



# RELIGION AND HUMAN CAPITAL DEVELOPMENT

*Essays in honour of Prof. Yasir Anjola Quadri*

Edited by

Y. O. Imam  
R. W. Omotoye  
P. O. Abioje  
A. I. Ali-Agan

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# Understanding Insurance From Islamic Perspective

Muritala Kewuyemi Kareem

### Abstract

Without insurance, the business world may not be sustainable since all businesses have their inherent risks and therefore, may not have capacity to accommodate them particularly in this ever changing global economy. Managing the risks then becomes imperative. It is against this backdrop that this paper examines how insurance and *takāful* (Islamic Insurance) can protect the public, insurance policy holders and consumers; and thus build a strong national *takāful* industry to foster economic development. From the historical perspective, the paper reviews the operation of insurance right from the pre-Islamic period. The main purpose of this paper is to address the compatibility and non-compatibility of insurance in relation to Islam through a comparison of insurance and *takāful*. By comparing the two, it is possible to evaluate the benefits of *takāful* over conventional insurance. From the theoretical analysis employed, we found that the concept of insurance does not contradict the dictates of Islam. However, some of the means and methods that are currently being used in the conventional insurance are not *Shari'ah* compliant. From the analysis of theoretical aspect, a *Shari'ah* compliant *Takāful* must be devoid of *ribā* (interest), *gharar* (uncertainty) and cooperation in sins. The paper also shows that despite the long history of insurance, the attempt to introduce *takāful* in Nigeria has not gained enough ground for only a few conventional insurance companies such as African Alliance Insurance, Niger Insurance Plc and Cornerstone Insurance Plc have added *takāful* to their operations. No full-fledged *takāful* company is in existence. With Guidelines 2013, issued by the National Insurance Commission, many insurance companies

should be established to serve as backbones for emerging the Islamic finance in Nigeria.

**Keywords:** Insurance, *Takāful*, Cooperation, Islam, Ta'awwun.

## Introduction

Insurance is as old as the human society. In natural economics, insurance is seen in the form of people helping one another or each other. For example, if a person's house is burnt or destroyed by rain, members of the community help the person by building another one or repairing the old if it is repairable. If such a thing should happen to the helper next time, the helped person would assist those who assisted him. This type of insurance is still in operation in some parts of Nigeria particularly in the researcher's town. However, insurance in the modern sense was practised by Chinese and Babylonian traders in the 3rd and 2nd centuries B.C. respectively. A merchant paid his lender additional sum to cancel the loan if the shipment was stolen. The additional sum is insurance. Health and life insurance was established by the Greeks and Romans in 600 A.D to cater for the families upon the death of members. New forms of insurance started emerging later. An example is building insurance, which was established by Nicholas Barboon in England after the first fire outbreak that burnt to ashes 13,200 houses in 1666.<sup>1</sup> What then is insurance? Insurance is an arrangement by which a company gives customers financial protection against loss or harm such as theft or illness in return for payment premium.<sup>2</sup> This definition refers to a promise of reimbursing or indemnifying a person for loss that occurs under the terms of agreement in exchange for premium or consideration received. A company that is selling insurance is an insurer while the person or the company that is buying the insurance is an insured.<sup>3</sup> In relation to Islam, insurance is unique in the sense that it is a mutual cooperation between two or more parties with the aim of providing a financial security for any member of the group that suffers financial loss. It is also a shield against an unexpected risk. It must be mentioned that the way insurance is operated in the

conventional economy is not *Sharī'ah* compliant. Its operation need to be modified for it to be in line with the dictates of Islam. To put it simply, Islamic insurance is a cooperative risk sharing that is operated in line with the dictates of Islam as contained in the Qur'an and the Sunnah. Therefore, it is based on cooperation, solidarity and brotherhood.

From this vantage, the first section gives the historical overview of the concept and practice of insurance. How insurance can be re-organised in line with the dictates of Islam is the point of the discussion in the second section. Section three clarifies some basic terms related to insurance. This is followed by division of *takāful* and its operation. The last parts present the differences between insurance and *takāful*, and then conclusion and a few recommendations.

