

TAKAFUL WINDOW OPERATORS IN NIGERIA: CHALLENGES AND THE WAY FORWARD

By

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1.0 Introduction

Muslim jurists acknowledged that, the foundation of shared responsibility in the system of "*Aqila*" which is an arrangement of mutual help in some Arab tribes at the time of Prophet (s.a.w) as practiced between Muslims of Mecca and Medina laid the foundation of mutual insurance. Islamic insurance was established in the early second century of the Islamic era when Muslim Arabs expanded their trading activities to Asia, as a result of that, they mutually agree to contribute to a fund to cover anyone in the group that incurred mishaps or robberies along the numerous sea voyages (marine insurance).¹ The contribution is usually a very small amount compared to the amount of protection available. This concept of insurance is basically an arrangement to mutually help one another when unfortunate event causing losses befall on any of the members. In short the mechanism of insurance *inter alia* brings about peace of mind, social stability and economic growth.

The Takaful brand of insurance is a classic example of consumer-driven response to their needs. For generations, Muslims around the world have grown with a mindset that insurance (especially life insurance) is *haram* because it contravenes some of the Islamic tenets. Life insurance as sold in conventional way was declared unacceptable in 1903 by some prominent Islamic scholars in the Arab countries.² The search was on for an acceptable alternative ever since, and not until the 1970's the debate took sufficient momentum to reach a consensus. In 1985, the Grand Counsel of Islamic scholars in Makkah, Saudi Arabia, Majma al-Fiqh, approved Takaful system as the alternative form of insurance written in compliance with Shariah. The aim of Takaful as a concept is to provide protection for the good of society through a system of co-operation and mutual help among the Takaful members.

The world-wide Takaful industry is estimated to be worth around US\$2-3 billion and set to grow to US\$7.4 billion by the year 2015.³ There are around 80 Takaful operators around the globe with an additional 200 Takaful Windows the Shariah compliant operations of conventional financial institutions. The growth rates of the global Takaful market for the past few years have been recorded at around 20 percent.⁴ Several other Takaful companies are being contemplated in various countries such as Pakistan, Australia and Lebanon. It is also understood that interest is

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¹ Kessar, K *What's Takaful, A guide to Islamic Insurance*, 1st edition, (Lebanon, BISC Group, 2008) p.19

² Mohd. I, A. Tariq M. and Mohd, S Khan Problems and Prospects of Islamic Banking: A case Study of Takaful <mpira.ub.uni-muenchen.de> accessed on 23rd March, 2016.

³ Islamic Financial Service Sector Report, (2007) ABC Investment, Jordan< www.abci.com.jo> accessed on 27 June 2015

⁴ Hanbali, B.E. (2007) Potential Growth of Takaful in Europe, Islamic Finance News Guide (2007) <www.islamicfinancenews.com> accessed on 24th May 2016

shown in *Takaful* in South Africa, Nigeria, and some of the former states of the Soviet Union.⁵

As part of National Insurance Commission (NAICOM) continuous effort to deepen insurance penetration, increase the contribution of insurance to the national GDP and also align with the Federal Government Financial Inclusion Strategy, the need for *Takaful* is identified following a detailed researched conducted by NAICOM.⁶ It was established that a good number of Muslims and others that stay out of insurance for religious and other considerations are willing to buy *Shariah* compliant insurance products and are in fact in dire need of such alternative; and that *Takaful* can effectively serve these excluded segment of the population.⁷

The National Insurance Commission (NAICOM) took a progressive move forward with the issuance of a *Takaful* operational guideline pursuant to the powers conferred on NAICOM by the Act,⁸ which is the first national guideline for Nigeria's *Takaful* market. The Guidelines provide guidance on elements that are specific to the operations of a *Takaful* as it outlines and defines the framework within which *Takaful* operators are to carry out *Takaful* business.⁹ The Guideline is to be read in conjunction with other relevant legislation, guidelines and circulars as determined to be applicable to *Takaful* operators by the Commission. The Guideline represents the primary regulatory position with regards to *Takaful* and all other guidelines, legislation being secondary. The Guideline apply to *Takaful* operators (including Micro *Takaful*-Insurance) that are operating exclusively as *Takaful* providers ("stand-alone") and *Takaful* business being provided by a conventional financial institution alongside their existing conventional insurance business ("window operator") which is the main focus of this paper.¹⁰

2.0 *Takaful* Window Operators in Nigeria

The first Islamic insurance company was set up in Sudan in 1979.¹¹ Today, there are many Islamic insurance operators in the Muslim as well as non-Muslim countries around the world. The characteristics and features of *Takaful* operations comply strictly with *Shariah* requirement which makes it different from conventional insurance. Muslim jurists resolved to the use of insurance system based on the concept of *Takaful*, which falls within the confines of Islamic framework.¹² The term *Takaful* is an infinite noun which is derived from the Arabic verb *kafal* or *kafala*, meaning to guarantee or bear responsibility for.¹³ In the same vein, *Takaful* is defined as a shared-responsibility, joint-guarantee, mutual security, joint indemnity, mutual assurance or surety and cooperative assurance.¹⁴ Technically, *Takaful* from the practical point of view means, mutual and cooperative guarantee provided by a group

⁵ Ibid

⁶ Ahmad U. K, '*Takaful* Insurance Towards Deepening Insurance Penetration' Leadership Newspaper <www.leadership.ng> accessed on 27 June 2014

⁷ Ibid

⁸ Section 7 of the NAICOM Act 1997

⁹ Sola A., '*NAICOM Issues Guidelines on Islamic Insurance*' Daily Independent Newspaper 14 November 2013) <<http://www.dailyindependentnig.com>> accessed on 20/02/2014

¹⁰ Ibid p 4

¹¹ Known as Islamic Insurance Company Ltd.

