Takaful in Nigeria: Penetration Challenges and Way Forward

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Abstract

Takaful's birth in Nigeria is a decade old. Observers of the Nigerian insurance market had expected a more rapid increase and growth of the sector's contribution to the GDP. However, in Nigeria takaful is considered as a new phenomenon with its absence in insurance legislation and near zero appearance of takaful companies even with a Muslim majority population in the country. By the last count, only three conventional insurance companies have fully began operations of Takaful with other unconfirmed information of other willing entrants into the sector. Can we say that the actual score card of Takaful has met the expectations of its protagonists? This paper seeks to assess the level of performance of Takaful companies in the Nigerian insurance market, analyze the challenges facing these companies and make recommendations for policy and practice as ways forward. To actualize these objectives, the paper adopts a case study approach of the existing three Takaful insurance companies currently operating in Nigeria. It uses an interview method to explore the experiences of these companies and the lessons that can be learnt to jump-start Takaful's contribution to the economy. These findings relate to investors' motivation, capitalization, manpower, investment channels and challenges facing the new experience. Recommendations for policy and practice are proffered to chart a new way forward.

Keywords: *Takaful, Mudarabah, Wakala, Models, Investments, Manpower, Shariah*

1) Introduction and Background to the Study

The emergence of Islamic insurance (takaful) has substantiated a paradigm shift in the global financial services industry and this shift, though emanated from the Islamic countries, has today been accorded global popularity (Al Hallaq, 2012). Yet, in Nigeria takaful is considered as a new phenomenon with its absence in insurance legislation and near zero appearance of takaful companies even with a Muslim majority population in the country (Ya'u, 2010).

It is now a decade that Takaful has been given birth to in Nigeria. Observers of the Nigerian insurance market had expected a more rapid increase and growth of the

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sector's contribution to the GDP. By the last count, only three conventional insurance companies had fully began operations of Takaful with unconfirmed information of other willing entrants into the sector. Can we say that the actual score card of Takaful has met the expectations of its protagonists? Then, how did this come about?

Agitations by Muslims to have a Shariah compliant insurance system is based on the *fatwa* by Islamic religious scholars in 1976 in Makka that the conventional insurance system is tainted with three elements prohibited under the Shariah. These are Riba (interest income), Gharar (uncertainty) and Maysir (gambling). Interest income stems from the notion that the premiums are invested in non-Shariah-compliant, interest bearing instruments. Uncertainty stems from the notion that the outcome of the insurance contract is not known at the time it is created and varies according to the time of the death of the insured in life insurance. Gambling stems from the notion that the insured may gain large amounts (that is, profit) from the insurance coverage if certain events take place (Chatterjee, 2010).

Takaful, an Arabic word, means 'guaranteeing each other', and is a form of mutual insurance that is fully compliant with Shariah principles. Takaful works on the basis of members cooperating with and protecting each other, but it can also be used by investors seeking returns while adhering to the principles of Islamic law. Members of the Takaful scheme pool their individual contributions together to create money which is then available to cover any subsequent loss or damage claims. Any surplus, after the costs of running the scheme, is then distributed between the Takaful operators and the participants on pre-agreed term (Archer et al., 2009).

Takaful is the Arabic word for Sharia-compliant insurance system. It is based on the Aqila, a pre-Islamic system of group payment of blood-money to the family of the deceased person (Ya'u, 2010).

2) Shariah *rulings on* Takaful

Takaful does not protect, but if there is any loss or damage in the future, for example, on the property insured, it ensures financial security, based on shared responsibility. *Takaful* policyholders cooperate among themselves for their common goal of mutual security against risk. The payment of a premium made by policyholders is to assist those of them who need financial security and it is regarded as a donation contract. A *takaful* transaction is free from the element of uncertainty, unjust enrichment, and *riba*. The holy prophet (p.b.u.h) said to this effect: 'Reported by Said Ibn al-Musayyib (r.a), verily the holy prophet (p.b.u.h) forbade an uncertain transaction' (Muwatta Imam Malik).

