabah/ Wakāla* model and *Waqf* model.

Tolefat Abdulrahman, Head of licensing and Policies of the Bahrain Monetary Agency, maintained that:

> The most dominant models that have currently been adopted by Takāful companies on profit basis are pure *Al-Wakāla*, pure *Al-Muḍārabah* and a combination of the two models… (ICMIF Article No. 6, July 2006)

Ayub (n.d p.2), a Senior joint Director, Islamic Banking Department, State Bank of Pakistan, Karachi, agreed with Tolefat on *Al-Wakāla*, *Al-Muḍārabah* and the hybrid of the two.

With these variations in number and model types, a difficulty may be encountered as to consenting on the models existing in the world of *Takāful* presently. This difficulty can only be overcome if we accept that there are basic models from which hybrids have been generated. This could be corroborated with the assertion of Wiggles worth's (2006:1) He said:

> Modern *Takāful* first emerged in two very different forms, and in two very different places. In the 1970s, Sudan embarked on an Islamisation programme, and developed a *Takāful* system based on the *Wakāla* model. Here, the *Takāful* operator works as an agent of the policy holder, called 'participant' in *Takāful*, and merely takes a fee for his services in managing the company. In the 1980s, *Takāful* emerged as part of Malaysia's pioneering of Islamic finance, and was based on the *Muḍārabah* model, where any profits are mutually shared between the *Takāful* operator and the participant, along predefined lines and divisions.

The above evolutional analysis may have influenced Stagg-Macey, a Senior Analyst at Celent, United Kingdom (a research and consulting firm focused on the application of information technology in the global financial services industry), to say that "The two main business models used in the *Takāful* industry are the *Muḍārabah* and the *Wakālah* models" (ICMIF Article No. 8, January 2008). Abdul Wahab (2003:8) supported this position thus:

> Presently, different *Takāful* models are prevalent in different countries. The basic models being two i.e. *Muḍārabah* based (Malaysian model) and *Wakāla* model (Middle Eastern model). However, there are a number of finer issues and combinations of models that exist in practice.

It must be established that no single "best" model exists for *Takāful*. *Sharī'ah* scholars agree on fundamental components that characterise a *Takāful* scheme (mutual responsibility, mutual cooperation, mutual protection, solidarity, brotherhood justice, consideration etc.), yet in their juridical opinions (fatāwā), operational differences are tolerated as long as they do not contradict essential religious tenets (Fisher & Taylor, 2000:9)

Two principles must be observed for a model to conform to *Sharī'ah* stipulations; there must be segregation between participants and shareholders' funds, as the company's role is only to manage participant's funds on their behalf. For this reason, any *Takāful* company is usually called '*Takāful* operator' instead of insurer.

The second principle is that contributions (premiums) should be paid on donation (tabarru'.) basis in order to remove the element of *gharār* from *Takāful* contract (Tolefat, 2006:1)

We can now examine the basic models one after the other. While we do that, however, it is important to note that the basic variations in the models relate to their application to the risk portion and not the investment portion where a *Muḍārabah* approach is generally applied.

4.3.1 Al-Muḍārabah Model

Muḍārabah is defined as the contract between one party, known as the *Rabb-ul māl* (capital provider) and another party called the *Muḍārib* (entrepreneur), where the *rabb-ul-māl* provides capital and the *Muḍārib* undertakes the management of the enterprise. Among the conditions guiding *Muḍārabah* as an Islamic financing technique are:

- Profits are shared in a pre-agreed ratio.
- Assets are owned by the capital provider
- Capital provider bears the losses (except if otherwise determined)
- *Muḍārib* only shares from the profits and has no right to receive a fee or salary (Bhatty, 2007:15)

However, there are two types of *Muḍārabah*;

* *Al-Muḍārabah al- Muqayyadah* (Restricted *Muḍārabah*): Here the capital provider specifies a particular business area for the *Muḍārib* to invest in.

* *Al-Muḍārabah al-Mutlaqah* (Unrestricted *Muḍārabah*): Here the *rabb-ul-māl* gives freedom to the *Muḍārib* to undertake whatever business he deems fit. Even with this freedom, the *Muḍārib* is not authorised to keep another *Muḍārib* or mix his own investment with that particular investment without the consent of *Rabb-ul-māl*.

The capital in *Muḍārabah* may either be in cash or kind. If the capital is in kind, its valuation is very necessary, without which *Muḍārabah* becomes void. *Muḍārabah* can be terminated any time by either of the two parties through a notice. However, if it is for a specified period, it terminates at the expiry of the period (Bhatty, 2007:19)

In this model, the *Takāful* operator is the *Muḍārib* and the participants are the *Rabb-ul-māl*. The Sharī'ah committee generally approves the sharing ratio for each year in advance. The sharing of such profit (surplus) may be in a ratio of 5:5, 6:4, 7:3, etc. Generally, these risk-sharing arrangements allow the *Takāful* operator to share in the underwriting results from operations, as well as the favourable performance returns on invested premiums.

In order to eliminate the element of uncertainty in the *Takāful* contract, the concept of *tabarru'* (donation) is incorporated. In relation to this, a participant shall agree to relinquish as *tabarru'*, certain portion of his contribution in fulfilment of his obligation of mutual help and joint guarantee should any of his fellow participants suffer a defined loss.

In essence, *tabarru'* would enable the participants to perform their deeds in sincerely assisting fellow participants who might suffer a loss or damage due to a catastrophe or disaster. The sharing of profit or surplus that may emerge from the operations of *Takāful* is made only after the obligation of assisting the fellow participant has been fulfilled. It is imperative, therefore, for a *Takāful* operator, adopting the *Muḍārabah* model, to maintain adequate assets of the defined funds under its care while simultaneously striving prudently to ensure that the funds are sufficiently protected against undue over-exposure. It is therefore noteworthy to say that the provision of insurance cover as a form of business in conformity with *Sharī'ah* can be based on the Islamic principles of *Takāful* and *al-Muḍārabah*.

In a pure *Muḍārabah* model, the *Takāful* operator and the participants share direct investment income only, and the participant is entitled to a 100% share of the surplus, without any deduction made prior to the sharing. But in a modified *Muḍārabah* model, the investment income is ploughed back into the *Takāful* fund and the *Takāful* company shares with the participant, the surplus from the *Takāful* fund.

Under pure *Muḍārabah* model, if there is a loss, the *Rabb-ul-māl* losses (some of or all) his capital and the *Muḍārib* losses his effort. It is to be noted that under Mudaraba, the *Takāful* fund belongs to the participants and not the *Takāful* operator. The *Takāful* operator therefore has no right to a share of the surplus. It is for this reason that the modified *Muḍāraba* model has been rejected by some scholars, especially in the Middle East (Raj, 2007:86)

Some of the *Takāful* organizations known to adopt this model include; *Takāful Barh*erd Malaysia (STM-Malaysia), *Takāful* Nasional (Malaysia) and *Takāful* International (Bahrain) (Fisher and Taylor, 2000:10).

The model (*Al- Mudarabah*) can be graphically represented thus:

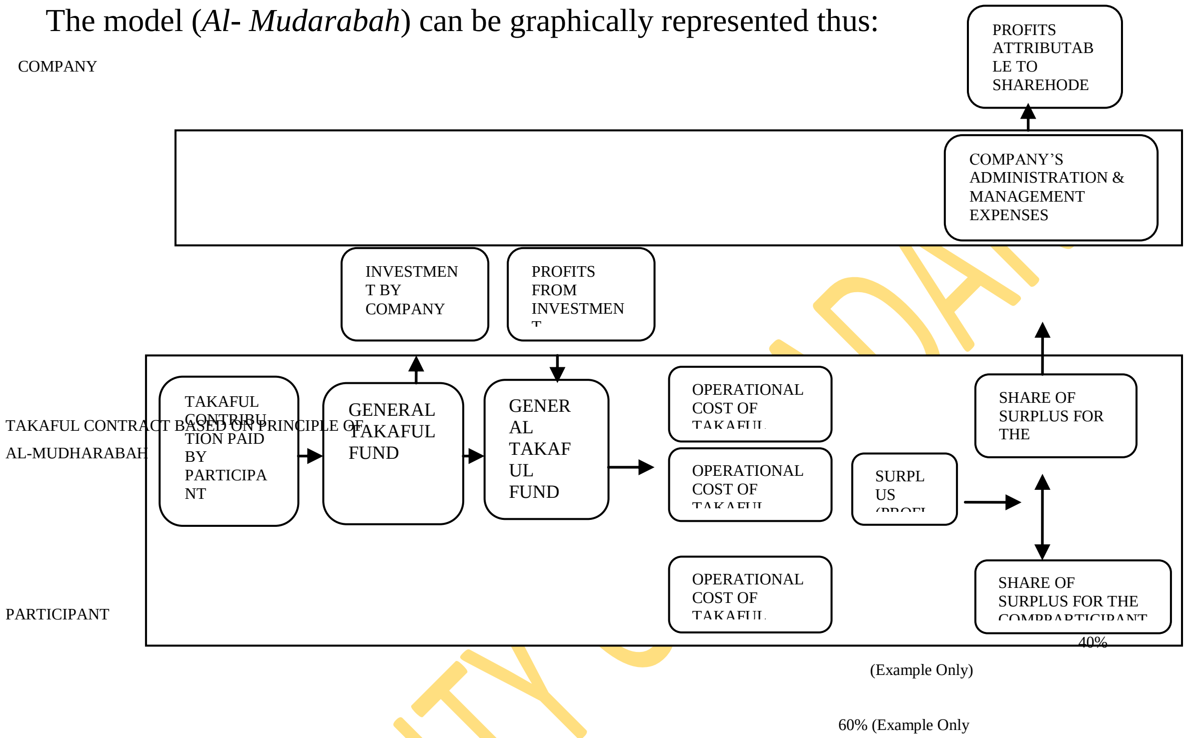

Figure 4.1: Graphic illustration of *al-Muḍārabah* Model

SOURCE: Abdul Wahab (2003)Takaful Business Models, Opportunities, Obstacles and Practical Recommendations P.15

4.3.2 Al-Wakālah model

Al-Wakālah is a contract of agency. According to this contract, a person (or an organization), (A) will delegate his right or business to another person (or organization), (B) to act as his representative. In Islamic terminology, B is known as the Wakil (agent). The *wakīl* is expected to contribute his (its) knowledge, skills and ability in the performance of the task because both have contractual relationship and to comply with the instructions given by his principal (Doi, 1984:368)

The *Wakāla* concept came into *Takāful* fund management because in this modern and complex financial world, many skills are required to successfully manage a *Takāful* operation. To run a successful operation, the operator must ensure the following: (this is not meant to be an exhaustive list)

- Promote participation of new members (e.g. via advertising)
- Set up a proper administrative system to run the *Takāful* programme.
- Keep proper records of participants (old and new) and maintain adequate monitoring in the event of a change in information of a participant.
- Invest premium in low risk *ḥalāl* businesses
- Develop new *Takāful* products capable of meeting the needs of participants and bring new ones on board.
- Maintain statistical information and perform experience studies.
- Determine the appropriate contribution to be made by each participant. This is to be done actuarially so as to ensure equitable and fair charging to all members.
- Pay indemnity accurately and promptly.
- Prepare the balance sheet, revenue accounts and other financial statements for the purpose of accountability.
- Perform actuarial valuation to determine the surplus of tabarru' fund.
- Distribute the surplus among participants justifiably (Bank al-Jazira, www.takaful.com)

With these and other activities (to be carried out) in mind, the question one is likely to ask is; who carries out these responsibilities with the effectiveness, accuracy and the efficiency they deserve?

One answer to this question may be that volunteers among the participants can perform these assignments. Alternatively, it can be sourced out to a third party who possesses the skills, qualifications and experience to handle such complicated assignments.

Volunteers from among the participants in a *Takāful* scheme may help carry out some of these responsibilities on a charitable basis initially, but as *Takāful* funds get bigger, and as more people enter into the scheme, the administrative activities are likely to be more complicated and more demanding that there will be the need to seek assistance for a more productive, efficient and professional handling for the benefit of members.

The rationale behind the *Wakālah* model in *Takāful* can be seen from the following arguments:

(i) It is difficult for *Takāful* participants to voluntarily carry out the administrative assignments of the scheme as it expands.

(ii) To set up a *Takāful* operational system at the initial phase of the programme, requires heavy expenditure. The issue then is whether all participants agree or can afford to contribute towards meeting this high start up cost.

(iii) During the early phase of operation, it is possible that claims, retakāful cost and expenses could exceed collected contributions together with investment returns. Where this is not well managed insolvency (inability to pay claims) may come in. Participants may lack all the technical expertise associated with managing *Takāful* fund. Such skills include underwriting, Marketing, claims management, legal, accounting, actuarial, Information Technology (IT) etc. *Takāful* requires an organised and structured manner of management.

In line with what has been described, in the *Wakāla* model, an agent (*Takāful* operator- licensed for that) is contracted to manage *Takāful* operation in return for a defined fee. The operating company does not share in the underwriting results- surplus or deficit, but rather it is compensated by a fee (for services rendered) deducted from participants' contributions and/or investment profits generated by the *Takāful* fund. The fee rate is fixed annually, in advance, in consultation with the *Sharī'ah* committee of the company (Raj, 2007:88). In order to give incentive for good governance, the management fee is related to the level of performance.

It must be emphasised that the surplus of the *Takāful* fund belongs to the participants in the *Takāful* scheme. The operating company does not have a claim on it under any circumstance. If the *Takāful* operating company is to generate profit from its efforts, it must manage the operations (including salaries, overhead, selling commissions, sales and marketing expenses, etc.) within the disclosed *Wakāla* fees.

Since there is no other benefit to the *Takāful* operator besides the declared *Wakāla* fees, the *Wakāla* model allows that all other charges/costs to the programme be provided by the participants at the lowest possible cost that can be negotiated on their behalf by the operator.

However, Bank Al-Jazira charges what it calls 'incentive fee' from the fund's surplus, as an incentive for the efforts put into managing the fund effectively. The fee is determined as a percentage of the surplus in the participants' fund. It needs to be mentioned that scholars are in dispute regarding the legitimacy of such fees (Tolefat, 2006:1)

Wakāla model is in use in Malaysia (*Takāful* Ikhlas Malaysia), Bahrain (Bahrain Islamic Insurance Co., Sharikah *Takāful* Al-Islamiyah, Global Islamic Insurance Co. and *Takāful* Islamic Insurance Co. Bahrain) (Ma'sum billah, ND p.9). It has been established that it was the *Takāful* Ta'awuni programme (TTP) of Bank Al Jazirah, Saudi Arabia, that first adopted the *Wakāla* model for its *Takāful* scheme worldwide (Ahmed, 2006:523)

The model can be graphically presented thus:

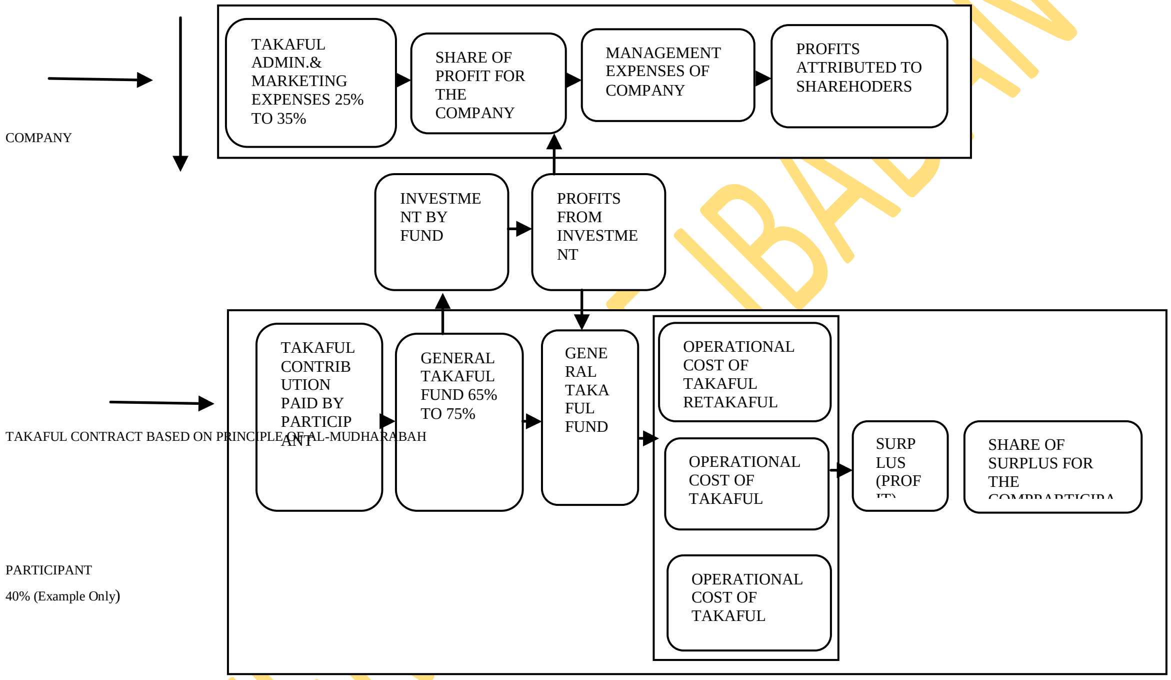

Figure 4.2: Graphic illustration of *al-Wakālah* Model

SOURCE: Abdul Wahab (2003)Takaful Business Models, Opportunities, Obstacles and Practical Recommendations P.16

4.3.3 *Waqf* model

Waqf (plural: awqaf) is a legal and religious institution wherein a person dedicates some of his properties for a religious or a charitable purpose. It implies holding certain physical assets and preserving it so that benefits continuously flow to a specified group of beneficiaries or community. The properties, after being declared as Waqf, no longer remain in the ownership of the donor and there is a prohibition on its use or disposition outside its specified purpose. A dominant characteristic of *Waqf* is "perpetuity" and therefore, *Waqf* typically applies to non-perishable properties whose benefits and usufruct can be extracted without consuming the property itself (Obaidullah, 2008:31)

Scholars consider *awqaf* in three categories. The first category-religious waqf- refers to mosques and properties confined for providing revenues to be spent on their maintenance and recurring expenses. The second category- philanthropic *waqf*- aims at providing benefits to the poor segments of the society. All programmes and activities that are of interest to people at large such as, provision of education, training, health care, care of animals, environmental protection and microfinance can be undertaken by philanthropic *waqf*. The first philanthropic *waqf*, in the history of Islam, was established when the Prophet (SAW) instructed Uthman ® to purchase the well of "Rumah" in Medina and make a *waqf* of the same. Its purpose was to ameliorate the difficulty that the poor in the city were facing in procuring highly-priced drinking water. The third category of *waqf* is known as family waqf under which the children and descendants of the endower (waqif) have a first right on the benefits and revenues of the *waqf*. Only the surplus, if any, should be given to the poor (Obaidullah, 2008:32)

Contemporary scholars have advocated a more flexible approach in interpreting the rules of *waqf*, since the fiqh of waqf is mainly analogy. For example, the principle of perpetuity (a very important principle of waqf) if carried too far, is capable of restricting certain acts of benevolence. So also for the non provision for cash or monetary *waqf*. Obaidullah (2008:35) said:

> If *waqf* is to play a catalytic role in poverty alleviation through education, training leading to skills-improvement and capacity building, then one clearly sees merit in the following possibilities as examples: waqf of use of a building for ten years, waqf of copyrights of books by an author, waqf of subscription to a research journal for five years waqf of a known percentage of salary every month for five years and so on.

Waqf model (in *Takāful*) is basically adopted for social-governmentally owned enterprises and programmes operated on a non-profit basis. It utilises a contribution that is totally *tabarru'* (100% donation) from participants whose sole intention is to assist the less privileged in the society. *Takāful* fund in *Waqf* model belongs to nobody in particular and there is no sharing of any type under this model. Usmani (2002:225) believed that the *Waqf* model is more compatible with the cooperative concept of

Takāful as it is created for the very purpose of cooperation. The Sheikhan *Takāful* Company in Sudan operates on *waqf* Model.

As earlier mentioned, there are hybrids of these basic models in operation in the *Takāful* world. Some of the hybrid models include:

4.3.4 *Wakāla + Muḍārabah* model

This model, as it is obvious, is a combination of two models. Tolefat (2006:1) gave a very simple explanation of the model thus:

> The structure of *Takāful* companies on profit basis is totally different from conventional commercial insurance. The most dominant models that have currently been adopted by *Takāful* companies on profit basis are pure *al-Wakāla*, pure *al-Muḍāraba* and a combination of the two models whereby *al-Wakāla* contract is adopted for underwriting activities and *al- Muḍārabah* contract for investment activities.

In the structure of this model, the *Takāful* Company has two funds, one for the shareholders and the other for participants (policyholders).The two contract mode of *al-Muḍārabah* and *al-Wakāla* are adopted. *Al-Wakāla* is adopted for underwriting activities and *al-Muḍārabah*, for investment activities. Regarding the underwriting activities, the shareholders act as *Wakīl* (agent) for participants to manage their funds. The *Takāful* Company (shareholders) receive contribution, pay claims, arrange retakaful and all other necessary actions related to *Takāful* business. In exchange for performing these tasks, the company charges each participant a fee known as 'wakāla (agent) fee', which is usually a percentage of the contribution paid by each participant (Tolefat, 2006:1)

This fee must be approved by the company's *Sharī'ah* Supervisory Board (SSB) and disclosed to participants in a very transparent manner. Special attention should be given to determining this fee because as soon as the fee is fixed, approved by the Supervisory board and disclosed to participants, it cannot be changed.

On the investment side, the company invests the surplus contributions in different Islamic instruments based on *al- Muḍārabah* contract. The company thus acts as the *Muḍārib* (entrepreneur) for participants (Rabbul-māl (capital provider).To satisfy the *Sharī'ah* requirement for *Muḍārabah* contract, the ratio of profit is fixed and agreed upon between the two parties, at the inception of the contract. Thus the sources of income to the company, under this model, are many viz. *wakāla* fees, incentive fee and its profit share from investment activities.

This model is recognised and recommended for *Takāful* companies by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Added to that, the Bahrain Monetary Agency (BMA) only allows *Al-Wakāla* and the mixed model; *Al-Wakāla+ Al-Muḍārabah* model to be adopted by *Takāful* companies operating in the Kingdom (Tolefat, 2006:1)

4.3.5 *Wakāla+Waqf* model

A discussion on the *Wakāla* model gave the Dāru-l'ulum, Karachi, the challenge that produced this hybrid model. In this model, the *Takāful* fund is replaced by a charitable trust fund i.e. *Waqf* fund. Shareholders would initially make a donation to to establish the *Waqf* fund. The donation can be of any reasonable amount (Shariah scholars may specify that amount).

The objective of the *Waqf* fund would be to provide relief to participants against defined losses as per the rules of waqf. The relationship of the participants and the operator is directly with the waqf fund. The operator is the wakil (agent) of the fund and the participants pay contribution to the *waqf* fund by way of one sided *tabarru'* (unconditional donation) (Abdul Wahab, 2003:18)

The combined amount (the *waqf* fund and the contributions from members seeking *Takāful* protection) is then invested and the profits earned would again be deposited in the same fund. The company, on the basis of set rules and regulations, would pay the losses of participants from the same fund. Besides this, all operational expenses that are incurred for providing *Takāful* services e.g. arrangement of Re-takāful and building up of reserves will also be met from the same fund.

This model is commonly in use in Pakistan and South Africa (Khan, 2008:15)

The flow chart could be illustrated thus:

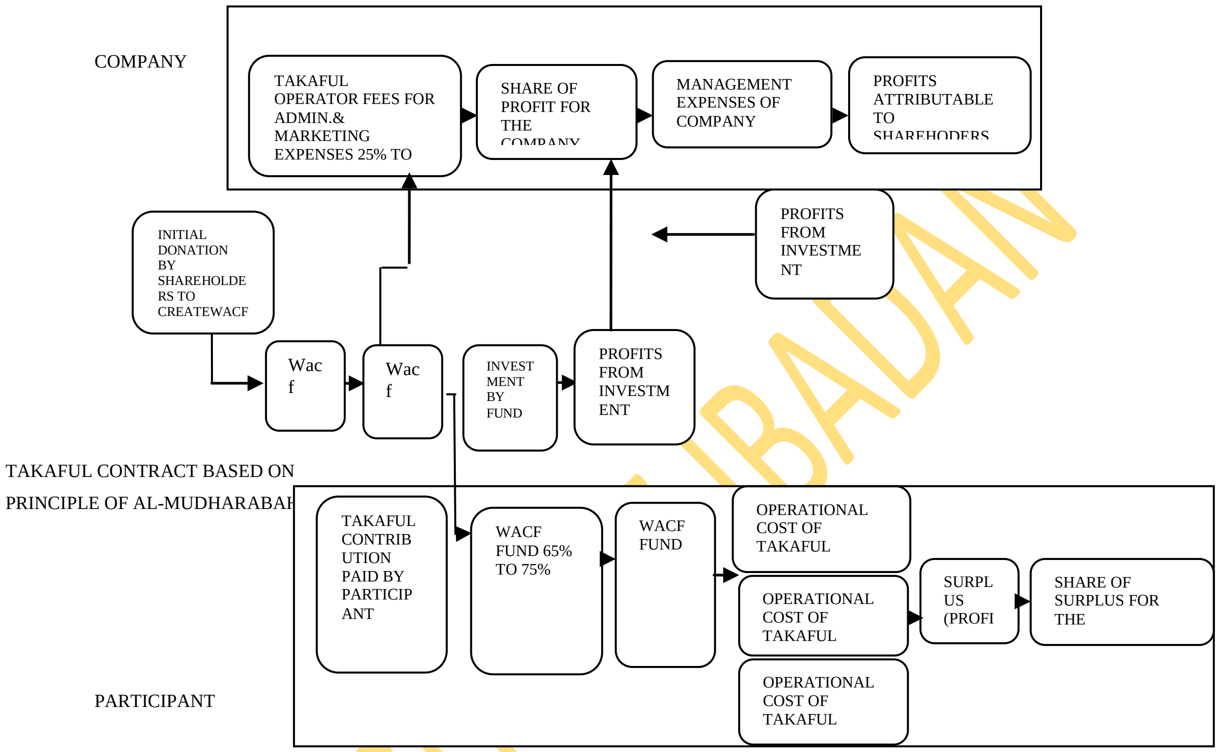

Figure 4.3: Graphic illustration of *Wakālah+Waqf* Model

SOURCE: Abdul Wahab (2003)Takaful Business Models, Opportunities, Obstacles and Practical Recommendations P.17

4.4 Takāful Practises around the world

4.4.1 Takāful practise in Sudan

The history of *Takāful* cannot be written without a mention of Sudan. A country with a total population of 41,087,825 has a total Muslim population of 28,761,478 which is about 70% of the total population (2009 CIA World Factbook)

With the establishment of Dubai Islamic bank and the Islamic Development bank as the starting point of Islamic banking in the world, His Excellency, Prince Muhammad Faisal (the then monarch of Saudi Arabia) took the initiative of establishing a number of Islamic banks. In one of such initiatives in February, 1976 he held discussions with His Excellency Gafar Nimeiry (the then President of the Democratic Republic of Sudan) where he asked for permission to establish an Islamic bank in Sudan. The executive and legislative authorities in the Sudanese Government at all levels gave every encouragement and assistance to the proposal. Consequently, Faisal Islamic Bank was established in Sudan.

The bank authorities initiated studies on the establishment of a cooperative insurance company. In this respect the opinion of the bank's *Sharīʻah* Supervisory Board was sought. The board studied the initial proposal and amendments were made on the Memorandum of Association and Articles of Association. The board ensured that the scheme was sound both from the *Sharīʻah* point of view and feasibility.

Therefore, in January, 1979 the Islamic Insurance Company Ltd. Sudan was incorporated as a Sudanese Public Company (under the Company's Act 1925).

It is the first ever insurance company established in the world to transact business in accordance with the *Sharīʻah*. The entire authorised capital of the company was subscribed by the Faisal Islamic Bank. The Sudanese Government allowed the company numerous concessions and exemptions. All its assets and profits were exempted from all types of taxes. Further, the assets of the company were not to be subjected to confiscation and nationalization etc. The Company was also exempted from the application of The Acts regulating insurance in Sudan (Ali, 2006:3)

Today, there are eleven *Takāful* and one Retakāful operators in Sudan. But the very prominent ones include; Al Baraka insurance company (1984), National Reinsurance company (Sudan) Ltd, Sheikhan insurance company (1989), and Watania Cooperative insurance Co. (1989) (Ahmed, 2006:531)

In 1992, a new supervision law was introduced under which all companies were required to operate according to *Sharīʻah* principles. The Sudanese government also enacted the Insurance Supervision Act 2001 and the Insurance Supervision Regulations 2002 and established The Insurance Supervisory Authority (ISA) to supervise and implement both the Act and the Regulation. . (El-bashir, n.d:14)

It must be mentioned that the Sudanese accepted *Takāful* and its products as a new and lawful means of solving their social and economic problems. This is apparent in the rapid growth in premium as shown in the table below:

YEAR	PREMIUM IN M USD
1999	38.2
2000	51.1
2001	67.2

2002	82.1
2003	103.4
2004	112.0
2005	171.6
2006	242.4
2007	246.9

Table 4.1: *Takāful* Premium income during the period 1999 -2007

Source: El Basher, (2007) The Sudanese Experience In *Takāful*; The Model Practice & Development, Shiekhan Insurance & Reins. Co.

Between the period of 1979 (when the first Islamic insurance was established in Sudan) and 2007, the Sudanese market has accepted the *Takāful* products as an effective strategic tool for economic and social development and for personal financial planning as in the following programmes:

- Agricultural Insurance
- Crop Insurance
- Livestock Insurance
- Medical Insurance
- *Takāful* Products (Islamic substitute for life insurance)
- Group *Takāful*
- Individual *Takāful* Products
- Investments.

The Sheikhan Insurance Company established in 1983 started issuing life *Takāful* covers in July, 2002. It has gained a massive market share of 92 percent in group life insurance in the country. In general *Takāful* practise, Sheikhan commands 62% market share as at 2006, a premium income of $130 million with twenty eight branches all over Sudan and over 1000 employees.

The surplus distribution of the company to policyholders between 2002 and 2006 is as in the table below:

YEAR	**Surplus Distributed (in millions USD**
2002	6.5
2003	11.0
2004	14.0

2005	14.3
2006	9.2

Table 4.2: Surplus Distribution byTakaful Companies in Sudan 2002-2006.

Source: El Basher, (2007) The Sudanese Experience In *Takāful*; The Model Practice & Development, Shiekhan Insurance & Reins. Co.

4.4.2 Takāful in Malaysia

The foundation for the development of *Takāful* in Malaysia was set by the wish of Muslims to realign more with Islamic practices in the economic realm and the strong support of the Malaysia government for Islamic financial services.