### **Historical Overview of the Concept and Practice of Insurance**

Before the time of the Prophet (S.A.W.), insurance had been practised. During the pre-Islamic period (Jahiliyyah period), if a member of a tribe was killed either mistakenly or negligently by a member of another tribe, the relative of the killer would pay the family of the deceased person an amount of blood money as a compensation. The family of the killer was referred to as "*Aqila* or *aṣaba* (paternal relatives of the killer).<sup>4</sup> Every member of the later family would contribute money for the purpose of compensating the heirs of the killed for loss of life of their member.<sup>5</sup> This is a form of financial protection or insurance for the heir of the killed and it is called *Al-Aqila* form of insurance.

However, with the introduction of Islamic practices as a way of life, the Prophet of Islam (S.A.W.) directed the paternal relatives of one woman from Huzayl family who killed another woman mistakenly to pay blood money called *diyāh* (ransom) to the heirs of the killed.<sup>6</sup> This is another form of financial protection or insurance to take care of the heirs after the loss of their member. *Diyāh* (ransom) is another form of insurance, which Prophet Muhammad practised.<sup>7</sup> This was paid by paternal relatives of the victim to rescue the life of the prisoner of war by an enemy so that he can be freed by the enemy.<sup>8</sup> The two principles were applied to



some families such as BanuNajjar and BanuHarith in Madinah. After the Prophet's demise, his companions also upheld the doctrine of insurance. For instance, Umar, the second caliph instructed his governors to open a *Diwan* of Mujjahideen. Those people whose names were in the *diwan* would contribute the blood money to a pool that the compensation would be paid to the heirs of a killed person if one of them should kill another person either mistakenly or negligently.

IbnAbidin, a Hanafi Lawyer, was the first Islamic scholar to give the meaning, concept and legal entity of insurance contract based on Divine principles if it is free from element of *riba* (interest) during the 19th century;<sup>9</sup> his discussion gave an impetus to the issue of insurance, which was later accepted by many Muslims. Mohammad Abdul, a reformer also contributed to the development of Islamic form of insurance in the twentieth century by considering it legal for Muslims. Many Islamic insurance companies have been emerging since that time. However, that were formalized in the twentieth century started in 1979 in Sudan and Saudi Arabia. Many countries have joined the trail by establishing windows of Islamic insurance companies or full-fledged insurance companies.

In Nigeria, the history of conventional insurance can be traced to the European merchants when they faced the risks of transporting their cash crops to Europe. Royal Exchange Assurance Agency introduced by African and East Trade companies was the first to be established in Nigeria. Non-indigenous insurance dominated the industry in Nigeria. After the set up of the Insurance Company Act of 1961, a large number of insurance companies were indigenously owned. At a time, the number of insurance companies was 110 (1990) but later reduced as a result of financial system reforms of 2004. Among all these companies, none is a full-fledged Islamic insurance company. It was in 2003, that African Alliance Insurance Company introduced *Takaful* into its operations. Later, Niger Insurance Plc and Cornerstone Insurance Plc added *takaful* to their operations.<sup>10</sup>

The business of insurance in the conventional setting can be broadly classified into Life and General Insurance. General

Insurance business is also referred to as Non-Life Insurance Business. It provides protection against losses, which may result from occurrence of specified events within specified periods. The risks normally insured against include accidents, property damage, fire, flood, work-related injury, disability, business interruption, etc. In this type of insurance, the insured pays an amount called premium to the insurer in consideration for indemnity against specified losses that the insurer has assumed to make good.<sup>11</sup> It is difficult, if not impossible, to cover all the known types of general insurance. Some of them are auto insurance, home insurance and disability insurance. Life Assurance is the benefits that are paid to the policy holder when he attains a specified age, or when an event occurs. It may also be paid to the policy holder's family after his death.