Takaful does not also aim to take advantage at the cost of other individuals. In all of its aspects of operation, *takaful* abides by the absolute *shari'a* principles. Therefore, *takaful* falls under a condition which makes it permissible in the Islamic transaction:

> *'Muslims are bound by their conditions except the condition which prohibits the lawful one or the one which permits the unlawful one. . .' (al- Tirmizi) (Ma'sum Billah, 2007).*

With the above background and the aspiration of Muslims to make this prohibition a practical reality in their economies, there has been the establishment of the Islamic Financial Services Industry (IFSI). This industry has made substantial progress over the last three decades after the establishment of the first Islamic bank (Dubai Islamic Bank) in 1975. The number of institutions offering *shari'a* compliant services has risen, as well as conventional banks that have opened Islamic windows and branches. The total volume of assets that all these institutions manage has risen rapidly and so has the international acceptance of Islamic finance. Nevertheless, the industry is still in its formative stage and faces a number of challenges that need to be addressed to enable it to continue its rapid expansion without facing any serious crisis and, thereby, acquire greater respectability and a much greater share of the international financial market. This raises the question of what these challenges are and how they can be faced (Fisher, 2012).

From the foregoing, our motivation in this paper is to achieve the following objectives:

- To assess the level of performance of Takaful companies in the Nigerian insurance market;
- To analyze the challenges facing these companies;
- To make recommendations for policy and practice as ways forward. The rest of the paper is structured as follow: Section 3 is used to contextualize the study. Section 4 lays the theoretical foundation of the study with literature review. This is followed by section 5 on methodology and analysis of findings. The findings are discussed in section 6. Section 7 concludes while the last section dwells on our recommendations for policy and practice.

3) Context

With a population of 140 million people, Nigeria is the most populous country in Africa, with a GDP second only to South Africa's. Yet, following several years of military rule and poor economic management, Nigeria has experienced a prolonged period of economic stagnation, rising poverty levels, and decline of public institutions. By most measures, human development indicators in Nigeria were

comparable to that of other least developed countries while widespread corruption undermined the effectiveness of various public expenditure programs (Okonjo-Iweala and Osafo-Kwaako, 2007).

The Nigerian insurance sector has been described as "*A grossly untapped opportunity*". *(*Cited in Dias et al., 2013).This is just a reflection of the general society of about 160 million people with 70% of them living below the poverty line. Over half of the population is living in rural areas while 52.5% of adults are being completely excluded from financial services. Even though the economy is growing amidst higher inflation, social unrest, poor basic infrastructure, and concerns with corruption, Nigeria offers great opportunities and challenges for virtually any type of business (Dias et al., 2013).

The authors continue:

> *"It is not different for the insurance sector: only about 1% of the adult population is covered by insurance today, clearly showing the huge potential lying ahead of the industry. There is wide acknowledgment by the industry and other stakeholders of a largely unexplored world out there, since the Nigerian uninsured faces risks and needs the means to mitigate them better than what they can do with the informal mechanisms currently used……. Demonstrating a surprising apathy, the bulk of the Insurance industry is accommodated in its focus on corporate and compulsory contracts. It offers very little to retail customers beyond compulsory insurance.*
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> *Moreover, its previous experience with voluntary retail products has been marked by practices such as not paying claims, which have tainted the industry's reputation, resulting in low levels of public confidence and the perception that insurance does not offer value to the insured. The strong emphasis in compulsory insurance at both the policy and industry levels may worsen this public perception.*

4) Literature review

The Islamic finance literature is fast growing at a steady pace the movement is generating. With it its foray in the world stage about three decades ago, Islamic finance has offered an unnoticeable impact as a feasible alternative to the conventional financial system. While not as visible as its banking counterpart, Takaful has recorded appreciable impact as an emerging alternative to conventional insurance (Fisher, 2012). From a handful of players in 1980s, Takaful operators have swelled to more than 131 globally (including dedicated Takaful companies, Takaful "windows" within conventional insurance and Retakafuls).