¹² Maysami, R. C and Kwon, W. Y, An Analysis of Islamic *Takaful* Insurance, a Cooperative Insurance Mechanism *Journal of Insurance Regulation* (1999) vol.18 p. 109

¹³ Kassas K, Omar C, et-al *What Takaful – A guide to Islamic Insurance*, (Beirut, Bisc Group.2008) p.26

¹⁴ Ali, K. M. M. (1989) "Need for Islamic Insurance". Islamic Banking and Insurance, (*Proceedings and Papers of International Seminar*) held in Dhaka. Indonesia.

of people living in the same society against a defined risk or catastrophe befalling unexpectedly against one's life, property or any form of valuable things.¹⁵ Hence, *Takaful* is considered as cooperative and mutual insurance or assurance. In principle, *Takaful* system is based on mutual co-operation, responsibility, assurance, protection and assistance between groups of participants; it is a form of mutual insurance.¹⁶ This concept of *Takaful* is justified by a divine injunction which promotes mutual cooperation, brotherhood, solidarity and cooperative help among Muslim ummah. To this end, the Glorious Quran provides: '... Cooperate with one another in righteousness and piety ...'¹⁷ Shari'ah intends to save human beings from hardships. The Noble Qur'an says, "Allah intends for you ease, and He does not want to make things difficult for you."¹⁸ The Glorious Qur'an further reveals that, "Allah wishes to lighten (the burden) for you, and man was created weak".¹⁹ One day the Prophet (s.a.w) saw a person leaving his camel untied, he asked him, "Why don't you tie down your camel?" He answered, "I put my trust in Allah." The Prophet said, "Tie your camel first, then put your trust in Allah."²⁰ The idea to get a cover against risks is not intrinsically bad, so long as it remains within the confine of *Shariah*. Therefore, *shariah* scholars deemed it necessary to develop a scheme or system enabling the human beings to avoid misfortunes and lessen the losses in a manner not against the principles of the *Shariah*.

The fundamentals of *Takaful* undertaking include *Al-Tabbaru* and *Taawuni* among the participant makes *Takaful* scheme free from uncertainty and gambling. *Al-Tabarru* means "donation; gift; or contribution." Each participant that needs protection must donate with sincere intention to the *Takaful* funds which will be used in helping and assisting any of the participants faced with difficulties.²¹ Therefore, *Takaful* scheme exists where each participant contributes sufficient amounts to cover expected claims into a fund that is used to support one another. The objective of *Takaful* is to pay a defined loss from a defined fund.

The concept of *Takaful* business was introduced into the Nigerian Insurance industry not much longer than a decade and presently, there are only three firms operating on a window basis in Nigeria.²² African Alliance Insurance, the country's oldest specialist life assurance company, first introduced *Takaful* in Nigeria insurance market as a window operator by offering family *Takaful*, a product similar to conventional life insurance policy with a slight difference. Family *Takaful* product contains both a protection and a savings component. Soon thereafter, Niger Insurance came into the *Takaful* market as a window operator by developing and introducing Niger Mutual *Halal* Plan, a product containing a *Shariah* compliant saving and investment plan. Cornerstone Insurance, a traditional insurer, then came into the market, establishing *Halal Takaful* Nigeria, its *Takaful* window. By 2013,

¹⁵ Ibid

¹⁶ Saaty, S.A & Ahmad, A.Z. *Takaful An Islamic Way of Insurance, Developments, Growth, Challenges and Issues*. (unpublished 2009)

¹⁷ Quran chap 5 v. 2

¹⁸ Qur'an Chap 2: 185.

¹⁹ Qur'an Chap 4: 28.

²⁰ Sunan At Tirmidhi, Vol. 4, in *Kitab-ul Sifatul Qiyamah wa ar-Rakaik al-Wara*, Bab 60, No. 2517, (Cagri yayinlari Istanbul, 1981) p. 668.

²¹ Ayuba, H. (2014). *Non-Economic Factors Influencing the Islamic Insurance (Takaful) Services Consumption in Kano Metropolis, Nigeria*; Unpublished M.Sc. Dissertation Submitted to the Department Business Administration and Entrepreneurship Studies, Bayero University Kano (BUK), Nigeria.