Located in the Asia pacific region, Malaysia has a population of 25,715,819 including 13,372,226 Muslims which amounts to 52% of the total population (2009 CIA World Fact book)

As far back as 1972, the National Fatwa Committee of the Malaysian Affairs Council had decreed that the various types of conventional insurance are inconsistent with the principles of *Sharī'ah* as they contain the elements of interest, maisir (gambling), and gharar (uncertainty). The Fatwa Committee considered life insurance as a form of gambling. In the same manner, it also considered the importance of insurance to banking in the conventional practice and its necessity to Islamic Banks.

Therefore, a special body, 'Task Force on the study of Establishing Islamic Insurance Company in Malaysia' was formed in 1982 to study and make recommendations on the possibility of establishing Islamic insurance to complement the services of Islamic banking (Ahmed, 2006:532). Members of the task force were drawn from personalities and groups representing religious scholars, legal experts and economic and insurance practitioners. The task force visited a number of Islamic countries and had discussions with Islamic insurance companies already established (Ali, 2006:4)

Following the recommendations of the Task Force, the Malaysian Parliament enacted the *Takāful* Act in 1984. This makes Malaysia probably the only country with such a law (Maysami and Kwon, 2007:14)

After the passage of the Act, by 1988 Bank Negara (the Central bank of Malaysia) was appointed to regulate *Takāful* insurance operations and to monitor the compliance of *Takāful* insurers with the *Sharī'ah.* The Bank Negara's Governor was appointed the Director-General of *Takāful* operation's board (Osman, 2007:214) Syarikat *Takāful* Malaysia, (a subsidiary of Bank Islam Malaysia, which owns 74.25% of the paid up capital and the remaining 25.75% of the shares owned by various State Religious Councils, State Religious Foundations in Malaysia and Amanah Saham Bank Islami) was the first to obtain a *Takāful* operation licence under the Act. It was incorporated in 1984 and commenced operation in 1985 both in life and non-life lines (Ali, 2006:4)

In 1993 MNI *Takāful* (which eventually changed its name to *Takāful* Nasional Sdn Berhad,in 1998) was licensed as a subsidiary of a conventional insurer and has since been operating in Malaysia (Ali, 2006:4)

To support the re-takāful needs of *Takāful* operators in the region, a full-fledged re-takaful company, ASEAN Re-takāful International (L) Ltd was established in Malaysia's offshore financial centre in Lubuan in 1997. Currently, the shareholders of ARIL are *Takāful* operators in Malaysia, Brunei and Singapore (Osman, 2007:212)

In order to ensure that the Malaysian Islamic Banks and the *Takāful* organizations in Malaysia conform to and maintain the principle of *Shariah*, the government, in 1997 established the National Syariah Advisory Council (Ahmed, 2006:533)

Presently there are seven *Takāful* and one Re-Takāful operators in Malaysia. They are:

- Syarikat Takāful Malaysia, Sdn Bhd
- Takāful Nasional Sdn Berhad
- Takāful Ikhlas
- Prudential BSN Takāful Berhad
- Commerce Takāful Berhad
- Mayban Takāful Berhad
- Asean Ratakāful International (L) Ltd.
- Malaysian Insurance Institute

It must be mentioned that the *Takāful* operators in Malaysia are allowed to adopt whichever operative model best for them provided that the model complies with the principles of Islamic transactional legislations and is approved by the Bank Negara Malaysia. Conseqently, the first and second licensed operators adopted the *Muḍārabah* model while other operators adopt the *Wakālah* model (Annuar, 2005:28)

Undoubtedly Malaysia has a very fascinating pioneering history of Islamic finance and it is a leader in the *Takāful* industry among non-Arab nations. Uniquely, *Takāful* products have attracted even the non-Muslim communities in the multi-racial country. For instance, in Malaysia, *Takāful* represents 27% of the total insurance market in the country compared to other Asia Pacific countries which have 9% market.

Europe and America have 1% and Arab countries have 63%

Country	Estimated. amount	% of total
Malaysia	$143m	27%
Other Asia Pacific	$50m	9%
Europe, USA	$6m	1%
Arab Countries	$340m	63%
Total	**$538m**	**100%**

Table 4.3: Spread of Takāful business as at year 2001

Source: Ahmad, S.A. (2007) Takaful in Southeast Asia: The Growing Pains and Challenges in *Takāful* Article series, No. 11 published by ICMIF.

The first licensed *Takāful* operator, Syarikat *Takāful* Malaysia is among the top four operators in Malaysia's insurance industry. It ranked first in 2003 in fire class business in the insurance and *Takāful* industry. It is the largest Islamic insurance provider in Asia, with twenty four branches and sixty seven *Takāful* desks all over the country (Ahmed, 2006: 533 & 535)

Presently, the annual growth in the global *Takāful* market is 15 to 20 percent. It has been estimated that *Takāful* industry will grow by 25-40 percent annually. Interestingly Malaysia controls around 35 percent of the total asset of the *Takāful* industry (Ahmed, 2006:543)

Malaysia has played a leading role in the *Takāful* industry by organising and conducting special educational programmes for *Takāful* personnel in the Asean region as well as other regions through the formation of Bank Islam Research and Training Institute (BIRT). It has helped other nations outside the Asean region to introduce and promote *Takāful*. For this purpose, *Takāful* Malaysia established joint venture programmes in Sri Lanka, Saudi Arabia and also provided technical assistance for *Takāful* operators in Australia. Request for such assistance has been made by Lebanon, Bangladesh and Algeria (Ahmed, 2006:516)

Malaysia is well known for its clear guidelines for ḥalāl (permitted) investment, as Bank Negara issues directives on such investment. As a result, *Takāful* insurers as well as other Islamic investors, in Malaysia and other countries, can invest in approximately 480 securities from companies listed on the Kuala Lumpur Stock Exchange. Besides, Malaysian *Takāful* insurers have identified, with the help of government, other similar investments.

Added to this, the Malaysian government currently gives tax relief to residents for their *Takāful* premiums and additional tax relief for such premiums on medical and educational *Takāful* products (Maysami and Kwon, 2007:15)

4.4.3 Takāful practice in Indonesia

Indonesia with a population of 240, 271,522 (2009 CIA World Fact book) is presently one of the fastest growing economies in the world.

For its Muslim population of 206,873,780 (which constitute 86.1% of the total population), the Indonesia government with the support of the Association of intellectual Moslem Indonesia (Ikatan Cendikiawan Muslim Indonesia (ICMI), Abdi Bangsa Foundation, Bank Muamalat Indonesia, PT Asuransi Tugu Mandiri and other Muslim investors, licensed, in 1994, the first *Takāful* service provider, PT Asuransi *Takaful* Indonesia with the sole aim of promoting *Takāful* principles (Ahmad, 2007:1)

Syarikat *Takāful* Indonesia was founded as a holding company for the two *Sharī'ah* insurance companies owned by it; PT Asuransi *Takāful* Keluarga and PT Asuransi *Takāful* Umum. Its establishment was fully supported by Syarikat *Takāful* Malaysia Bhd financially and technically. Indeed, Syarikat *Takāful* Malaysia Bhd and Asean Takāful Group (ATG) are major stockholders in Takāful Indonesia.

Takāful Keluarga is a life insurance company with twenty-nine branch offices spread all over Indonesia. The company experienced an increase of 207.41% in 1995 as a result of which it became the 13th largest life insurer in the country (Maysami and Kwon, 2007:17)

In 1995, the Indonesia Ministry of Finance licensed PT Asuransi Takāful Umum to provide non-life insurance protection to Muslims. PTATU has eight branch offices. In year 2000, it introduced what was called 'General Takāful System', a new technology, providing among other things, an on-line system, networking the head office and the branch offices.

PTATU has also grown fast. It earned a pre-tax profit of 188.21per cent, amounting to IDR758 million in 1996 from the 1995 amount of IDR263million. In 1996, it generated premiums amounting to IDR4.30 billion which was an increment on the 1995 premium of IDR 3.19 billion (Ahmed, 2006:538)

The growth of *Sharīʻah* based insurance in Indonesia was slow at the beginning with only five *Takāful* companies as at 2002. The Data from the State Finance Department shows that the asset of *Sharīʻah*-based insurance in 2006 was only IDR 882billion (USD 95million) (0.93%) from the total insurance assets of IDR 94, 730billion (USD10, 200million). Meanwhile, total premium collected by the *Sharīʻah*-based companies was IDR 464billion (USD 50million) or 0.89% of IDR 52,200billion (USD 5, 612million) of the total national insurance premium (Ahmad, 2007:1)

However by 2007, the number of *Sharīʻah* insurers has increased significantly from five to forty three, with twenty in life insurance, nineteen in general insurance and four in reinsurance.

The Indonesian government, in 2008, in an attempt to have strong players in the insurance industry, has asked more than forty general insurance companies with capital below IDR 40billion (USD 4 million) to fulfil the minimum capital requirements of IDR 40billion and IDR 100billion (USD 4 and 10 million) respectively, before year 2010 and 2014. Nevertheless, the minimum capital requirement for *Sharī'ah*-based insurers is retained at IDR 50 billion (USD 5 million).

In 2008 the *Takāful* industry continues to grow despite slowing macroeconomic conditions. By the end of 2008, there were fifty-one insurance related institutions operating on *Sharīʻah* principles in Indonesia- three full-fledged *Takāful* companies, Thirty-nine window-based, three retakaful companies and six *Takāful* and retakāful *Sharīʻah* brokers (Ahmad, 2009:2)

The year was also remarkable for *Takāful* Indonesia Group which recorded a substantial growth with significant improvement in the performance of its two subsidiaries, PT Asuransi Takāful Keluarga and PT Asuransi Takāful Umum. Gross contribution of the group in 2008 was almost IDR 500 billion from the IDR 352 billion, the previous year.

The net income of the two subsidiaries also improved significantly, PTATU recorded IDR 7.79 billion which was an impressive increment of about 80% when compared with IDR 4.32 billion made in 2007.PTATK also registered a gain of IDR 14.06 billion, about 58% increment over IDR 3.90 billion recorded the year before (Ahmad, 2009:2)

Added to this, it must also be said that, Indonesian *Takāful* insurers, as a means of promoting the industry and creating awareness, have established strong ties with various Islamic organizations e.g *Muhammadiyyah* and *Nadwatul Ulamā'* with combined membership totalling 40 million. They have also successfully penetrated oil and gas industries for non-life insurance. It was estimated that about 10% of their premiums were invested in shares traded in the Jakarta Stock Exchange (Maysami and Kwon, 2007:18)

However, considering the Muslim population of Indonesia, there are more to be done to further stimulate the market. The progress of *Sharī'ah* insurance in many countries is driven by the society's awareness towards the importance of insurance and a growing demand from Muslims for *sharī'ah*- based products. Greater efforts need to be made to familiarize people with the Islamic concept of insurance and to educate them about the necessity of having insurance coverage. It was reported that most victims of tsunami in Aceh, Nias, Yogjakarta, Bengkulu and even the victims of flood in Jakarta in 2007, have no insurance coverage (Ahmad, 2007:2)

Therefore the *Takāful* companies together with the government and Muslim scholars would have to shoulder the responsibility to create awareness campaign among the population and to spread information about the benefits of *Sharī'ah* insurance through selected mass media.

4.4.4 Takāful practise in Saudi Arabia

A country located in the Middle East, it is populated by 100% Muslims. According to the 2009 CIA World Fact book, the population of Saudi Arabia stands at 28,686,633. The development of cooperative form of insurance in Arabia dated back to the pre-Islamic period when each tribe tried to protect the life and property of its members as practised in the doctrine of '*āqilah* earlier discussed in this work.

Various Islamic bodies have proclaimed conventional insurance as *harām*. They included the Fiqh Council of World Muslim League in 1978, Fiqh Council of Organization of Islamic Conference (OIC) in 1985, The Grand Council of Islamic Scholars, Makkah in 1985 etc. In place of conventional insurance, a cooperative insurance scheme is considered acceptable in the sight of *Sharī'ah*.

This must account for why as at 2003, Saudi Arabia had one of the lowest insurance penetration rates in the world at 0.5%. Alternatively, the acceptance of cooperative insurance scheme paved the way for insurance activity and made the Kingdom a vastly attractive market for *Takāful* (Wigglesworth, 2008:3)

The National Cooperative Insurance Council decided to adopt an interest-free Islamic insurance scheme called the National Cooperative Insurance Scheme. In July, 2003 endorsed an Islamic-based law passed by the Consultative *Shūra* Council to regulate the insurance sector and open it for foreign investors.

Under the law, the Saudi Arabian Monetary Agency (SAMA) is to oversee the insurance sector as it does with the banking sector. The new law opened the door for the establishment of many national companies and reduced the flight of capital by encouraging local investment. It is also expected that it will accelerate the opening up of the insurance sector to foreign firms- one of the prerequisites to facilitate Saudi's entry into the World Trade Organization (WTO) (Ahmed, 2006:522)

It therefore means that any new entrant to Saudi Arabia's insurance market has to navigate a jungle of different authorities to get licensed-The National Cooperative Insurance Council, Saudi Arabia Monetary Agency (SAMA), The Ministry of Commerce and Industry, The Saudi Arabian General Investment Corporation and the Traffic Department (Banker, 2008:3)

Presently, there are more than thirty *Takāful* operators in Saudi Arabia. In 2002, Bank Al Jazira introduced *Takāful Ta'āwunī* Programme (TTP), an Islamic life insurance product. It is the first *Takāful* programme to adopt the *Wakāla* model for TTP worldwide. The programme provides for individuals and families including savings and protection plans for marriage expenses. It also provides for capital savings plan.

Al Ahli Takāful was licensed in January, 2004 to operate as a *Takāful* operator in Saudi Arabia. It was floated by the National Commercial Bank (NCB) of Saudi Arabia which holds a 75% shares and a German Financial Services Firm headquartered in Munich, Germany, FWU AG, with 25% shares. Initially, the firm was only to undertake businesses outsourced by its German shareholder. The firm provides life and health insurance products including savings plans options for the beneficiaries of its policies (Ahmed, 2006:522)

SALAMAT is one of the foreign companies licensed to operate in the Kingdom. But Salamat is not a stranger in the Saudi market. It has operated there through its Bahrain subsidiary. In 2005, it concluded an Initial Public Offer (IPO) or 200million shares, raising $204million to fund their regional expansion plan and pay off debts incurred from the acquisition of subsidiaries (Wigglesworth, 2008:3)

Another big player in Saudi insurance market is the National Company for Cooperative Insurance (NCCI). Established in 1986 by three government agencies, it underwrites risks in the oil industry worldwide and aviation fleet risks of Arab nations (Maysami and Kwon, 2007:14)

The Takaful companies in Saudi Arabia include; Sarikat Takāful al-Islamiyyah (established in 1983), Islamic Insurance and Re-insurance Company (IIRCO) (Al Baraka Group), (established in 1985), Al Salam Islamic Takāful Company (established in 1992).

Other Islamic insurance companies operating in Saudi Arabia are Islamic Arab Insurance Company (Al Baraka Group) (1980), Islamic Corporation for the Insurance, Investment and Export Credit (1995), Islamic insurance Company Ltd.(1985), Al Aman Co-operative Insurance (Al Rajhi) (1985), Global Islamic Insurance Company (1986), International Islamic Insurance Company (1986), Islamic Universal Insurance (1986), Islamic International Company for Insurance (1985), Salamat (1985), Islamic Takāful and Retakāful Company (DMI Group)(1986), Takaful Islamic Company, Riyadh (DMI Group) and Al Rajhi Islamic Company for Cooperative Insurance. (1986).

Takāful Islamic Insurance Company (TIIC) had operated in Saudi Arabia for more than eighteen years through its offices in Riyadh and Al Khobar before it was acquired, in December, 2003 by Solidarity Islamic Insurance and Assurance Company of Bahrain (Ahmed, 2006:524)

There is no doubting the fact that the Saudi insurance market is the biggest in the region and has lured regional and international organizations. With the new legislations it is expected the market turnover will be boosted and expected to rise to SR50 billion ($ 13.3billion) in five years. (Ahmed, 2006:523)

However, the Saudi government and the regulatory bodies in the insurance sector still needs a lot to do as there are still Muslims in Saudi Arabia who claim that the new cooperative insurance law does not distinguish sufficiently between conventional and Islamic insurance operators (Wigglesworth, 2008:3)

4.4.5 Takāful practise in the United Arab Emirate (UAE)

United Arab Emirate falls within the Middle East and North Africa region (MENA). It has a total population of 4,798,491and a Muslim population 4,606,551 constituting 96% of its population (2009 CIA World Fact book)

Takāful practise is just gaining ground in the Emirate. There are currently no serious *Takāful* laws on ground. But in year 2003, government licensed some operators which was an indication of a growing interest on *Takāful* in the Emirate.

One of the licensed operators, Abu Dhabi National Takaful Company (ADNTC) was founded as a public stock company with 45% of its total capital subscribed by the founders and the remaining offered for public subscription. The Abu Dhabi Islamic Bank (ADIB) is the main founder of the company with 120 other founders representing major companies as well as individuals, including ADIB's national employees.

In its first year of operation, ADNTC earned a net profit of Dh221, 236m with assets reaching Dh68.66million. Gross premium underwritten was Dh13.65million while Gross claim paid was Dh1.514million (Ahmed, 2006:524)

Another licensed company is the Dubai Islamic Insurance and Reinsurance Company (AMAN). It is the leading Islamic insurance company in the UAE. It was established in 2002 by the Dubai Islamic Bank (DIB) and other financial institutions (who hold 45% of the capital), while the local investors hold the rest. AMAN was granted license by the Dubai Department of Economic Development to offer a range of insurance and reinsurance products in compliance with *Sharī'ah*. AMAN is listed on the Dubai Financial Market.

AMAN offers *Takāful* services to customers of DIB. To tighten its grip on UAE market, AMAN has signed agreements with Emirate Islamic Bank to offer the bank's mortgage customers, mortgage protection policy. It has also signed agreement with Abu Dhabi Commercial Bank (ADCB) to offer *Takāful* under the umbrella of ADCB meethaq Islamic Financial Solutions. In November, 2003 AMAN entered into a strategic tie-up with National Bank of Sharjah (NBS) to offer *Takāful* services to customers of the bank (Wigglesworth, 2008:3)

Its insurance products and services cover life *Takāful*, fire, engineering, general accident, liability, marine, car, medical and household insurance. AMAN's comprehensive, flexible and open-to-all ranges of Islamic insurance products are the first major Islamic health insurance products in UAE.

In December, 2003 AMAN launched Hajj/Umrah *Takāful* passport insurance cover for pilgrims. The policy offers cover against accidental death or injury during Hajj and Umrah (Ahmed, 2006:526)

Other operators currently in the Emirate *Takāful* market are; Islamic Arab Insurance Company located in Dubai with offices in Al Ain and Sharjah. Oman

Insurance Company, Dubai and Salama, UAE which is also a leading organization in the Emirate.

On the UAE *Takāful* market, the Banker of February, 2008 says: "Though a decent *Takāful* market at the moment, the Emirate is not where the future lies for *Takāful* companies with global ambitions."

4.4.6 Takāful practise in Pakistan

Pakistan is situated in the Asia and pacific region of the world. A predominantly Muslim country with Muslim population of 170,955,661(97%) out of the total population of 176,242,949 (2009 CIA World Fact book)

The insurance sector generally, in Pakistan, is highly underdeveloped in terms of market penetration. Less than 2% of the population is covered under any kind of life insurance plan. On the General insurance side, it is felt that other than the large public sector or private sector listed companies, which insure their assets, most small businesses are not insured (other than where mandated by law such as marine business). Personal lines insurance such as for personal property, motor vehicles, family health etc hardly exist except where required by law (e.g. in the case of leased cars which is a very lucrative business in Pakistan) or where provided by the employer such as Group life and Health insurance.

The major reasons for this poor market penetration include: lack of efforts on the part of the insurance companies to expand their services in a wider context, most companies concentrate on core businesses in major cities only, negative image of conventional insurance more so on their claim paying practises, conventional insurance is traditionally considered as *harām* and un-Islamic by the majority in the country, Low returns by life insurance companies resulting in other financial instruments being used for savings etc (Abdul Wahab, 2003:3 and Ahmed, 2007:68)

To open up the market and to facilitate systematic growth, Takāful Rules, 2005 were introduced under section 120 of the Insurance Ordinance 2000. Under the rules,

- Composite *Takāful* companies are not allowed.
- Window products and *Takāful* operations by conventional insurers are not permitted
- A specific operational model, *Wakāla* (Agency), was introduced as the model acceptable in Pakistan. It must be mentioned that an hybrid "Wakala+Waqf" is currently in use.

- Operators are required to invest the available funds in their Participants' Takāful Fund (PTF) and Participants' Investment Fund (PIF) in products which are compliants with the principle of *Sharī'ah* and approved by the *Sharī'ah* Board,

- A Central *Sharī'ah* Board was established

- Auditing of accounts is to be *Sharī'ah* compliant (Jafari, 2008:14 and Akhtar, 2007:2)

Soon after the introduction of *Takāful* Rules, Pakistan saw its first general *Takāful* operator, The First *Takāful* Insurance Company Ltd, in 2005. This was established through international collaboration between leading financial institutions from Pakistan, Kuwait, Malaysia, Saudi Arabia and Sri Lanka (Akhtar, 2007:3)

Since then there have been four other players In the *Takāful* industry in Pakistan; Pak-Qatar Family Takāful, Pak-Qatar General Takāful, Pak-Kuwait Takāful Company Ltd. and Takāful Pakistan Ltd.

Pak-Qatar Family Takāful is financed by strong Qatari financial groups like Qatar National Bank, Qatar International Islamic Bank Qatar Islamic Bank, Qatar Islamic Insurance Company, Masraf Al Rayan and The Amwal group. It therefore has the financial muscles to fully exploit the opportunities available in the market (Ahmed, 2007:69)

In the words of Ahmed Pervaiz, CEO, Pak-Qatar Family Takāful;

> If the present and future *Takāful* operators take the challenges by the horn and strive to provide products which meet the need of the people, are priced so that they can be affordable, are serviced in a customer centric manner, and finally consider shariah limitations as their strength, there is no reason why *Takāful* cannot be successful in Pakistan.

4.4.7 Takāful practise in Bahrain

Bahrain, a member of the GCC (Gulf Cooperation Council) is a small country with total population of 727,785. The Muslim population in Bahrain is 590,961 which represent 80% of the total population (2009 CIA World Fact book)

Bahrain was the first country to standardise and regulate the practise of *Takāful* through a framework that takes into account the special nature of *Takāful*. The Bahrain Monetary Agency (BMA) assumed the responsibility of regulating the insurance sector in 2002. By 2004, BMA published a consultation paper setting out rules to regulate *Takaful* and Retakāful industry.

The rules cover such issues as high-level controls, separation of shareholders' and participants' funds, capital adequacy and solvency, valuation of assets and liabilities and business conduct. The rules require *Takāful* firms operating in Bahrain to follow *Wakāla* model. They are required to apply accounting and governance standard set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (Ahmed, 2006: 518)

Takāful International (formerly Bahrain Islamic Insurance Company) was the first Islamic insurance company in Bahrain. Established in 1989, Kuwait's International Investment Group (IIG) is the major shareholder of the company. It was the first Islamic insurance company to offer insurance for pilgrims going to perform Hajj and Umrah when the government of Bahrain made it mandatory for pilgrims as from 2004, to have insurance cover before going on pilgrimage.

In May, 2004 the company signed a memorandum of understanding (MOU) with the Bahrain Islamic Bank to strengthen relations and to provide medical cover for the Bank's staff as well as *Takāful* protection in the Lease and *Murābaḥah* system of the bank.

In June, 2004 the company signed an agreement with International Hospital, Bahrain to provide medical services to the Takaful cardholders. The Baslam Health Care cardholders can enjoy wide range of services worldwide. Also, the company, in association with Best Doctors Inc., launched the Best Doctors *Takāful* Health Care Programme in September, 2004. This medical insurance programme provides US$1,000,000 in medical expense coverage for the treatment of critical illness outside the Kingdom of Bahrain (Ahmed, 2006: 519)

Another very big *Takāful* player in the Bahrain market is Solidarity Islamic Insurance and Assurance Company. It is one of the largest Islamic insurance company in the Arab world. It was established in 2004 by the Qatar Islamic Bank. Other major partners in Solidarity are the Luxemburg-based Faisal Financial Institution and the Pension Fund Commission of Bahrain.

Solidarity started by acquiring 100% ownership of three specialised *Takāful* companies; Takāful Islamic Insurance Company (TIIC) of Saudi Arabia, Life Takāful registered in Luxemburg and Takāful Reinsurance Company registered in Bahamas. These companies were purchased from Dar Al Maal Al Islami.

Solidarity's wish is to become a global leading *Takāful* insurance company and to provide full range of life assurance and general insurance products as well as re-

Takāful across the GCC and selected European, Asian, Middle Eastern and North African countries.

Among the Re-Takāful companies, the Bahrain-based Takāful Re , "Islamic Insurance and Re-insurance Company" stands out.It is offering its services across the MENA (Middle East and North Africa) (Wigglesworth, 2008:3)

Other *Takāful* companies operating in Bahrain include; Al-Salam Islamic Takāful Company (IIRCO), Takāful Islamic Insurance Co. EC, Gulf Insurance Institute and Sarikat Takāful al-Islamiyyah.(www.icmif.org)

4.4.8 Takāful practise in Kuwait

Kuwait is located in the MENA region. It is predominantly a Muslim populated nation with 2,287,484 Muslims representing 85% of the total population of 2,691,158 (2009 CIA World Fact book)

The Ministry of Commerce and Industry granted a license to the first *Takāful* Company, Takāful Insurance Company, in 2000. The company, with 5million Dinars, has eight major shareholders including Kuwait Finance House, The International Investor and International Murābaḥah (the main Islamic financial institution in the country (Ahmed, 2006: 525)

The company recorded a net profit of KD1.13million in 2004, an improvement over KD364,000 in 2003. Its name was eventually changed to Withaq Company for Islamic Insurance.

In 2004, Gulf Takāful Insurance Company was launched with KD15million in capital (150million shares). The company provides several services including life Takāful, Auto insurance, property insurance air and sea insurance and reinsurance services. Other Takāful operators in Kuwait include Al Safat Takāful Co., and National Takāful Insurance.(www.icmif.org)

4.4.9 Takāful in the United Kingdom

United Kingdom is in all ramifications a non-Muslim country. Located in Europe, it has a population of 61,113,205 out of which only 1,650,057 are Muslims (2.7%). (2009 CIA World Fact book)

There is presently only one *Takāful* operator in the UK, Takāful UK. The problem seems to be that the UK's financial regulatory body, The Financial Services Authority (FSA) does not have the intention to enact separate regulation for *Takāful*. It is therefore evident that within the UK's existing insurance framework, an application for authorisation of a *Takāful* operator must meet the same criteria as an application by a conventional insurer (Ahmed, 2006: 541)

This is corroborated by Dingwall &Grifith (2006:2) thus:

> ...This sentiment reflects the FSA's general aim to promote a level playing field between conventional and *Sharī'ah*-compliant providers. It has been stressed that the FSA is intended to be a financial not a religious regulator…

The Financial Services and Market Act 2000 (FSMA), which came into force in December 2001 provides that authorisation by the FSA is required in respect any person carrying on or purporting to carry on a regulated activity by way of business in the UK where such regulated activity is in respect of specified investment (unless the person carrying on such activity is exempt).

The Insurance Conduct of Business rules (ICOB) seek to carry out the high level obligations set out in FSA's Principles for Business. The rules expect businesses (among other things) to

(i) Observe proper standards of market conduct.

(ii) Observe high standards of integrity and deal with consumers fairly.

(iii) Act with due skill, care and diligence.

(iv) Maintain adequate resources to run the business in an orderly manner.

(v) Ensure that appropriate management systems and controls are in place in relation to the size and complexity of the operation.

(vi) Ensure transparency and deal with the FSA in an open and cooperative manner. And

(vii) Disclose to the FSA anything relating to the firm that the FSA would reasonably expect to be disclosed (Dingwall &Grifith 2006:4)

It can be said that the ICOB should not pose an undue hardship for *Takāful* operations because these rules are consistent with Shariah principles. What U K government should realise is that *Takāful* as an alternative insurance system deserves some encouragement if it is to favourably compete with conventional insurance and that Muslims in UK should not be denied of the benefits of *Takāful*.

Meanwhile, efforts are on by various organizations to enter the UK market. HSBC is on its arrangement to provide *Sharī'ah*-compliant insurance products to

Muslims in the UK. It recruited Kasamani Tati from General Electric's Frankona reinsurance business to develop its *Takāful* product base.

International Cooperative and Mutual Insurance Federation (ICMIF) (London), a specialised organisation of the International Cooperative Alliance, is a voluntary mutual association of insurance organisations with full members representing over 150 insurers from 82 member organisations in52 countries. The organisation has perfected plan to offer *Takāful* and Retakaful services in UK. The Daar Al Maal Al Islami Group has a *Takāful* window (Ahmed, 2006: 541). In addition, Solidarity and Salama which established the first *Takāful* syndicate in January, 2006 are also eyeing Europe (Wigglesworth, 2006:4)

In the long run UK and indeed Europe might eventually prove an equally profitable market for *Takāful* with millions of wealthy and increasingly aware Muslims scattered across Europe.

4.4.10 Takāful in the USA

United States of America has a total population of 307,212,123, with a Muslim population of 1,843,273, which is a paltry 0.6% of the population (2009 CIA World Fact book)

Takāful USA Insurance Company was established in December 1996 to provide *Sharī'ah*-compliant insurance services for businesses, homes, mosques, Schools and community centres. Its components are Takāful USA Reinsurance Ltd and Takāful Management Services.

Takāful Management Services (TMS) issues property, casualty and liability insurance cover on buildings, assets, and business owned by Muslims (Ahmed, 2006: 541). Takāful USA offers protection for risks, property and casualty, Public and Third party Liability, Business Owners', Professional Liability, Equipment, Machinery, Inventors, Mosques, Associations, Foundations and Islamic Schools (Ahmed, 2006: 542)

However, there is a growing demand for more *Takāful* companies from a large number of Muslim communities (numbering between 6-12 million) who migrated and settled in United States.

Conclusion

This chapter has analysed the performance of *Takāful* in the world. It also discussed *Al-Muḍārabah, Al-Wakālah, Waqf, Wakālah+ Waqf and Wakālah+Muḍārabah* as the existing models of *Takāful* practise in the world. It also looked at the practise of *Takāful* in the following countries: Sudan, Malaysia, Indonesia, Saudi Arabia, United Arab Emirate, Pakistan, Bahrain, Kuwait, United Kingdom and the United States of America. While some of these countries have advanced in *Takāful* practise, others are making very serious efforts at institutionalising *Takāful* practise.

We shall end our discussion on *Takāful* practise in the world by concluding that the fundamental principles of *Takāful* have remained the same since its inception: mutual assistance and *Sharī'ah* compliance. *Takāful* market now spans much of the globe with a particular concentration in underpenetrated Islamic markets, the largest of which are Saudi Arabia and Malaysia. Gross *Takāful* contributions have grown from US$1.4 billion in 2004 to over US$3.4 billion in 2007.