### **Takāful (Islamic insurance)**

A number of Muslim jurists believe that insurance is un-Islamic as it involves uncertainty (*gharar*) as regards the payment of insurance amount.<sup>12</sup> This is because the seller does not know what he has sold and the buyer does not know what he has bought. Getting the amount of compensation is not sure because it is based on the occurrence of an unknown event. If one takes car insurance, he pays premium regularly. If the car does not involve in any accident, all the premiums are forfeited. The insurer does not pay back or refund the money. However, if there is an accident, the insurer may pay more than the premium or less than the premium paid. This shows that the business is a business of uncertainty (*gharar*). The time of payment is based on the occurrence of an unknown event.

For some people, insurance takers buy peace of mind. This is because if something happens to them they are compensated and restored to their original level. If nothing happens, they are happier. However, this view is not correct. This is because it is not peace of mind that the buyer of the policy buys. He buys the amount of insurance. It is only Allah that can provide tranquility. Insurance is likened by some people to gambling, wagering contract, etc. In life insurance, it is not possible to know the

number of installments to pay before one dies. In fact, some insurance companies invest the premiums collected in interest bearing securities. Therefore, insurance is condemned by many Islamic jurists. However, there is the need to help one another in case anyone incurs loss in his business. There is also the need to lessen the seriousness of the consequences of the death of a bread winner in a family. That brings about the issue of family *takāful*. Insurance and *takāful* differ in their operations from each other. This will be taken care of subsequently.

### ***Takāful* and *Ta'awwun* (Mutual Guarantee and Mutual Cooperation)**

*Qiyāmuhu binafsih* is one of the attributes of Allah mentioned in *Ad-DurusulAwaliyyah*. It means Allah is self-sufficient. He does not rely on anybody. He relies on Himself. The implication of this is that it is only Allah that is self-sufficient. He does not need anybody but everybody needs Him. This brought the idea of co-operation among the creatures: ants, human beings, animals, etc. The Quran also emphasises the issue of co-operation when it says: "And help you one another in *al-birr* and *at-taqwā* ... (virtue and righteousness) (Q.5:2)". There are many ways by which co-operation can be done. Some of them are through trade, *takāful* (Islamic insurance), charity, donation, etc. In fact, Ibn Khaldun refers to trade itself as a form of cooperation. He said, "Man cannot survive as an individual in isolation, by his very nature, he needs cooperation to get what he requires. This cooperation inevitably involves first *quid proquo* (*mu'awwadah*), then sharing and other forms".<sup>13</sup>

The equivalent of the western notion of insurance is *takāful* (Islamic insurance) because it is in line with the *sharī'ah*. *Takāful* or Mutual guarantee is an agreement among a group of people called participants to collectively intervene; should any of them suffer a catastrophe or disaster, he would receive certain sum of money to meet his loss or damage.<sup>14</sup> The word *takāful* is derived from the Arabic root *kafala*, which means to guarantee.<sup>15</sup> *Takāful* is a verbal noun of a five-letter verb which is derived from a three-letter verb, *kafala*. The additions to the three letters are *tā'* and *alif*.

These additions change the meaning from guarantee to mutual protection and joint guarantee. The implication is that the participants contribute to a common purse with the aim of using the funds to assist any member who suffers loss or peril.

The Quran (Q.5:2) and sayings of the Prophet such as: "Verily, it is better for you to leave your offspring wealthy than to leave them poor asking others for help..."<sup>16</sup>; "Whosoever removes a worldly hardship from a believer, Allah will remove from him one of the hardships of the hereafter..."<sup>17</sup> and "Tie the camel first, then, put your trust to the will of Allah"<sup>18</sup> point to the permissibility of *takāful*. They imply a strategy to mitigate or reduce loss or risk. The participants must fear Allah and be ready to assist others willingly through *tabarru'* (charity). They should be conscious of the well-being of the people in their community as opposed to profit maximization (i.e. profit maximization should not be the sole aim of doing business). This is because if there is a problem or a catastrophe in a place, in one way or the other, others will be affected if the situation is not put under proper control through *takāful*. Whenever a *takāful* is to be put in place, mutuality and cooperation, payments made with the intention of *tabarru'*, avoidance of *gharar*, *maisir* and *ribā*, constitution of *takāful* fund and *Sharī'ah* Supervisory Board, joint guarantee and investing the funds in a *Sharī'ah* compliant products must be very seriously taken into consideration. Otherwise, all the affairs of a *takāful*, which do not consider the above-mentioned elements, will render such a *takāful* business null and void.