²² Ibid

Cornerstone was the first licensed composite operator in Nigeria, offering traditional as well as family and general *Takaful* products, deriving 3% of its total gross premium income from *Takaful*, and experiencing an increase in contributions of increased 83% from the previous year.²³

2.1 African Alliance Insurance

African Alliance Insurance Plc was incorporated as a private limited liability company since 1960 and was the first indigenous insurance company to carry out the business of Life Assurance in Nigeria. The Company was originally set up in partnership with Munich Reinsurance Company of Germany one of the largest Reinsurance Company in the world which still provides technical support to African Alliance on a need basis.²⁴ In 2005, African Alliance became the first licensed *Takaful* operator in Nigeria. A concept aimed at strengthening financial inclusion strategy of Federal Government and fulfilling the desire to satisfy the needs of the Muslim and non-Muslim who prefer ethical insurance than the conventional insurance in Nigeria. This is achieved through a robust selection of *Shariah* compliant products and investment based on Islamic principles.²⁵ The core competencies of the Company are a creative combination of Protection (Term Assurance and Group Life), Savings and Investment Products and over the years, African Alliance has established a solid reputation for excellent customer service and prompt claims settlement.²⁶

African Alliance insurance introduce *Takaful* window operation in 2009 with the aim of providing risk protection in accordance with *Shariah* by using the principle of *Ta'awun* (mutual assistance), brotherhood, piety and ethical operations. African Alliance *Takaful* window offers a wide range of products to the participants which serve as a systematic savings for future needs of the participants. Under this scheme two types of account is been operated. Participant's savings account where a larger proportion of the participant's contribution is credited into this account together with the participant's share of profit and participant's donation account where a smaller portion of the contribution is credited into this account. The account caters for the payment of death benefits. The basic features of these products include among others the following;

- i. Systematic savings for future needs e.g. Hajj, Retirement, House,
- ii. Investment of contributions in accordance with Islamic injunctions.
- iii. Profit sharing in line with the principle of *Al-Mudarabah*.
- iv. Provision for defendants in form of mutual assistance.
- v. Creation of estate for your children/defendants in the event of death.²⁷

Below are the various *Takaful* plans available under African Alliance *Takaful* window operation:

- i. *Al-Istidad Plan (Family Plan)*
- ii. *Al-Ilmu Plan (Educational Plan)*
- iii. *Al-Nasir Plan (Pension Plan)*

²³ Ezamshah I. *Takaful: the Great Potential in Nigeria Takaful Market Profile*, (2015) <www.meinsurancereview.com> access on 15/01/2016, pp. 58-59.

²⁴ Corporate Profile of African Alliance Insurance Plc <www.africanallianceplc.com> accessed on 27th January, 2016

²⁵ Ibid

²⁶ Ibid

²⁷ Ibid

- iv. Arafat Plan (Hajj Plan)
- v. Naatijatu-Daynu Plan (Credit Protection Plan)
- vi. Baytu Surur Plan (Mortgage Plan)
- vii. Mudarabah (Investment Plan).²⁸
- viii.

2.2. Niger Insurance

Niger Insurance Plc, is one of the composite insurance groups in the country which introduce *Takaful* window operation and encouraged Nigerians to embrace *Takaful* insurance as a vehicle for protecting their lives and assets against eventualities. Niger Insurance Plc was first incorporated as a specialist Life Company under the name Yorkshire Insurance Company.²⁹ Niger Insurance Plc has also put in place sound reinsurance treaties with local and foreign first class Reinsurance Companies led by Swiss Re. These comprehensive securities ensure financial stability and exude confidence in its service to both present and prospective customers.³⁰

Complementing the efforts of the National Insurance Commission (NAICOM) geared towards increasing insurance penetration and insurance contribution to the Gross Domestic Product (GDP) of the country. Niger insurance introduced the Mutual *Halal* Plan, as a *Takaful* product in the Nigerian insurance market which is based on Islamic principle of profit-sharing and reciprocal guarantee.³¹ *Takaful* scheme is one of the platforms on which these above goals are expected to be driven. The Mutual *Halal* plan is a life insurance scheme with a savings and investment plan designed for Muslims and other interested parties aimed at encouraging participants or policyholders to save and mobilize fund to meet the financial obligations involved in performing certain religious rites without subjecting themselves to financial hardships. Under this plan the contribution paid by the participants are usually shared between the participant's personal accounts for the purpose of savings and investment account while the remaining into a special fund for the benefit of all the participants.

Under this plan, policyholders could save regularly for a period that is convenient for them and the accumulated amount could be used to meet other medium and long term financial obligations such as retirement, purchase of land or house, self and children's education, travelling expenses as well as unexpected commitments. Mutual *Halal* plan offers the following product among others:

- i. Marriage plan (*Al- Nikah*)
- ii. Mortgage plan (*Al- Binau*)
- iii. Pilgrimage plan (*Hajj*)
- iv. Education plan (*Al-Tadris*)
- v. Retirement plan (*Waqifl'amal*).³²

2.3 Cornerstone Insurance

Cornerstone Insurance Plc was incorporated as a private limited liability company and became a public limited liability company,³³ quoted on the Nigerian Stock Exchange

²⁸ Ibid

²⁹ Corporate Profile of Niger Insurance Plc <www.nigerinsurance.com> accessed on 21st January, 2016