However, there still exists a large, expanding and untapped Muslim population on almost every continent. Based on research, interviews and estimates, the global *Takāful* market could be as high as US$8 billion by the end of 2012 (Abdi, 2009:4).

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CHAPTER FIVE

PRESENTATION OF DATA AND DISCUSSION OF FINDINGS

5.1 Introduction

This chapter is aimed at presenting the data gathered through the two instruments of questionnaire and interviews. It also contains the analysis and discussion of the data.

5.2 Presentation of data

The data collected through the questionnaire instrument were collated and analysed using frequency and simple percentages. The data are equally represented in tables for easy understanding. The following tables show the findings of the study.

SECTION A: Biometrics and Distribution of Respondents

Table 5.1 Respondents' religion

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	islam	781	89.7	89.7	89.7
	christianity	84	9.6	9.6	99.3
	traditionist	6	.7	.7	100.0
	Total	871	100.0	100.0	

The statistics of our respondents as far as their religions are concerned is presented in the above table. 781 of the respondents are Muslims. This represents 89.7% of the total respondents. 84 of them, indicating 9.6% are Christians and 6 respondents, representing 0.7% are traditionists. It must be mentioned that the questionnaire was randomly administered and the distribution was not tailored completely towards Islam.

Table 5.2 Respondents' educational background

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	o'level	85	9.8	9.8	9.8
	above	786	90.2	90.2	100.0
	Total	871	100.0	100.0	

The above table gives the distribution of the educational background of our respondents. The purpose of educational background for this research is to determine literacy level only and that is why the categorisation is restricted to O'level and above

O'level. 85 respondents (9.8%) possessed O' level while 786 respondents, representing 90.2% have their education above O'level.

Table 5.3 Ages of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than twenty	11	1.3	1.3	1.3
	21-30	241	27.7	29.5	30.9
	31-40	282	32.4	34.6	65.4
	41-50	206	23.7	25.2	90.7
	51-60	56	6.4	6.9	97.5
	61-70	15	1.7	1.8	99.4
	71-above	5	.6	.6	100.0
	Total	816	93.7	100.0	
Missing	System	55	6.3		
Total		871	100.0		

This table presents the age distribution of our respondents. For the purpose of easy analysis, respondents were categorized into age brackets. We therefore have the following age brackets as our respondents. Less than 20 (1.3%) respondents fall within the age bracket 11-20, 241 (27.7%) respondents are within the age bracket 21-23, 282 (32.4%) respondents are within the age bracket 31-40, 206 (23.7%) fall within 41-50, 56 (6.4%) respondents are within the age bracket 51-60, 15 (1.7%) respondents fall within age bracket 61-70, only 5 respondents i.e. 0.6% are above 70 years. However, 55 respondents did not indicate their age.

Table 5.4 State of origin

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	abia	26	3.0	3.0	3.0
	adamawa	14	1.6	1.6	4.7
	akwa ibom	2	.2	.2	4.9
	anambra	9	1.0	1.0	5.9
	bauchi	7	.8	.8	6.7
	benue	11	1.3	1.3	8.0
	borno	16	1.8	1.9	9.9
	cross river	1	.1	.1	10.0
	delta	11	1.3	1.3	11.3
	ebonyi	11	1.3	1.3	12.6
	edo	62	7.1	7.2	19.8
	ekiti	6	.7	.7	20.5
	enugu	18	2.1	2.1	22.6
	gombe	14	1.6	1.6	24.2
	imo	53	6.1	6.2	30.3
	jigawa	7	.8	.8	31.2
	kaduna	7	.8	.8	32.0
	kano	90	10.3	10.5	42.4
	katsina	18	2.1	2.1	44.5
	kebbi	20	2.3	2.3	46.9
	kogi	17	2.0	2.0	48.8
	kwara	100	11.5	11.6	60.5
	lagos	40	4.6	4.7	65.1
	nassarawa	10	1.1	1.2	66.3
	niger	14	1.6	1.6	67.9
	ogun	108	12.4	12.6	80.5
	ondo	13	1.5	1.5	82.0
	osun	49	5.6	5.7	87.7
	oyo	41	4.7	4.8	92.4
	plateau	8	.9	.9	93.4
	rivers	9	1.0	1.0	94.4
	sokoto	8	.9	.9	95.3
	tarraba	6	.7	.7	96.0
	yobe	5	.6	.6	96.6
	zamfara	14	1.6	1.6	98.3
	abuja	15	1.7	1.7	100.0
	Total	860	98.7	100.0	
Missing	System	11	1.3		
Total		871	100.0		

The states of origin of our respondents are as reflected in table 5.4 and the histogram. It must be mentioned that though the questionnaires were administered in randomly selected six states from the six geo-political zones in Nigeria and Lagos and Abuja, purposively selected because of their political and economic importance to the country, the states of origin of our respondents spread through the country. It is only one state, Bayelsa, that does not have at least a respondent.

Table 5.5 Respondents' profession

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	civil servants	457	52.5	52.5	52.5
	self-employed	414	47.5	47.5	100.0
	Total	871	100.0	100.0	

The profession of our respondents as indicated in their responses are numerous and for the purpose of analysis, we categorised them into civil servants and self- employed. Using that categorisation, 457 of our respondents, representing 52.5% fall into the category of civil servants and 414 of them, represnting 47.5% are considered as self-employed. Among the professions indicated by our respondents were; Accounting, Medical, Engineering, Legal, Teaching, Pharmacy, Trading, Surveying, Police, Armed forces, Nursing, Banking, Civil servants etc.

SECTION B: Awareness and Knowledge of *Takāful* in Nigeria

Here, respondents' knowledge and awareness of *Takāful* insurance were measured. Responses are presented in summary tables and histograms as follows:

Table 5.6: Knowledge of *Takāful*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	697	80.0	80.0	80.0
	no	174	20.0	20.0	100.0
	Total	871	100.0	100.0	

Table 5.6 shows the respondents' reaction to the question 'do you know what Takaful is?' 697 respondents, representing 80% answered in the affirmative while 174 (20%) answered in the negative. To further determine the religious leaning of our respondents, a cross tabulation of their responses was done. This is reflected in table 5.7

Table 5.7 Cross tabulation of Responses by Religious Leaning of Respondents

	Knowledge of Takaful		Total
	Yes	No	
Muslims	620	161	781
Christians	76	8	84
Traditionalist	1	5	6
Total	697	174	871

Table 5.8 *Takāful* is… ?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	roman's guide insurance	43	4.9	6.1	6.1
	traditional arab insurance	52	6.0	7.4	13.5
	shari'ah based insurance	608	69.8	86.5	100.0
	Total	703	80.7	100.0	
Missing	System	168	19.3		
Total		871	100.0		

To further probe into the knowledge of our respondents on *Takāful*, the above question was asked. 43 respondents, indicating 4.9% see *Takāful* as Roman guild insurance, which is not correct, 52 respondents, representing 6.0% see it as traditional Arab insurance, which is also not correct. 608 respondents, representing 69.8% called it *Sharī ‘ah* based insurance, which it is. However 168 respondents, indicating 19.3% did not respond to the item. This looks very close to the 20% who answered in the negative to the item on table 5.6. It is also seen from the table that a number of our respondents who thought they know about *Takāful* may after all not know what it is. A crosstabulation was further done to show how many who said yes in table 5.6 actually got it correctly. This is shown in the table below

Table 5.9: Further on *Takāful* Knowledge

		roman's guide insurance	traditional arab insurance	shari'ah based insurance	Total
section b number six	yes	43	52	602	697
	no	0	0	6	6
Total		43	52	608	703

Table 5.10 Subscription to *Takāful* plan(s)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	231	26.5	26.5	26.5
	no	640	73.5	73.5	100.0
	Total	871	100.0	100.0	

This table shows the reactions of our respondents to whether they have subscribed to any *Takāful* plan(s) before. 231 respondents, representing 26.5% gave affirmative answer. 640 respondents, indicating 73.5% have not subscribed to any *Takāful* plan. This shows that a number of people are not yet familiar with *Takāful* policies. A cross tabulation was further done to know how many subscribe to what plan. This is reflected in table 5.11

Table 5.11: Further on subscription

		retirement plan	education plan	mortgage	saving plan	hajj plan	life plan	others	Total
section b number eight	yes	17	38	12	47	0	0	0	23
	no	0	0	0	19	12	91	32	26
Total		17	38	12	66	12	91	32	49

Table 5.12 Type of *Takāful* plan(s) subscribed.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	retirement plan	17	2.0	3.4	3.4
	education plan	38	4.4	7.7	11.1
	mortgage	129	14.8	26.1	37.2
	saving plan	66	7.6	13.4	50.6
	hajj plan	121	13.9	24.5	75.1
	life plan	91	10.4	18.4	93.5
	others	32	3.7	6.5	100.0
	Total	494	56.7	100.0	
Missing	System	377	43.3		
Total		871	100.0		

As a follow up of the subscription of *Takāful* plan, we want to know the type of plan(s) subscribed to by our respondents. This table therefore gives the distribution of responses. 17 (2.0%) respondents subscribed to retirement plan, 38 (4.4%) subscribed to education plan, 129 (14.8) subscribed to mortgage, 66 (7.6%) subscribed to savings plan, 121 (13.9%) subscribed to Hajj plan, 91 (10.4%) subscribed to life plan and 32 (3.7%) subscribed to other plans not mentioned in our options. However, 377 (43.3%) respondents did not subscribe to any plan or did not respond to this item.

We must explain that the total number of the respondents who subscribed to the various plans exceeded the number who responded affirmatively in item 8 (table 5.10). This is because some of our respondents subscribed to more than one plan from their responses.

Table 5.13: Which insurance organization(s)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	african alliance insurance plc	76	8.7	14.4	14.4
	niger insurance plc	17	2.0	3.2	17.6
	cornerstone insurance plc	115	13.2	21.7	39.3
	alhayat takaful	210	24.1	39.7	79.0
	others	111	12.7	21.0	100.0
	Total	529	60.7	100.0	
Missing	System	342	39.3		
Total		871	100.0		

Table 5.13 gives the distribution of the various insurance organisations offering plans to which our respondents have subscribed. 76 respondents, representing 8.7% subscribed to plan(s) offered by African Alliance PLC, 17 respondents, indicating 2.0% subscribed to plan(s) by Niger Insurance PLC, 115 respondents, representing 13.2% subscribed to plan(s) offered by Cornerstone Insurance PLC , 210 respondents, indicating 24.1% subscribed to the Takaful plan of Alhayat Relief Foundation. 111 respondents, represnting 12.7% subscribed to other organisations not mentioned in our options. 342 respondents did not respond to the item. However, a crosstabulation of what insurance plan were subscribe to in the patronised companies was done as can be seen in table 5.14

Table 5.14: Further on insurance organisation and type of plans

		african alliance insurance plc	niger insurance plc	cornerstone insurance plc	alhayat takaful	others	Total
section b number nine	retirement plan	17	0	0	0	0	17
	education plan	38	0	0	0	0	38
	mortgage	21	17	91	0	0	129
	saving plan	0	0	24	42	0	66
	hajj plan	0	0	0	121	0	121
	life plan	0	0	0	47	44	91
	others	0	0	0	0	32	32
Total		76	17	115	210	76	494

Table 5.15 What is your experience of the plan(s)?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	good	445	51.1	89.2	89.2
	bad	54	6.2	10.8	100.0
	Total	499	57.3	100.0	
Missing	System	372	42.7		
Total		871	100.0		

Table 5.15 shows the response of our respondents to the item that seeks to know the experience of those who have subscribed to one Takaful plan or the other. 445 of our respondents indicating 51.1% say their experience has been good. 54 respondents, signifying 6.2% have bad experience. 372 (42.7%) have no experience whatsoever or did not respond to the item. From the table, it is apparent that some of our respondents who did not subscribe to any Takaful plan, as evident in table 5.8 and who also may not have replied to tables 5.9 and 5.10, must have answered this question. This probably would have been responsible for the high number of respondents who say their experience has been good. But to know which plan gives the good or bad experience, a cross tabulation was further don as can be seen in table 5.16

Table 5.16: Further on experienceabout plans.

		good	bad	Total
section b number nine	retirement plan	17	0	17
	education plan	38	0	38
	mortgage	129	0	129
	saving plan	66	0	66
	hajj plan	121	0	121
	life plan	74	17	91
	others	0	32	32
Total		445	49	494

Table 5.17 would you be willing to join any *Takāful* plan?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	568	65.2	75.4	75.4
	no	185	21.2	24.6	100.0
	Total	753	86.5	100.0	
Missing	System	118	13.5		
Total		871	100.0		

The item above seeks to know if our respondents will be willing to join any *Takāful* plan. 568 respondents, representing 65.2% said they will be willing to join while 185 respondents, representing 21.2% said no. However, 118 respondents, representing 13.5% did not react to this item. We can therefore say that there is hope for *Takāful* operation in Nigeria.

Table 5.18 Can *Takāful* succeed in Nigeria?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	728	83.6	83.6	83.6
	no	143	16.4	16.4	100.0
	Total	871	100.0	100.0	

The table above shows the response of our respondents to the question, can *Takāful* succeed in Nigeria? 728 respondents, indicating 83.6% gave Yes answer while 143 respondents, representing 16.4% gave No answer. This also gives an assurance that Takaful may not have serious problem in Nigeria.

SECTION C: Prospects and Challenges of Islamic Insurance in Nigeria.

This section was designed to specifically assess the prospects and challenges facing Isalmic Insurance (*Takāful)* in Nigera. The responses to the 20 items raised for this purpose are presented in summary tables below;

Table 5.19 Muslim population in Nigeria can sustain large *Takāful* operation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	384	44.1	53.1	53.1
	agree	228	26.2	31.5	84.6
	disagree	65	7.5	9.0	93.6
	strongly disagree	46	5.3	6.4	100.0
	Total	723	83.0	100.0	
Missing	System	148	17.0		
Total		871	100.0		

The above table shows the opinion of respondents on whether the number of Muslims in Nigeria can sustain large *Takāful* operation. 384 of our respondents strongly agreed with the proposition, giving us 44.1%, 228 of the respondents agree with it, indicating 26.2%. 65 of the respondents, a percentage of 7.5, disagree and 46 of the respondents strongly disagree, indicating 5.3%. 148 respondents did not respond to this item and that gives a total of 17%. From the table, it is apparent that a total of 612 respondents, giving 70.3%, agreed with the opinion that the Muslim population in Nigeria is enough to sustain large *Takāful* operations.

Table 5.20 With the number of Islamic organizations in Nigeria, there should be no problems establishing full *Takāful* service providers.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	391	44.9	47.4	47.4
	agree	271	31.1	32.8	80.2
	disagree	101	11.6	12.2	92.5
	strongly disagree	62	7.1	7.5	100.0
	Total	825	94.7	100.0	
Missing	System	46	5.3		
Total		871	100.0		

This table shows the reaction of our respondents to the opinion that the number of Islamic organization in Nigeria should aid the establishment of full *Takāful* organizations. 391 i.e 44.9% strongly agree with the proposition while 271 i.e 31.1% agree with the opinion. A total of 101 i.e 11.6% disagree and 62 i.e 7.1% strongly disagree. 5.3% i.e 46 of the respondents did not respond to the proposition. The implication of the table is that 662 (76%) of the respondents subscribed to the thinking that the existing Islamic organizations in Nigeria can aid the establishment of full *Takāful* operators.

Table 5.21 The current insurance regulation in Nigeria could be a major barrier to the success of *Takāful* operation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	234	26.9	26.9	26.9
	agree	268	30.8	30.8	57.6
	disagree	185	21.2	21.2	78.9
	strongly disagree	184	21.1	21.1	100.0
	Total	871	100.0	100.0	

Table 5.21 indicates the opinion of our respondents on the insurance regulation in Nigeria and the success of *Takāful*. 234 (26.9%) of the respondents strongly agreed that the current regulations guiding the practice of insurance in the country could be a barrier to the success of *Takāful*. 268 (30.8%) agreed with the position. This gives a total of 502 (57.7%) respondents supporting the proposition. 185 (21.2%) disagreed while 184 (21.1%) strongly disagreed with the position. The total of the respondents who diagreed is 369 i.e 42.3%. This means that if *Takāful* practice is to succeed in Nigeria, there is the need for new regulations that will be *Takāful* friendly.

Table 5.22 A large number of Muslims do not know what *Takāful* is all about.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	253	29.0	30.5	30.5
	agree	315	36.2	38.0	68.5
	disagree	88	10.1	10.6	79.1
	strongly disagree	173	19.9	20.9	100.0
	Total	829	95.2	100.0	
Missing	System	42	4.8		
Total		871	100.0		

The table above indicates the respondents reaction to the opinion that a large number of Muslims do not know what *Takāful* is all about. 253 i.e 29% of the respondents strongly agreed with the opinion. 315 i.e 36.2% agreed with it. This means that a total of 568 respondents i.e 65.2% agreed with the proposition. However, 88 respondents i.e 10.1% disagreed and a total of 173 respondents indicating 19.9% strongly disagreed.

This leaves us with a total of 261 respondents i.e 30% not agreeing with the opinion. 42 of the respondents, i.e 4.8% did not respond to this item.

The implication of this table is that if *Takāful* is to succeed in Nigeria, there should be deliberate, planned and sustained efforts towards creating awareness among the Nigerian populace. It is clear that while a number of Muslims may have heard about *Takāful*, the available information to them is still very little.

Table 5.23 Non Muslims are likely to participate in *Takāful* if the right kind of awareness is created.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	238	27.3	28.2	28.2
	agree	407	46.7	48.3	76.5
	disagree	109	12.5	12.9	89.4
	strongly disagree	89	10.2	10.6	100.0
	Total	843	96.8	100.0	
Missing	System	28	3.2		
Total		871	100.0		

This table shows that, on the opinion that even with the multi-religious nature of Nigeria, non- Muslims are likely to participate in *Takāful* if the right kind of awareness is created, 238 (27.3%) of our respondents strongly agreed with the position and 407 (46.7%) agreed. However, 109 (12.5%) disagreed while 89 (10.2%) strongly disagreed. 28 (3.2%) of the respondents did not have any opinion on the item.

It is instructive from this table that a large number of our respondents, 645 i.e74% agreed that if there are conscious efforts to provide the right kind of awareness, non Muslims will participate in *Takāful*. Only 198 of the respondents, i.e. 22.7% disagreed with the opinion. It is therefore apparent that people of other religions could be made to benefit from the enormous social benefits of *Takāful*. This will afford them the opportunity of seeing the beauty of Islam.

Table 5.24 The negative attitude of Nigerians to conventional insurance cannot affect *Takāful.*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	241	27.7	29.5	29.5
	agree	290	33.3	35.5	64.9
	disagree	125	14.4	15.3	80.2
	strongly disagree	162	18.6	19.8	100.0
	Total	818	93.9	100.0	
Missing	System	53	6.1		
Total		871	100.0		

Table 5.24 shows the response of the respondents to the above proposition. Statistics have shown that the level of insurance acceptance among Nigerians is still very low. The propositon therefore says that the negative attitude of Nigerians to conventional insurance cannot affect *Takāful*. From the frequency table 241 or 27.7% of our respondents strongly agreed with the proposition. 290 or 33.3% of the respondents agreed with it. On the other hand, 125 or14.4% of our respondents disagreed with the opinion and 162 or 18.6% of the respondents strongly disagreed with it. However, 53 or 6.1% of the respondents did nor respond to the proposition.

The table's implication is that 531, representing 61% of our respondents agreed that the negative attitude of Nigerians to conventional insurance cannot affect *Takāful*.This may be due to the fact that *Takāful*, unlike conventional insurance, has religious colouration and that people tend to accept what their religions dictate. A total of 287 representing 23% of the respondents disagreed. We can therefore say that if the relatively low acceptance of conventional insurance is not to be the lot of *Takāful*, the advantages of *Takāful* over conventional insurance and its social values must be well highlighted when explaining *Takāful* to potential participants.

Table 5.25: The high level of patronage of Takaful products in the Nigeria conventional insurance market is indicative of a successful Takaful operation in Nigeria.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	256	29.4	31.1	31.1
	agree	343	39.4	41.7	72.9
	disagree	121	13.9	14.7	87.6
	strongly disagree	102	11.7	12.4	100.0
	Total	822	94.4	100.0	
Missing	System	49	5.6		
Total		871	100.0		

The table above shows the respondents' views on the proposition that the high level of patronage of *Takāful* products presently in the insurance market is a possible indication that *Takāful* operation will succeed in Nigeria. From our interraction (Interview conducted with some key personnels in the *Takaful* sectionās). with the three insurance companies that have introduced *Takāful* windows, (African Alliance Insurance PLC, Niger Insurance PLC and Cornerstone Insurance PLC), we got to know that there is high level patronage for *Takāful* products. (This will be related in chapter six)

From the table, 256 respondents (29.5%) strongly agreed with the opinion while 343 (39.4%) agreed. This indicates that a total of 599 respondents i.e 68.8% supported the proposition. However, 121 respondents, indicating 13.9% disagreed and 102 respondents i.e 11.7% strongly disagreed with the position. This gives a total of 223 respondents i.e 25.6% not supporting the proposition. Nevertheless, 49 of the respondents, representing 5.6% did not have any opinion on this item.

Table 5.26: The multi-religious nature of Nigeria could be counterproductive to *Takāful* operation.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	88	10.1	11.0	11.0
	agree	202	23.2	25.3	36.3
	disagree	285	32.7	35.7	72.1
	strongly disagree	223	25.6	27.9	100.0
	Total	798	91.6	100.0	
Missing	System	73	8.4		
Total		871	100.0		

This table shows the frequency of responses to the above proposition. 88 respondents, representing10.1% strongly agreed that the multi-religious nature of Nigeria could be counter productive to *Takāful*. 202 i.e 23.2% agreed. On the other hand 285 of the respondents, representing 32.7% disagreed with the position and 223 of the respondents i.e 25.6% strongly disagreed. This shows that while 290 (23.3%) of the respondents agreed with the position, 508 (58.3%) disagreed. 73 of our raepondents, representing 8.4% did not respond to this item of the questionaire.

Table 5.27 The high rate of poverty among Nigerians would mar the success of Takaful in Nigeria.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	122	14.0	16.5	16.5
	agree	199	22.8	27.0	43.5
	disagree	149	17.1	20.2	63.7
	strongly disagree	268	30.8	36.3	100.0
	Total	738	84.7	100.0	
Missing	System	133	15.3		
Total		871	100.0		

Table 5.27 shows respondents' positions on the proposition that the high rate of poverty among Nigerians would mar the success of *Takāful* in Nigeria. 122 of the respondents, representing 14% strongly agreed with the view while 199 respondents, reoresenting 22.8% agreed with it. On the other hand 149 of the respondents i.e 17.1% disagreed and 268 i.e 30.8% of the respondents strongly disagreed with the view. 133 respondents, representing 15.3% did not respond to this item.

From the table, it is apparent that 321 respondents, representing 36.8% supported the view while 417 of the respondents i.e47.9% did not suport the view. This may be due to peoples' understanding that *Takāful* can also be packaged as a poverty alleviation scheme for its participants.

Table 5.28 Minimal Islamic (halal) investment products in the Nigeria financial market could be a major challenge to *Takāful*.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	113	13.0	13.8	13.8
	agree	413	47.4	50.3	64.1
	disagree	149	17.1	18.1	82.2
	strongly disagree	146	16.8	17.8	100.0
	Total	821	94.3	100.0	
Missing	System	50	5.7		
Total		871	100.0		

The table above presents the pattern of response to the proposition that the fact that there are few Islamic investment products in the Nigerian market could be a major challenge to the operation of *Takāful*. 113 of the respondents, representing 13% strongly agreed with the view while 413 respondents i.e 47.4% agreed with the position. 149 resondents, representing 17.1% disagreed with the proposition and 146 respondents, indicating16.8% strongly disagreed with our position. However, 50 of the respondents, representing 5.7% had no position on this item.

It is therefore clear from the table that a large number of the respondents, 526, representing 60.4% agreed with the proposition while 295 respondents, representing 33.9% disagreed with the proposition.

Table 5.29: Muslim population in Nigeria cannot sustain large *Takāful* operation.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	64	7.3	8.2	8.2
	agree	232	26.6	29.9	38.1
	disagree	210	24.1	27.1	65.2
	strongly disagree	270	31.0	34.8	100.0
	Total	776	89.1	100.0	
Missing	System	95	10.9		
Total		871	100.0		

On the above proposition, table 5.29 presents the pattern of responses. 64 respondents i.e 7.3% strongly agreed that the Muslim population in Nigeria cannot sustain large Takaful operation, whereas 232 respondents, indicating 26.6% agreed with the position. On the other hand, 210 respondents, representing 24.1% disagreed with the the view and 270 respondents, representing 31% strongly disagreed. 95 of the respondents, representing 10.9% did not respond to this item. The table therefore shows that a total of 296 respondents, representing 33.9% agreed with the position while 480 respondents, indicating 55.1% disagreed with the view.

It must however be mentioned that the pattern of response in this table confirms, though not with the same figure, the first item in section C of the questionaire (see table 5.19) that the number of Muslims in Nigeria can sustain large *Takāful* operation.

Table 5.30 The large number of Islamic organizations in Nigeria cannot guarantee successful *Takāful* operation.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	108	12.4	15.0	15.0
	agree	133	15.3	18.4	33.4
	disagree	214	24.6	29.7	63.1
	strongly disagree	266	30.5	36.9	100.0
	Total	721	82.8	100.0	
Missing	System	150	17.2		
Total		871	100.0		

The table above shows the respondents' opinion on the view that the large number of Islamic organizations in Nigeria cannot guarantee successful *Takāful* operation. Out of a total of 871 repondents, 108, representing 12.4% strongly agreed with the position while133 respondents i.e15.3% agreeed. This shows that 241 respondents i.e 27.7%, agreed with the proposition. On the other hand, 214 respondents, representing 24.6% disagreed with it, while 266 of them, indicating 30.5% disagreed with the position. This also shows that 55.1% of the respondents disagreed with the proposition. However 150 of our repondents, representing 17.2% had no view on this item. It should also be added that the pattern of opinion presented by the table tallies with the pattern presented in table 5.20 that with the number of Islamic organizations in Nigeria, there should be no problems establishing full *Takāful* service providers.

Table 5.31 The current insurance regulation should not be a barrier to *Takāful* operation in Nigeria.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	178	20.4	21.5	21.5
	agree	323	37.1	39.0	60.5
	disagree	101	11.6	12.2	72.7
	strongly disagree	226	25.9	27.3	100.0
	Total	828	95.1	100.0	
Missing	System	43	4.9		
Total		871	100.0		

This table shows the frequency of response on the assertion that the insurance regulation currently in Nigeria should not be a barrier to *Takāful* operation . 178 of the respondents i.e 20.4% strongly agreed with the position. 323 i.e 37.1% agreed with it. On the other hand 101 respondents representing 11.6% disagreed with the position and 226 respondents, representing 25.9% strongly disagreed with it. There were 43 respondents who were indifferent to the position. That represents 4.9%.

From the table, we see that 501 respondents, representing 57.5% agreed with the position and 327 respondents, representing 37.5% disagreed with it. If we compare the pattern of response to this item with item 3 of section C (see table 5.21) we will notice some inconsistency in the pattern. While a large percentage of the respondents (57.7%) agreed with the position that the current insurance regulation in Nigeria could be a major barrier to the success of *Takāful* operation, very close to the same percentage (57.5%) also agree that the current insurance regulation should not be a barrier to *Takāful* operation. This is inconsistent but all the same that was the pattern of respondents reaction.

Table 5.32 A large number of Muslims know what *Takāful* is all about.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	102	11.7	14.2	14.2
	agree	172	19.7	23.9	38.1
	disagree	180	20.7	25.0	63.1
	strongly disagree	266	30.5	36.9	100.0
	Total	720	82.7	100.0	
Missing	System	151	17.3		
Total		871	100.0		

The table above shows the frequency of response to the proposition that a large number of Muslims know what *Takāful* is all about. Out of the valid responses, 102 respondents, representing 11.7% strongly agreed with the position and 172 respondents, i.e. 19.7% agreed with it. This gives a total of 274 respondents i.e.31.4% supporting the position. On the other hand, 180 respondents, representing 20.7% disagreed with the position and 266 respondents, indicating 30.5% strongly disagreed with the position. Therefore, a total of 446 respondents, indicating 51.2% disagreed with the position. It must also be mentioned that 151 respondents, representing 17.3% did not respond to this item.

If the pattern of response in this table is compared with table 5.22 which shows respondents reactions to the position that a large number of Muslims do not know what *Takāful* is all about, we will see that there is consistency, though with slight difference, in the patterns. 65.2% of the respondents agreed in table 5.22 that a large number of Muslims do not know what *Takāful* is all about. Here, 51.2% disagreed that a large number of Muslims know what *Takāful* is all about.

Table 5.33 Non Muslims are not likely to participate in *Takāful* even if the right kind of awareness is created

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	89	10.2	10.7	10.7
	agree	155	17.8	18.7	29.4
	disagree	183	21.0	22.0	51.4
	strongly disagree	404	46.4	48.6	100.0
	Total	831	95.4	100.0	
Missing	System	40	4.6		
Total		871	100.0		

Table 5.33 gives the frequency distribution of respondents' reaction to the position that non-Muslims are not likely to participate in *Takāful* even if the right kind of awareness is created. From the valid responses, 89 respondents, representing 10.2% strongly agreed with the position and 155 of the respondents, indicating17.5% agreed. Also 183 respondents, representing 21% disagreed while 404 respondents, indicating 46.4% strongly disagreed. 40 respondents, representing 4.6% missed the item.

It is obvious from the table that while 244 respondents, representing 28% agreed with the position, a total of 587 respondents, representing 67.4% diagreed with the proposition. If this pattern of response is compared to the pattern in table 5.18 we will see consistency recorded, though with little variation. In table 5.23, 74% agreed that non-Muslims are likely to participate in *Takāful* if the right kind of awareness is created. In this table, 67.4% disagreed that non-Muslims are not likely to participate in *Takāful* even if the right kind of awareness is created.

Table 5.34 The negative attitude of Nigerians to conventional insurance could be extended to *Takāful*.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	87	10.0	10.6	10.6
	agree	222	25.5	27.0	37.6
	disagree	189	21.7	23.0	60.7
	strongly disagree	323	37.1	39.3	100.0
	Total	821	94.3	100.0	
Missing	System	50	5.7		
Total		871	100.0		

Table 5.34 shows the frequency distribution of responses to the position that the negative attitude of Nigerians to conventional insurance could affect *Takāful*. Out of 871 respondents, 87 representing 10% strongly agreed with the position and 222, indicating 25.5% agreed. On the other hand, 189 respondents, representing 21.7% disagreed and 323 of the respondents, signalling 37.1% strongly disagreed with the position. Therefore, while 309 respondents, representing 35.5% supported the position, 412 respondents, indicating 58.8% did not support the position. However, 50 of our respondents did not respond to this item.