### Re-organisation of Insurance in Line with the *Sharī'ah*

In insurance, there are two main parties. They are *Dhamin* (*takāful* operator) and *Mua'mman Alayh* (*takāful* participant). *Dhamin* is one who indemnifies a participant of *takāful* against unexpected losses. The operator receives contributions from the participants. *Takāful* operator is made to register under the act of insurance but its business must be *Sharī'ah* compliant. Individuals, companies or societies should be allowed to carry out a *takāful* operation. They must have contractual capacity as in the commercial contracts called '*uqūd*. Such contracting capacity entails puberty, sound

mind, etc. *Junūn* (insanity or mental derangement), *Atah* (partial insanity), *nisyān* (forgetfulness), *safah* (prodigality, weakness of intellect) *taflīs* (bankruptcy) are some of those things that can render capacity of contracting parties null and void. The operator of *takāful* must be a Muslim. This is because Muslims are enjoined to seek help of believers rather than non-believers particularly in the ordinary every day's affairs of business. The Qur'ān says:

Let not the believers take for friends or helpers unbelievers rather than believers, if any does that, in nothing will there be help from Allah except by way of precaution, that you may guard yourselves from them (Q 3:28). Yea, to those who take for friends unbelievers rather than believers. Is it honour they seek among them? Nay all honour is with Allah (Q 4 :139). O you who believe! Take not for friends' unbelievers rather than believers. Do you wish to offer Allah an open proof against yourselves? (Q 4:144)

The above-mentioned injunctions are to give Muslims mutual co-operation because they share the same faith. In addition, being an operator, he will have dominating power over the entire policy, i.e. articles of association that will guide the operations of the business. Therefore, he will be able to organize the business in a *Sharī'ah* way. A non-Muslim operator may not believe in the Quran guidelines for the running of *takāful* and thus he may depart from the *Sharī'ah* principles. The objective of *Sharī'ah* may be defeated. If a non-Muslim can follow totally the teachings of Islam on insurance, he may be allowed to operate *takāful*. However, a non-Muslim may be a policy holder as he is not in charge of decision-making. He is only benefiting from *takāful* business. He must be helped if he seeks assistance. *Takāful* can be registered under any law provided all its activities are to be *Sharī'ah* compliant in principles and objectives. *Takāful* operation must be registered before it starts its business. There should be rules and regulations that will guide its operations. The operators will not be able to deceive or mismanage the funds as they are being monitored right from the beginning. The Prophet forbade *najash* (dishonesty) in trade. There must be a *Sharī'ah* Supervisory

Council to advise an operator on the operations of his *takāful* business so as to conform to *Sharī'ah* principles.

An operator may be stopped or a potential one may not be given license to operate if it is sure that his aims are not in line with the *Sharī'ah*. If he fails to start business within a stipulated time (to be decided by the National Insurance Commission-NAICOM) after he has been given license, the license may be withdrawn. Its license may also be withdrawn if the operator is doing one or more of the following: if he is carrying on his business in a way that is against *Sharī'ah* and detrimental to the interest of his participants; if it is unable to meet its obligations as at when due; If he has provided false or inaccurate information, or has concealed material facts in its application for registration; if the operator is going or has gone against the *Sharī'ah* or the insurance Act relevant to the *takāful* given by NAICOM, Central Bank of Nigeria (CBN) and other regulatory authorities; if the operator has failed to maintain a surplus of assets over liabilities; if the operator refuses to make good any deficiency when there is an impairment in its *takāful* fund, etc. An Islamic insurance operator may be given licence if it has adequate assets that are required for the operation of *takāful*.