³⁰ Ibid

³¹ Ibid

³² Ibid

³³ Corporate Profile of Cornerstone Insurance Plc <www.cornerstone.com.ng> access on 27th January, 2016

in 1997. The company was established to conduct insurance business in a professional, ethical and customer-focused manner. As part of its corporate brand strategy, the company implemented a rebranding exercise in 2008 to position Cornerstone as a leader in the industry, part of which was the unveiling of the new corporate identity for the company.³⁴ The Company is licensed and re-certified by the National Insurance Commission (NAICOM) to do both General insurance businesses, Life insurance businesses and *Takaful* business. Cornerstone Insurance was the first company in Nigeria to offer both general and family *Takaful* products approved by NAICOM, as part of the efforts to encourage financial inclusion strategy of the Federal Government of Nigeria and to transform the insurance industry subsector. Cornerstone Insurance provides qualitative and professional services in all classes of *Takaful* product business namely:

i. General Takaful Business

General *Takaful* refers to schemes designed to meet the protection needs of individuals and corporate bodies in relation to material loss or damages resulting from a catastrophe or disaster inflicted upon properties, assets or belongings. *Halal Takaful* Nigeria provides the following General *Takaful* Products among others:

- a) *Sayaro Takaful* Scheme (Motor)
- b) *Al-Narr wa Sarkhot Takaful* Scheme (Fire & Burglary)
- c) *Al-Mansil Takaful* (Property Guard Scheme)
- d) *Bidohat Nakil* (Goods in Transit GIT).³⁵

ii. Family Takaful Business

Family *Takaful* refers to Islamic life insurance arrangement; this product has two portions, protection and investment. The protection part (*Tabarru*) works on donation principles. While, the investment portion works on a *Mudarabah* basis. The participant has full right over part of the contribution after deduction of administrative expenses. This is the portion of the fund that goes into investment which accrued profit/loss in proportion to the paid contributions (installment) per plan.³⁶ The main objectives of this plan is to invest the contributed funds in *Shariah* compliance products and to provide mutual financial aid by which *Takaful* benefits are paid to dependent's should any misfortune befall the participant before maturity date of his/her *Takaful*. Presently, *Halal Takaful* Nigeria provides the following Family *Takaful* products among others:³⁷

- a) *Osra* Plan (Family *Takaful*)
- b) *Al-Jamaat Osra* Scheme (Group Family Scheme)
- c) *Nikhai* Plan (Marriage Plan)
- d) *Tarbiya* Plan (Educational)
- e) *Al-Jamaat Tarbiya* (Group Education Scheme).
- f) Hajj & *Umra* Plan
- g) *Halal* Pilgrim care Scheme
- h) *Naatijatu Daynu* Plan(Credit Plan)

³⁴ Ibid

³⁵ Ibid

³⁶ Ibid

³⁷ Ibid

- i) *Baytu Surur* Plan (Mortgage plan)
- j) *Musafiru* Plan (Travers' Plan)
- k) *Al-Shanu Insanu*(Keyman Scheme)
- l) *Mudarabah* Plan Halal Investment Plan (HIP)
- m) *Halal* Mutual Trust Plan Halal Esusu Plan (HEP).³⁸

3.0 Challenges for *Takaful* operation in Nigeria

The aspiration of Muslims to make the prohibition of *Riba* (interest), and *Maisir* (gambling) a practical reality in their economies, is what led to the establishment of the Islamic Financial Services Industry (IFSI).³⁹ This industry has made substantial progress over the last three decades after the establishment of a number of institutions offering *Shariah* compliant services, together with a number of conventional institutions that have opened Islamic windows and branches.⁴⁰ The total volume of assets that all these institutions manage has risen rapidly and so has gained international recognition and acceptance.⁴¹ Nevertheless, the industry is still in its formative stage in some part of the world and Nigeria in particular, Islamic Finance Service industries faces a number of challenges that need to be addressed to enable it to continue its rapid expansion and growth. This raises the question of what these challenges are and how they can be faced.

The establishment of *Takaful* in the Nigeria is likely to be confronted with some of these challenges as well. Thus, these challenges may affect the proposed *Takaful* project if care is not taken. These challenges basically religious or social in nature being a system that emanates from the *Shari'ah* considering the religious dichotomy of Nigeria which is reflected in its political set up that divides the country into various zones with a diverse religious background. On the other hand the establishment of *Takaful* operation in Nigeria is to face challenges from the technical as well as the operational aspect of its operation. These challenges are discussed in detail below.

3.1 Social Challenges

The status of Nigeria being a multi-religious country has created a very intense rivalry and rift between its two major religions which are Islam and Christianity. The struggle between Muslims and Christians in Nigeria makes the country economically volatile and handicap, because it has hindered a lot of programmed aimed at developing the economy as well as been beneficial to the common man in the society.⁴² *Takaful* being a system that emanates from *shariah* is likely to encounter religious challenges in Nigeria considering the religious dichotomy in Nigeria, as reflected in its political set up that divides country into various zones. Also technical or operational issues are another kind of challenge. *Takaful* operations are expected to face in the course of the operation in Nigeria.