As deliberated in much of the literature on Takaful, several models with different underlying Shariah contracts have been adopted in Takaful practice (Hussain, 2010). These include the *Mudarabah* (partnership between entrepreneur and capital owner), *wakala* (agency) and *waqf* (endowment) models. Each model comprises different sets of rights and obligations between the insurers and the insured. Nevertheless, they all share common economic objectives—namely, to collectively share the individual risks of the Takaful participants (that is, policyholders) in order to reduce the individual participant's exposure against a defined loss.

Since its inception in Sudan in 1979, the Takaful's literature has literally been growing with particular focus on laying the theoretical foundations of the basic framework.

In the Islamic finance literature, many of the issues have evolved around business conduct (Chatterjee, 2010) and models (Bakar, 2010), supervision and regulations, legality (Hussain, 2010) and corporate governance (Archer et al., 2010). These issues are further analysed.

Bakar (2010) examines the business models employed for Takaful undertakings, both non-life and life (or family) Takaful. These models involve complexities resulting from the hybrid nature of Takaful undertakings: Risk funds that function on the basis of mutuality (the equity of which belongs to the policyholders) being managed by a company with shareholders. The paper addresses the daunting challenge that these complex business models represent for industry regulators.

The authors opine that the fact that there are two categories of equity holders in a Takaful undertaking, shareholders as well as policyholders, raise important issues regarding stakeholders' rights and corporate governance.

According to Hussein (2010), business models and structure of Takaful operators entail knotty legal issues. The author points out that the notion of mutual insurance, while intrinsic to Takaful, is unknown in the legal and regulatory systems of most of the countries in which Takaful operates.

Chatterjee (2010) emphasizes that a sound regulation and supervision framework is essential for improving the efficiency of the market for insurance generally and for Takaful in particular. He describes the work of the IAIS in developing its Solvency Structure, and the importance of principles of good business conduct with particular respect to managing reputation risk. He also draws attention to the need for good data on losses and expenses per unit of exposure in pricing insurance products.

Fisher (2010) lists the global challenges militating against efficient Takaful market as insurance penetration, Shariah acceptability, supporting structure, reward structure,

retakaful, investment avenues, flexibility, and dealing with interest. Reporting standards and internal controls were found to have low level of observance among *Takāful* operators in Pakistan (Akhter and Hussein, 2012).

5) Methodology

For this exploratory study, we adopt a qualitative approach by using case study method to contextualize our thesis. Due to paucity of data to conduct a quantitative study, we consider qualitative approach more appropriate to explore in great details the current status of Takaful experience in the country (Shukla, 2008). We conducted structured interviews with the managers of the three existing Takaful companies at different occasions within same periods on same issues, namely, motivation, capitalization, shareholding, qualified manpower, regulatory approval, the impact of the economic (performance), marketing strategy, operational challenges and future prospects if any. Our findings are presented in brief below.

a) Investors' Motivation

Sequel to the release of the Takaful as well as the micro insurance guidelines, the Nigerian regulator, National Insurance Commission (NAICOM) had granted approval to three conventional insurance companies to commence the business of Shariah-compliant insurance protection to customers. The three companies are African *Alliance Plc., Niger Insurance Plc. and Cornerstone Insurance Plc*. These three organizations were mainly motivated by the need to fill a huge gap begging to be tapped. After conducting individual surveys, the companies were able to discover the general aversion of the Muslim populace to patronizing the conventional insurance. This discovery led the shareholders of these companies to sponsor the study of Takaful in Malaysia through sponsoring of some of their conventional insurance employees who are Muslims to understudy the Malaysian experience. The objective of the sponsored study was to see the feasibility of replicating the Malaysian experience in Nigeria due to seeming similarities between the two countries.

On another note, conventional insurance companies in Nigeria have been faced with poor patronage as underscored by the insurance penetration figures recorded lately by the sector. In essence, conventional insurance companies are desperately in dire need of deepening insurance penetration and encouraging financial inclusion in the insurance market apart from the financial reward accruable from such venture.

In addition, a closer look at the published reports of most insurance companies in Nigeria has shown low patronage of insurance in the Muslim dominated Northern

part of the country. This suggests why most of the top insurance companies have very few branches in the North as compared with the Southern part.