If this table is compared with table 5.24, we can see consistency in the pattern of resposes in the two tables. In table 5.24, 61% of the respondents agreed that the negative attitude of Nigerians to conventional insurance cannot affect *Takāful*. In this table also 58.8% of the respondents disagreed that the negative attitude of Nigerians can be extended to *Takāful*.

Table 5.35 The high level of patronage of Takāful products currently in the Nigeria conventional insurance market is not a guarantee for a successful Takāful Operation in Nigeria.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	69	7.9	8.6	8.6
	agree	196	22.5	24.3	32.8
	disagree	138	15.8	17.1	49.9
	strongly disagree	404	46.4	50.1	100.0
	Total	807	92.7	100.0	
Missing	System	64	7.3		
Total		871	100.0		

Table 5.35 gives the pattern of opinion of our respondents to the above proposition. 69 (7.9%) of the respondents strongly agreed that the high level of patronage of *Takāful* products currently in the Nigeria conventional insurance market is not a guarantee for a successful *Takāful* operation in Nigeria. 196 (22.5%) respondents merely agreed. 138(15.8%) respondents disagreed and 404 (46.4%) respondents strongly disagreed. 64 (7.3%) did not respond to the item.

The distribution shows that 265 (30.4%) agreed with the position and 542 (62.6%) disagreed with the position. A comparison of this table with table 5.20 shows to a great extent consistency in the pattern of responses. In table 5.25, 68.8% of the respondents support the view that the high level of patronage of *Takāful* products currently in the conventional insurance market is indicative of a successful *Takāful* operation In Nigeria. In this table, 62.6% of the respondents disagreed that such high level patronage is not a guarantee for a successful *Takāful* operation.

Table 5.36 The multi-religious nature of Nigeria cannot adversely affect Takāful operation.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	122	14.0	30.3	30.3
	agree	127	14.6	31.6	61.9
	disagree	133	15.3	33.1	95.0
	strongly disagree	20	2.3	5.0	100.0
	Total	402	46.2	100.0	
Missing	System	469	53.8		
Total		871	100.0		

The above table explains the frequency of response on the proposition that the multi-religious nature of Nigeria cannot adversely affect *Takāful* operation. 122 respondents i.e. 14% strongly agreed with the position and 127 (14.6%) agreed with the position. On the other hand 133 respondents i.e. 15.3% disagree and 20 respondents (2.3%) strongly disagree with the position. For reasons not immediately clear, a large number of our respondents, 469 representing 53.8% did not respond to the item. It therefore shows that 249 (28.6%) respondents supported the position and 153 respondents, representing 17.6% did not support the position.

A comparison of this table with table 5.26 shows that while a significant percentage of the respondents, 58.3% disagreed that the multi-religious nature of Nigeria could be counterproductive to *Takāful* operation, only 28.6% agreed that the multi-religious nature of Nigeria cannot adversely affect *Takāful* operation. Though it represents the highest percentage on this table, the margin of consistency is low

Table 5.37 Despite the high rate of poverty among Nigerians, Takāful can still be successful in Nigeria.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	199	22.8	24.5	24.5
	agree	424	48.7	52.2	76.7
	disagree	111	12.7	13.7	90.4
	strongly disagree	78	9.0	9.6	100.0
	Total	812	93.2	100.0	
Missing	System	59	6.8		
Total		871	100.0		

In the above frequency table, the respondents' reactions to the proposition thet despite the high rate of poverty among Nigerians, *Takāful* can still be successful. In the distribution, 199 respondents, representing 22.8% strongly agreed with the proposition. 424 respondents, indicating 48.7% agreed. On the other hand, 111 respondents, representing 12.7% disagreed with the position while 78 respondents, representing 9% strongly disagreed. 59 of our respondents did not react to the item. It shows therefore, that 623 respondents, representing 71.5% agreed that despite the poverty level in Nigeria, *Takāful* operation can succeed . A total of 189 respondents, indicating 21.7% disagreed with the proposition.

If we compare this table with table 5.37 with the proposition that the high rate of poverty among Nigerians would mar the success of *Takāful* in Nigeria, we will see that 47.9% of the respondents disagreed with that proposition and here, in this table, 71.5% agreed that the poverty rate cannot affect the success of *Takāful*. There is therefore a measure of consistency even if it not accurate.

Table 5.38 Minimal Islamic (halal) investment products in the Nigeria financial market cannot be a challenge to Takāful.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	225	25.8	27.8	27.8
	agree	334	38.3	41.2	69.0
	disagree	109	12.5	13.5	82.5
	strongly disagree	142	16.3	17.5	100.0
	Total	810	93.0	100.0	
Missing	System	61	7.0		
Total		871	100.0		

Table 5.38 presents the respondents' view on the proposition above. Out of the total of 871 respondents, 225 (25.8%) strongly agreed with the position. 334 (38.3%) respondents agreed. 109 (12.5%) respondents disagreed and 142 (16.3%) strongly disagreed. 61 respondents, representing 7.0% did not respond to this proposition. It is therefore clear from the table that 559 respondents, representing 64.1% supported the position and 251respondents, representing 28.8% did not support the position.

A comparison of this table with table 5.28 which gives the pattern of response on the proposition ' minimal Islamic (halal) investment products in the Nigeria financial market could be a major challenge to *Takāful* shows that 60.4% of the respondents agreed with the position while here in this table 64.1% of the respondents also agreed that minimal Islamic investment products in the Nigeria financial market cannot be a challenge to *Takāful*. This shows inconsistency in the pattern of response concerning the two propositions.

5.3 Discussions of findings

Attempt has been made above to give the data analysis and results of our findings generated through the questionnaire instrument. We have been able to discover that *Takāful* as a concept is not totally new to Nigerians. A good number of respondents, (69.8%), know it as a form of insurance that is based on the Islamic legal code. However, only few people know its workings. Because of this very little awareness on the workings of *Takâful,* not significant number of respondents, (26.5%), have subscribed to any *Takâful* plans out of the existing products in the country. From this few subscribers, 51.0% were satisfied with their subscriptions owing to the transparent outcome of profit sharing.

It was further discovered that the windows have not done enough on the issue of education and awareness creation. Our experience on the field was to the effect that with appropriate awareness, Nigerians will be willing to buy *Takāful* products and participate in its operation irrespective of their religions. In fact, after our interaction with the respondents, 65.2% were willing to participate in *Takāfu*l plans.

More importantly, the findings revealed that certain factors are likely to aid the success of *Takâful* operation in Nigeria. Such factors include; the population of Muslims in Nigeria (70.3% of respondents), the number of Islamic Organizations and societies in the country ((76.0%), the poverty level in Nigeria which requires urgent alleviation (71.5%) and the existence of some *halāl* products in the Nigeria financial market.

Moreover, the findings also revealed that certain factors could constitute challenges to the operations of *Takāful*. Respondents opined that the current insurance regulations in the country could constitute a challenge (57.7%) Others are; awareness (65.2%) and few Islamic investment products (64.1%). Interestingly, respondents did not totally support the feeling that the multi-religious nature of Nigeria could constitute a barrier to *Takāful* operations. In fact 72.0% disagreed. It must be mentioned that an overwhelming 83.6% of our respondents opined that *Takāful* would succeed in Nigeria.

While we intend to discuss the factors of prospects and challenges to *Takāful* mentioned in the findings in details later, it is pertinent to state that the Nigerian government, over the years, has taken many steps to facilitate the operation of Islamic finance in general and Islamic insurance in particular.

It will be recalled that Nigeria has been a member country of the Organization of Islamic Conference (OIC) since the time of General Ibrahim Babangida (Ilo, 2009:239). As a further development on that, Nigeria under the Presidency of Olusegun Obasanjo joined the Islamic Development Bank as a full-member (Umar, 2011:6). Added to the above, it is also to be noted that the country is not alien to *Shariah* practice.

Aside from these, an approval-in-Principle (AIP) has been granted to the proposed Jaiz Bank PLC to operate a full-fledged Islamic bank with the condition of meeting 25 billion capital requirement. On this, the Islamic Development Bank (IDB) offered the Central Bank of Nigeria a Technical Aid Grant for training Central Bank examiners for the development of a framework for the regulation and supervision of Islamic finance in Nigeria. The grant was also given for the organization of an International Conference on Islamic finance in Nigeria. (Umar, 2011:6)

In January 2009, the Central Bank of Nigeria joined the International Financial Services Board (IFSB) as full member. The IFSB, based in Malaysia, is an international standard-setting organisation for the Islamic financial service industry. The body comprised of central bank of various countries and other regulatory bodies and multilateral organisations like IDB and IMF.

In September, 2010 a number of remarkable events, consolidating the take-off of Islamic finance in Nigeria, unfolded. The Nigeria Deposit Insurance Scheme (NDIC) released its draft framework for a non-interest (Islamic) Deposit Insurance Scheme for stakeholders' comments and inputs; The Security and Exchange Commission (SEC) posted regulations guiding funds and securities, including Islamic fund management on its website; The Debt Management Office set a tentative timetable for the development of the first *Sukuk* (Islamic bond). . (Umar, 2011:7)

In October, 2010 the Central Bank of Nigeria joined the central banks of Malaysia, Kuwait, Luxembourg, Saudi Arabia, Iran, Mauritius, Qatar, Sudan, Turkey, UAE, Indonesia and some multilateral organisations like IDB and the Islamic Corporation for the Development of the Private sector, to form the International Islamic Liquidity Management Corporation (IILM). The aim of IILM is to provide treasury instruments that are *Sharī'ah*-compliant to address the liquidity management issue of Islamic banks and serves as instruments for open market operations involving Islamic financial institutions. (Umar, 2011:7)

With these major steps taken what remains is the final framework for the regulation and supervision of non-interest financial institutions in Nigeria. It is our belief that the introduction of non-interest banking in Nigeria will promote the entry of other institutional players like *Takāful.*

In addition to all the above, the following factors will serve as prospects for the operation of *Takâful* in Nigeria:

5.3.1 Muslim population in Nigeria

There has been very serious disagreement over Muslim-Christian population figure in Nigeria just as the various figures of census carried out in the country over the years have been contested in various parts of the country because of the high level of politicization (Bamgbose, 2009:315)

The controversy became so sensitive that government had to stop reflecting data relating to religion in two previous censuses, 1973 and 1991. The last officially accepted census in which such information was gathered was taken in 1952 (Ostien, 2007:2)

The same was done in the 2006 census and the only breakdown available for the 2006 census (which put the population of the country at 140,003,542) was by gender; male-71,709,859 and female-68, 293, 08 (Otokiti and Adesina, 2010:2)

An annual USA State Department report on International Religious Freedom for 2009 released in October in Washington DC indicated that with a population of 149 million, there is no agreement on the number of Muslims and Christians in Nigeria. In its details, the report says:

> ... While some groups estimate the population to be 50 percent Muslim, 40 percent Christian and 10 percent practitioners of indigenous religious beliefs, it is generally assumed that the proportions of citizens who practice Islam and citizens who practiced Christianity are roughly equal.

Earlier, a United States group, The Pew Foundation, had come out to say in a research report on Religion and Public Life that "Nigeria has the largest Muslim population in sub-Saharan Africa, with about 78 million Muslims". (Otokiti and Adesina, 2010:12) However the Pew report has generated a lot of reactions from, most especially the Pentecostal Fellowship of Nigeria which disagreed with the Pew figure.

Umar, (2011:8) puts the population of Nigeria Muslims at an estimation of over 80 million, when he argued:

> The introduction of Islamic financial services in Nigeria will enable a larger proportion of the Nigerian population to participate actively and effectively in economic development. Nigeria has a very large Muslim population (estimated at over 80 million) majority of whom are either under-banked or totally unbanked, and have steered away from conventional banking service due to their

aversion to interest-based products or services offered by these banks.

The 2009 CIA World Factbook on 2009 population data put the population of Muslims in Nigeria at 111,921,818 indicating 75 percent of the total population which it puts at 149,229,090. This claim definitely will be another point of controversy if the Pew report can be so controverted. It therefore may be controversial to place figure on the population of Muslims in Nigeria since it has been difficult to conduct an acceptable census since the nation got her independence in 1960. All efforts made in this direction so far, have been met with widespread opposition and condemnation.

It may therefore be safe to say what is obvious from the Pew report to the CIA Factbook and what can be seen in the regions of Nigeria; the Muslim dominated North, the nearly shared middle belt and South West, that the population of Muslims in Nigeria is substantial.

This large population is an asset to the success of the operation of *Takâful* in Nigeria if it is carefully managed and proper education, on the religious, social and economic benefits of *Takâful* is carried out.

In the survey we carried out (see chapter five), 70.3% of the respondents maintain that the Muslim population in Nigeria is enough and substantial to sustain large *Takāful* operations (see table 5.14). This is not to say that people of other faiths should not be involved in *Takāful* practice. What this portends is that even if people of other faiths refuse to patronise *Takâful* operation, the patronage by the Muslims will sustain *Takāful* to success.

5.3.2 Islamic Organizations in Nigeria.

The existence of many Islamic organizations is another factor which has given hope to the success of *Takâful* operation in Nigeria. It must be mentioned that there is difficulty getting the number of Islamic organizations in Nigeria. This is because while some operate nationally and their activities are available on the internet, there are a number of them which operate at the micro community and whose impacts are also felt at that level. Attempt is made here to present some of the organizations as presented by www.IslamicFinder.org (see Appendix 111)

While these organizations carry out their activities at their various levels, it can be said that the effects of some of them are not felt in the country. There is therefore the need for these organizations to network and collaborate so that meaningful impact can be created in the country.

The Muslim organizations in Nigeria can play a fundamental role in making *Takāful* operation successful. This is in the areas of promoting the industry and creating awareness. We can borrow the experience of Indonesia where the first *Takâful* Company was established by government with the support of Muslim organizations and Muslim investors.

5.3.3 Poverty level in Nigeria

The menace of poverty, though global, is most devastating in Africa. Human conditions in most of African countries (Nigeria inclusive) have greatly deteriorated, particularly during the last decade (Afonja and Ogwumike, 2003:56).

The poverty phenomena in Nigeria, as presented in statistics and as manifested on the land may be a hindrance to the achievement of a morally upright society because the reality is that an hungry man or one who is not able to satisfy the security and physiological needs is a confused person even in his religion.

Standard of living has dropped beyond normal rate in Nigeria. The country which was one of the richest fifty (50) countries in the early 1970s has retrogressed to become one of the twenty five (25) poorest countries at the threshold of the twenty first century (Igbuzor 2006). It is ironic that Nigeria is the sixth largest exporter of oil and at the same time hosts the third largest number of poor people after China and India (Aigbokhan 2000). Statistics show that the incidence of poverty using the rate of one US dollar per day increased from 28.1% in 1980 to 46.3% in 1985 and declined to 42.7% percent in 1992 but increased again to 65.6% in 1996. The incidence increased to 69.2% in 1997 (Igbuzor, 2006) and 70% in 1999 (NEEDS Document, 2005). However, the 2004 report by the national planning commission indicates that poverty has decreased to 54.4%.This may be doubtful because, the manifestation on land is not supportive of this claim.

Nigeria fares very poorly in all development indices. The average annual percentage growth of GDP in Nigeria from 1990 – 2000 was 2.4%. This is very poor when compared to Ghana’s 4.3% and Egypt’s 4.6% (Aigbokhan 2000).

Poverty in Nigeria is in the midst of plenty and Nigeria is among the twenty countries in the world with the widest gap between the rich and the poor. The Gini index measurement (which measures the extent to which the distribution of income or in some cases consumption expenditures among individuals or households within an economy deviates from a perfectly equal distribution) shows that Nigeria has one of the highest Gini index in the world. The Gini index for Nigeria is 50.6. This compares poorly with other countries such as India (37.8), Jamaica (37.9), Mauritania (37.3) and Rwanda (28.9) (Igbuzor, 2006).

Note: a Gini Index of zero represents perfect equality while an index of 100 implies perfect *inequality* (Igbuzor, 2006).

The 2005 report by the National Planning Commission puts Nigeria's poverty in the following words.

> Despite great natural and human resources, Nigeria is poor and level of social development limited: six out of every ten Nigerians live on less than one Dollar per day.

Though, it may be difficult to provide accurate and current statistics of poverty state by state, region by region and according to religions. It may be safe to say that poverty prevails in all the States in Nigeria, in the rural and urban centres and among the different ethnic and religious groups in the Country. Ajadi (2010) corroborates this:

> Poverty has no geographical boundary. It is seen in the north, west, south and east. It is found in rural as well as urban areas of Nigeria.

However, the 2005 NEEDS document gives an insight into poverty levels thus:

> Poverty levels vary across the Country with the highest proportion of poor people in the northwest and the lowest in the southeast.

The adverse effects of this landslide poverty on the social life of Nigerians are enormous. It has increased and perpetuated social insecurity with crimes of diverse types such as armed robbery, advance fee fraud, child labour, prostitution, and corruption, child trafficking and other forms of child abuse. More deaths have been recorded in forms of maternal and child mortality. Illiteracy is on the increase and many youths are roaming the streets because of lack of employment which has increased youths dominant participation in the crimes. Social amenities are inadequate and inefficient and basic needs like safe drinkable water, energy and basic health facilities have collapsed. Therefore, life expectancy has been reduced drastically as shown in the statistics.

It must be mentioned that successive governments have taken one step or the other towards alleviating poverty in Nigeria. Such efforts included

* Operation Feed the Nation and Green Revolution (in the late 70s and early 80s) which aimed at food security for the nation.
* Directorate of Foods, Roads and Rural Infrastructures (DFRRI)
* Mass Mobilization for Social Justice and Economic Recovery (MAMSER)
* National Directorate of Employment (NDE). All in the 90s.

Some recent programmes initiated by former President Olusegun Obasanjo for the same purpose are:

* National Poverty Eradication Programme (NAPEP) aimed at job provision for the masses.
* Youth Empowerment Programme (YEP) to aid the acquisition of relevant skills.
* Social Welfare Services Scheme (SOWESS)

But as laudable as these efforts were, they only remained as rhetoric as they made no meaningful effect on the poor populace. Past governments have used them to amass wealth for themselves.

The world is in search of solution to the problem of poverty, no doubt, and that is why in the year 2000, 149 heads of Government of various countries met at the UN General Assembly to ratify the Millennium Development Goals (MDGs). The millennium declaration consists of Eight goal agenda, with goal number one as "to eradicate extreme poverty and hunger by the year 2015".(UN, Millennium Development Goal Report,2006).

However, seven years after the declaration, a large percentage of Nigerians still go to bed hungry.

Tracing the causes of poverty, Akinyele (2005:6) linked some to immutable factors like climate, geography and history. But in the case of Nigeria, he opined deficient governance which is subject to change, and which includes a core set of factors that perpetuate poverty as the major cause. In his words,

> entrenched corruption, lack of respect for human rights, weak institutions and inefficient bureaucracies, lack of social cohesion and political will to undertake reform are all common features of bad governance and inimical to sustainable development and poverty reduction.

The current situation in Nigeria portrays this scenario very well and it depicts chaos at all levels of governance. Nigeria has indeed sunk into a quagmire from which she needs urgent rescue (Akinyele, 2005:6).

Suggesting the way forward for Nigeria, the 1991 UNDP policy paper maintains that "the real issue should be income generation, with better income, people would be able to move into better housing". However, generating income in the Nigerian economy, which has not been able to create jobs and or economic stability, is a going concern. The IMF working paper on poverty in Nigeria noted thus:

> Nigeria with its vast physical and human resources is much better placed than many other African nations to address this problem (poverty). However, due to various policy distortions which have characterized its economic history, Nigeria has been crippled in its efforts to effectively address poverty. Nigeria's oil wealth has not been wisely invested to provide a sustainable stream of benefits to the poor.

In the face of this uncertainty in the buoyancy of the economy, self efforts and other alternative measures must therefore be taken either by groups or individuals towards living a worthy life. This is where *Takāful* as a self-help effort comes in.

Takāful is the alternative insurance mode acceptable to the Muslims because it is based on the Islamic virtues of mutuality, cooperation and shared responsibility. It is a carefully laid down mode whereby the fortunate assist the unfortunate in line with the Islamic concept of brotherhood.

Takâful principles are laid in such a way that it poses the following socio-economic benefits to the community.

(i) Fulfilment of social obligations towards the family and the community.

(ii) Rendering financial assistance to the unfortunate and the needy.

(iii) Avoidance of *al-Riba (Usury), al-Maysir* (Gambling), *al-Gharar* (Uncertainty) and other similar prohibited elements (which are the features of conventional insurance) within financial dealings.

(iv) Promotion of moral values, ethical dealings and full disclosure in all business activities and operations.

(v) Protection of life style

(vi) It serves as security for the family and the group against misfortune.

(vii) Religiously, through voluntary donations towards alleviating a co-Muslim's economic hardship or calamity, participants achieve self purification and peace of mind. Allah commands the prophet Muhammad (S.A.W) thus:

(Adapted from Bank al-Jezira's website)

"خُذْ مِنْ أَمْوَالِهِمْ صَدَقَةً تُطَهِّرُهُمْ وَتُزَكِّيهِمْ بِهَا وَصَلِّ عَلَيْهِمْ إِنَّ صَلاَتَكَ
سَكَنٌ لَهُمْ وَاللهُ سَمِيعٌ عَلِيمٌ"

> Of their properties, take alms, so that you might purify and sanctify them. And pray on their behalf, verily your prayers are a source of security for them. And Allah is one who hears and knows' (Q. 9v. 103).

The prophet (SAW) was reported to have said:

> He who helps a brother in a crisis in life, Allah will help him during the Day of Judgment as well. He who covers the error of a Muslim, Allah will cover for him on the Day of Judgement. He who makes something easier for a fellow Muslim, Allah will help him as well in life and hereafter Allah will assist anyone who assists his brother" (Hadith 36 of An Nawawi).

He also said:

> One is not judged to be righteous until he cares for a brother as much as he cares for himself (Bukhari).

Going by the mass poverty on land, aside from the large scale Takâful operations, there could be *Takāful* efforts at the micro level. *Takāful* in this instance becomes practicable when a group of people (Muslims or people of other faiths who mutually agree to abide by the principles of Islamic economics) come together, pull resources together, determine a premium payable over a specified period, define a mishap and also determine the amount claimable by any participant who falls into the mishap.

The condition of being Muslims with the emphasis on people of other faiths **who agree to abide by the Islamic economic principles** (for participants) is important for micro *Takâful* operation to avoid unnecessary litigation after all. The apprehension being displayed here is predicated on the following Qur'anic sanctions:

(i) "لاَ يَتَّخِذِ الْمُؤْمِنُونَ الْكَافِرِينَ أَوْلِيَاءَ مِنْ دُونِ الْمُؤْمِنِينَ وَمَنْ
يَفْعَلْ ذَلِكَ فَلَيْسَ مِنَ اللهِ فِي شَيْءٍ إِلاَّ أَنْ تَتَّقُوا مِنْهُمْ تُقَاةً."

> Let not the believers take for friends or helpers, unbelievers rather than believers, if any do that, in nothing will there be help from Allah except by way of precaution, that you may guard yourselves from them (Q 3v. 28).

(ii) "الَّذِينَ يَتَّخِذُونَ الْكَافِرِينَ أَوْلِيَآءَ مِنْ دُونِ الْمُؤْمِنِينَ أَيَبْتَغُونَ عِنْدَهُمُ الْعِزَّةَ فَإِنَّ الْعِزَّةَ لِلَّهِ جَمِيعًا"

Those who take for friends unbelievers rather than believers: Is it honour they seek among them? Nay, All honour is with Allah (Q 4 v.139).

(iii) "يَا أَيُّهَا الَّذِينَ آمَنُوا لاَ تَتَّخِذُوا الْكَافِرِينَ أَوْلِيَاءَ مِنْ دُونِ الْمُؤْمِنِينَ, أَتُرِيدُونَ أَنْ تَجْعَلُوا لِلَّهِ عَلَيْكُمْ سُلْطَانًا مُّبِينًا"

O you who believe! Take not for friends unbelievers rather than believers, do you wish to offer Allah an open proof against yourselves (Q 4 v 144).

The mutual cooperation, brotherhood and solidarity sought from *Takāful* practice in accordance with the Islamic law will naturally be only with those who share faith more so that Allah (SWT) has sanctioned that Muslims seek help from believers rather than non believers in the quoted verses

Added to this is the fact that the principles of Islamic finance may not be acceptable to people of other faiths e.g. the interest free transactions concept, profit / loss sharing policy etc.

It must also be mentioned that pulling and sharing of resources can only occur within a framework of trust, mutuality and reciprocity. These may be difficult to measure in people of other faiths.

However, because of the decadence in public morality, intending *Takâful* participants should be thorough in admitting members to their midst. The issue of being 'genuine Muslims' should be well handled.

As we have earlier discussed in this work, there are different types of *Takâful* models (see Chapter 4). The model proposed for micro *Takāful* is such that will allow investing *Takâful* funds in non-usurious lawful businesses, so as to generate profit for participants while they are still entitled to compensation for the risk as defined in the policy (Al-hayat Relief Foundation's Model).

A large percentage of the fund could be allocated for investment since Islamic finance encourages active investment in ventures with an intent to share profits or losses that may result rather than becoming a passive creditor. Monies are not to be idle but are applied to commercial transactions or agrarian cultivation where risk and rate of returns are balanced.

The remaining percentage which could serve as a reservoir for settlement of claims can equally be invested in quick returns *Murabahah* types of businesses among the participants. In this way, returns are generated which the participants can share from.

But for the purpose of the wealthy Muslims who may want to help the poor and the needy with their money, the non- profit model could be adopted. This model utilizes a contribution that is hundred percent *tabarru* (donation) from participant, who willingly give to the less fortunate members of their community. Funds under this model are also invested to generate profit so that more people could benefit from it.

Development schemes can be floated as the funds increase. Here an agent is not involved, as in the *Wakālah* mode, participants administer their fund and pay claims. But as the *Takâful* fund gets bigger and participants increase, the administrative activities may become more complicated and cumbersome so as to require professional handling. Here the *wakālah* mode may be considered.

There is no doubting the fact that Islamic cooperative insurance can provide an effective method of accumulating income for individuals for the collective good of the community. In many Muslim communities lacking capital resources, cooperative insurance can become an engine for economic growth and development by channelling its funds into *Shari'ah* approved investments (Bank al-Jazira).

As for the investment of *Takâful* fund, more so in the Nigerian business environment, with a high cost of doing business, professional advice is needed so as not to invest in high risk businesses. It may require certain feasibility studies and certain assumptions.

5.3.4 Islamic co-operative Societies/Microfinance organizations in Nigeria.

The existence of co-operative societies and microfinance organizations which operate on Islamic principles is an encouragement for the operation of *Takāful* in Nigeria.

Most of these co-operative societies and microfinance organizations are not registered with the Ministries controlling co-operative activities in the various states because of the existing cooperative regulations in the country which do not allow co-operative activities on the basis of religion. This particular principle is one of the International Co-operative Alliance (I.C.A.) principles which includes;

- Open and voluntary membership without religious or political discrimination

- Democratic control
- Limited interest on capital if any
- Equitable distribution of surplus
- Education for all members, officers, employers and the public.
- Co-operation among co-operators

At the1995 congress held in Manchester, other principles were added to the above. They are:

- Members economic participation
- Autonomy and independence
- Concern of community.(Akintunde, 2008:1)

It may therefore be difficult to know the number of such organizations that are in existence in Nigeria. Most are not registered and they only operate at the community levels. Few are registered but not as co-operative organizations. Some register either as foundations or development groups. Most of them, aside from giving loans to their members on interest-free basis, also engage in micro finance activities.

Islamic microfinance as an institution is relatively new in Nigeria. Presently, at the formal level, there had been no specialized Islamic microfinance institution until mid April, 2010 when Al-Barakah Micro Finance Bank made an entry into the nation's financial system. Al-Barakah is an initiative of The Muslim Congress (TMC), a 16year-old organisation. (The Nation, April 19, 2010)

However, some conventional microfinance institutions are offering Islamic compliant services. It was reported in the Daily Trust/All Africa of 28 January, 2009 that the Kwara Commercial Microfinance Bank which offers Islamic compliant services along with conventional micro banking services –was officially commissioned in Ilorin on 27 January, 2009. (Islamicfinance.de)

Earlier, Integrated Microfinance Bank (IMFB) in Lagos has introduced Islamic – compliant banking products such as *ijārah* and *mushārakah.* In each of these products, customers contribute funds and both the bank and the customer share in the profits (and losses) from the product. The introduction of Islamic–compliant banking products by IMFB dates back to mid – 2008 (microcapital.org).

As we earlier mentioned, Islamic microfinance has also been provided at the non-formal level by some self-help-Muslim organizations in Nigeria. In Ogun State, for instance, activities of these self-help groups are well pronounced because not less than four of such Islamic registered NGOs engage in provision of Islamic microfinance, with two of them having not less than a decade experience. These organizations include *Al-Hayat* Relief Foundation (established 1997), *As-salam* Development (founded 1999), *Itunmetala Iwade* Islamic Foundation (January 2009) and *Al-Amānah* Islamic Foundation (June 2009). They are all registered with the Corporate Affairs Commission as Foundations because of the co-operative principles and regulations earlier discussed.

Others that we have come across include:

- Al-Ansar Muslim Foundation of Nigeria, Abeokuta, OgunState
- Young Muslim Multi-Purpose Cooperative Society, Agege, Lagos
- Dawah Front of Nigeria, Abeokuta
- Al-Ikhlas Cooperative Investment and Credit Society, Ibadan
- Islamic Reliefs Foundation, Ado –Ekiti
- NASFAT Cooperatives, Lagos
- University of Ibadan Muslim Cooperative Investment and Credit Society, Ibadan

Without prejudice to other organizations' and foundations' records, **Al-Hayat Relief Foundation** stands out tall among others. The Foundation came into existence on the 15th March, 1997 when six individuals met to begin what was then Al-Hayat Relief Group. It was at the time of registration with the Corporate Affairs Commission (CAC) that the name was changed to Al-Hayat Relief Foundation. (Brochure of the 1st National AGM)

Presently, the foundation has fourty branches spreading across the South-Western states of Lagos, Ogun, Oyo, Osun, Ondo and Kwara in the North Central. The branches of the foundation, time and location of their meetings are as presented in this work. (See Appendix 1V). With this number of branches and the various request for inauguration of more branches, there is no doubt that Al-Hayat has grown into a household name in *Sharī'ah*-principled cooperative and microfinance activities.

The aims and objectives of the foundation as specified in the constitution are:

- To champion the course of Islamic Economic System.
- To give out financial relief to registered members on interest free basis.
- To carry out welfare services on members
- To propagate the religion of Islam through da'wah and financial assistance to the needy.

- To encourage the observation of all the pillars of Islam.

The branches of the foundation meet ones in a month. The meeting affords the members the opportunity of interacting with themselves, fulfilling their financial obligations and offering prayers. Strategically, the meeting is also a forum for *da'wah*. The missioners of branches are expected to give sermon on very topical issues. This is expected to rejuvenate the mind and build characters. The meeting is so important that defaulting members from three consecutive meetings without any apology could be expelled.