For instance, when the Federal Government made public, its intention to join the Islamic Development Bank (IBD) in order to benefit from the interest free loan of the bank and

³⁸ Ibid

³⁹ Fisher, O. "Looking Ahead Expanding *Takaful* markets and Challenges in the next Cycle of Development for Islamic Insurance" in Ahmed. A. Y. ed., *Principles of Takaful*,(Bahrain: BIBF 2012) pp. 151-164

⁴⁰ Ibid

⁴¹ Ibid

⁴² Olalekan T.Y Insurance in Muslim Countries: Nigeria First *Takaful* Scheme in Focus, *Journal of Islamic Banking and Finance* vol. 13 (2006) p. 34

in turn set itself free from the loan of other interest daunting organizations such as International Monetary Fund (IMF) and the World Bank such effort of the Government was out rightly criticized and rejected by Christian Association of Nigeria (CAN) which is the highest body of the Christian religion in the country.⁴³ They believed that the main goal of the country's membership in the bank is the Islamization of Nigeria. This action forced the government to put aside the idea for some time. Moreover, the opponents of Nigerian membership in Islamic Development Bank (IDB) rely on provision of the Constitution of the Federal Republic of Nigeria to justify their stance. The section provides that; 'The Government of the Federation or of a State shall not adopt any religion as State Religion.'⁴⁴ There are of the view that the provision this section of the constitution prohibit the country from being an affiliate of religious organization whatsoever and that since IDB is an organization for Islamic countries, it is a religious organization. Thus, Nigeria should not be a member of any purported religious organization or system.⁴⁵

However, the government was able to overcome the obstacle recently after more persuasion and enlightenment that the membership of Nigeria in IDB or any organization be it Christian or Islamic does not change the country from its secularist ideology to a religious state.⁴⁶ Also, the membership of Nigeria in IDB for the purpose of overcoming economic constrains and achieving developmental goals does not contravene any provision of the constitution. Based on that, Nigeria became a full member of the organization and it does not in any way affect the secularist nature of the country.⁴⁷

One of the greatest challenges facing *Takaful* is the misconception that it is exclusively for Muslims.⁴⁸ In multi-racial country like Nigeria there is every possibility of religious bias, distrust or Islamophobia etc, there is the need to reach out to non-Muslims emphasizing the fact that *Takaful* is about addressing the issue of protection in a fair and ethical manner and is open to all regardless of faith or believe. In Malaysia, *Takaful* is popular for both Muslims and non-Muslims alike. For example, over one-quarter of the policyholders in some of the *Takaful* operators in Malaysia are non-Muslim; the same thing can be said of UK, USA and Germany where *Takaful* business is fast developing presently.⁴⁹

The principles and operation of *Takaful* Insurance is solely base on Islamic teaching with the purpose of being sharia compliant. Hence adherents of other faiths other than Islam believe that by taking part in it, they are taking another faith. In a nutshell, it could be observed that the two rivalry religions in Nigeria are of the same origin. Both are from the Abrahamic family⁹⁰ which advocates the principles that is been professed by *takaful*. Sentiments and bigotries should not be allowed to override the objectives of these celestial ways of life.

3.2 Technical Challenges

⁴³ Ibid

⁴⁴ Section 10 of the 1999 Constitution of the Federal Republic of Nigeria

⁴⁵ Nigeria Joins Islamic Development Bank< www.mcjonline.com/news> accessed on 27th November, 2015

⁴⁶ Ibid

⁴⁷ Ibid

⁴⁸ DiVanna, J., Shreih, A. *A New Financial Dawn the Rise of Islamic Finance* (United Kingdom. Leonardo and Francis Press Ltd 2009) p. 46

⁴⁹ Oliver Wyman Report (2006) *Takaful a New Global Insurance Growth Opportunity*<www.takaful.coop/doc.com> accessed on 13th November, 2015.

Inadequate technical know-how of *Takaful* operation together shortage of experts in the field of Islamic finance and *Takaful* in particular poses a serious challenge to the introduction of *Takaful* into the Nigerian economic system.⁵⁰ The competency of the few that pose themselves as professionals in the field is doubtful because they are primarily either expert in conventional insurance practice or learned in the classical Islamic jurisprudence. They are mostly not knowledgeable in the modern Islamic system of insurance. In order to remove this obstacle, a brief explanation of the most important technicalities shall now be given below.

i. Lack of Consumer Awareness of Takaful

There is lack of awareness among the Muslims about risk management and insurance not to speak about *Takaful* and a common attitude that insurance is undesirable.⁵¹ Many Muslims live under the misconception that insurance is contrary to Islamic principles, particularly with regard to life insurance.⁵² Many consumers are still unaware of *Takaful* as an alternative, and some view *Takaful* as commercialization of conventional insurance into the Islamic world and reject the notion that it is a *Shariah* compliant instrument.⁵³ It is necessary to create awareness that *Takaful* provides an ethical and acceptable religiously validated solution. In view of the Nigeria' insurance industry distrusts; building the appropriate culture of honesty and sincerity would assist in creating positive customer awareness about *Takaful* products. Despite the introduction of *Takaful*, the increase in the level of penetration anticipated is yet to be realised.⁵⁴ *Takaful* coverage is typically a proposition that needs to be sold to consumers (instead of one that is bought by consumers). There is a need to fundamentally address educational issues surrounding *Takaful* and individual risk management amongst the Muslim societies, to develop consumer awareness. Most of the current information on *Takaful* is among interested or related practitioners and investors, and very few awareness campaigns are aimed at or designed for the target population. The role and benefits of *Takaful* in terms of cooperation, solidarity and mutual support between policyholders should be emphasized to the public, it is essential to persuade those who do not insure their property to obtain *Takaful* being in accordance with *Shariah* principles.