#### ***Mua'amman Alayh (Takāful Shareholders or Takāful Participant)***

*Takāful* participants have to make regular contributions by way of premium so as to indemnify them when their subject-matter suffers a loss or impairments in order to restore them to their original form. Going by Q.5 verse 2, *Takāful* is for everybody irrespective of age, relation, sex, religion, etc. However, an operator must be cautious when he is accepting a responsibility. He needs to verify each applicant in order to make sure that he is not a thief, a crooked person, etc. In fact, all the rules of contracting capacity explained must be taken into consideration when a participant is to be considered.

Whatever contributions received by the operator from the participant are invested in *Sharī'ah* compliant products such as *mudārabah*, *mushārah*, *ijārah*, etc. Participants in *takāful* are

made to enter into contract of donation called *tabarru* and contract of *mudārabah*, or *mushārakah* or *ijārah*, etc.

### Divisions of *Takāful*

In the conventional setting, insurance is categorised into two main divisions: general insurance and life insurance. However, in an Islamic environment, *takāful* is divided into general *takāful* and family *takāful*. Family *takāful* replaces life insurance. Family *takāful* is a *takāful* that provides financial assistance to the participants and/or their family or relative in case of their death, misfortunes, disability, etc. The purpose of this class of *takāful* is to lessen the negative consequences in the event of death or misfortune upon the bread winner of a family. It is used to cater for hospital bill of a participant or his heirs; to cover funeral expenses of a participant and his immediate family members; to finance the education of participants' children; to perform religious duties such as Hajj, Umrah, etc. *Takāful* participants are required to pay regular installmental payments for a defined number of years. The contributions are divided into two. One is credited to the participants' investment account and the other part is credited to the participants' risk account. The other portion of the contributions is credited to participants' Risk Account. The contributions in the latter account are considered as *tabarru* which are used to mitigate the losses or damages suffered by the participants. It involves a longer term relationship between the participants and the *Takāful* operator. General *takāful* is a contract of joint venture, which is based on a short-term basis say, a year. Participants provide mutual compensation in case of a specified loss. This *Takāful* is taken to protect individuals, corporate bodies, groups (e.g. mosques), etc. that are participants against loss or disaster on their assets. There can be different forms of general *takāful* such as motor *takāful*, fire *takāful*, burglary *takāful*, money *takāful* and a host of others.

### The Operations of *Takāful*

If *Takāful* is operated as a commercial venture, it will involve a

number of people. Some expenses will, therefore, be incurred. When the give and take involve large number of people, some coordination would be necessary. Such coordination has to be paid for. The coordinators may receive their salaries from a mutual insurance or a commercial insurance. Efficiency, transparency, etc. should guide the two forms of insurance. There are many ways by which *takāful* can be organised. Some of them are *tabarru'* mode of *takāful*, *mudārabah* mode, *wakālah* mode, *wakālah-waqf* mode, etc. The operations of these models are hereby discussed.

### **Tabarru' Mode of Takāful**

As the name indicates, it is a donation from participants to the *Takāful* fund without expecting any returns. Those who conceive the idea of floating this fund have it at the back of their mind to assist the less fortunate members of their community and to mitigate the loss incurred by their members. Besides the promoters, others who join them as the policy holders cannot expect any returns from the use of the funds. Both the promoters and the participants contribute to the purse, which is used to extend financial assistance to any member based on the defined losses. If the funds are not sufficient to cover the losses incurred by the members, they may give interest-free loan called *qardhasan*. The participants manage this fund if they are not many. This model is only good for a small number of people. In a situation where there are many participants, there is need for proper organisation and coordination. The coordinators have to abandon some other things for coordinating the *Takāful*. Therefore, the coordination has to be paid for if it is to be effective, efficient and result-oriented. This brings about the issues of other three models, which are organised in a large scale, and in a commercial way.