At the NEC level, the statutory NEC Officials meet on regular basis as issues unfold. The extended NEC, which includes all branch Chairmen, Vice Chairmen, Secretaries and Treasurers, meets on quarterly basis. It is the policy formulation body for the foundation.

Some of the products of the foundation include:

- Interest-free loan scheme (Up to one million Naira, payable in three years, in some branches)
- Self Development Scheme
- Mosque Deposit Scheme
- Business/Investment Schemes
- Children School fees Scheme
- Ileya Sheme (Oyesanya, 2009:38)
- Zakat and Sadaqah Scheme
- Hajj and Umrah scheme
- Group Life *Takāful* Scheme (GLTS)
- Qardan hasanah (Benevolent loan Scheme) (Oyesanya, 2009:38)

At the microfinance level, the Foundation is involved in a number of poverty alleviation programmes on the basis of *Mushārakah, Murābahah* and *ijārah.* It has also invested in real estate for its members. An example of the real estate investment is the Al-hayat Golden estate project, a 23 acres expanse of land, along Ijebu-Ode/Ibadan road currently under development. With a very solid financial base, the foundation has taken a number of steps towards achieving its vision and corporate mission.

The foundation runs on committee system, either at the branch or NEC levels. The committees at the NEC level which are replicated at the branches include; Education committee, Zakat and Sadaqah committee, Hajj committee, *Takāful* committee, Business committees (*Murābahah*, *Mushārakah* etc) Disciplinary committee etc.

In the financial year ended 31st March, 2012 the Foundation gave interest free loan worth two hundred and forty three million, four hundred and thirty four thousand three hundred ninety Naira (=N=243,434,390.00) and a Self Development Scheme loan of Eight million one hundred and thirty eight thousand six hundred and fifty Naira (=N=8,138,650.00) (See Appendix VI). This is in addition to *Murābaḥah* micro financing worth fifty million (50 million).The branches still declared and shared profits to their members. (see Appendix)

The foundation also manages a five-year self-administered Group Life micro *Takāful* Scheme (GLTS). It is a pool created in the 2008/09 financial year to cater for the immediate next of kin of any deceased member of the foundation. The amount in the pool according to the *Takāful* committee of the foundation is in excess of ten million Naira (see AppendixV). The fund is invested in *halāl* businesses like shares of manufacturing companies and asset-backed financing, majorly *Murābaḥah.* The website of the foundation is www.al-hayatrelieffoundation.org and the e-mail address is al-hayatrelieffoundation1997@gmail.com Presesntly the foundation is completing the process of obtaining licence fom the Central Bank of Nigeria to float a non- interest micro finance bank.

5.3.5 *Takāful* Products /windows in Nigeria financial market.

Investigation shows that presently, there are three conventional insurance outfits with *Takâful* windows in the Nigerian financial market. The Organizations are; African Alliance Insurance PLC, Niger Insurance PLC and Cornerstone Insurance PLC.

In our interaction (via structured interview) with Officials of *Takâful* products in these organizations, we got the following information.

African Alliance Insurance PLC.

The organization was incorporated on 6th May, 1960 to underwrite life and pension businesses. The major founders were Chief S. L. Edu (CON), T.A Braithwaite (CON) and M. E. R. Okorodudu (Hussein, 2010:29). Their efforts were backed by the technical know-how of a world renowned reinsurer, Munich Reinsurance Company which is also a shareholder of the company.

Today, African Alliance Insurance PLC remains the oldest and strongest specialist Life assurance and Pensions office in the country. It is also the first company to introduce*Takâful* products in Nigeria financial market.

***Takāful* window of African Alliance PLC**

From the operational manual of African Alliance, we discovered that the window has the following products:

- Al –Isti'dad Plan (Family *Takâful* plan)
- An-Nasir plan (*Takāful* Pension Plan)
- Arafat Plan (*Takâful* Pilgrimage Plan)
- Al-'ilm Plan (*Takāful* Education Plan)
- Mudarabah Plan (*Takâful* Investment Plan)
- Natijatud-Dayn Plan (Credit Protection Plan)
- Baytus –Surur Plan (*Takāful* Mortgage Plan)

The products are available for participants between the ages of 18 and 55. The window operates on *Al-Muḍārabah* basis and as such, every participant is to have both Participants'Special Account (PSA) and Participants' Accounts (PA) for their *tabarru'* and savings contributions respectively. The PA also serves as accounts for participants' share of profit while the PSA is also used for the payment of death benefits for Family *Takāful*. Subscribers to any of the plans can contribute through direct payment by cash or cheque, bank standing instruction, salary deduction or direct debit mandate. Every participant is expected to complete a proposal and declarations form to be part of the subscribers.

Some features of African Alliance *Takāful* windows include:

- Systematic savings for future needs e.g Hajj, Retirement, house etc.
- Investment of fund in *halal* businesses
- Attractive returns by way of profit sharing in line with *Muḍārabah* principle
- Contributions guararntee in case of cancellation
- Part withdrawal allowed

To get further information on the operations of the window, three top officials of the window were interviewed. The three are very key to the operation of *Takāful* products; the team leader, the Unit Manager and a Marketer. The questions and the responses go thus:

First Respondent:

Question: **What is the name of your Organization**?

Response: African Alliance Insurance PLC.

Question: **What is your name?**

Response: Mr. Ayanlere Ismaeel.

How old are you?

Response: 32 years.

Question: **What is your position in the organization**?

Response: Team leader

Question: **What is the year of introduction of *Takâful* products**?

Response: 2003

Question: **Can we know the Types of *Takāful* products in your Organization?**

Response: **We run both life and general Takaful products**

Question: **Presently what is the level of patronage**?

Response: Strongly patronised.

Question: **What is the spread of Patronage (in Nigeria)**?

Response: The spread is across the various Geo-Political zones of Nigeria.

Question: **Can we know the volume in figures**?

Response: For business reason, No.

Question: **Any Prospect for *Takâful* in Nigeria**?

Response: There is tremendous prospect for the products.

Question: **From your experience, what can be done to harness the prospects**?

Response: Proactive publicity and advertisement on the various mass media outlets

Question: **What are some of the challenges your organisation has faced on the Takāful products**?

Response: Scepticism in relations to the practise of insurance policies generally.

Question: **What are the likely challenges to face Takāful operation in Nigeria?**

Response: For *Takāful* to operate successfully there will be the need to create certain institutions like the central *Sharīʻah* council, retakāful organisations and the needed calibre of staff.

Question: **Do you know of any other insurance company with *Takâful* products?**

Response: Yes

Question: **Please name**

Response: Cornerstone Insurance PLC

Niger Insurance PLC

Question: **Would you be ready to assist with your experience in case full Takāful providers get to the Nigerian market**

Response: Yes

Question: **What benefits can Nigeria and Nigerians derive from Takāful?**

Response: It definitely will create more jobs and promote understanding among people of different religions. People will also have value for their money.

Question: **Do you have any advice for this work**:

Response: Muslims generally should see themselves as vanguards of the products and they should endeavour to patronise the products and equally hope to work with the company as part of the team to take the products to the Promised Land.

Second Respondent:

Question: **What is the name of your Organization**?

Response: African Alliance Insurance PLC.

Question: **What is your name?**

Response: Mr. Abdul Raheem Muyideen

How old are you?

Response: 29 years.

Question: **What is your position in the organization**?

Response: Unit Manager

Question: **What is the year of introduction of *Takâful* products**?

Response: 2003

Question: **Can we know the Types of *Takāful* products in your Organization?**

Response: We have family plan, pension plan, Hajj plan, Education plan, Mortgage plan etc.

Question: **Presently what is the level of patronage**?

Response: The level of patronage is very much encouraging.

Question: **Can we know the volume in figures**?

Response: I don’t think any organisation will want to do that. It is classified

Question: **What is the spread of Patronage (in Nigeria)**?

Response: Takāful product is more patronised and the spread is on the high side.

Question: **Any Prospect for *Takâful* in Nigeria**?

Response: Yes, there is prospect for the *Takâful* products in Nigeria. Even now we have non-Muslims that are taking the products.

Question: **From your experience, what can be done to harness the prospects**?

Response: What I think should be done to harness or increase the prospect of *Takâful* product is that the companies operating *Takāful* products should always organise seminars in order to orientate the public on the importance of having Islamic insurance product and they should let them know the advantages.

Question: **What are some of the challenges your organisation has faced on the Takāful products**?

Response: There is no organization that will not face one problem or two. African Alliance Insurance equally faces some challenges concerning *Takāful* products. They include; challenge on the area of investment, challenge that comes from the Muslims for the fact that some are hearing about *Takâful* for the first time. Some even believe that Islam has nothing to do with insurance.

Question: **What are the likely challenges to face Takāful operation in Nigeria?**

Response: Takāful operation will require institutions like the central Sharī'ah council, well trained staff and liquid secondary market.

Question: **Do you know of any other insurance company with *Takâful* products?**

Response: Yes

Question: **Please name**

Response: Niger Insurance PLC

Cornerstone Insurance PLC

Question: **Would you be ready to assist with your experience in case full Takâful providers get to the Nigerian market**

Response: Certainly.

Question: **What benefits can Nigeria and Nigerians derive from Takāful?**

Response: At least there will be employment for Nigerians and they will also have alternative insurance system, most especially our Muslim brothers and sisters.

Question: **Do you have any advice for this work**?

Response: My advice to the researcher is that he should carry out the research properly in order to have better result.

The Third Respondent:

Question: **What is the name of your Organization**?

Response: African Alliance Insurance PLC.

Question: **What is your name?**

Response: Isa Abubakar

How old are you?

Response: 28 years.

Question: **What is your position in the organization**?

Response: Marketer

Question: **What is the year of introduction of *Takâful* products**?

Response: It was introduced seven years ago.

Question: **Can we know the Types of *Takāful* products in your Organization?**

Response: Our products cut across life plans, pilgrimage, education, investment and mortgage plans.

Question: **Presently what is the level of patronage**?

Response: Average.

Question: **Can we know the volume in figures**?

Response: Idont have such powers.

Question: **What is the spread of Patronage (in Nigeria)**?

Response: Average.

Question: **Any Prospect for *Takâful* in Nigeria**?

Response: Yes, but there is the need to spread the gospel across the globe. *Insha Allah* the sky will be the starting point for *Takāful* products in Nigeria.

Question: **From your experience, what can be done to harness the prospects**?

Response: Reduction of premium, Publicity, more education on the products and well designed webs for prospective clients.

Question: **What are some of the challenges your organisation has faced on the *Takāful* products**?

Response: Prospective clients do not have knowledge of the benefits of the product, low patronage by the Muslims, misconceptions on the practice of *Takâful* and the confusion of *Takāful* with conventional insurance plans.

Question: **What are the likely challenges to face Takāful operation in Nigeria?**

Response: There will be the need for central Sharī 'ah council, peoples, attitude, trained staff and liquid secondary market.

Question: **Do you know of any other insurance company with *Takâful* products?**

Response: Yes

Question: **Please name**

Response: Cornerstone Insurance PLC
Niger Insurance

Question: **Would you be ready to assist with your experience in case full Takâful providers get to the Nigerian market?**

Response: Yes

Question: **What benefits can Nigeria and Nigerians derive from Takāful?**

Response: Takaful just like all aspects of Islamic finance will ensure economic justice, more jobs will be created and poverty alleviation will be boosted.

Question: **Do you have any advice for this work**:

Response: *Takāful* must be made separate, more organization should embark on Islamic finance and *Takâful* practise should be redesigned.

Niger Insurance PLC

Niger Insurance PLC was established in August 1962 as a specialist life company under the name Yorkshire Insurance Company Ltd. As a public quoted composite Insurance Company, it presently operates with an asset base in excess of N8billion and a fully paid up authorised share capital of N750 million. (Hussein, 2010:34)

***Takāful* window of Niger Insurance PLC.**

Niger Insurance is the second insurance company to introduce Islamic insurance products in the Nigeria market. Its *Takaful* products were introduced in 2005. The available manual of operation listed the following as existing products:

- Salla plan (‘Id-surur)
- Pilgrimage plan (Arafat)
- Education plan (Al-Tadris)
- Retirement/Savings plan
- Marriage plan (Al-Nikah)
- Mortgage plan (Al-Baet)
- Family plan

The Niger Insurance window also operates on *Al-Muḍārabah* principle and every participant operates both Participants’Special Account (PSA) and Participants’ Accounts (PA) for their *tabarru’* and savings contributions respectively. The PA also serves as accounts for participants’ share of profit.Profit is only shared to subscribers who have not claimed any indemnity.Subscriptions can be made annually, quarterly or as single lump sum. Mode of payment can be through direct payment by cash or cheque, money order, bank standing instruction, salary deduction or direct debit mandate. To participate, a subscriber is expected to obtain a proposal and declarations form from either the office or from a sales representative, complete the form and submit. However, the first premium is to accompany the submission of the form. Minimum premium for the products is =N=1000.00

Some features of Niger Insurance*Takāful* windows include:

- Systematic savings for future needs e.g Hajj, Retirement, house etc.
- Investment of fund in Islamically lawful businesses
- Attractive returns by way of profit sharing in line with Mudarabah principle
- Contributions guararntee in case of cancellation
- Part withdrawal allowed (but with a charge)

To probe further into the operations of the window, three top officials were interviewed. The three are *Takāful*Manager and two *Takāful* Officers directly in charge of operations.The interviews are here under relayed:

First Respondent:

Question: **What is the name of your Organization**?

Response: Niger Insurance PLC.

Question: **What is your name?**

Response: Name not supplied

Question: **How old are you?**

Response: Above 40 years.

Question: **What is your position in the organization**?

Response: Manager

Question: **What is the year of introduction of *Takâful* products**?

Response: 2005.

Question: **Can we know the Types of *Takāful* products in your Organization?**

Response: Sallah plan, Hajj plan, Education plan, Retirement plan, Marriage plan

Question: **Presently what is the level of patronage**?

Response: Quite satisfactory.

Question: **Can you assist us in real figures**?

Response: No. No.

Question: **What is the spread of Patronage (in Nigeria)**?

Response: Nationwide.

Question: **Any Prospect for *Takâful* in Nigeria**?

Response: Yes, in view of the attraction of *Takāful* insurance to the public

Question: **From your experience, what can be done to harness the prospects**?

Response: To create more awareness and ensure that *Takâful* operators are transparent in their dealings with the policy holders and also to live up to expectations.

Question: **What are some of the challenges your organisation has faced on the Takāful products**?

Response: The challenge of the product acceptance at the initial stage, especially by non-Muslims.

Question: **What are the likely challenges to face Takāful operation in Nigeria?**

Response: Education will be very paramount to the success of Takâful. There will be the need for trained staff and liquid secondary market.

Question: **Do you know of any other insurance company with *Takâful* products?**

Response: Yes

Question: **Please name**

Response: Africa Alliance Insurance Co.

Question: **Would you be ready to assist with your experience in case full Takâful providers get to the Nigerian market?**

Response: I will

Question: **What benefits can Nigeria and Nigerians derive from Takāful?**

Response: Takaful can integrate Nigerians towards religious harmony and it will also create more jobs. It can also serve as capacity building mechanism.

Question: **Do you have any advice for this work**:

Response: To sensitise the general public about the existence of *Takāful* insurance and to make people embrace it due to its unique features.

Second Respondent:

Question: **What is the name of your Organization**?

Response: Niger Insurance PLC.

Question: **What is your name?**

Response: Mr. Joseph Adegboyega Adekeye

How old are you?

Response: 48 years.

Question: **What is your position in the organization**?

Response: Officer

Question: **What is the year of introduction of *Takâful* products**?

Response: 2005.

Question: **Can we know the Types of *Takāful* products in your Organization?**

Response: Our products cover life and general plans.

Question: **Presently what is the level of patronage**?

Response: No response.

Question: **Can we know the volume in figures**?

Response: I doubt if the organisation will want to release such information.

Question: **What is the spread of Patronage (in Nigeria)**?

Response: All over Nigeria (in each State).

Question: **Any Prospect for *Takâful* in Nigeria**?

Response: No response

Question: **From your experience, what can be done to harness the prospects**?

Response: No response

Question: **What are some of the challenges your organisation has faced on the Takāful products**?

Response: Customers not waiting for the purpose of taking the product i.e. Surrendering at early interval, customers not meeting banking conditions e.g. having National I.D Card or Drivers' Licence or International Passport.

Question: **What are the likely challenges to face Takāful operation in Nigeria?**

Response: Takâful will definitely need quality staff, central Sharī 'ah board and above all education and enlightenment.

Question: **Do you know of any other insurance company with *Takâful* products?**

Response: No response

Question: **Please name**

Response: No response

Question: **Would you be ready to assist with your experience in case full Takâful providers get to the Nigerian market?**

Response: Yes

Question: **What benefits can Nigeria and Nigerians derive from Takāful?**

Response: It is an opportunity to create more jobs for Nigerians.

Question: **Do you have any advice for this work**:

Response: I wish you well..

Third Respondent:

Question: **What is the name of your Organization**?

Response: Niger Insurance PLC.

Question: **What is your name?**

Response: Mrs N. Oserogho

How old are you?

Response: Adult.

Question: **What is your position in the organization**?

Response: Officer

Question: **What is the year of introduction of *Takâful* products**?

Response: 2005.

Question: **Can we know the Types of *Takāful* products in your Organization?**

Response: Our manual has the list of our products. You can check it.

Question: **Presently what is the level of patronage**?

Response: Very responsive.

Question: **Can we have statistics**?

Response: Idoubt it.

Question: **What is the spread of Patronage (in Nigeria)**?

Response: Nationwide.

Question: **Any Prospect for *Takâful* in Nigeria**?

Response: Yes, but the awareness must be created.

Question: **From your experience, what can be done to harness the prospects**?

Response: Educating the populace that it is not only for Muslim faithful but for anyone who believes in the principle behind the *Takâful* insurance.

Question: **What are some of the challenges your organisation has faced on the Takāful products**?

Response: As with most insurance product- awareness and the belief that it is strictly for Muslim faithfuls.

Question: **What are the likely challenges to face Takāful operation in Nigeria?**

Response: Education, Central Shariah board, liquid secondary market, retakāful etc.

Question: **Do you know of any other insurance company with *Takâful* products?**

Response: No response

Question: **Please name**

Response: African Alliance and Cornerstone insurance.

Question: **Would you be ready to assist with your experience in case full Takâful providers get to the Nigerian market?**

Response: If I have the opportunity.

Question: **What benefits can Nigeria and Nigerians derive from Takāful?**

Response: There are many benefits. Apart from the fact that it gives people alternative opportunity, it is also a way of creating jobs for a population of Nigerians. Through that you build their capacities and the country is better for it.

Question: **Do you have any advice for this work**:

Response: Advice? Just do it well. I wish you the best.

Cornerstone Insurance PLC

Cornerstone Insurance was incorporated as a private limited liability company on July 25th 1991. It became a public liability company and was quoted on the Nigerian Stock Exchange in 1997. The company is one of the forty nine cleared by the National Insurance Commission (NAICOM) to engage in both General and life insurance business in Nigeria. (Hussein, 2010:37)

As a customer driven organization, Cornerstone introduced Halal *Takâful* Nigeria, a segregated division of Cornerstone Group. The aim of Cornerstone is to provide a substitute for conventional insurance for those who may not be comfortable with its operations.

***Takāful* window of Cornerstone Insurance PLC.**

The*Takāful*window of Cornerstone Insurance offers the following products:

- Osra Plan (Family *Takâful* Plan)
- Al-jamaat Osra Plan (Group Family *Takāful* Scheme)
- Tarbiya Plan (Education *Takâful* plan)
- Retirement plan
- Nikai Plan (Marriage *Takāful* plan)
- Al-jamaat Tarbiyah Plan (Group Education Scheme)
- Hajj and Umrah *Takâful* Plan
- Halal Pilgrmcare Scheme
- Natijatu Daynu Plan (Halal Credit *Takāful* Plan)
- Baytu Surur Plan (Mortgage Protection *Takâful* Plan)
- Musafiru Plan (Travellers' *Takāful* Plan)
- Al-Shanu Insanu (KEYMAN *Takâful* Plan)
- Mudarabah Plan (Halal Investment Plan)
- Halal Mutual Trust Plan (Halal Esusu Plan)
- Sayaro Takafu Plan (Motor *Takāful* Scheme)
- Al-Narr wa Sarkot Takâful Plan (Fire and Theft *Takāful* Scheme)

- Al-Manzil Takafu (Property Guard *Takâful* Scheme)
- Bidohat Nakil Sheme (Halal Good-in-Transit Plan.

Halāl *Takaful* Nigeria operates on *Al-Muḍārabah* basiss and just like other windows participants have both Participants'Special Account (PSA) and Participants' Accounts (PA).These accounts components are used for *tabarru'* and savings contributions respectively. The PA also serves as accounts for participants' share of profit and the PSA is also used for the payment of death benefits for Family *Takāful*. Subscribers pay their premium and the donation component through direct payment by cash or cheque, bank standing instruction, salary deduction or direct debit mandate. Every participant is expected to complete a proposal and declarations form to be part of the plans.

Some features of Halāl *Takāful* window include:

- Flexible contribution.
- Investment of fund in halal businesses
- Attractive returns by way of profit sharing in line with Mudarabah principle
- Contributions guararntee in case of cancellation
- Part withdrawal is allowed
- For family plan, critical illness and hospitalisation benefist are guaranteed
- Transparency indealings.

To get more information on the operations of this window, three Officers of this organization were interviewed. They are the Manager, Abuja branch and two officers in charge of *Takâful* products. The interviews are here under relayed:

First Respondent:

Question: **What is the name of your Organization**?

Response: Halal *Takâful*Nigeria (a division of Cornerstone).

Question: **What is your name?**

Response: Kadiri Babatunde Junaid

How old are you?

Response: 30 years.

Question: **What is your position in the organization**?

Response: Manager, Abuja branch

Question: **What is the year of introduction of *Takâful* products**?

Response: 2009.

Question: **Can we know the Types of *Takāful* products in your Organization?**

Response: Our products are many and you can get them in our manual of operations

Question: **Presently what is the level of patronage of these products**?

Response: Promising and excellent.

Question: **Can we have the volume in figures**?

Response: We don't release such information to non stake holders.

Question: **What is the spread of Patronage (in Nigeria)**?

Response: Lagos, Kano, Kaduna, Portharcourt, Ibadan, Osogbo, Abeokuta and Abuja.

Question: **Any Prospect for *Takâful* in Nigeria**?

Response: *Takāful* is promising to create an extensive Islamic financial atmosphere for all Nigerian Muslims

Question: **From your experience, what can be done to harness the prospects**?

Response: The Muslim Community should come to our aids. Dehumanising the idea of Insurance is not good for Muslims. We should always come around to assist Muslims whenever they establish business. Assisting Muslims is tantamount to assisting Allah.

Question: **What are some of the challenges your organisation has faced on the *Takāful* products**?

Response: Our financial planners are not well taken care of. We should still come to help *Takāful* on a note to enhance a good working condition for all our staff.

Question: **What are the likely challenges to face Takāful operation in Nigeria?**

Response: Challenges like ignorance, investment opportunities, regulation and the need for Retakāful outfits.

Question: **Do you know of any other insurance company with *Takâful* products?**

Response: Yes

Question: **Please name**

Response: Africa Alliance Insurance Co.

Niger Insurance PLC

Question: **Would you be ready to assist with your experience in case full Takâful providers get to the Nigerian market?**

Response: In sha Allah (God willing)

Question: **What benefits can Nigeria and Nigerians derive from Takāful?**

Response: There are tremendous benefits for Nigeria and Nigerians in Takāful. Takaful when fully adopted as an insurance system will contribute meaningfully to national development.

Question: **Do you have any advice for this work**:

Response: The researcher should try to also contact other personalities involved in *Takâful* in Nigeria.

Second Respondent:

Question: **What is the name of your Organization**?

Response: Halal *Takâful*Nigeria (a division of Cornerstone).

Question: **What is your name?**

Response: Mustapha Ganiyah

Question: **How old are you?**

Response: Adult.

Question: **What is your position in the organization**?

Response: Lagos Unit Manager

Question: **What is the year of introduction of *Takâful* products**?

Response: 2009.

Question: **Can we know the Types of *Takāful* products in your Organization?**

Response: You can get the products at the marketing desk. But we have both life and general products

Question: **Presently what is the level of patronage of these products**?

Response: Encouraging to an extent.

Question: **What is the spread of Patronage (in Nigeria)**?

Response: Average level.

Question: **Can we know the volume in figures**?

Response: Ah. I don't think.

Question: **Any Prospect for *Takâful* in Nigeria**?

Response: Yes, because people are getting exposed to the fact that Islamic insurance is the best.

Question: **From your experience, what can be done to harness the prospects**?

Response: There should be more *Takâful* operators and more publicity about the product and also enlightenment about it.

Question: **What are some of the challenges your organisation has faced on the Takāful products**?

Response: Some people seem not to still believe in it because of the experience with other conventional insurance companies. Some people don't see the reason (for having *Takāful* separate from conventional insurance) as being tangible because of their Islamic background which is not okay.

Question: **What are the likely challenges to face Takāful operation in Nigeria?**

Response: The issue of regulation, investment challenges, cost of running business, general attitude to insurance etc.

Question: **Do you know of any other insurance company with *Takâful* products?**

Response: Yes

Question: **Please name**

Response: Niger Insurance PLC
Africa Alliance Insurance Company.

Question: **Would you be ready to assist with your experience in case full Takâful providers get to the Nigerian market?**

Response: If I am called upon.

Question: **What benefits can Nigeria and Nigerians derive from Takāful?**

Response: The country will gain from the system. At least more jobs will come to Nigerians and we will also have been seen to align with the rest of the world.

Question: **Do you have any advice for this work**:

Response: The researcher should make sure to get all the information needed and also take it to the people that will buy the idea because we really need *Takâful* in Nigeria.

Third Respondent:

Question: **What is the name of your Organization**?

Response: Halal *Takâful*Nigeria (a division of Cornerstone).

Question: **What is your name?**

Response: Adeniyi Abdulazeez

How old are you?

Response: 23 Years.

Question: **What is your position in the organization**?

Response: Marketer

Question: **What is the year of introduction of *Takâful* products**?

Response: 2009.

Question: **Can we know the Types of *Takāful* products in your Organization?**

Response: We have both general and life covers. Get our manual for the products

Question: **Presently what is the level of patronage of these products**?

Response: Merit.

Question: **Can we know the volume in figures**?

Response: No business will want to do that.

Question: **What is the spread of Patronage (in Nigeria)**?

Response: Merit.

Question: **Any Prospect for *Takâful* in Nigeria**?

Response: Yes, there have been a lot of prospects and we are also trying to get more.

Question: **From your experience, what can be done to harness the prospects**?

Response: Make more awareness and publicise the products to the public so they will know things like this exist.

Question: **What are some of the challenges your organisation has faced on the Takāful products**?

Response: Well, the challenges we have faced are; first the normal challenge all insurance companies face because people don't really get convinced but we are trying our best possible.

Question: **What are the likely challenges to face Takāful operation in Nigeria?**

Response: The current regulation, peoples' attitude to insurance born out of ignorance, cost of running business and the need for Retakāful. Manpower is equally a major challenge.

Question: **Do you know of any other insurance company with *Takâful* products?**

Response: Yes

Question: **Please name**

Response: Africa Alliance Insurance Company.
Niger Insurance PLC

Question: **Would you be ready to assist with your experience in case full Takâful providers get to the Nigerian market?**

Response: Yes

Question: **What benefits can Nigeria and Nigerians derive from Takāful?**

Response: There are a lot of benefits. There will be religious cooperation; there will be rest of mind and there will be employment to a number of people.

Question: **Do you have any advice for this work**:

Response: Please do whatever you can to enlighten people on Takāful.
The existence of these *Takâful* windows in the Nigeria market and the fact that they are trying to break grounds give us a lot of hope that full-fledged Takâful operation will do well in Nigeria.

5.4 Analysis and discussions of the content of the interviews

From the responses of the nine*Takāful* officials interviewed, the following information can be highlighted.There are three insurance organisations having *Takāful* windows in Nigeria; African Alliance PLC, Niger Insurance PLC and Cornerstone Insurance PLCS. These organisations have various *Takāful* products covering life (family) and general plans that can be subscribed to by insurance buyers. The earliest *Takāful* products in the Nigerian market came in 2003 through African Alliance PLC.This has given *Takāful* practice at the windows level about nine years experience. Non of the windows was ready to disclose the volume of investment in their products for business reasons. Patronage of *Takāful* products could only be said to be encouraging but the reality is that it is still very low. However, the low patronage could be ascribed to certain factors ranging from lack of awareness on the workings of *Takāful* to religious discrimination and the general attitude of Nigerians to insurance matters. It is note worthy that in our interaction with the windows, it was discovered that not much has been done to enlighten, educate and create the needed awareness on the workings of *Takāful* and its benefits. Hence the widows are face with a lot of challenges. But notwithstanding these challenges, all the officials accepted that there is prospect for *Takāful* in Nigeria. We also discovered that the spread is encouraging and with determined efforts from stakeholders the potentials for *Takāful* is great.

On the benefits that can be derived from *Takāful* operations in Nigeria, it is the opinion of the officials that the system is capable of ensuring economic justice, it can assist in the capacity building of the citizenry towards poverty alleviation and can help the nation in the area of religious integration towards national development. Added to that, they say, it offers insurance users alternative opportunity for competition and it is also a means of galvanising the savings of individuals for the benefit of the society. It can therefore be said that Nigeria has a lot to benefit from the operations of *Takāful*

However, for full *Takāful* operations to be successful in Nigeria, the officials identified certain challenges that are likely to face full *Takāful* operations. The challenges include; lack of Central *Sharī'ah* Council to take up and adjudicate on matters of law concerning products formulation and investment matters, Liquid Secondary market and *re-Takāful* outfits to finance big time risks. They also stressed the need for education, awareness creation and personnel. Considering their experiences in the industry so far, all the officials indicated their readiness to bring these experiences to bear when full *Takāful* operations begin in Nigeria.

However, a careful look at the operations of the windows, show that their operations are in line with best practice all over the world.

5.5 Challenges of operating *Takâful* in Nigeria

The above discussion is not intended to say that there are no challenges and problems that will confront the *Takāful* operation. Even in most countries where *Takâful* is in operation and indeed in the world of Islamic banking and insurance, there are problems confronting them. Ali (2006:11) enumerated such challenges confronting Islamic banking and insurance in the world as;

1. Absence of appropriate legal framework for carrying out Islamic banking and insurance operations in most of the Islamic countries.
2. Shortage of trained manpower to conduct business complying with shariah rules.
3. Absence of shariah based securities.
4. Shortage of support institutions.
5. Absence of good relationship between the management, entrepreneur and the controlling and legislative authorities.

6. Lack of public awareness.
7. Ignorance of the mass people about shariah principles and practices in business and commerce.
8. Predominance of western capitalistic economic system.
9. Lack of support from government.

Sami (2007:4-6) reiterated some of these challenges as enumerated above but added some other challenges as; lack of uniformity in shariah decisions, the need for more retakaful organizations and the need to strengthen the technical, actuarial, IT, financial and marketing skills within *Takāful* operations.