ii. Scarcity of Human Resources

Another challenge that may face the introduction of *Takaful* system in Nigeria is the technical challenge, that is, lack of technical know-how of the *Takaful* operation and the experts in the field of *Takaful* are very scanty in Nigeria.⁵⁵ Even the competency of the few that pose themselves as professionals in the field is doubtful because they are primarily either expert in conventional insurance practice or learned in the classical Islamic jurisprudence. The reality is that there are no enough experts for *Takaful* in Nigeria. *Takaful* operators face severe shortage of qualified staff that have adequate knowledge and experience about *Takaful*; as well as understanding of *Shariah* finance in Nigeria.⁵⁶

⁵⁰ Olalekan T.Y Insurance in Muslim Countries: Nigeria First Takaful Scheme in Focus op.cit p.34

⁵¹ Khorshid A. *Islamic Insurance: A Modern Approach to Islamic Banking* (Milton Park, Routledge Curzon 2004) p.49

⁵² Tajudeen O.Y and Abdur Rasheed B. op cit p. 22

⁵³ Ibid

⁵⁴ Ibid

⁵⁵ Ibid

⁵⁶ Sulaiman, Z. D. Factors Responsible for the Absence of *Takaful* and the Prospect for its Establishment in Nigerian Economy: University of Gloucestershire, UK (2011) p. 23

Future growth may also be hampered with the currently narrow pool of professionals with sufficient *Takaful* knowledge in areas such as law, sales, and actuarial services.⁵⁷ Most operators would typically employ human resource persons, such as legal advisors and actuaries, with conventional insurance experience. These resources would typically tend to learn the *Shariah* aspects of *Takaful* and adapt their previous experience to incorporate *Shariah* compliance rules in their new role. Hence the mindset of most operators tends to be driven by conventional thoughts and solutions and, as a result, there has been limited original thinking in the industry. Human resources pool needs to be developed for long term efficiency. Both stakeholders are required to invest a reasonable amount of resources in that respect. NAICOM is collaborating with institution like the International Financial Centre (IFC UK), Islamic Banking and Finance Institute Malaysia (IBFIM), Islamic Financial Service Board (IFSB) and IFISA in that regard.⁵⁸ This implies that *Takaful* operators need to allocate funds for human resource development. Recently, there have been various *Takaful* courses offered, including one offered by the Chartered Insurance Institute (CII), which will assist in the development and creation of human resources with both insurance and *Shariah* expertise.⁵⁹ Also the Islamic Banking and Finance Institute of Malaysia offer a comprehensive training programme on Islamic banking, *Takaful* and Islamic capital markets and Bahrain's Islamic Finance and Banking Training also offers courses targeted at financial industry experts, which cover applications of key Islamic banking and financial instruments.⁶⁰

In addition to training and retraining of existing manpower, conducting seminars, workshops and conferences to raise the standard of skills and competences of various stakeholders will ensure that business is conducted in accordance, and in compliance with *Shariah* law.

iii. **Shortage of Shariah Experts**

The principles of *Takaful* require that all participants must agree to pay their *Tabarru'* in order to mutually help each other in case of a misfortune. It should be noticed that such a big pool of donations cannot be run and administered by non-professionals or volunteers due to the complexity and expertise requirements. Therefore a mandate is given to a *Takaful* operator to do the job; every *Takaful* operator is required to have a *Shariah* Supervisory Board, which normally comprised of three or more *Shariah* scholars.⁶¹ For a *Takaful* operator with regional ambitions, the need to build credibility in the target market means there are preferences for the board members to originate from the target markets or at least have experience in the target market. Scholars would ideally have experience and knowledge not only in Islamic jurisdictions but also in *Takaful*.⁶² This is essential as board members are responsible for certifying the *Shariah* compliancy of the business operations. However, the number of *Shariah* scholars with experience in both Islamic jurisdiction and insurance is limited; inevitably, these scholars are currently sitting on multiple boards, which may create conflicts of interest and compromise the quality of advice. The shortage in scholars remains a short-term barrier on new entrants and drives up the cost of setting up a *Shariah* board.

⁵⁷ Ibid

⁵⁸ Olalekan T.Y op.cit p.34

⁵⁹ Ibid

⁶⁰ Ibid

⁶¹ Frenz, T.S and Madhu, I. K (2007) Developing *Takaful* Product in India Risk and Challenges 10th Global Conference on Actuaries.