Summing up the above, a respondent says:

> *"We received a lot of support from our management which was headed by a Christian. They believed that our entry into the Takaful market space would capture a particular group of clients who hitherto were not part of the existing clientele. Furthermore, our entry will add value to the company in terms of increased patronage and income".* (The head of Takaful window operator in Lagos).

b) Capitalization

At the inception of the first Takaful Company's operation in Nigeria in 2003[1], conventional insurance companies willing to diversify into Takaful business as a window needed not fulfill a specific capital requirement. Their fulfillment of the conventional capital requirement was sufficient. It was only last year that NAICOM released new operational guidelines for Takaful operators. In the release, any conventional insurer that wishes to operate Takaful business is required to fulfill a capital requirement to the sum of N100million each for either Family Takaful or General Takaful business.

c) Regulation

To show its seriousness and readiness to deepen insurance penetration and increase the contribution of insurance to the national GDP, NAICOM released new operational guidelines for Takaful operators in 2012. The Guidelines have been issued to provide regulatory guidance for the *Takaful-Insurance* industry with the desire of enhancing financial inclusion in Nigeria and to ensure *Takaful-Insurance* providers are not unintentionally disadvantaged.

The Guidelines for *Takaful-Insurance* provide guidance on elements that are specific to the operations of a *Takaful-Insurance* Operator. These Guidelines are to be read in conjunction with other relevant legislation, guidelines and circulars as determined to be applicable to *Takaful-Insurance* Operators by the Commission. The Guidelines will represent the primary regulatory position with regard to *Takaful-Insurance* and all other guidelines, legislation being secondary.

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[1] See our article, **Yusuf, T. O.** (2006). 'Insurance in Muslim Countries: Nigeria's First Takaful Scheme in focus'. *Journal of Islamic Banking and Finance,* Vol. 23*(2), 55-77.*

The Commission has its objectives to:

- Establish duties and responsibilities of *Takaful-Insurance* Operators and other institutions.
- Set requirements and minimum standards for operation and disclosure that aims to protect the interests of consumers.
- Provide a framework for the establishment and growth of *Takaful-Insurance* business that is efficient and leads to financially sound and sustainable *Takaful-Insurance* funds.

The new operational guidelines cover such issues as related to operational processes relating to Takaful operators to include:

- Establishment of *Takaful-Insurance* operating model
- Specific governance issues for *Takaful-Insurance* operators
- *Takaful-Insurance* fund management related issues
- Management of participants (policy holders)
- Operator specific issues
- Capital requirements of a *Takaful-Insurance* Operator
- Reporting Requirements of a *Takaful-Insurance* Operator

While applicable to stand alone and window operators alike[2], the new guidelines require existing Takaful operators to ensure compliance within a reasonable time frame and in a manner that would not prejudice their existing participants. In essence, they should intimate the Commission with any aspect they are not currently complying with while providing a plan that sets out activities and timeline towards full compliance.

d) Source of Manpower

As a recurrent global phenomenon, sourcing qualified staff to drive the Takaful business remains ever challenging. This is partly due to few tertiary institutions offering courses in Islamic finance generally and Takaful in particular and the relative

[2] The Guidelines apply to *Takaful-Insurance* Operators (including Micro *Takaful-Insurance*) that are operating exclusively as *Takaful-Insurance* providers ("stand-alone") and to *Takaful-Insurance* business being provided by a conventional financial institution alongside their existing conventional insurance business ("window operator").

newness of Takaful into the global financial landscape when compared with the conventional counterpart. To cope with this trend in Nigeria, Takaful operators are converting their Muslim employees into Takaful hands through in-house training or foreign educational sponsorship. Other strategies devised to address this problem include poaching from rival companies, recruitment from the open labour market of willing employees to be trained for Takaful business. But despite these approaches to solving the manpower shortage, Takaful operators are still struggling which accounts for why full compliance with regulatory provisions is still far away. This scenario is captured here by a respondent:

> *"Due to the peculiar nature and differences in operations of a Takaful undertaken, recruited staff from the open market (particularly Muslims) undergoes training and retraining to address the skill gaps that need to be filled for the success of a Takaful operation"* (The head of a 'stand alone' Takaful operator in Lagos).