For the uniformity of S*harī'ah* decisions, he suggests national efforts to establish National *Sharī'ah* Board and the harmonization of *Sharī'ah* rules to promote market development.

It needs be said that all and more of these challenges are likely to confront *Takāful* operation in Nigeria. We shall identify these challenges and try to chart a course for surmounting them. The challenges include:

5.5.1 Legal and Institutional framework.

One of the major challenges that will confront *Takâful* operation in Nigeria is the non existence of a supportive legal and regulatory framework. The existing regulatory framework in Nigeria does not take into consideration any other system apart from the conventional system. As earlier mentioned, this has been a challenge to *Takâful* operation in the world.

Except in countries like Bahrain, Malaysia and Sudan, where there are separate regulations for *Takâful* operations, other countries have regulated *Takāful* within the regulatory framework of conventional insurance services. For this reason, there has been no significant development of *Takāful* outside the areas that have a predominantly Muslim population (IRTI, 2006:35) (www.irti.org)

For *Takâful* to succeed in Nigeria, there is the need for legal frame work that will take into consideration the peculiarities of *Sharī'ah*-based insurance system. The legal framework should equally address among other things issues like

Regulators and supervisors, licensing authorities, standard setters for financial supervision and infrastructure, risk management, capital adequacy and solvency (Umar,2011:5), corporate governance; financial and prudential regulation; transparency, reporting and market conduct; and supervisory review process. (Sami, 2007:6)

Sami (2007:3) contends that the regulatory framework is needed for *Takāful* to thrive in an orderly and proper manner and to ensure a level playing field for *Takāful* business vis-a-vis the conventional insurance. He suggests alongside the framework, the need to establish standards to solve the key aspects of differences between *Takāful* and conventional insurance. While the effort currently being made by the Central bank to licence Islamic bank is worthwhile and commendable, concurrent effort must be made in the insurance industry to put a suitable regulatory framework in place for the operation of *Takâful*. This is not only important for the full operation of Islamic insurance but also for the fact that Islamic banking will need *Takāful* for successful business. Ali, (2006:12) corroborates this when he said:

> Most of the Muslim countries having Islamic Banks have also helped to create *Takāful* as a necessary complement to Islamic banking because Islamic banking cannot be fully Sharī'ah based unless there are *Takāful* to take their insurance business.

We therefore recommend that, like it is in Malaysia, both Islamic banks and Islamic Insurance Companies should be regulated by the same regulatory authority. Added to that, a Central *Shaī'iah* Council should be set up for the two.

5.5.2 Manpower and expertise.

Another area of challenge is the non availability of human resources that have competencies in both Sharī'ah and actuarial sciences. This is definitely very important for *Takâful* operation in Nigeria as it is for *Takāful* operation in other parts of the world.

One of the major challenges confronting the industry at present is the shortage of talent. Rapid growth of the *Takāful* industry in recent years demands adequate supply of competent human capital to drive innovation, to sustain competition and to raise the performance of the *Takâful* industry to greater heights.

Takâful operators have constantly been searching for high level expertise in all relevant areas in the management of *Takāful* business. The areas include technical, actuarial, distribution, underwriting, investment, *Sharī'ah* as well as strong leadership at the helm of a *Takāful* operator. (Zamani, 2007:3)

This talent war even persists in Malaysia where there is advance practice of *Takāful* and where medium and long term plans to develop adequate human capital are in place. It may not be sustainable for the industry to rely on the current pool of intellectual capital in this rapidly growing industry. (Zamani, 2007:3)

Abdi, (2009: 33) also observes that as with the wider Islamic financial services industry, *Takāful* continues to suffer from a shortage of human resources with the requisite expertise.

For this, concerted and collaborative efforts should be taken at the industry level involving all stakeholders to develop structured human talent developmental programmes at all levels which include the leaders, technical personnel as well as the regulators.

Noting the magnitude of this challenge, Zamani (2007:3) opines that the industry needs to consider further proactive approach to address this issue. According to him, the industry may take a united stance to train a specific number of new talents in key areas.

He says:

> For Malaysia alone, assuming that a good candidate requires two years of training to be a well-rounded *Takāful* practitioner, if each operator is able to train 50 new talents at various levels in specific key areas, we will have at least 2000 new talent in 2009. In fact, we should do better.

For Nigeria, a look at the courses available in Nigerian Universities offering courses in Insurance or actuarial sciences and Islamic Studies shows that there are no such courses or combination of courses that can give the required skills for *Takāful* business.

Though the fact that there are organizations providing *Takāful* services with staff who are in their own rights professionals in conventional insurance, and who are already gathering experience in *Takāful* services, could provide the take off basis needed for *Takāful* operation, Yet there is the need to create sufficient training and research institute with appropriate infrastructure and technology to train manpower for *Takāful* operations.

5.5.3 Investment problems and cost of business in Nigeria.

It is also foreseen that the operation of *Takâful* will be confronted with the non-existence of long-dated sovereign and corporate Islamic financial products, in which funds collected by *Takāful* operators can be invested.

There is no doubting the fact that the success of *Takâful* is hinged on the availability of financial assets that can match the long term nature of the risks of *Takâful* contract. (IRTI, 2006:36)

The principles governing *Takâful* investment are that such funds must be invested in interest free Shariah justified scheme, the entire procedure must comply with Shariah guidelines and the investment returns must not be driven by any unethical commercial activities.

Though Agabi (2009:3) claims that:

> In Nigeria a number of financial institutions now offer Islamic banking products and services, including majority

> of the commercial banks, microfinance banks, finance houses Investment houses...

We can say that his claim is not so apparent in terms of the availability of the Islamic financial products in the country. What can be seen in most commercial banks in Nigeria are general products aimed at attracting customers. Products like COT free accounts, Savings accounts with cheques etc.

The truth of the matter is that Islamic financial products are very scanty in the Nigeria financial market. The most prominent of the very few finance institutions offering Islamic products is Lotus Capital Limited.

Lotus Capital is a fully fledged ethical financial institution structured along Islamic law, committed to providing innovative asset management, private wealth management and general financial advisory services. The firm operates the ISLAMIC HALAL FUND.

The fund has been listed on the Nigeria Stock Exchange (NSE) since 2009. In a chat with the Managing Director, Mrs Hajara Adeola, she had the following to say;

> We have been in the Nigerian Market since 2004 and first offered the halal investment fund to the general public in2008. This fund was a huge success and we are positive that having the halal fund listed on the stock exchange will increase the visibility of fund values to our investors and ensure greater transparency and accountability. Having worked hard to get listed, we will strive harder to maintain our integrity by offering our present and future customers innovative and rewarding investment products without violating their religious beliefs or personal values.

She concluded by saying:

> At Lotus Capital, we adhere to a code of ethics that does not patronise usury. Our operations are open and transparent and are reviewed by a Shariah Advisory Board. This and many other checks and balances ensure that our funds are not used for prohibited activities.

Lotus Capital invests its funds in *halāl* sales, leasing (*ijārah*) and Sharing based modes like *Mushārakah* and *Murābaha*. It also provides specialist financial advice on how the budget deficits of State governments can be eased through careful planning and implementation of development projects which make use of Islamic bonds (*Sukūk*) (Agabi, 2009:4)

For Islamic finance to make the necessary impact desired in the Nigeria economy, there is the need for products like *Mushārakah* (Partnership financing), *Muḍārabah* (Trust financing), *Murābahah* (Mark-up or Cost plus financing), *Ijārah* (Leasing), *Al-Rahnu* (Islamic pawn-broking*), ba'i salam* (Deferred Sale), *ba'i muajjal* (Deferred payment), *Salaf* (Cash advancement). These and others are modes of financing that are rooted in Islamic jurisprudence (Ahmed, 2006:28 &29 and Oluyombo, 2004:33&34)

Added to that, all these modes of finance involve the transfer of assets and are not based on making money from money as in the case with interest-based transactions.(Umar, 2011:3)

It is to be mentioned that the establishment of Islamic banks in the country, efforts of which is presently going on as championed by the apex bank, would assist in bringing about these products. This is because these products are the common practices of Islamic banks in the uses of funds.

Both Islamic bank and insurance will also require Islamic financial Securities such as Treasury bills, Treasury Certificates, bonds and stocks to be able to meet statutory liquidity requirements.(Alanamu, 2003:105)

We can also borrow from some other transactions existing in other countries where usury free banking is practised. For example in the Islamic Republic of Iran, there are products like *Jo'alah* (Transaction based on commission), *Muzara'ah* (Farm land contract), *Musaqat* (Orchards or Gardens contract) etc. (Ahmad, 1993:58)

Added to this is the fact that the cost of running business in Nigeria is extremely high. What is partly responsible for this is the fact that the Nigeria government has not been able to fix electricity in the fifty years of the country's existence. Billions of dollars have been budgeted for fixing power by successive governments without anything to show for the huge budget.

The editorial comment of The Nation newspaper of 29 June, 2011 titled 'Money guzzler' said in part:

> Former Chairman of the Revenue Mobilisation Allocation and Fiscal Commission (RMAFC), Hamman Tukur, reminded us, sadly, of the colossal source of waste that the power sector has become, when he disclosed that we have spent over N2 trillion on it in the last 11 years.

The editorial concluded thus:

> We will continue to grope in the dark until we get things right in the sector. There is no way the industrial and economic sectors would grow when only about 40 per

> cent of Nigerians have access to what could, at best, be described as epileptic power supply.

The consequence of this is that many corporate organizations have had to run on generators with the additional cost of its maintenance and fuelling. Those who could not cope had to leave the shores of the country for some West African countries like Ghana. Those who could not leavefor certain reasons have had to contend with the burden of additional cost of running their businesses.

This has badly affected the country's economy. The Gross Domestic Product (GDP) of the country stood at 7.85% since the third quarter of 2010. An American Investment Banking and Securities firm predicted in June 2011, a three percent rise in the Nigeria's GDP but with the proviso that it can only be achieved if the current power problem is fixed (The Nation, June 14 p.11).

The Managing Director, Investment Banking Division, China Onyemelukwe told News Agency of Nigeria (NAN) "Solving the power problem will add two to three percent to the current GDP growth of Nigeria". Showing that what it requires is just the determination and the political will of those in government, he said:

> The power problem in Nigeria can be solved, it is do-able and people know what to do but it will take a lot of strong will and bold steps to effect the necessary change. (The Nation, June 14 p.11)

It is therefore to be expected that this high cost of business will affect the investment expectations of Takâful organizations when they finally come on board.

5.5.4 Need for support institutions

Takâful operations and indeed Islamic finance operations cannot succeed without some auxiliary institutions. Such institutions include Central Shariah Council (Shariah screening and product identification system), Liquid secondary market for Islamic products, Retakaful companies, Islamic Money and Capital Market (Ali, 2006:11) with such players as brokerage houses, investment banks, as well as fund management institutions, including Islamic asset management companies (such as mutual funds) (Umar, 2011:5)

Aside from the mentioned components, there is also the need for sound Islamic accounting practices and standards. (Ahmed, 2006:55)

This presupposes that the Nigerian government should be ready to put these institutions in place if *Takāful* operation is to be successful in the country.

5.5.5 Multi-religious nature of Nigeria.

A challenge which we cannot run away from is the religious nature of the country. Nigeria is a multi-religious nation, with the two dominant religions-Islam and Christianity-which over the years, have existed as rivals.

The impact of Colonialism and Western Missionary education on the country, which created an elite and vocal Christian population, (though as earlier argued in this work, Muslims are more than Christians), has given the Christian vocal and educated elites the confidence to reject things perceived of other religions most especially, Islam.

What readily comes to mind here is the vehement opposition to the application of Shariah in some Northern states in the late 90s, even when it was apparent that it will only be applicable to the Muslims alone. On it Makinde,(2007:108) wrote

> The opposition of the Christians to Shariah is believed in some quarters to be part of the tactics of the imperialists who were ready to prevent the application of Shariah. This is the reason why, according to Sulaiman, there is Christian lobby, which acting upon instigations from western nations, has mounted a stiff opposition against any attempt by Muslims to order their lives in accordance with the dictates of their law.

The Christian elite opposition is currently on Islamic banking. In the Daily Sun of Monday March 22, 2010 Kelechi Mgboji, writing about the Stock Exchange Commission's plan to go into Islamic finance, said:

> SEC's plan to introduce Islamic finance products in the capital Market is coming on the heels of similar plans by the Central Bank of Nigeria (CBN) seeking to develop a framework for Islamic banking in the country. But this has been criticised by observers as pandering to a particular religion in an otherwise secular country.

Oluyombo (2004:72) further showing the opposition says about Islamic banking:

> Though most newspapers, Journals and Media houses that reported the events called it **take-off of first full-fledge Islamic Bank in Nigeria.** It is pertinent to note what section 39(1) of BOFID (Bank and Other Financial Institutions Decree) says about the use of some names for a bank.
>
> **Except with the written permission of the Governor no bank Shall, as from the commencement of this Decree, be registered or incorporated with a name which includes the words "Central" "Federal" "Federation" "National" "Nigeria" "Reserve" "State"**

> **"Christian" "Islamic" "Moslem" "Quranic" or "Biblical"**

He then concluded:

> Since BOFID prohibits the use of **Islamic** among others to name any Bank, it is not proper to use or call any bank as Islamic bank in Nigeria though such banks operate on Islamic principles. These types of bank according to BOFID are referred to as Profit and Loss Sharing Banks which could also be termed as a non-interest bank.

In a colloquium organised by the Nigerian Institute of Advanced Legal Studies, Lagos on 6th June, 2011 on the Prospects and Challenges of Islamic Banking in Nigeria, (attended by representatives of Central Bank), a number of Christian paper presenters challenged the legality of CBN'S consideration for Islamic banking. They quoted profusely BOFID and called for the removal of the word 'Islamic'.

In what came as a response to these various oppositions, the CBN in various newspapers of June 22, 2011, came out with some clarifications on Non-interest banking. In a news story written by Nduka Chiejina, he said:

> The Central Bank of Nigeria (CBN) yesterday clarified its stance on Non-Interest Banking saying it was not only Islamic banks that were contemplated under the new banking model, which categorised Non-Interest Banks (NIBs) as part of specialised institutions.

Stating why the clarifications were necessary, he said:

> This clarification stemmed from the outrage by Christians who felt that non-interest banking was the same thing as Islamic banking. But the banking watchdog said it "recognises that Islamic banking is a form of non-interest banking and that there are other forms of non-interest banking than Islamic banking" (The Nation, 22 June, 2011)

The Nation of June 28th, 2011 in one of its editorial comments titled "ON ISLAMIC BANKING" with the rider 'Stakeholders should have an open mind as they further engage' said on the apprehension by the Christians:

> While we can understand the natural aversion to change, the fixation with the conventional model to the exclusion of other models even when their merits are unassailable, and inspite of its great appeal to a sizeable segment of the population seems, clearly, unreasonable.

It said further:

> What is even more important is that the model does not seek to displace the conventional model, but is rather an addition to the league of financial service providers to which citizens can choose from. It certainly offers great potentials for competition and further diversification of banking products and services.

For the avoidance of doubt, Nigeria is not a secular country. It is a multi-religious one and every religion should be allowed to follow the dictates of its religion. This is the situation in advanced multi-religious societies. It is our opinion that if the Christians also have a form of non-interest banking, they should come out to request for licence rather than antagonising Islamic banking. After all the Nigeria Constitution guarantees freedom of religion and association.

It must, however, be emphasised that Islamic finance is not only for Muslims. It could also appeal to other segments of the population so long as the quality of the services is at least comparable with other alternatives. Amin (2010:11) opined that it was this concept of financial inclusion that informed the UK government's decision to support the development of Islamic finance in the country.

Alam (2004:2) reported that demand for financial products compatible with *Sharī'ah* continued to grow among the Muslim professionals in Britain and this led to the success of financial advisers and institutions specialising in this type of ethical investment.

There are a number of *Sharī'ah*-compliant products targeted at UK Muslims. In 2003 HSBC, the Uk's biggest bank was the first mainstream institution to launch an Islamic home finance specifically aimed at British Muslims (Alam, 2004:1 & 6)

In fact by September, 2004 the UK based Islamic Bank of Britain was publicly launched and given regulatory approval to take deposits from the Financial Services Authority (FSA). If Britain that has slightly above 1.8 million Muslims can be considerate to allow this population to have access to ethical investment and consumerism, we do not see reasons why Nigeria Muslims with its large population would be denied of these religious ideals and entitlements. The point we are making is that if Islamic banking has faced this stiff opposition from the Christian elites, then Islamic insurance is likely to suffer the same fate.

5.5.6 Lack of awareness and education

Another challenge that is likely to be faced by *Takāful* is the issue of ignorance and the need for awareness creation. Like we find out from our survey, a number of Muslims do not know what *Takāful* is not to talk of the workings of Islamic insurance and its benefits.

Aside this, from the interviews conducted with the officers in charge of *Takāful* products in conventional insurance organizations with *Takâful* windows, we were able to gather the following:

- *Takāful* products still face the general skepticism and problem of confidence faced by insurance practice in Nigeria.
- A number of people, among them Muslims, are hearing about *Takāful* for the first time.
- The opinion by some people (Muslims) that Islam has nothing to do with insurance.
- A number of people do not see the need for insurance or *Takāful*

These coming from those who are already on the field show that the issues of education and awareness creation are germane to *Takâful* providers and will require utmost attention.

This will require:

- Massive publicity and placement of adverts on the mass media.
- Usage of mass media for education.
- Organizing Seminars, symposia, workshops and conferences
- Organizing special events/events marketing
- Usage of corporate identity tools
- The use of well trained sales reps and sales canversers.
- Adoption of direct communication (using opinion leaders, Imams, orators, celebrities etc)
- Sponsorships and Corporate Social Responsibility programmes.
- Web designing
- Participations in exhibitions and trade fairs

The objectives of all these should be:

- Educating the public on the need for *Takāful* and its benefits
- Distinguishing between *Takāful* and conventional insurance.

- Communicating its uniqueness
- Enlightening the uninformed Muslims on the Islamic positions on *Qadar*, *Tawwakkul* etc.
- Emphasising acceptance and participation

There is no doubt that these efforts will cost a lot of money but it will be in the end a worthwhile venture. We need to say that communication plays a very crucial role in modern organizational management. Hence, Soola (1998:11) said:

> Communication is today widely acknowledged as a critical resource input in business, organizational activities and interactions. Its crucial role in these vital sectors of our national life and the economy is now widely appreciated, hence the huge investment in both the private and public sectors of national economies.

Through the communication and education efforts, confidence and public trust, which are germane to acceptance and participation of the people, can be built. Umar (2011:4) corroborates this:

> A primary determinant of the soundness of a financial system and its stability is the public trust and confidence in its institutions and markets.

Conclusion

This chapter presented, analysed and discussed the data gathered through the two instruments used for this work. The data from the questionnaire were presented in tables while the interviews with insurance professionals were relayed in the work.

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CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

6.1 Conclusions

This chapter intends to conclude the study. Under it, a brief summary of our discussions in the preceding chapters is given. The chapter is divided into two sections: summary and recommendations for the purpose of elucidation and clarification. The sections are here discussed under.

6.2 Summaries

Human beings are at all times exposed to different types of risks either by virtue of their occupation, physical condition or environmental exposure. Man lives constantly in a world of uncertainty and fear. He therefore must look for ways of resolving and coping with risks. The available ways are 'risk prevention', 'risk assumption' and 'insurance'. Whereas the first two methods have proved dangerous and ineffective in coping with risks, insurance has come as a more effective and satisfactory method. Insurance is a social scheme which provides financial compensation for the effects of a misfortune. Such financial compensation is provided from the pool of accumulated contributions of all members participating in the scheme (Isimoya, 1999:14)

The idea behind insurance is as old as civilization because civilizations throughout world history have devised one means or the other to share and manage risks. In fact it was discovered that insurance contracts have been made before 200 B.C. (Trennery, 1926:107)

Traditional societies had in the past developed informal insurance mechanisms like selling assets, exchanging gifts (as a means of condolence) cash transfers, crop diversification etc. The guild system of medieval Europe had an insurance arrangement where members of the guild were assisted in cases of fire outbreak, robbery, sickness or death. A form of credit insurance was also found in the 'code of Hammurabi', a collection of Babylonian laws said to predate the Law of Moses. The provision in the code declared that ship owners should not pay back loans obtained from investors if a catastrophe e.g. disability, death, ship lost etc. made it impossible (Vardit, 1985:15)

Tribal practices of *'āqilah, Diyyah, ḥilf* and *fidyah* were forms of insurance in Arabia before the advent of Islam. The *diyyah* doctrine for example, demanded that if a member of a tribe was killed by a member of another tribe, the heir of the victim would be paid an amount of money by the paternal relatives of the killer (Fisher and Taylor, 2000:4)

However, the earliest form of commercial insurance was the marine insurance. Though there were no insurance companies as we have today rather what existed was group of merchants and traders who were engaged in trade by sea and who agreed that at the end of a given period the owners of goods in the ships which arrived safely in port would contribute to compensate those merchants who had goods in the ships that failed to complete the journey. The merchants therefore collected premium which they paid into a common fund out of which they paid those who suffered losses. The burdens of the few were therefore borne by the many. It is safe to say that the success achieved in this early arrangement marked the beginning of marine insurance and accounted for commercial insurance consideration to other sectors (Vardit, 1985:22)

Today insurance has spread to other sectors of the economy. We can talk of Fire insurance, which though predated by marine insurance, was the first to achieve corporate status (Vardit, 1985:14). There are also insurance products covering life, accidents, pension and annuities, motor, aviation, oil and gas, international business etc.

Insurance, as a coordinated system of risk management and compensation, emerged as a response to the economic requirement of modern complex societies. It is recognised as the most appropriate means of protection against highly unpredictable events. The more uncertain an event is the more insurance becomes the most economical form of its protection. It is one of the methods adopted in the modern times for the organisation of economy and finance. It has a key role in present day industrial development as well as in large scale organisation of commerce, industry and agriculture.

Modern insurance practice, in terms of predictions and calculations, is hinged on the law of large numbers (probability) and the law of average. It equally works on some basic principles like; insurable interest, utmost good faith, proximate cause, indemnity, subrogation and contribution.

The advent of modern insurance in Nigeria dated back to the colonial period in the early 1920s.To that extent the earliest operating insurance companies in Nigeria were agencies and branches of British insurance companies and were therefore subjected to the laws regulating insurance in Britain (www.naicomonline.org)

The earliest statutory regulation of insurance in Nigeria was the motor vehicles (third party insurance) Act of 1945, modelled after the Road Traffic Act of 1930 in Britain, which made it illegal to have any motor vehicle ply the public highways without insurance policy covering third party legal liability for accidents.

Another major step towards the regulation of insurance business in Nigeria was the J.C Obande commission of 1961 whose report led to the establishment of the department of insurance in the Federal Ministry of trade and was later transferred to the Ministry of Finance. The report of the commission also led to the enactment of the insurance Act of 1961 (www.naicomonline.org)

The 1961 Act provided the legal framework for wholesome insurance practice in Nigeria. However, because of certain inherent weaknesses of the Act, it was replaced with the insurance (miscellaneous provisions) Act of 1964 which came into operation in 1967. Then came after it the companies Act of 1968 which incorporated all commercial companies in the country.

Aside from all these, series of Decrees were promulgated by the military government towards the regulation of insurance in Nigeria. It started with Insurance Decree 59 of 1976, which made far reaching provisions on the conditions for registration as insurer. Decree 40 of 1988 provided among other things for the assignment of life insurance policy. Decree 20 of 1989 gave birth to Insurance Special Supervisory Fund (ISSF) in the bid to strengthen insurance supervision in Nigeria. Decree No. 58 of 1991 was promulgated to ensure financial stability operators and to encourage self regulation within the industry. Decree 62 of 1992 was an amendment of the 1989 decree and it established the National Insurance Supervisory Board to manage and control the special fund. The last in the series of the decree was Decree Nos. 1 and 2 of 1997 which gave birth to the National Insurance Commission (NAICOM)

The provisions of the 1997 decree became so heavily criticised that NAICOM had to initiate a committee, including major players in the insurance industry, to review it. The outcome of the committee's activities gave birth to the Insurance Act 2003 which is the current regulatory laws of insurance practice in Nigeria.

Apart from these various government efforts to regulate insurance practice, there are also a number of professional associations in the Insurance industry that are involved in self regulatory efforts of their members. Such professional associations include; Chattered Insurance Institute (CIIN), Nigerian Insurance Association (NIA), Professional Reinsurers Association of Nigeria (PRAN), Nigerian Corporation Of

Insurance Brokers (NCIB), Institute of Loss Adjusters of Nigeria (ILAN), Nigeria Actuarial Society (NAS), Risk and Insurance Management Society of Nigeria (RIMSON) and Nigeria Council of Registered Insurance Brokers (NCRIB).

The essence of this heavy regulations and control is to safe the insuring public from fraud, failure, financial insecurity of the industry and arbitrary increase in premium rate. It is also to ensure correct investment and competence of the players in the industry.

But it must be mentioned that with all these efforts at regulating the industry, it has contributed very little to the nation's economy. Though Nigeria potentially has the biggest market in Africa, the weakness of the industry has left most of the big insurance business to be underwritten by foreign companies and the sector's contribution to the nation's GDP is put at 0.5 percent (The Nation 18 March, 2009 p.44)

It is in response to this sub-optimal performance that the Obasanjo regime in 2005 initiated the insurance sector reforms with the hope of ensuring that the industry grows and lives up to standard. The reform agenda mandated all insurance companies then operating in the country to shore up their capital base if they wished to remain in the business. After the exercise in February, 2007 out of 168 insurance and reinsurance outfits involved in the recapitalisation test, only 51 survived.

Players in the industry commended the recapitalisation exercise as having equipped the industry with the capacity to achieve growth through massive branch expansion and the development, distribution and marketing of low priced life products which deepen the market and strengthen the premium base of operators. The industry is equally better off to underwrite big risks.

But there is no doubting the fact that aside the problem of capitalisation, the industry is still faced with a number of problems ranging from ignorance of the populace on the significance of insurance and low level awareness to the problem associated with claim settlement which has created a bad image for the industry. There is also the challenge of undervaluation of premium which also known as 'rate cutting'.

However, in the world today, the concept of ethical financing has created religious challenges for the type of insurance we have described all along. It has placed this type of insurance (which we call in this work, conventional insurance, alongside a cooperative risk sharing system known as *Takāful.*

Conventional insurance has been adjudged unlawful by Islamic scholars over the years and this can be confirmed through the various juristic opinions that have been subjected to the rules of *Sharī'ah*. Some of the juristic opinions included:

- Verdict of the Supreme Court of Egypt in December 27th, 1926
- Unanimous resolutions and *Fatwa* by scholars in the Muslim League Conference in Cairo in 1965
- Consensus of Muslim Scholars in a seminar held in Morocco in May 6th, 1972
- The *Fatwa* issued by National Religious Council of Malaysia in 1972
- The *Fatwa* issued by the *Fiqh* Council of World Muslim League in 1978

The grounds of its unlawfulness are based on the presence of *Sharī'ah* prohibited elements like usury (riba), *maisir* (gambling), and *gharār* (uncertainty). These are condemned in the Qur'an and Sunnah respectively. We must be reminded that Allah commanded the Muslims to follow only the path of *Sharī'ah*. The Qur'an says:

"ثُمَّ جَعَلْنَاكَ عَلَى شَرِيعَةٍ مِنَ الأَمْرِ فَاتَّبِعْهَا وَلاَ تَتَّبِعْ أَهْوَاءَ الَّذِينَ لاَ يَعْلَمُونَ"

> We made for you a law, so follow it, and not the fancies of those who have no knowledge. (Q 45:18)

It is therefore the consensus of majority of scholars and jurists that *Takāful*, an insurance system which is based on the economic principle of *al-Muḍārabah* and is devoid of the anti-*Sharī'ah* elements is valid and acceptable for the Muslims, whether organised as a private or public venture. The reason for its acceptability is its adoption of mutual assistance, cooperation, brotherhood, piety, and ethical consideration for its operations.

Takāful generally means joint guarantee. It is an understanding among a group of people (called participants) who agree to reciprocally guarantee each other financially, should any event (specified in the contract) occur. The main objective of *Takāful* is to pay from a common fund set up by the participants of the scheme. Participants in *Takāful* scheme enter into a legal agreement to pay any of its members who falls into a specified risk, an agreed amount from the contribution earmarked as *tabarru'* (donation).

The principles of its operation are premised on the Qur'anic injunction:

"وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَى وَلاَ تَعَاوَنُوا عَلَى الإِثْمِ وَالْعُدْوَانِ"

> Cooperate with one another in righteousness and piety and do not
> Cooperate in sins and enmity (Q 5: 2)

and other injunctions of the Qur'an urging believers to hold on fast to the rope of Allah, to be and remain as brothers, to be considerate, to help the needy, to rescue those in difficulties etc. They are also premised on a number of prophetic traditions. For example the prophet (SAW) said:

> A believer to another believer is like a building whose different parts reinforce each other. The Prophet (SAW) then clasped his hand with the finger interlaced. (Bukhari, Vol.8 p. 34)

There is a consensus among scholars that *Takāful* originated from the pre-Islamic Arabian tribal practices like *diyyah* and *'āqilah* (blood wit paid by paternal relatives), *hilf*, (confederation) *al-qasamah* (oath swear), *fidyah* (ransom), i*stijārah* (asylum) and *al-muwālat* (clientage with friendly cooperation).

Islam retained some of these Arab tribal practices because of their social benefits to the society. The prophet (SAW) enacted *diyyah* in article (4) of the first Medina constitution which was titled 'validation and enforcement of the former tribal laws of blood money from the emigrant Quraysh'. *Fidyah* and other forms of social insurance were also enacted in the same constitution.

Umar b. Al-khattab furthered the development of the doctrine of '*āqilah* by introducing what was known as '*Dīwān of Mujāhidin'* in various districts and those whose names were contained in the *Dīwān* owed one another a mutual cooperation to contribute sincerely the blood money for manslaughter committed by any one of their tribe. He also instituted the system of pension for all the inhabitants of the country including the non-Muslim subjects.

Since then Muslims have been involved in one way or the other in the practise of insurance. The history of insurance in the world may not be complete if mention is not made of the Kazeeruniyyah *Ṣūfi* order which was active around the 14th-17th centuries in the port cities in Malabar and China. The order served as a kind of maritime travel insurance offering life and property insurance.

In the 19th century ibn 'Ābidin (1784-1836) a Hanafi lawyer discussed the idea of modern insurance, its meaning and legal character. He therefore took insurance out of customary practice (Anwar, 1994:1315). That was the first time that the idea of modern insurance was mentioned in Islamic sources. (Vardit, 1985:28). Ibn ‘Ābidin’s opinion opened the eyes of the Muslims to the legality of insurance and consequently, they began to practice insurance not only by buying it from foreign companies but also by establishing insurance business and being insurers themselves.