### **Mudārabah Mode of Takāful**

There are two funds under this mode. Policy holders fund and shareholders' fund. The former is invested by the *takāful* operator in *Sharī'ah* compliant products. The operator assumes the position of *al-mudārib* (an entrepreneur) and the *takāful* participants as



*Rabbul-māl* (capital provider). Based on the operation of *mudārabah*, there will be a pre-agreed ratio of sharing profit or loss. Based on the stated ratio, when the profit is made from the investment, it has to be shared accordingly. No one has right to change unilaterally the agreed sharing ratio as stated in the *Takāful* contract. It must be mentioned that the operator does not take any return as a manager of *Takāful* business. However, for investing the *Takāful* funds under *mudārabah* agreement, he assumes the role of a *mudārib*. Therefore, he is entitled to share in the profits generated from the investments. But if there is a loss, it is the policy holders that bear the loss. The operator only loses his labour provided he is not negligent in the conduct of *Takāful* business or does not go *ultra vires*. As it was said at the beginning, the two funds are combined together by the *Takāful* operator and he invests them. Whatever profits generated from the investments shall be shared between the two funds on a pro-rata basis.

However, all the expenses related to the investment (the general and administrative expenses) are charged to policy holders' fund for determining the actual profits made. If a member incurs a loss, he is assisted from the policy holders' fund which has increased as a result of added share of profits. Whatever remains of the policy holders' fund is shared among them based on a pro-rata basis.

### ***Wakālah* Mode of *Takāful***

*Takāful* operator acts as an agent under *wakālah* mode. He is called the *wakīl*, i.e. the agent of the policy holders. The relationship is, therefore, a principal-agent one. *Takāful* operator is in a fiduciary capacity on behalf of the participants in performing underwriting and managing the *takāful* funds, which are funded by and belong to the participants under the concept of mutuality. All the rules of *wakālah* apply here. The *wakīl* invests the premiums paid by the policy holders in *Shari'ah* compliant products. He deducts all the expenses related to the investment from the policy holders' funds because he is acting on their behalf. Whatever profits made from the investments are added to the policy holder's funds. From the funds, the beneficiaries of *takāful* funds are paid if they incur

losses and they make valid claims. Whatever remains of the profits is paid to the policy holders. If loss is incurred, they make up for the loss. The *wakīl* is only entitled to a fee or remuneration. He is not to share in the profit. It is possible for a *wakīl* to receive his remuneration based on performance to serve as an additional incentive for him.

### ***Wakālah-Waqf Mode of Takāful***

Literally, *Waqf* means to tie down and it also means endowment, etc. Endowment refers to money or property donated for the purpose of education, religious philanthropy, science, etc. Property, money or any other asset can be used as *waqf*. Under this model, the operator establishes a benevolent fund. All shareholders who are interested in this fund contribute to it. The participants who seek *takāful* protection also donate into the fund. All the shareholders lose their ownership rights on the *waqf*. The *Takāful* operator administers the funds by investing the combined funds in *Sharī'ah* compliant products. Profits earned will be deposited into the *waqf* funds. There will be contingency reserve funds and technical reserves to cushion the effect of potential losses that may arise from the investment. It is from the funds that the participants would be compensated for their losses based on the defined bases for financial assistance. If there is a surplus, it is shared between the members and the operators based on the agreed ratio as contained in the *takāful* contract. Another point is that since the shareholders have lost their ownership rights, profits earned would be ploughed back into the fund. Operational expenses incurred for running the activities of the *wakālah-waqf* model of *Takāful* will be charged to the fund. It is clear from our explanations of the modes that there are clear-cut differences between insurance and *takāful*. The table below gives a summary of the major differences between the two.