e) Shariah supervisory board

In the same vein, the problem of shortage of manpower to run Shariah-compliant insurance operations resonates in the availability of Shariah experts to supervise its operation in Nigeria. Due to rarity of educational institution running courses in Islamic finance and Takaful in the country, experts who are competent to supervise existing operations are in short supply. What are available at best are mostly scholars who are solely competent in Shariah law and sparingly knowledgeable in insurance practice. Having scholars with competence in both Shariah law and insurance practice remains a rare phenomenon.

f) Marketing strategies

Marketing and distribution is based on a multiple distribution outlets which include agency, brokers, and direct group sales to affinity groups. These companies have also entered into a lot of strategic alliances with several Islamic organizations and Hajj tour operators to provide insurance protection for their respective risk exposures. And to boost sales, agents are remunerated on commission basis with stipends attached to cover transport expenses. Meanwhile, an administrative software is being utilized to monitor and measure agents performance.

g) Investment outlets

As an acknowledged global challenge, investing outlets for Takaful funds are grossly limited. This is due to the widespread dominance of Riba-based channels in most economies of the world. The Nigerian Takaful operators are currently investing

largely in stocks that are listed as Shariah-compliant by *Lotus Islamic index*[3] as well as placements in viable telecommunication and oil and gas businesses. The challenge of availability of varied channels of investment is captured in the words of a respondent thus:

> *"Investments have been in stocks and real estate (properties were bought and leased). However, as a result of the necessity to promptly settle claims a greater preference has been laid on the investment easily convertible/liquid assets such as stocks". (*A Manager of a Takaful window operator in Lagos).

h) Existing clientele

Since the inception of Takaful business operations in Nigeria about a decade ago, concerns and apprehensions have been voiced by non-Muslims, namely Christians that the introduction of Islamic finance might be a ploy to Islamize the multi-religious country. What is baffling, however, is that Christians have constituted sizeable number of patrons of this Shariah-compliant alternative to the conventional insurance. As at today, we are yet to receive any report of religious discrimination as regards access to any Shariah-compliant products and services. The same experience is recorded for its Islamic bank counterpart.

Apart from the above, respondents have reported that the largest chunk of their clientele has been largely male, middle-class income earners and some high net worth individuals, corporate organizations and Islamic cooperative entities. To underscore this, a respondent explains:

> *"In terms of client, we have an equal mix of clients who are Muslim and Christian. The eastern market has also shown a lot of growth and potential"* (The Manager of a Takaful window operator in Lagos).

i) Performance and prospects

It is gladdening to state from the interviews that respondents share the same optimism that there are high prospects for Takaful in Nigeria despite the current slow start being recorded. They hinge their optimism on the annual steady growths they are all recording in participants' contributions, growing and increasing awareness of the population, job creation, and the newly released guidelines by the regulator---NAICOM.

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[3] Lotus Capital is a full-service, Halal investment management boutique specializing in Shariah compliant Asset Management, Private Wealth Management Advisory Services and Financial Advisory Services. Lotus Capital was founded in June 2004 with the specific objective of meeting the investment needs of ethical individuals, businesses, and organizations across West Africa. See http://www.lotuscapitallimited.com/index.php/forms.

> *"The future is bright for the growth of Takaful based on increasing population, awareness and government regulations which will attract investment from other climes which may also help in deepening of Takaful in the country"*. (The head of Takaful Company in Lagos).

In addition to the above, respondents believe that the general economic climate has had little or no effect on their businesses. A respondent concludes:

> *"Though the economic climate has been generally harsh, we have recorded an increase in participant contribution year in year out. What is most important to us is to demonstrate a great deal of trust and reliability"*. (The Manager of a Takaful window in Lagos).

j) Challenges facing Takaful

Like any new idea, Takaful, according to respondents, is facing familiar teething challenges which can be itemized as follows:

- Awareness is still very low coupled with general negative perception of insurance;
- Administrative bottlenecks associated with Takaful windows which lead to occasional delays in claim settlement.
- Lack of synergy amongst existing operators in the areas of knowledge sharing.
- Lack of proper understanding of business development products tailored towards the benefit of ethical customers
- Shortage of qualified manpower
- Window operations' drawback where operators tend to align or imitate conventional operations which most times negate the concept of Takaful, while hiding under the doctrine of necessity

6) Discussion of findings

The above findings have thrown up some interesting issues for deeper analysis and discussion. We picked out the following:

a) Raising of awareness of the newly released operational guidelines

From the above findings, it seems to suggest that the slow start that Takaful's foray in the Nigerian insurance market has been due to absence of regulatory and supervisory frameworks. This finding corroborates the view of Gumel, Saad and Kassim (2014). Many investors might have considered the situation as being too risky to invest their hard earned capital into high level of uncertainties. This may also account for why the few who dared to (3 by the last count), were not willing to invest more on marketing and product development. Even, the regulatory authority is not raising enough of

awareness on the release of the operational guidelines to warrant being taken serious by willing investors. It is expected that a public presentation of the guidelines would positively kick-start the growth of the sub-sector.

Regulatory and supervisory guidelines have the propensity to clear several foggy areas for all stakeholders. While it may still be too early to comment extensively on the effectiveness and efficiency of the newly released operational guidelines, observers would need to tarry awhile for it to be put to test for the time being.

b) Strategy for increase manpower

The problem of manpower shortage poses a great threat and risk to the short-term and long-term survival of Takaful. The same problem is currently being faced in the Islamic banking sector according to Bello and Abubakar, (2014). And even while acknowledged as a global phenomenon, manpower shortage has the tendency of opening the floodgate for 'anything goes' for operators. The present practice of deploying conventional insurance staff into the Takaful window or stand alone may not yield much dividend on the long-run. How do you effectively change the psyche and motivation of a staff that was educated and trained to work for *profit-motive* into a staff whose motive is now *cooperation and solidarity*?[4] Some of the fallouts of this *conversion* will be discussed later in this section.

The best approach for Takaful operators to solve this manpower problem is, in conjunction with the regulatory authority, to partner with leading tertiary institutions to package a short-term course spanning about six months to 1 year for interested candidates in Takaful business. This will be in addition to being graduates of insurance and actuarial science and related financial and economic studies. Religious affiliation may not be a serious criterion yet but this might be considered in the long run as events unfold in the sub-sector. The current in-service training packages by Takaful operators may not be sufficiently adequate to achieve the desired result.

c) Remuneration for Shariah Supervisory Board

The presence of the Shariah Supervisory Board (SSB) is one element that marks out Takaful as being different from the conventional insurance business. These are Shariah scholars who are men of proven integrity and competency and custodians of the image of Takaful both in the short-run and long-run. The dearth of these personalities for now might be due to lack of remuneration framework like other

[4] Conventional insurance, particularly the stock companies, are set up to achieve profit-maximization for the benefit of shareholders whereas, Takaful entities are set up to achieve mutual interest and joint guarantees objectives.

professionals in the insurance industry. As a result, there might arise in the short-term suspicious and questionable operational and investment certification by Shariah scholars of Takaful outfits. The damage that this could do to the image of Takaful is better imagined than experienced.

Appropriate and commensurate remuneration package must be worked out by stakeholders for Shariah scholars in addition to minimum qualification. By commensurate, we mean appropriate remuneration befitting their calling as Shariah watchdogs and gatekeepers into the Takaful market.

The newly released operational guidelines issued out by NAICOM is loudly silent on this and this may portend great danger for the nascent alternative meant to enhance financial inclusion and boost insurance penetration in the Nigerian economy.

d) Approach to Marketing of Takaful products

A review of the marketing approach and strategies of Nigerian Takaful operators show the repetition of the familiar old story. This has made Takaful to be viewed as another conventional insurance product not as a new risk management mechanism based on another paradigm.