The 20th century witnessed a constant growth of insurance business, most especially the Shari’ah based insurance in the Islamic world. It was in this century that *ta’min* was coined as Arabic terminology for insurance. Aside from this, the legal opinions given by Muhammad Abduh, a well known Islamic jurist catalysed the development witnessed in this century. Abduh’s juristic opinions were to the effect that;

1. An insurance transaction is like the transaction of *al-Muḍārabah* financing technique
2. A transaction which is similar to endowment or life insurance is legal.

The first *Takāful* Company, Islamic Insurance Company Ltd. Was established in Sudan in 1979. Since its establishment, there has been the proliferation of Islamic based insurance companies. Today, there are not less than 120 Islamic insurance companies spread over countries of the world. *Takāful* companies could be found in the following countries; Algeria, Australia, Bangladesh, Bahamas, Bahrain, Brunei, Ghana, Indonesia, Iran, Jordan,Kuwait, Luxemburg, Malaysia, Mauritania, Pakistan, , Qatar, Saudi Arabia, Singapore, Senegal, South Africa, Sri Lanka, Sudan, Trinidad and Tobago, Tunisia, Turkey, United Arab Emirate, United Kingdom and USA.

Meanwhile, it must be pointed out that there are differences of opinion among Islamic scholars on the validity and permissibility of insurance business. Their opinions can be categorised into three. The first group of scholars held that insurance practice is entirely and absolutely lawful provided it is free from anti-Shari’ah elements like *ribā*, *gharar* etc. The second group are of the opinion that, while general insurance practice could be acceptable, life insurance practice is objected because aside from involving ‘lements like gambling and uncertainty, it contrasts with the Islamic principles of *Mīrāth* (inheritance) and *Wasiyyah* (will). The third category of scholars totally rejected the practice of any form of insurance on the ground that it involves the *Sharī’ah* prohibited elements. They equally argued that there is no express injunction of the Qur’an justifying insurance practice and that insurance runs afoul of absolute dependence (tawakkul) demanded by Islam from all its adherents.

After very careful consideration of these opinions, we cannot but go along with the first group of scholars and we must state that the Islamic model of insurance (*Takāful)* does not involve the *Sharī'ah* prohibited elements. It is practised based on the *Mudarabah* mode in which both the insurer and the insured share the profits and dividends made from the paid premium in an agreed proportion. Such transaction is based on mutual agreement between the parties.

In support of our position we can cite the *fatawa* (Juristic opinions) of thefollowing *Sharī'ah* bodies and committees:

(i) The *Sharī'ah* supervisory board of the Islamic Insurance Company Ltd. Sudan

(ii) The *Sharī'ah* Committee of Bank al-Jazirah

(iii) The *Sharī'ah* Supervisory Council of Malaysia

(iv) The *Fiqh* Council of World Muslim League

(v) *Fiqh* Council of Organisation of Islamic Conference (OIC)

(vi) The Grand Council of Islamic Scholars in Makkah

This validation of *Takāful* can be subjected to the sources of *Sharī'ah-* Qur'an, *Sunnah, Ijmā' and Ijtihād, Masālih al-Mursalah, Ur*f etc. It can also be subjected to some principles which are acceptable in Islamic economics. They include; the principle of contract, principle of liability, principle of *Uberima fides*, principle of *Mīrāth* and *Wasiyyah*, principle of *al-Wakālah,* principle of rights and obligations, principle of humanitarianism etc.

Three decades since the introduction of *Takāful* in Sudan, there seems to be a wider acceptance of the *Takāful* concept by the Muslims and non Muslims alike. The acceptance by the Muslims has been partly traced to the emergence of a young generation of educated and affluent Muslims seeking a substitute for an important aspect of commerce and personal finance. The acceptance is also noticeable in non-Muslim countries. For example in Sri Lanka where less than 10percent of the population is Muslim, only 15 percent of the policy holders of the only *Takāful* firm are Muslims. *Takāful* has grown not only as an innovative financial instrument but also on religious principles.

Takāful provides the Muslims and other participants with a unique opportunity to galvanise the savings of the individual for the good of the *Ummah,* institute financial discipline and encourage individuals to adopt suitable financial planning habits.

A perusal of the global *Takāful* market reveals that there are currently numerous models of *Takāful* in operation. The models include; *Muḍārabah* model, *Wakāla* model, *Waqf* model, *Muḍārabah+Waqf* model, *Wakāla+Muḍārabah* model and *Wakāla+Waqf* model.

Introducing Islamic finance, to which *Takāful* is a component into the Nigerian financial market has taken a very gradual process. Certain steps taken by successive governments over the years have shown the country's interest in Islamic finance, though these steps have been carefully and discreetly taken.

It can be recalled that Nigeria has been an observer member of the Organisation of Islamic Conference (OIC) since 1969 under General Yakubu Gowon and became a member country in 1986 under General Ibrahim Babangida. As a further development on that, the country became a member country of the Islamic Development Bank (IDB). Added to this Nigeria is not alien to Shari'ah practice.

We must also recall that an approval-in-principle (AIP) was granted to the proposed Jaiz Bank PLC to operate a full-fledged Islamic banking with the condition of meeting 25 billion capital requirements. Seeing this move towards Islamic finance, IDB offered the Central Bank of Nigeria a Technical Aid Grant for training Central bank examiners for the development of a framework for the regulation and supervision of Islamic finance. The grant was also meant for the organisation of an international conference on Islamic finance in Nigeria (Umar, 2009:6)

It must also be mentioned that in January 2009, the Central Bank of Nigeria joined the International Financial Services Board (IFSB) as full member. The IFSB is an international standard-setting organisation for the Islamic financial industry. Based in Malaysia, IFSB is a conglomerate of central bank of various countries and other regulatory bodies and multilateral organisations like IDB and IMF.

A number of remarkable events also unfolded in September 2010 consolidating the take-off of Islamic financial services. These included the release of draft framework for a non-interest (Islamic) deposit insurance scheme for stakeholders' comments by the NDIC, the posting of regulations guiding funds and securities, including Islamic fund management, on website by SEC and the setting of tentative timetable for the development of the first *Sukūk* (Islamic bond) by the Debt Management Office (DMO) (Umar, 2009:7)

In October, 2010 the Central Bank of Nigeria joined the Central banks of Malaysia, Kuwait, Luxembourg, Saudi Arabia, Iran, Mauritius, Qatar, Sudan, Turkey, UAE, Indonesia and some multilateral organisations like IDB and the Islamic

Corporation for the Development of the Private sector, to form the International Islamic Liquidity Management Corporation (IILM). The aim of IILM is to provide treasury instruments that are Shariah compliant to address the liquidity management issue of Islamic banks and serves as instruments for open market operations involving Islamic financial institutions (Umar, 2009:7)

With these steps taken, one is not in doubt that the stage is set for the introduction of zero interest banking institution in Nigeria which will eventually promote the entry of other institutional players like *Takāful.*

As regards the factors that will serve as prospects for the operation of *Takāful,* we identified the following:

1. Muslim population in Nigeria:

It may be difficult to say with certainty the percentage of the Nigerian population that constitute Muslims because the last three census organised by government did not contain data relating to religion. It must be reported that some attempts made at ascribing figures to the Muslim population has been met with stiff opposition from the Christian associations. To avoid this controversy therefore, it may be safe to say that the population of Muslims in Nigeria is substantial enough to sustain large *Takāful* operation. What this portends is that even if people of other faiths refuse to patronise *Takāful,* the patronage by the Muslims will sustain *Takāful* to success.

2. Islamic organisations in Nigeria:

The proliferation of Islamic organisations in the country is another hope for *Takāful o*peration. While it is difficult to know the number of such organisations, the attempt we made revealed that there could be more than 200 of such organisations. With proper collaboration and networking coupled with proper capacity building, the organisations apart from patronising *Takāful* companies can also float their own companies.

3. Poverty in Nigeria:

The devastating menace of poverty and its attendant economic vices demands that alternative efforts be made to get Nigerians off the hook of poverty. Islamic finance, with all its components, is a better alternative to the porous capitalism the country has ventured into. The various moves made by successive governments since the 70s have not made any meaningful effect on the poor populace. Past governments in Nigeria have rather amassed wealth for themselves through the programmes. For the avoidance of doubt, we can still recollect the following programmes and schemes:

* Operation Feed the Nation and Green Revolution (in the late 70s and early 80s) which aimed at food security for the nation.
* Directorate of Foods, Roads and Rural Infrastructures (DFRRI)
* Mass Mobilization for Social Justice and Economic Recovery (MAMSER)
* National Directorate of Employment (NDE). All in the 90s.

  Some recent programmes initiated by former President Olusegun Obasanjo for the same purpose are:
* National Poverty Eradication Programme (NAPEP) aimed at job provision for the masses.
* Youth Empowerment Programme (YEP) to aid the acquisition of relevant skills.
* Social Welfare Services Scheme (SOWESS)

Takāful can provide an effective method of accumulating income for individuals for the collective good of the community. In communities lacking capital resources, *Takāful* can become an engine for economic growth and development. It has the potentials of empowerment and capacity building.

4. Islamic cooperative societies/ Microfinance organisations in Nigeria:

The existence in Nigeria, of co-operative societies and microfinance organizations which operate on interest-free Islamic principles is an encouragement for the operation of *Takāful* in the country.

Most of these co-operative societies and microfinance organizations are not registered with the Ministries controlling co-operative activities in the various states because of the existing cooperative regulations in the country which do not allow co-operative activities on the basis of religion. This particular principle is one of the International Co-operative Alliance (I.C.A.) principles which includes;

- Open and voluntary membership without religious or political discrimination
- Democratic control
- Limited interest on capital if any
- Equitable distribution of surplus
- Education for all members, officers, employers and the public.
- Co-operation among co-operators

At the1995 congress held in Manchester, other principles were added to the above. They are:

- Members economic participation
- Autonomy and independence

- Concern of community.(Akintunde, 2008:1)

It may therefore be difficult to know the number of such organizations that are in existence in Nigeria. Most are not registered and they only operate at the community levels. Few are registered but not as co-operative organizations. Some register either as foundations or development groups. Most of them, aside from giving loans to their members on interest-free basis, also engage in micro finance activities.

Islamic microfinance as an institution is relatively new in Nigeria. Presently, at the formal level, there had been no specialized Islamic microfinance institution until mid April, 2010 when Al-Barakah Micro Finance Bank made an entry into the nation's financial system. Al-Barakah is an initiative of The Muslim Congress (TMC), a 16year-old organisation. (The Nation, April 19, 2010)

However, some conventional microfinance institutions are offering Islamic compliant services. It was reported in the Daily Trust/All Africa of 28 January, 2009 that the Kwara Commercial Microfinance Bank which offers Islamic compliant services along with conventional micro banking services –was officially commissioned in Ilorin on 27 January, 2009. (Islamicfinance.de)

Earlier, Integrated Microfinance Bank (IMFB) in Lagos has introduced Islamic –compliant banking products such as *ijarah* and *musharakah.* In each of these products, customers contribute funds and both the bank and the customer share in the profits (and losses) from the product. The introduction of Islamic–compliant banking products by IMFB dates back to mid – 2008 (microcapital.org).

As we have earlier mentioned, Islamic microfinance has also been provided at the non-formal level by some self-help-Muslim organizations in Nigeria. In OgunState, for instance, activities of these self-help groups are well pronounced because not less than four of such Islamic registered NGOs engage in provision of Islamic microfinance, with two of them having not less than a decade experience. These organizations include *Al-Hayat* Relief Foundation (established 1997), *As-salam* Development (founded 1999), *Itunmetala Iwade* Islamic Foundation (January 2009) and *Al-Amanah* Islamic Foundation (June 2009). They are all registered with the Corporate Affairs Commission as Foundations because of the co-operative principles and regulations earlier discussed. Others that we have come across include:

- Al-Ansar Muslim Foundation of Nigeria, Abeokuta, OgunState
- Young Muslim Multi-Purpose Cooperative Society, Agege, Lagos
- Dawah Front of Nigeria, Abeokuta

- Al-Ikhlas Cooperative Investment and Credit Society, Ibadan
- Islamic Reliefs Foundation, Ado –Ekiti
- NASFAT Cooperatives, Lagos
- University of Ibadan Muslim Cooperative Investment and Credit Society, Ibadan

If these cooperative organisations have existed and carried out zero-interest cooperative activities, some for one and a half decade and some given their members as high as 1million Naira, payable in three years and yet declaring profit on business carried out, we can say with a measure of confidence that *Takāful* has a great prospect in Nigeria.

5. *Takāful* products/windows in Nigeria financial market:

Investigation has shown that there are presently three conventional insurance companies offering *Takāful* product in Nigeria. The organisations are: Africa Alliance Insurance, Niger Insurance PLC. and Cornerstone Insurance PLC.

African Alliance introduced *Takāful* products to the Nigeria financial market in 2003. Their products include Family *Takāfu*l plan, Hajj plan, Pilgrimage plan, Education plan, Investment plan, Credit protection plan, Pension plan and Mortgage plan.

Niger Insurance introduced *Takāful* product into the market in 2005. Their products cover *Sallah* plan, Hajj plan, Education plan, Retirement plan and marriage plan.

Cornerstone Insurance with its *Halal Takāful* Nigeria joined the *Takāful* market in 2009 with a wide range of products which include, Family plan Group family plan, Retirement plan, Education plan, Group Education plan, Marriage plan, Hajj and *Umrah* plan, Mortgage protection plan, Travellers' plan, Halal Investment plan, Motor plan, Fire and Theft plan, *Halal Esusu* plan and *Halal* Credit plan.

From our interactions with these organisations we discovered that though there are challenges of awareness and education, the products are doing fine in the market and patronage has been described as encouraging. We can therefore conclude that if *Takāful* windows are doing fine in the Nigerian market, then there is hope for full *Takāful* operations.

The discussions on the prospects of *Takāful* should suggest the likelihood of some challenges for its operations in Nigeria. The followings were identified as the challenges to confront its operations:

1. Legal and Institutional framework:

For the operations of *Takāful* to succeed in Nigeria, there is an urgent need to put in place a set of regulations that will take the peculiarity of the system into consideration. The existing regulations in Nigeria are for conventional insurance system which has some sharp differences with the *Takāful* system. Research has shown that in the countries where *Takāful* is regulated within the regulations of conventional insurance, no significant development has been recorded and the socio-economic benefits of the system are greatly reduced. Therefore the need for separate regulations for *Takāful* will be a challenge for its operations.

2. Manpower and Expertise:

The operation of Islamic insurance will require personnel who have competencies in both *Shariah* and actuarial sciences. It is this skilled human capital that will drive innovation, sustain competition and raise the performance of *Takāful* industry to greater heights. This talent may not be readily available in Nigeria.

3. Investment problems and cost of business in Nigeria:

Takāful will also be confronted with the non existence of long-dated corporate Islamic financial products in which *Takāful* premiums can be invested. In the recent times very few of such products are emerging but they are still so scanty that they cannot match the long term nature of the risks of *Takāful* contract.

Added to this is the high cost of doing business in the country. The inability of the government to provide sustainable electricity for the country has forced businesses to run on generators with the attendant additional cost of its maintenance and fuelling. Those who could not cope with the problem had left the country for other West African countries. If the problem of electricity is not resolved, it will definitely constitute a challenge for the successful operation of *Takāful.*

4. Need for support institutions:

Takāful business will require the operations of some institutions if it is to succeed. Such institutions include Central Shari'ah Council, Liquid secondary market for Islamic products, Retakaful companies, Islamic Money and Capital market, Asset management companies etc. These auxiliary institutions have to be put in place for *Takāful* operations.

5. Multi-religious nature of Nigeria:

The readiness of people of other faiths, especially the Christians, to antagonise and reject what is seen as Islamic, even if such will benefit the country, is a major challenge that *Takāful* is most likely to face. The current outrage on Islamic banking gives a logical example.

6. Lack of awareness and education:

A number of Nigerians do not know what *Takāful* is and are therefore ignorant of its workings and benefits. A number do not see the need for any type of insurance. Some Muslims hold the opinion that Islam has nothing to do with insurance. Without sound education and serious awareness creation, *Takāful* can face the general scepticism and the challenge of confidence faced by insurance practice in Nigeria.

6.3.0 Recommendations

In view of what we have discovered and discussed in this work, we make the following recommendations with the hope that if they are seriously taken and worked upon, the Central Bank, NAICOM and other stakeholders in the Nigeria financial regulations will not only succeed in giving Nigerians an alternative insurance system but also join other countries of the world in propagating a financial system that is fast becoming the solution to the problems of capitalism.

6.3.1 *Takāful* regulations

In the light of the fact that the regulatory and institutional frame work existing in the country is only supportive of the conventional insurance system and the fact that the workings of *Takāful* are sharply in contrast with the conventional insurance, we recommend that for *Takaful* to succeed, there is the need for separate regulations for *Takāful* operations. This requires the need to establish standards to solve the key aspects of differences between *Takāful* and conventional insurance.

The said regulation is needed for *Takāful* to thrive in an orderly manner and to ensure a level playing ground for *Takāful* business. The experiences of countries like Malaysia, Bahrain and Sudan have shown that where there are separate regulations for *Takāful,* there has been steady growth of the industry. On the other hand, in countries where *Takāful* has been regulated within the framework of conventional insurance, there has been no significant development of *Takāful*. (IRTI, 2006:35)

The legal framework should be comprehensive as to cover supervision, regulation, licensing authorities, infrastructure, capital adequacy and solvency, financial and prudential regulation, transparency, market conduct, corporate governance and supervisory review process. It should also consider the issue of *Sharī'ah* council and the *Sharī'ah* supervisory boards. This is important because every product of *Takāful* and the activities of the organisation’s management must conform to the letters and intents of *Sharī‘ah.*We can borrow from the experience of Malaysia where both Islamic banks and Islamic insurance companies are regulated by the same regulatory authority.

6.3.2 *Takāfu*l Personnel and practitioners

Human capital is so central to the success of an organisation and this has been proved in theories and in practice. This is why reputable corporate organisations all over the world spend in millions to attract, train, retrain, maintain and sustain highly skilled and well motivated staff. The success of full *Takāful* operation will depend largely on the calibre of staff it is able to attract, their training base and the skill garnered form such trainings. For this reason, government and other stakeholders in the industry should begin a concerted effort to put in place human talents developmental programmes which should aim at providing the *Takāful i*ndustry with knowledgeable and highly skilled staff. The programme should cover all levels of *Takāful* operations- Organisational leadership, technical personnel and regulators.

This programme can be done in phases; Long term, Medium term and Short term. Long term programmes could be to empower Universities in Nigeria offering insurance or Actuarial Sciences to introduce courses on *Takāfu*l and ultimately encourage interested students to specialise in *Takāful* practice.

The medium term programmes should consider establishing specialised or research institutions like the Institute of Islamic Banking and Insurance (IIBI, London), with appropriate infrastructure and technology to train manpower for *Takāful* operation. The Muslim Philanthropists and Islamic organisations, both within and outside the country can assist in this regard. Such institute initially can be affiliated with IIBI London or Malaysia. The institute will run and award Diploma certificates in Islamic banking and Islamic insurance. The institute will also be involved in research and development of workable initiatives on the implementation, capacity building and sustainability of Islamic insurance in Nigeria (Alanamu, 2003:115).

The short term programmes can consider sending students and practitioners abroad to be trained either at the IIBI, London or countries like Malaysia where there is advance practice of *Takāful* and most importantly where there are adequate medium and long term plans to develop human capital.

6.3.3 Investment and *Takāful*

The prohibition of interest in the Islamic financial dealings is substituted with trade and investment. The Qur'an says:

"وَأَحَلَّ اللهُ الْبَيْعَ وَحَرَّمَ الرِّبَوا"

"But Allah has permitted trade and forbidden usury (interest)" (Q 2v. 275)

Therefore *Takāful* (and indeed any aspect of Islamic finance) can only succeed where there are financial assets that can match the long term nature of the risks of *Takāful* contract. It must be noted that the investment principles in Islam are such that aside from the fact that it must be interest free, the entire procedure must comply with *Sharīʻah* guidelines and the returns on investment must not be driven by any unethical commercial activities.

There are very few of such investment avenues presently in Nigeria. Government and relevant agencies and monetary authorities would have to create enabling environment that will allow the emergence of Islamic bonds and the various forms of securities- Treasury bills, Treasury Certificates and Islamic partnerships and investment portfolios. Quick take off of Islamic banking can greatly assist in the creation of these bonds to attract deposits and mobilise savings for different transactions. As it has been done in other regions of the world, the Islamic banks can also issue *Muḍārabah* certificates, which create the vehicle through which Islamic institutions and business men can invest on short term or medium term basis.

6.3.4 Cost of running business

The impact of epileptic electricity supply on the cost of running business in Nigeria and the economy has been very grave. If government is sincere about attracting investment to Nigeria, they must forget about the rhetoric of reformation which has not yielded any results in the last decades. The simple solution is the political will of those in government and the determination to turn things around. Investors compare the cost of running businesses in countries of the world and would always prefer those countries that give them cost benefits for their investment. There must be a sincere and workable approach to solve the power problem and safe this country from the embarrassment of corporate organisations moving away to other neighbouring countries for the want of stable power supply.

6.3.5 *Takāful* Education

There is no doubt that ignorance constitutes a great disease and an uninformed person about the benefits derivable from something may kick against it. We have observed that *Takāful* issue, just like other Islamic matters, most especially in Nigeria, requires a lot of education and enlightenment of people; Muslims and non-Muslims, for them to understand the benefits of *Takāful* to individuals and the Nigerian economy. *Takāful* providers, regulators and other stakeholders would have to take the issue of education very seriously. It is on this note that we recommend the following:

i. An intensive and extensive research to examine the attitudes and understandings of Muslim scholars in Nigeria to Insurance practice generally and *Takāful* practice in particular. This is with the aim of appreciating their positions for the purpose of knowing the type of education and orientation to plan for them.

ii. The use of direct and interpersonal communication to educate the Muslims on *Takāful* and its benefits to the society. Opinion Leaders, Imams, Orators, Muslim celebrities etc. Should be trained to disseminate information on *Takāful.*

iii. Massive publicity and vigorous awareness campaign should be mounted on the mass media with the objectives of educating the public on the need for *Takāful* and its benefits, distinguishing between *Takāful* and conventional insurance, communicating its uniqueness and emphasising acceptance and participation.

iv. The CBN, Shari'ah Council and *Takāful* providers should organise seminars, symposia, workshops and conferences on *Takāful* and its importance.

v. *Takāful* providers would have to use all forms of communication and marketing strategies to sell its products. These should include; special events/events marketing, corporate identity tools, sales reps/sales canversers, exhibitions and trade fairs, Sponsorships and Corporate Social Responsibility programmes.

Media practitioners should be properly educated through a well planned media relations programmes. This is because the media has a very important role to play in the education of the populace. If the media is not informed about *Takāful* system, how it works and the benefits derivable from its operation, the likelihood is that it will misinform the public.

6.3.6 General recommendations

Aside the specific recommendations stated above, we still feel the need to make the following general recommendations:

i. Islamic organisations should be kept informed and be involved in the *Takāful* operation plan. This will assist in the education and enlightenment of their members

ii. The Supreme Council for Islamic Affairs should play a prominent role in educating Muslim investors so that money could be pooled to establish viable *Takāful* providers.

iii. The Christian Association of Nigeria (CAN) should be properly educated on the benefits of Islamic finance generally. The appeal should be based on fact and figures (Logos) using countries of the world that have benefitted from this system, irrespective of their religious standing.

iv. Organisations with *Takāful* products and windows should be encouraged to venture into full *Takāful* service provisions.

v. The Nigeria government should consciously begin to create plan of actions which could foster religious tolerance and religious integration in the country. *Takāful* and other forms of Islamic Micro finance activities could assist Nigeria in the areas of poverty alleviation and economic justice without considering religious affiliations.

vi. Micro *Takāful* groups should be encouraged for the purpose of empowerment and poverty alleviation.

vii. The regulating agency on *Takāful* should specify the particular model of operation in the country to make for easy supervision and control.

viii. Adequate plan should be made for Re-takāful agencies in the country because the success of *Takāful* to underwrite big risks depends largely on the existence of retakāful agents.

It is our hope that this work will be of great benefit not only to the Muslims and non-Muslims who desire to know about *Takāful* and its workings but also to researchers who may want to carry out research on *Takāful*. It will also be beneficial to Government, policy makers, *Takāful* providers and investors. Lecturers and students in the field of Islamic Finance, conventional insurance, Islamic insurance and Islamic civilisation will find this thesis useful.It is our prayer that Allah will make this work and effort beneficial to humanity as a whole.

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APPENDIX 1

DEPARTMENT OF ARABIC AND ISLAMIC STUDIES

FACULTY OF ARTS

UNIVERSITY OF IBADAN

Takāful In Nigeria Questionnaire (TINQ)

Dear Respondent,

This questionnaire is an instrument designed to gather information for a doctoral study on *Takāful* (Islamic Insurance) in Nigeria. It will therefore be appreciated if you can assist in the completion of this instrument. Information supplied will be used for research purpose and shall be treated confidentially. Kindly feel free to express your opinions and ideas.

Adepoju Razaq Idowu

Instructions: Tick (X) where applicable and appropriate.

Tick only one response, unless otherwise indicated.

Write your response where required.

SECTION A- General Information

1. Religion: Islam ( ) Christianity ( ) Traditionalist ( )
2. Educational background: O' level ( ) Above O' level ( )
3. Indicate your age_______________
4. State of origin ___________________
5. Profession_______________________

SECTION B:

6. Do you know what Takaful is? YES ( ) NO ( )
7. Takaful is: (a) Roman's Guild insurance
   (b) Traditional Arab insurance
   (c) Shariah-based insurance
8. Have you subscribed to any Takaful plan(s)? YES ( ) NO ( )
9. What type of plan(s)? (a) Retirement plan
   (b) Education plan
   (c) Mortgage

(d) Savings plan

(e) Hajj plan

(f) Life plan

(g) Others

10. Which organization(s)? (a) African Alliance Insurance PLC.

(b) Niger Insurance PLC.

(c) Cornerstone Insurance PLC.

(d) Alhayat Takaful

(e) Others

11. What is your experience of the plan(s)? Good ( ) Bad ( )

12. If No, will you be willing to join any Takaful plan? YES ( ) NO ( )

13. Can Takaful succeed in Nigeria? YES ( ) NO ( )

SECTION C: SA (Strongly Agree), A (Agree), SD (Strongly Disagree), D (Disagree)

		SA	A	SD	D
1.	Muslim population in Nigeria can sustain large Takaful operation.				
2.	With the number of Islamic organizations in Nigeria, there should be no problems establishing full Takaful service providers.				
3.	The current insurance regulation in Nigeria could be a major barrier to the success of Takaful operation.				
4.	A large number of Muslims do not know what Takaful is all about.				
5.	Non Muslims are likely to participate in Takaful if the right kind of awareness is created.				
6.	The negative attitude of Nigerians to conventional insurance cannot affect Takaful.				
7.	The high level of patronage of Takaful products				

	currently in the Nigeria conventional insurance market is indicative of a successful Takaful operation in Nigeria.				
8.	The multi-religious nature of Nigeria could be counterproductive to Takaful operation.				
9.	The high rate of poverty among Nigerians would mar the success of Takaful in Nigeria.				
10.	Minimal Islamic (halal) investment products in the Nigeria financial Market could be a major challenge to Takaful.				
11.	Muslim population in Nigeria cannot sustain large Takaful operation.				
12.	The large number of Islamic organizations in Nigeria cannot guarantee successful Takaful operation.				
13.	The current insurance regulation should not be a barrier to Takaful operation in Nigeria.				
14.	A large number of Muslims know what Takaful is all about.				
15.	Non Muslims are not likely to participate in Takaful even if the right kind of awareness is created.				
16.	The negative attitude of Nigerians to conventional insurance could be extended to Takaful.				
17.	The high level of patronage of Takaful products currently in the Nigeria conventional insurance market is not a guarantee for a successful Takaful operation in Nigeria.				
18.	The multi-religious nature of Nigeria cannot adversely affect Takaful operation.				
19.	Despite the high rate of poverty among Nigerians, Takaful can still be successful in Nigeria.				

20.	Minimal Islamic (halal) investment products in the Nigeria financial Market cannot be a challenge to Takaful.				

What is your view on the success or failure of Takaful in Nigeria?____
____
____
____

APPENDIX II

The tables below show the recapitalized insurance companies, the authorized class of business, office addresses and names of chief executives as at 1st January, 2009.