**Table 1: The Differences between Insurance and Takaful**

<i>Insurance</i>	<i>Takāful</i>
State and man-made law guide the operation of insurance.	The Qur'ān and Hadith are some of the sources of laws and regulation guiding <i>Takāful</i> .
It is based on man-made will.	Islamic law of inheritance, Q.41 guides the distribution of the family <i>Takāful</i> funds.
Premiums are paid.	Contributions are collected from the participants in the form of <i>tabarru'</i> .
Premium are invested in any product whether the goods or the services are Islamic or non-Islamic.	Investments in goods like alcohol and pork and services such as media pornography and prostitution must be avoided.
It is only the insurer that decides where and how to invest premiums.	The <i>takāful</i> contract specifies how and where the contributions should be invested.
Premiums are invested in interest bearing securities.	Premium should not be invested in interest bearing securities like treasury bill (Q.2:275).
The shareholders own the business of insurance.	Participants and operators own the <i>takāful</i> .
Its motive is profit maximization for its shareholders.	It focuses on mutual help, community welfare, solidarity and protection. It may not be a profit organization.
Profits are distributed based on the discretion of the board of Directors.	The <i>takāful</i> contract determines how and when profit will be shared.
The insured man may choose original cost or replacement cost.	The participant is only entitled to compensation only for repair or replacement.
Reserves and surplus if any belong to the shareholders if the insurance company is dissolved.	Reserves and surplus may be given to participants or donated to a charity home if <i>takāful</i> is dissolved.

Only company income tax is paid.	Conventional tax and zakat are paid annually by <i>takāful</i> .
Only one contract is involved, i.e. it is commutative.	A number of contracts are involved in <i>takāful</i> , i.e. it is non-commutative.
Insurance is the owner of the premium.	<i>Takāful</i> is not the owner of the premium.
Only one relation is present in insurance.	There are more than one relation at different stages in <i>takāful</i> .
Accounting is based on only one contract.	Accounting is based on many contracts.
An insurer and an insured are involved.	<i>Takāful</i> involves at least three parties: company, policy holder, and operator.
Surplus is for the insurance. No surplus is given to the policy holders totally or partially.	Surplus is given back to the participants.
Pool of insurance company is not a legal entity.	Pool of <i>takāful</i> company is a separate legal entity.

Source: The Author

### Merits of Islamic Insurance

*Takāful* makes it possible to import goods from a far place because businessmen know that if they should incur loss, it will be mitigated through it. Therefore, it makes available goods and services that can improve people's standard of living. Businesses are also set up in a crime-prone area, because of the availability of *takāful* to make up for the loss incurred by participants. Therefore, such areas will not be deprived of infrastructural facilities such as electricity and pipe-borne water and services of professionals such as physicians, lawyers and accountants. This is because people will not be afraid of establishing industries that will produce beneficial goods and firms that render valuable services for the good of mankind.

In insurance, the policy holder expects to get back an amount greater than what he invested. The excess is *ribā*. If policy holders agree to share profit made from investing their money in *Sharī'ah*

compliant products, then their investments are permissible and lawful. Islam supports cooperative insurance. A participant that incurs loss is assisted from a fund that is jointly funded by a group of people with common interest to guarantee or protect each other from a certain defined misfortune by a way of donation. The participant is given all his paid contributions together with his share of profits realized from the investment if loss does not occur. *Takaful* also follows the principle of cooperation as contained in the earlier cited Quranic verse. It also brings equity to all parties involved as explained in the paper particularly under *Mudarabah* mode. Widows and orphans are provided for through *takaful* and inheritance. *Takaful* also involves risk sharing instead of transferring risks to another person

### Conclusion

Insurance is not alien to Islam. As such, it is allowed with some restrictions and modifications. Contributions from *takaful* should not contain interest (*riba*) and should also not be invested in interest based investments such as conventional treasury bills, interest based loans, etc. We realized that *takaful* is quite different from insurance in the sense that it involves *tabarru* and other modes of its operation such as *Muḍārabah*. The issue of *gharar* which appears in the conventional insurance does not apply to *takaful*. With Guidelines 2013, issued by National Insurance Commission, many insurance companies should be established to serve as backbones for emerging Islamic finance in Nigeria. Awareness should be created by NAICOM through organized lectures, workshops, training programmes, etc. Higher institutions should also include *takaful* as one of the courses to be taught in their institutions. Introduction of new products in line with the dictates of Islam should be embarked upon by the operators.

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