⁶² Ibid

iv. Shortage of Shariah compliant assets

In spite of the growth of Islamic finance, there is still a shortage of tradable *Shariah* compliant assets in the market. *Shariah* compliant investment alternatives instruments such as *Sukuk* meaning capital market and Ethical investment funds need to be properly developed. The Securities and Exchange Commission (SEC) has also issued a guideline for *sukuk* issuance in Nigeria and the Osun State Government has successfully completed the first *Sukuk* issuance in Nigeria and sub-Saharan Africa.⁶³ The key challenges faced by *takaful* operators with respect to shortage of shariah complaint instrument can be summarised as follows:⁶⁴

- a) In the short term, owing to the relative size of the Islamic banking industry over the Takaful market, an adequate supply of compliant assets such as *Sukuk* is available. However, there is competition with Islamic banks in terms of purchasing short-term *Sukuk* in the primary market, whereas the secondary *Sukuk* market is currently illiquid and expensive. Availability of assets may further tighten as the rapid growth of Takaful continues and *Shariah* scholars increase their focus on the compliance of new asset issues, particularly in regard to their perceived similarity to more conventional debt issues.
- b) The limited range of *Shariah*-compliant assets would naturally result in a concentration of asset risk. Any regulatory admissibility limits and the resulting need to control exposure to particular asset types and counterparties (such as those that exist in the UK) may place a restriction on the; level of investment in these instruments.
- c) The lack of *Shariah* compliant assets restricts product innovation because of the liquidity and mismatching risk as well as potentially lower returns. Introducing pension-related products and variable annuity types of products would be challenging in the absence of long-term investment vehicles.
- d) There is potentially a higher operational cost to maintain a *Shariah*-compliant investment strategy as the assets would need to be certified by *Shariah* scholars on a regular and ongoing basis. In addition, *Takaful* operators would typically outsource this function to professional fund management companies.

The continued success of the *Takaful* industry is linked to sound *Shariah* compliant asset management capabilities. Both the shareholders' fund and the policyholders' pool need to be invested in a *Shariah* compliant and profitable manner. The development of a strong asset management capability will enable a stronger *Takaful* proposition. The lack of suitable assets with sufficient liquidity remains a big challenge in the *Takaful* industry there by forcing *Takaful* operators to invest in assets not denominated in the same currency as the liabilities, hence giving rise to potentially significant currency exchange risk.

v. Inadequate Infrastructure for *Takaful* operation in Nigeria

Takaful has an explicit ethical structure that can be marketed to both Muslims and non-Muslims. This is because it is based on principles of fairness, transparency, simplicity and sharing the participants' burdens.⁶⁵ The development of

⁶³ National Insurance Commission (NAICOM) Regulating & Ensuring Healthy Insurance Industry in Nigeria <<http://www.businessjournalng.com>> accessed on 2nd November, 2015

⁶⁴ Ibid

⁶⁵ Ferguson, T "Takaful 2.0" Using the Power of the Web to Realize the Global Potential of Takaful ICMF Number 15 (2008) P.g 23

Takaful depends largely on healthy growth of Islamic finance system. Immature Islamic finance system coupled with inadequate and poor communications infrastructure in terms of regulations and with enough *shariah* complaints investment instruments constitute major hitches confronting *Takaful* practices in Nigeria. Most of the impediments confronting *Takaful* practices in Nigeria are strategic as the market is in its formative stage. To considerably manage these teething problems, appropriate skills and resources can be borrowed from conventional insurance markets.⁶⁶

vi. Corporate Governance

The current relationship between the *Shariah* Supervisory Board and the board of directors of the *Takaful* operator is typically one of deep trust and integrity. However it is still necessary to set clear, written guidelines on the scope and the responsibilities of the *Shariah* board. Compliancy should cover all aspects of the operation, including the *Takaful* model adopted, product offerings, surplus sharing and fee structures, Islamic investments, contract wording, and marketing material. At present, the industry does not have compliance manuals and standard terms of reference for *Shariah* boards, and there are additional issues around the role of the *Shariah* board and the potential conflicts of interest between *Shariah* scholars. There is a risk that the *Shariah* board may focus on *Shariah* related issues at the expense of key technical issues such as actuarial, underwriting, and wider risk management. On the other hand, it is in the management's interest to maximise shareholders' value, which would create further potential conflicts from a *Shariah* compliance aspect. There is also the conflict of interest and risk management issues around the concentration of assets invested in related companies.

vii. Rating System

Another greatest challenge that the *Takaful* (Islamic insurance) operators face worldwide is the rating system. There is yet no scientific method or model for rating risks in *Takaful* Insurance. In conventional Insurance there are standard rats for the fire, motor, life and other lines of business prepared by actuaries.⁶⁷ This is not available in *Takaful* risk management tools to eliminate fraud and other risks are among the challenges. There is also the absence of an effective risk management tool which can effectively eliminate fraud and other risks in the system as well as the absence.⁶⁸ In addition, there is the absence of credit information in the market and moral hazard.⁶⁹ Another challenge is three top reasons why Nigerians oppose Islamic Insurance are because: The potential for *Takaful* is enormous; however, there are several hurdles to be overcome for the market to actualise its potential.⁷⁰

viii. Lack of Unified Accounting standard for Takaful operators

Appropriate accounting standard is another challenge *Takaful* operators should be concerned with. The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) has created a standard that is the default accounting standard

⁶⁶ Stagg-Macey, C. *An Overview of Islamic Insurance* (Kuala Lumpur: ICMIF Takaful 2007) < www.icmif.org> accessed on 23rd April, 2015