RIC-NO:	NAME OF COMPANY	AUTHORIZED CLASS OF BUSINESS	ADDRESS OF COMPANY	NAME OF CHIEF EXECUTIVES
001	Alliance & General Insurance Company Ltd.	General Business	BAICO Plaza, 12 Abibu Oki Street Marina Lagos. P.O. Box 72942, Victorial Island	Dr. A. Adedeji
002	African Alliance Insurance Company Ltd.	Life Business	112, Broad Street. P.O.Box 2276Lagos	Mr. Ojeme Alphonse Okpor
003	ADIC Life Assurance Ltd ADIC Insurance Company Ltd.	Life Business General Business	NACA House 7th floor, 43 Afribank Street, Victorial Island P.O.Box 5061 Lagos.	Mr. Niyi Onifade Vacant
004	AIICO Insurance Plc AIICO General Insurance Company Ltd.	Life Business General Business	Plot PC 12, Afribank Street, Victorial IslandP.O.Box 2577Lagos.	Mr. Sobande Ayodeji Sobanjo Mr. Olusegun Omosehin
005	Anchor Insurance Company Ltd.	General Business	7/13 Aka Road, P.M.B 1151 Uyo Akwa Ibom.	
006	Capital Express Insurance Company Ltd.	Life Business	13, Bishop Kale Close Behind Saka Tinubu Street Victorial Island, P.O.Box 6850 Marina Lagos.	Mr. Tony Aletor

RIC-NO:	NAME OF COMPANY	AUTHORIZED CLASS OF BUSINESS	ADDRESS OF COMPANY	NAME OF CHIEF EXECUTIVES
007	Consolidated Hallmark Insurance Plc.	General Business	Plot 33D Bishop Aboyade Cole Street, P.O.Box 74013 Victorial Island Lagos.	Mr. Eddie Efekoha
008	Cornestone Insurance Plc	General Business	Cornerstone House 136 Lewis Street P.O.Box 75370 Victorial Island	Vacant
009	Crusader Life Insurance Ltd Crusader General Insurance Ltd	Life Business General Business	23/25 Martins Street, Lagos	Mr. G. O. A Oyelami Mr. Nimbe Oviosu
010	Custodian & Allied Insurance Plc.	General Business	Still water House 14, Keffi Street, P.O.Box 56487 Ikoyi Lagos	Mr. Wole Oshin.
011	Equity Assurance Plc	General Business	Plot 1196, Bishop Oluwole Street, Victoria Island Lagos	Mr. Dolapo A. Balogun
012	Crystal Life Insurance Company Plc.	Life Business	12th Floor Eleganza House, 15B Joseph Street, P.O.Box 1514 Lagos	Mrs. Seyi Ifaturoti
013	Goldlink Insurance Plc.	Composite	Goldlink Plaza 6, Emmanuel Onigbongbo Maryland. P.O.Box 5987 Marina Lagos.	Mr. Femi Okunniyi

RIC-NO:	NAME OF COMPANY	AUTHORIZED CLASS OF BUSINESS	ADDRESS OF COMPANY	NAME OF CHIEF EXECUTIVES
014	Great Nigeria Insurance Plc. Great Nigerria Life	General Business Life Business	Great Nigeria House. 8, Omo-Osagis Street off Awolowo Road Ikoyi SWI Lagos	Mr. Bimbo Siyanbola Vacant
015	Spring Life Assurance Plc.	Life Business	28, Gbagada Expressway Gbagada Phase 1 Opposite Anthony Village. P.O.Box 5078 Marina Lagos.	Mrs. A. Akintunde
016	Guaranty Trust Assurance Plc	Composite	Heritage Plaza Plot 928A, Bishop Aboyade Cole Street, P.M.B 80015 Victoria Island Lagos	Mrs. Yetunde Ilori
017	Guinea Insurance Plc	General Business	12th Floor, Wema Towers, 54 Marina Street, P.O.Box 1136. Lagos	Mr. Ojinaka Nicholas
018	Industrial & General Insurance Company Ltd.	Composite	Plot 741 Adeola Hopewell Street Victoria Island, Lagos.	Mr. Remi Olowude
019	Insurance PHB Limited	General Business	39A, Saka Tinubu Street. P.O.Box 72211. Victoria Island Lagos.	Mrs. Cecilia Osipitan
020	International Energy Insurance Plc	General Business	Plot 171A, Moshood Olugbani Street Victoria Island Extension, P.M.B	Mr. Jacob Erhabor

			80030 Victoria Island Lagos	
021	Investment & Allied Assurance Company Ltd	General Business	Block 10, Ikorodu Road, Beside 7th Day Adventist Church Maryland, Lagos.	Mr. Segun Akinyemi
022	UnityKapital Insurance Company Ltd	General Business	Plot 497, Abogo Largema Street off Constitutions Avenue Central Business District. P.O.Box 13233, Wuse Zone 3 Abuja.	Alhaji Mohammed Kari
023	Lasaco Assurance Plc. Lasaco Life Assurance	General Business Life Business	Ivory Music House. 13, Alhaja Asabi Cole Street CBD Alausa Ikeja, P.O.Box 3724, Lagos.	Mr. O.O Ladipo Ajayi Vacant
024	Law Union & Rock Insurance Company Plc.	General Business	Plot 209, Muri Okunola Street, Victoria Island, Lagos.	Mr Olumide Falohun
025	Leadway Assurance Company Limited	Composite	121/123 Western Avenue Iponri G.P.O.Box 6437 Marina Lagos	Mr. Oye Hassan Odukale.
026	Linkage Assurance Plc.	General Business	Linkage Plaza, Plot 20 Block 94 Lekki-Epe Expressway P.O.Box 74175Victoria Island, Lagos.	Mr. Godwin U. S. Wiggle
027	Mutual Benefits Assurance	General Business Life Business	Aret Adams House. 233, Ikorodu Road, Ilupeju Lagos,	Mr. Akin Ogunbiyi Vacant

	Mutual Benefits Life Assurance Company Ltd.		P.O.Box 70986, Victoria Island	
028	NEM Insurance Plc.	General Business	138/146 Broad Street, P.O.Box 654 Lagos	Mr. Tope Smart
029	Niger Insurance Plc.	Composite	48/50 Odunlami Street, P.O.Box 2718 Lagos	Mr. Justus Cliton Uranta
030	Nigerian Agricultural Insurance Corporation	General Business	Plot 590 Zone A.O Central Area P.M.B 0178 Abuja.	MR. K.. K Yusuf
031	Oasis Insurance Company ltd.	General Business	Oasis House. 298, Ikorodu Road P.M. B 21170 Ikeja, Lagos.	Not Yet Approved
032	Oceanic Insurance Company Oceanic Life Assurance Limited	General Business Life Business	226, Awolowo Road, Ikoyi, Lagos	Mr. Lafor Olagbegi Mr. Ekpe Ukpabio
033	Prestige Assurance Plc.	General Business	19, Ligali Ayorinde Street, Victoria Island, P.O.Box 650, Marina Lagos.	Mr. Yugandhara. R. S
034	Regency Alliance Insurance Plc.	General Business	2, Ebun Street, Gbagada Expressway, Gbagada . P.O.Box 70333, Victoria Island, Lagos	Mr. Biyi Otegbeye
035	Royal Exchange	General Business	New Africa House. 31, Marina Lagos.	Mr. A. Faboade Alh. Abayomi

	Assurance (Nig) Plc. Royal Prudential Life Assurance	Life Business		Rufai.
036	Sterling Assurance Nigeria Ltd	General Business	CapitalBuilding. 332, Ikorodu Road, Idi-Iroko Mary Land Lagos	Mr. Fatai Kayode Lawal
037	Sivereign Trust Insurance Plc.	General Business	35, Adetokunbo Ademola Street. P.O.Box 74393, Victoria Island Lagos	Mr. Suen Ajayi
038	Staco Insurance Plc.	General Business	209, Herbert Macaulay Street, Ebute Metta. P.M.B 1018, Sabo Yaba, Lagos	Mr. S. O Oyefeso
039	Standard Alliance Insurance Plc	General Business	Plot 280/281 Ajose Adeogun Street, P.O.Box 73659, Victoria Island Lagaos.	Mr. Tom Imokhai
040	Standard Alliance Life Assurance Company Ltd	Life Business	Plot 285B, Ajose Adeogun Street, Victoria Island Lagos	Mr. Austin Isire
041	The Universal Insurance Company Ltd	General Business	Plot 1204, Amodu Ojikutu Street off, Bishop Oluwole St. Victoria Island Lagos	Mr. John Ethagbe
042	UBA Metropolitan	Life Business	Plot 1662, Oyin Jolayemi Street,	Mr. Anoldus J. Kroger

	Life Insurance Company Ltd.		VictoriaIsland	
043	Unic Insurance Plc	Life Business	Plot 144, Oba Akran Avenue, Ikeja, P.O.Box 588, Lagos	Mr. Keith Halford
044	Union Assurance Company Ltd	Composite	StallionPlaza (13th Floor), 36, Marina Lagos. P.M.B 12686, Lagos	Chief Theo Eke
045	Unitrust Insurance Company Limited	General Business	Plot 105B, Ajose Adeogun Street, P.O.Box 1202 Victoria Island, Marina Lagaos.	Mr. J. Matni
046	Intercontinental WAPIC Insurance Plc Intercontinental WAPIC Life Assurance	General Business Life Business	119, Awolowo Road, Ikoyi, P.O.Box 55508, Falomo Ikoyi, Lagos	Mr. Segun Balogun Mr. Jide Akinola
047	Yankari Insurance Company Limited	General Business	Isa Yuguda House Plot 19/23 Jos Road, P.O.Box 2122 Bauchi	Alhaji Auwalu Muktari
048	Zenith Insurance Company Limited Zenith Life Insurance	General Business Life Business	Plot 101, Ajose Adeogun Street, P.O.Box 75315 Victoria Island, Lagaos.	Not Yet Approved Vacant
049	NICON Insurance	Composite	Muhammed Buhari Way Central Business District Abuja	Mr. E. Jegede

***List of recapitalized insurance companies as at 1st January, 2009**

001	Continental Reinsurance Company Plc	Composite	St. Nicholas House (8th floor) 6, Catholic Mission Street Lagos	Mr. A. Adejumo
002	Nigeria Reinsurance Corporation	Composite	Herbert Macaulay Way Central Area Abuja.	Mr. J. Ameh

***List of recapitalized reinsurance companies as at 1st January, 2009**

APPENDIX III

List of Islamic Organizations in Nigeria

Abdul Azeez Islamic Foundation Mosque, Lagos

Abdul Rahman Islamic Foundation, Lagos

Abubakar Siddiq Islamic Foundation, Kano

Abuja Muslim Forum, Abuja

Abuzur Islamic Propagation And Empowerment Centre, Katsiina, Katsina

Africa Muslim Agency, Oyo State

Ahbabud-Dinil Islami Society Of Nigeria,Offa Garage, Ilorin., Illorin

Ahlsunnah Islamic Foundation, Ibadan

Ahlul- Sunna Wal- Jamahat Charitable Foundatio For Call & Guidance, Ilorin

Aib Masjid/Ummah, Lagos

Ajarat Islamic Thought Foundation, Ilorin

Akhwati Muslimah, Abuja F.C.T.

Al - Muslim Newspaper, Lagos

Al Akhilau Fil Jannat, Ibadan

Al Fathia, Ife

Al-Ameen Islamic Foundation, Lagos

Al-Ansar Islamic Foundation, Lagos

Al-Aqsoh Media And Production Ltd., Lagos

Al-Bayyan Islamic Foundation, Port Harcourt

Al-Fa'izuna Islamic Foundation, Lagos

Al-Fatih-Ul-Quareeb Islamic Society Of Nigeria, Lagos

Al-Habibiyyah Islamic Society, Abuja

Al-Hayat Relief Foundation, Ijebu Ode

Al-Ihtimaam, Port Harcourt

Al-Ikhlas (Ib) Co-Operatives Investment And Credit Society, Ibadan

Al-Mu'minaat Organization, Lagos

Al-Rahman Cares Foundation, Kano

Al-Usrah, Port Harcourt

Albushrah Islamic Foundation, Lagos

Alihsan Foundation, Bauchi State

Almufida Orphans Organisation Gumau, Bauchi State

Alqibla Media Limited, Kaduna

Alqiblah International Promotion Ilorin, Ilorin

Amina Islamic Foundation, Lokoja

An-Nisa Foundation, Abuja

Ansar'u-Deen Society Of Nigeria, Lagos

Ansar-Ud-Deen Youth Association Of Nig(Adyan) Ikotun Branch, Lagos

Ansarul Islam Society, Kano

Arabic & Islamic Training Centre, Lagos

Arabic Institute Of Nigeria, Ibadan

Arabic Islamic Technical Training Center, Ibadan

Arabic Traning Center, Ogun State

As Salam Society Of Nigeria,, Lagos, Lagoss

As Salam Sunat Medicine Centre Islahudeen Central Mosque Osogbo Osun State, Osogbo

As Sofaa Muslim Society Of Nigeria, Lagos

As-Haabus-Salaam Society Of Nigeria, Lagos

Asociacion Panamena De Adoradores De Ala, Apaa

Association. Of Muslim Brothers & Sisters Of Nigeria, Lagos

Association Of Muslim Intellectuals Of Nigeria (A.M.I.N), Kaduna

Association Of Muslim Professionals, Port Harcourt

Ayegbami Muslim Youth Association, Sagamu, Shagamu

Azzaetun Organisation For Islamic Affairs.(Inc), Lagos

Badrud-Dinil-Islamy Assalat Circle Of Nigeria, Ilorin

Baligul Haq International Dawah Of Nigeria, Lagos

Barakat Muslim Women Society Of Nigeria,, Abuja Capital Territory

Bello Khaliel Housing Estate Islamic Foundation, Bauchi

Blissful Family, Lagos

Borno Muslim Forum, Maiduguri

Central Mosque,Iwo - Sheikh Muhamad Bn Abdul Wahab Mosque, Iwo

Centre For Islamic Callers, Oshun

Centre For Islamic Thought (CIT) Yola, Yola

Concerned Muslim Youths, Lagos

Council Of Igala Muslim Community Of Nigeria, Karu Site, Abuja, Abuja

Council Of Igala Muslim Community Of Nigeria, Kaduna, Zaria

Crescent Maternity & Child Welfare Centre, Osun State

Da'awah Group Of Nigeria, Kano

Da'wah Front Of Nigeria, Ibadan Chapter, Ibadan

Daawa Committee Gwallaga Mosque, Bauchi Native Area

Dawah Front Of Nigeria, Lagos

Dawatullahi Islamic Movement, Lagos

Deen Comunications Limited, Lagos

Deen Foundation Warri, Warri

Deenul-Haq Muslim Society Of Nigeria, Okelele Branch., Ilorin

Dutse Emirate Zakkah Committee, Dutse

Eminent Charitable & Humanitarian Foundation, Ede

Federation Of Muslim Women Association. (FOMWAN) Lagos

Fitiyanu-L- Islam Society Of Nigeria, Lagos

Forum For Islamic Education & Welfare , Lagos

Global Network For Islamic Justice, Gusau

Guidance Educational Agency, Abuja

Gwarinpa Ii Muslim Ummah, Abuja

Hajj Monitors Of Nigeria Yola Zone, Yola

Ibo Muslims, Lagos State

Islamic Reliefs Foundation, Ado

Ilupeju Muslim Movement, Lagos

Imam Sports Academy International, Lagos

International Cultural Charitable Association, Oyo

International Institute Of Islamic Thought(III-T,Nigeria Office), Kano

Ipamuren Islamic Foundation, Ijebu Ode

Iponri Muslim Community Youth League, Lagos

Iqra'a Foundation, Kaduna

Isabatu-Li-Hairi Muslim Society, Iperu

Iseyin Muslim Council Iseyin, Iseyin

Islamic Charity Society Of Nigeria, Makurdi

Islamic Change Initiative (ICI),

Islamic College Of Science And Technology, Shaki

Islamic Development Centre, Zaria

Islamic Development Centre(Idc), Yola

Islamic Development Foundation, Lagos

Islamic Echo Organaisation, Lagos

Islamic Education Trust, Minna

Islamic Foundation For Medical Aid, Ilorin

Islamic Foundation Of Nigeria, Kano

Islamic Justice Group, Lagos

Islamic Legal Research Center, Sokoto

Islamic Liberation Movement (ILM), Lagos

Islamic Maritime Brotherhood, Lagos

Islamic Medical Association Of Nigeria,(IMAN) Abuja

Islamic Movement, Yobe State

Islamic National Hospital For Women And Children, Abuja

Islamic Peace And Development Initiative(IPDI), Abuja Capital Territory

Islamic Propagation Center Warri, Wari

Islamic Qurianic Youth Society Of Nigeria, Ikorodu

Islamic Resources And Development Agency (IRADA) , Kaduna

Islamic Study Circle, Lagos

Islamic Training Organisation Of Nigeria [I.T.O.O.N] ., Ijebu Ode

Islamic Trust Of Nigeria, Zaria

Islamic Vanguard Foundation, Lagos

Islamic Welfare Centre,Agunbelewo,Osogbo, Osogbo

Islamic Youth League Of Nigeria, Abuja

Istijabah Muslim Forum Of Nig(ISMUF), Lagos

Ittihadul Madarisil Islamiyya Badikko Kaduna, Kaduna South

Izharul Haq Da'wah Movement Of Nigeria, Lagos

Izharul Haq Movement Of Nigeria National Headquater, Lagos

Jama'atu Izalatul Bidah Wa Eqamatissunnah, Kumo

Jama'atu Nasril Islam, Daura

Jama'atud Da'awah (Mens' Wing), Abuja

Jamaatu Taawunil Muslimeen, Iwo

Jami'at Islami Charitable Organisation, Lokoja

Jannata Islamiyat Association Of Nigeria, Ibadan

Junuud-Deen Islamic Organisation, Lagos

Khit Islamic Trust Foundation, Lagos-Ikeja

Kofar Marusa Muslim Youth Organisation, Katsina

Kubwa Muslim Community, Abuja

Majlis Shababil Islam, Kaduna State

Markaz Dawah Organisatio, Lagos Island, Lagos, Lagos

Maslakul Amny Academy, Amaeze

Ministry Of Religious Affairs Gusau, Gusau

Mokola Muslim Youth Community, Ibadan

Monar Islamic Reformative Movement, Lagos

Movement For Islamic Culture And Awareness (Mica), Lagos State

Muslim Associates,Ipetumodu, Ipetumodu

Muslim Corpers Association Of Nigeria, Lagos

Muslim Forum For National Peace, Lagos

Muslim Library Services, Ilesha

Muslim Public Affairs Centre, Nigeria, Lagos

Muslim Student Society Of Nigeria, Lagos

Muslim Ummah, Ilorin

Muslim Youth Oru-Ijebu, Ogun State(Myoo), Oru

Nadwat Ul Ahli Islamic Society Of Nigeria &Overseases, Lagos

Nasrul-Lahi-Il-Fathi Society Of Nigeria, Lagos Lagoon

Nasrul-Llah-Il-Fathi International Society.Nigeria., Lagos

National Council Of Muslim Youth Organisations (Nacomyo) Oyo State, Ibadan

Newith Media, Lagos

Nuru Zamon Association Of Nigeria, Lagos

Nurul Haq(Al - Haqiqi) Islamic Society Of Nigeria, Lagos

Nurul Islam Association Of Nigeria, Lagos

Nurul-Islam Missionary Society Of Nigeria, Lagos

Oasis Muslim Care Fund, Ilorin

Old Muslim Student Association, Oba Akinbiyi High School 1 , Ibadan

Organisation Of Tadhomunul-Muslimeen, Iwo, Osun State, Iwo

Osun State Muslim Community, Osogbo

Pioneer Muslim Ladies Circle, Agbeku

Riyadh-Us-Soliheen Muslim Society Of Owerri, Nigeria, Owerri

Saadat Abadiyat Organisation Of Nigeria (Saon), Lagos State

Safinatul Khair Foundation, Kano

Sanusi Islamic School, Funtua

Shababu-Deen-L-Islam, Iresi

Shamsideen Al Islamiya, Ibadan

Shiekh Muhd Rabiu Islamic Foundation, Kano

Sisters' Circle, Kaduna

Sujud Foundation, Kano

Sule Raji Islamic Foundation, Ilorin

Sunna Central Mosque, Tambawal

Tawakaltu Islamic Centre, Ringim

The Estate Muslim Youth (Temy), Lagos

The Faith Research And Intellectual Alignment Centre, Lagos

The Muslim Congress (TMC), Lagos

The Muslim Forum, Auchi

The Muslim Orientation On Sunna And Qur'an (The Mosq Prayer Group), Lagos

The Muslim Stars Association Of Nigeria, Lagos

The Peace Guards Organisation Of Nigeria, Ibadan

The Young Muslim Brothers & Sisters Of Nigeria (Youmbas), Lagos

The Young Muslim Jamaat, Benin City

The Young Muslims, Lagos

Universal Muslim Assembly, Lagos

University Of Ibadan Muslim Staff Cooperative Investment And Credit Society., Ibadan

Usrah group, Ikorodu

Voice & Vision Of Ar-Risalah, Ile-Ife

World Assembly Of Muslim Youth, Nigeria Office, Lagos

World Council Of Muslim Women Foundation, Lagos

Yobe Islamic Centre,Damaturu, Damaturu

Young Muslim Propagators In Islam-Youmpii-As-Sa'id, Osogbo

Zaymar Services For Islamic Research, Abuja Federal Capital Territory

APPENDIX IV

AL-HAYAT RELIEF FOUNDATION

LIST OF BRANCHES AS AT OCTOBER 1ST 2011

S/N	BRANCHES	CODE	YEAR OF EST.	MEETING VENUE	MEETING DAYS & TIME
1.	HQ Branch	001	1997	1st Oliworo, Bonojo, Ijebu-Ode	1st Sundays 10.00 am
2.	Idomowo Branch	002	2003	Idomowo Mosque, I- Ode	2nd Sundays 10.00 am
3.	Osoba Branch	003	2004	10, Osoba Str, Off Ondo Road. I-Ode	2nd Sundays 12.00 pm
4.	Oshimore Branch	004	2005	Araromi/Oshimore Mosque, I-Ode.	2nd Sundays 10.00 am
5.	Molode Branch	005	2006	Aniyikaye Mosque. Sabo, I-Ode.	2nd Sundays 10.00 am
6.	Itele Branch	006	2006	St. John's Pry. Schl. Itele	2nd Sundays 10.00 am
7.	Imushin Branch	007	2006	Ijebu-mushin Central Mosque, Ijebu-mushin	4th Sundays 3.00 pm
8.	Itamaga (Ikd)	008	2006	Ansarullah Central Mosque, Itamaga, Ikorodu	3rd Sundays 11.00 pm
9.	Apebi Branch	009	2007	Ita-Ajana Mosque, I-Ode.	2nd Sundays 10.00 am
10	Ibiade Branch	010	2007	Ibiade Central Mosque, Ibiade	2nd Sundays 2.00 pm
11	Oshinubi Branch	011	2007	M.G Kuku Mosque, Oshinubi, Ijebu-Ode.	2nd Sundays 10.00 am
12	Ilese Branch	012	2007	Ilese Central Mosque, Ilese, Ijebu.	2nd Sundays 2.00 pm
13.	Olisa Branch	013	1997	Ajegunle/Ijada Mosque. Olisa Str. Ijebu- Ode	1st Sundays 10.00 am
14.	Ijebu-Ife Branch	014	2008	Ahmadiyyah Central Mosque, Ijebu- Ife.	2nd Sundays 10.00 am

15.	Ago-Iwoye Branch	015	2008	Ago-Iwoye Central, Mosque, Ago-Iwoye	2nd Sundays 10.00 am
16.	Degun Branch	016	2005	Olowamoro Mosque, Degun, I-Ode.	1st Sundays 10.00 am
17.	Imepe Branch	017	2008	Wulemotu Otubu, Memorial Mosque, I- Ode.	1st Sundays 2.00 pm
18.	Imodi-mosan Branch	018	2009	Imosan Central Mosque, Imosan	2nd Sundays 12.00 pm
19.	Atiba Branch	019	2009	Atiba Central Mosque, Atiba-Ijebu	3rd Sundays 10.00 am
20.	Alapo Branch	020	2009	Itamora Community Mosque, I-Ode	1st Sundays 10.00 am
21.	Shangisha Branch	021	2009	Shangisha Central Mosque, Shangisha Lagos	2nd Sundays 2.00 pm
22	Ogbere Branch	022	2009	St.MaryPrimary School, Ogbere	1st Sundays 10.00 am
23	Ijoko ota Branch	024	2009	Tipper Garage Co-operative Hall, Ijoko-ota	2nd Sundays 12.00 pm
24.	Epe Branch 1	026	2010	Ansar-ud-deen Central Mosque. Ayetoro, Epe, Lagos State.	2nd Sundays 12.00 pm
25.	Molipa Branch	027	2010	Molipa Central Mosque, I-Ode.	1st Sundays 10.00 am
26.	Alore (Ilorin) Branch	028	2010	Al-Yahuldeen Primary School, Alore, Ilorin, Kwara State.	Last Sundays 10.00 am
27.	Shagamu Branch	029	2010	OOTH Central Mosque, Degun, Shagamu	2nd Sundays 12.00 pm
028.	Onikolobo Branch	030	2010	Onikolobo Central Mosque, Abeokuta	1st Sundays 10.00 ams

029.	Imalefalafia Branch	031	2010	Opeloyeru Mosque, Ososami Ibadan, OyoState.	1st Sundays 10.00 am
030.	Adeeke (Iwo) Branch	032	2011	Agbaje Group of Schools, Adeeke Area, Iwo, OsunState.	Last Sundays 10.00 am
031.	Ondo Road Branch	033	2011	Olorunloba Mosque, Ondo, Road, Ijebu-Ode	1st Sundays 10.00 am
032.	Ode-Remo Branch	034	2011	Ode-Remo Central Mosque, Ode-Remo	Last Sundays 2.00 pm
033	Oluwole (Iseyin) Branch	035	2011	Anwar Islam Central Mosque, Oluwole, Iseyin, Oyo State	Last Sundays 10.00 am
034	Araromi-Obu Branch	036	2011	Oniparaga Central Mosque, Oniparaga, Ondo State.	3rd Sundays 10.00 am
035.	Irewon Branch	037	2011	Anu Oluwapo Mosque, Irewon, Ijebu-Ode	Last Sundays 10.00 pm
036.	Ifo Branch	038	2011	Ifo Central Mosque, Ifo	3rd Sundays 2.00 pm
037	Lantoro Branch	039	2011	Istijaba Mosque, Lantoro, Abeokuta.Central	1st Sundays 12.00 pm

APPENDIX V

AL-HAYAT RELIEF FOUNDATION

IJEBU-ODE,OGUN STATE

TAKAFUL INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31ST MARCH,2012

	Takaful
INCOME	**=N=**
Opening Balance	
Membership Form	
Branch Application (Mem. Estate)	
Stickers	
News Paper	
Development levy	
Branch Fine	
I.D Card	
Branch Dues (Service Charge)	
Refund on Chairmen's Transport	
File & Green Card	
AGM Brochure	
Secretariat Due	
Passbook Replacement	
AGM fees	
Yat Repayment (Nylon)	
Training / Seminar	
Bank Charges paid by Member	
Bank/Income Received	60,500.00
Retained profits	
SUB TOTAL	**660,500.00**

EXPENDITURE	=N=
Photocopy & Stationery	1,200.00
Transport & traveling	5,380.00
Bank Charges	39,507.50
Fuel for Generator	
Salaries & Allowances	
Entertainment	
Printing of Membership file	-
Branch Expenses	
Monitoring Committee	
Training / Seminar	
Disciplinary Committee	
Zakat & Sadaqah Committee	
Office & General	10,000.00
Publicity/Advert	
Depreciation	
Maintenace of Office Equipment	-
Printing of Constitution	
Telephone	1,800.00
Printing of Booklet Voucher	
AGM Expenses	
Postages	
Printing of I.D.Cards	
Website Design	
Photography	
Indemnity	390,000.00
Printing of Passbook	
Loss on Stock (Ins.Comm.)	
Provision for for Bad Debt	
Bad Debt Written off (0.5%)	
Printing of Membership Form	
Rent Dues	

Electricity	
Audit Expenses	
SUB TOTAL	**447,887.50**
NET SURPLUS	**212,612.50**
TOTAL	**660,500.00**

AL-HAYAT RELIEF FOUNDATION

IJEBU-ODE,OGUN STATE

BALANCE SHEET (TAKAFUL) AS AT 31st MARCH,2011

ASSETS	=N=
Land (Estate)	
Investment on Estate	
Building	
Office Equipment	
Furniture & fittings	
Plant & Machinery	
Investment on Hajj	700,000.00
Investment In Stocks	
Shares in Pure-Water project	
OTHER DEBTOS (NEC)	1,205,000.00
Investment in Fishing	
Indemnity	390,000.00
Debtors on Benevolent Loan	400,000.00
Investment in Golden Estates	766,000.00
Debtor:hajj Committee	
Debtor:Business Committee 11	5,335,300.00
Cash at Hand	
Debtors: Yat Waters	500,000.00
Outstanding loan(NEC)	200,100.00
Staff Loan	
First Bank Account	
UBA Account	
GTB Account	

Zenith Bank Account	
Intercontinental Bank (Pure Water)	
Intercontinental Bank (Ins.Comm.)	553,473.12
UBA Account (Puren Water)	
Closing Stocks	
TOTAL	**10,049,873.12**
LIABILTIES	**=N=**
Shares from Branches	9,724,000.00
Shares on Estate Project	
Individual Shares in Estate	
Saving from Branches	
Saving from Members	
Reserve Funds	
Accumulated Depreciation	
Individual Shares in Pure Water	
Branches Shares in Pure Water	
Branches Shares in Jaiz	
Zakat & Sadaqah Committee	
Fishing Business	
Insurance Committee (Takaful)	
Net Surplus (Loss)	212,612.50
Creditors	113,260.62
Staff Loan	
Olisa Branch	
Ala Brtanch	
Molipa Branch	
Internet Registration	
Itantebo Branch	
Provision for Bad Debt	
Profit to be Shared	
TOTAL	**10,049,873.12**

APPENDIX VI

AL-HAYAT RELIEF FOUNDATION, CONSOLIDATED ACCOUNT

FOR THE YEAR ENDED MARCH 31ST, 2012

INCOME	
Admission form\Membership form	960,537
Loan and SDS Form	284,030
Donation Received	411,275
Development levy	2,766,870
Lateness, Apology & fine fees.	679,745
Identity Cards	295,500
Files	126,950
COT paid by Members	604,917
NEC Dues	410,620
AGM fees	3,066,710
Zakat & Sadaqah(Net)	785,605
Net Business Income	7,437,707
Other Income	441,512
SUBTOTAL	**18,358,492**
EXPENDITURE	-
Telephone Services	117,905
Stationery \ Photocopies	526,665
Transport & Travelling	248,690
Bank Charges	910,183
Entertainment	87,875
Salaries & Allowances	808,850
Donation & Gift	172,585
Office & General	333,925
Depreciation	862,128
Repairs & Maintenance	172,600
NEC Dues	814,502

Provision for Bad Debt(.05%)	982,663
Bad Debt written off	-
Admission form (Purch)	656,530
Files & I.D Cards	440,260
AGM Expenses	3,273,140
Rent & Rates	328,810
Electricity	39,310
Fuel for Generator	82,050
Zakat & Sadaqah(NEC)	287,219
Insurance Dimunition	2,000
Training & Seminars	127,010
ON-LINE REG.	75,300
Loss\ fraud	-
Rent (Amortised)	-
National Secretariat	279,050
SUBTOTAL	**11,614,714**
Net Surplus	6,810,400
TOTAL	**18,312,364**
APPROPRIATION	-
Net Surplus B/f	6,810,400
Profit Sharing	(5,107,800)
Honorarium	(1,364,987)
Reserve Funds	(340,520)
Check	(0)

AL-HAYAT RELIEF FOUNDATION, CONSOLIDATED ACCOUNT

FOR THE YEAR ENDED MARCH 31ST, 2012

BALANCE SHEET	-
ASSETS	-
Land and Building	6,763,950
Motor Vehicle	647,604
Furniture and fittings	3,022,218
Office Equipment	1,677,455
Shares in Jaiz	993,867
Shares in Yat	2,428,280
Shares in Golden Estates	5,424,000
Shares in NEC	1,115,920
Savings in NEC	2,609,200
Investment on Business	1,835,436
Investment on Stocks	1,415,200
Insurance Premium - Paid to NEC	9,111,240
Hajji & Umrah - Paid to NEC	140,550
Prepayment	1,449,500
Outstanding loan	190,724,970
SDS Outstanding	5,080,350
Ileya Support	22,503,395
Debtors (on business)	43,223,983
Other Debtors	682,656
Staff Dev.Loan	4,518,430
Stocks	743,093
Cash and Bank Balances	26,963,428
	278,042,236
	770,503
TOTAL	**333,845,228**
	-
LIABILITIES	-

Shares Capital	59,984,753
Shares on Building Project	3,005,900
Members Savings	247,993,460
Children Savings (SEC)	79,700
Ileya Saving Scheme	2,011,490
Insurance Premium	11,347,981
Other Target Savings	60,722
Hajj & Umrah	51,450
Provision for Depreciation	901,905
Provision for Doubtful Debt	916,674
Profit Sharing	5,107,800
Honorarium	1,362,080
Reserve Funds	340,520
NEC Arrears	21,833
Accrual	456,000
TOTAL	**333,841,668**
Check	-
Loan Released	**243,434,390**
S.D.S. Released	8,138,650
TOTAL	**289,626,885**
PROFIT PER SHARE	**19,889**