The problem here is that of orientation of marketing executives who are not properly schooled in the marketing of peculiarities of Takaful. They simply mimic the traditional insurance companies with respect to product offerings. Takaful marketers must be schooled and orientated in the values and ethics of Shariah-compliant insurance products through formal training. Simply recruiting jobless individuals who are not useful elsewhere to market Takaful products is begging the issue. The professionalism and competency of the sellers of Takaful products cannot be compromised. It has a far-reaching impact on the image of the products. Presently, the conventional insurance is still struggling to revamp its public image as a ‘legalized robbery’. Marketing executives must get it right from the word go by developing new products and services that will cater to the ever expanding range of Shariah-compliant saving needs that exist in the market place. They can communicate the values of Takaful to their core audience in as much honest manner as possible.

e) Overcoming the limited investment outlets quagmire

The low development of financial markets in emerging economies has had its impact on availability of multiple non-interest outlets. This is coupled with high cost of doing business in these economies. The non-reliability of contract enforcement also compounds the problem. These and other similar impediments have worsened the dearth of multiple investment channels for Takaful operators. As it stands, available non-interest investment channels in Nigeria cannot deliver much returns for Takaful

participants. When a TO is not declaring high returns at regular intervals, the only option available to participants would be to "vote with their feet"[5] by discontinuing their contractual relationship with the company.

It has also been observed that a major factor necessitating the transition of a window operation (Takaful services offered by a conventional institution) is the inability of the parent company to properly ring fence around its Takaful operation from leakages and co-mingling with non-compliant funds at any point in the investment life circle. It is also doubtful that incomes generated from non-Shariah or partially compliant investments are made to undergo the purification process. This requires that a percentage of such income is donated for charitable purposes.

Therefore, to overcome this quagmire and to discourage TO from investing in interest-based portfolios, the regulatory authority—NAICOM must put in place adequate governance structure to facilitate the consistent screening of the investment portfolios for their Shariah compliance and their purification from non-Shariah compliant income.

7) Conclusion

Based on the aforementioned issues, it is appropriate to conclude that Takaful in Nigeria presently is performing creditably well with promising future prospects. It is also relevant to salute the courage of the three Takaful outfits currently operating in the insurance market despite the absence of specific operational guidelines for about a decade. We are yet to record any scandal or financial impropriety involving any of the three TOs. Investing in a new set of products with a different paradigm is fraught with many uncertainties that could prove fatal in the short-run. Though, the TOs are not yet recording high returns on their investments, their tentative results are worthy to smile about with high future prospects. By these achievements, it will not take long for us to witness more entrants into the Takaful sub-sector. As a result, the onerous objectives of financial inclusion and boosting of insurance penetration would have been achieved in Nigeria.

8) Recommendations

Our recommendations in this explorative study will be based on charting the way forward for the Takaful sub-sector in the face of challenges it is currently facing since its introduction in the Nigerian insurance market. These are stated in bullet points below:

[5] This is a phrase used in Archer et al., (2010: 61)

- There should be concerted efforts by stakeholders on devising impact massive awareness campaign to promote and propagate the values and ethics of Takaful particularly targeted at the Muslim dominated states of the Nigerian Federation. Using local language might prove worthwhile in this respect.
- In as much as this might be a temporary drawback, TOs owned by conventional insurance entities must adopt management arrangements that give TOs the desired and sufficient autonomy that ensures prompt response to customer service, especially in claim settlement.
- Since the Nigerian market is still grossly underserved, the future prospects of TOs will be tapped sooner when existing TOs work in unison through knowledge sharing.
- The existing marketing executives of TOs in Nigeria must be re-orientated in Takaful product design through foreign educational sponsorship in more developed Takaful markets such as Malaysia, Bahrain and Sudan. Otherwise, top experts from any of these developed markets could be sponsored into the country for training of local marketers.
- The problem of shortage of qualified staff requires strong collaboration between stakeholders (regulators and insurers) in designing training courses for professionalism in Takaful. The local insurance institute, Chartered Insurance Institute of Nigeria (CIIN) can include Takaful courses in its various examination stages to improve local professionalism. Separate code of conduct must be published and propagated among Takaful operators with effective oversight surveillance.
- Shariah supervisory board must be alive to their role as gatekeepers and custodians of Shariah compliance by ensuring that none of the eight principles of Takaful is abused nor misused

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