⁶⁷Takaful Sharia'h Compliant Insurance Companies, Best's Rating Methodology, (2008)<www.ambest.com/ratings/methodology> accessed on 13th April 2016

⁶⁸ *Ibid*

⁶⁹ *Ibid*

⁷⁰ *Ibid*

for *Takaful* businesses in some Middle East countries.⁷¹ *Takaful* firms in other countries account for *Takaful* under International Financial Reporting Standards (IFRS).⁷² However, applying IFRS to *Takaful* is complex; hence, appropriate skills in this regard are necessary. It is, therefore, paramount to enhance skills on how *Takaful* operations can be accounted for Takaful in Nigeria. Moreover, recent study on Islamic financial transactions accounting found that practitioners are highly concerned with various Shariah issues, including applicability of time value of money, the terminologies used in IFRS and IAS that reflect conventional concepts of banking and *Takaful*.⁷³ Consequently, it is paramount that NAICOM, *Takaful* operators and other stakeholders should affirm the acceptable *Takaful* accounting standard in Nigeria in order to promote uniformity and consistent *Takaful* accounting system.

ix. The Absence of a Unified Regulation for Takaful

The absence of a unified standard framework to regulate *Takaful* companies is a major challenge for the growth and development of the *Takaful* industry. The existence of a legal framework will facilitate regulation and improve market conduct.⁷⁴ The establishment of a taskforce from highly versed individuals from different markets to standardize the *Takaful* regulations will go a long way to address this problem. Moreover, continuous efforts should be exerted by various concerned associations by conducting regular regulators' seminars to bring all regulators together to share their knowledge and experience and ensure a constructive and ongoing dialogue between regulators

4.0. The Way Forward for Takaful Operation in Nigeria

For an efficient *Takaful* operation in Nigeria to work, a lot need to be done by the stakeholders such as NAICOM as the regulatory and supervisory body, the operators of the *Takaful* business and the Advisory council of experts of both NAICOM and the operators are responsible to ensure shariah compliance through out the under writing activities of the *Takaful* operators in Nigeria as obtained else where around the world. To actualise the prospects of *Takaful* business in Nigeria, the following measures need to be considered.

First of all there is the need to properly implement the existing *Takaful* regulatory instrument in Nigeria which the operational guideline for *Takaful* operators released by NAICOM in 2013 in the business activities of the existing window operators in Nigeria. There is also the need to enact a separate *Takaful* legislation or law similar to the Malaysian *Takaful* Act,⁷⁵ because Nigeria and Malaysia has certain things in common such as the sizeable number of Muslim population, a secular common law system and western based economy and it has established its *Takaful* Act. Malaysian insurance market accommodates both conventional insurance and *Takaful* within its regulatory framework.⁷⁶

⁷¹ Islamic Financial Services Board (IFSB) and International Association of Insurance Supervisors (IAIS) Issues in Regulation and Supervision of *Takaful* (Islamic Insurance) 2006 < www.iaisweb.org> accessed on 22nd September, 2015

⁷² Ibid

⁷³ Ibid

⁷⁴ Jankara, I U (2013). Regulation of *Takaful*-Insurance in Nigeria, a paper presented at the NAICOM/GIZ International Micro-Insurance Conference, Held on the 9th and 10th of September, 2013, at the Transcorp Hilton Hotel, Abuja, Nigeria

⁷⁵ EY Global Takaful Insights (2014) <www.ey.com/Publication> accessed on 15th March, 2016

⁷⁶ Ibid

Secondly, despite the complex legal issues that may cross up and lack of available trained workforce, *Takaful* insurance system may operate successfully in Nigeria. Nigeria may adopt the Malaysian model. Malaysia provides guidance on how a secular country, with a sizeable Muslim population can accommodate dual insurance system within the same regulatory framework of the country.⁷⁷ Malaysia is the first country to establish *Takaful* legislation and has the largest *Takaful* market in Asia and around the world.⁷⁸ Nigeria as a country that have similar features with Malaysia can as well get the largest *Takaful* market in Africa considering the population if all the required infrastructure is in place.

Thirdly, Nigerian government through NAICOM should incentive in terms of tax reduction with the aim of encouraging foreign corporations that offer Islamic products to come to Nigeria and invest there by increasing foreign direct investment which have positive effect on the economy. The Malaysia government offers such incentives to foreign corporations to offering Islamic products. The country has opened up *Takaful* licenses for businesses transacting in foreign currency and also established a ten-year tax exemption for any company registered under the *Takaful* Act of 1984 on income derived from transactions carried out in foreign currencies.

5.0. Conclusion

The prospective *Takaful* insurance operators may have to look beyond these perspectives by coming up with innovative *Takaful* insurance products that shall suit the specific needs of its potential market in Nigeria. However, the predictable emerging challenge for the *Takaful* Insurance business can be observed in the following important areas: consumer awareness, investment restrictions, liquidity management, *Re-Takaful* arrangement, market development, capacity building, availability of Advisory Council of Experts (ACE) and the continuous professional development for the ACE. These challenges must be seen as very imminent and requires urgent strategic plans for the smooth running of the existing *Takaful* window operators in Nigeria and the subsequent emergence of full-fledge *Takaful* operators.

⁷⁷ Ibid

⁷⁸ Ibid