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PROMOTING COOPERATIVE “TAKAFUL” TO COMMERCIAL “TAKAFUL” STATUS FOR SOCIETAL REGENERATION: A CASE STUDY OF A. A. ZUBAIRU INITIATIVE

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1.0 INTRODUCTION

The concept of *Takaful* (literally referred to as “social solidarity”, and more technically “Islamic Insurance”) is not widely understood. While *Takaful* is an important part of the Islamic financial system, the concept itself and the nature of the operations of *Takaful* companies is a topic that has been relatively neglected compared to Islamic banking.




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1.0 INTRODUCTION




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Takaful is a plan “based on **Solidarity** and **brotherhood** which provides **mutual financial aid** and **assistance** to its participants in case of need whereby the participants mutually agree to contribute for that purpose” (Malaysia Takaful Act, 1984, Sec 2, as cited in AAIC Takaful plan presentation, 2003).




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1.0 INTRODUCTION




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It is a word of Arabic origin which means a system of Islamic insurance based on the principle of *Taawuni* (mutual assistance) and *Tabarru* (voluntary contribution).




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1.0 INTRODUCTION




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The idea of insurance business, with its emphasis on uncertainties and risk of loss, is being detested by the Muslim Ummah, in view of the fact that conventional insurance business operates within the context of the factors of *gharar* (uncertainty), *riba* (interest) and *maysir* (gambling).

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1.0 INTRODUCTION

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Omar Fisher (President, *Takaful* USA) concludes that “*Takaful* is the second most important social institution to counter Poverty and deprivation” (AAIC, 2003: 9). This position shows that *Takaful* is a way of dealing with poverty in any society. If well implemented, *Takaful* arrangements have the prospect of societal regeneration for sustainable economic development. It is second only to Zakkat (poor due) as a social institution.

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Risk or uncertainty, coming in different ways, is one of the most fundamental facts of life and, so, appropriate measures are taken by different societies to protect themselves against it. The measures taken are based on social solidarity and brotherhood so as to avoid any dimension of exploitation of man by man.

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Takaful is one such moral measures to be taken since it is based on the principle of mutuality, in that participants/investors are both the insured and the insurers themselves. All the losses are shared by the members themselves and thus no transfer of risks is involved.




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1.0 INTRODUCTION




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The term “insurance” could be described as community pooling, to alleviate the burden of the individual, which might be ruinous to him/her. The simplest and most general conception of insurance is “provision made by a group of persons, each singly in danger of some loss, the incidence of which cannot be foreseen, such that when such a loss shall occur to any of them it shall be distributed over the whole group” (Sadiq 2001: 198).



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1.0 INTRODUCTION




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Insurance should, therefore, be seen as a pooling of resources by a group of people to compensate the unfortunate few among them who suffer losses. This is how it resembles *Takaful*. It should be detested by Muslims only when the elements of **gharar** (uncertainty), **riba** (interest) and **maysir** (gambling) are glaring in it.



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1.0 INTRODUCTION



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This paper argues for the promotion of all available “*Takaful*” arrangements/social solidarities that characterize Cooperative *Takaful* to commercial *Takaful* for effective societal regeneration, poverty elimination and sustainable development, using A. A. Zubairu “*Takaful*” Initiative as a case study.

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2.1 Historical Background of Takaful

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Human society has practiced social solidarity in one way or another from time immemorial. The concept of protecting people or wealth against loss by natural perils is traced back to at least 215 BC, when the Roman governments were required by the suppliers of military stores to accept all risk of loss, arising from the attacks of enemies or from storms, to the supplies which they placed in the ships (Sadiq, 2001)

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2.1 Historical Background of Takaful

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History has, in another way, shown that it was the Pharaoh of Egypt who invented the *Takaful* principle when, on the advice of the Prophet Yusuf, he directed the storage of grain in the years of abundance to meet the demand during the lean years. This was to ensure that in the anticipated lean years food would not be a problem to the people.

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2.1 Historical Background of Takaful


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Tracing the Arabian history, Sadiq (2001) mentioned that each Arab tribe tied by blood relationships considered the loss of any individual member, including his liability towards the payment of blood money, as its own, and was obliged by custom and tradition to come to his rescue and take suitable measures to cover such losses or liabilities collectively.



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2.1 Historical Background of Takaful

History also shows that Islamic societies have always collectively assisted their members, both in cash and in kind, when they were required to incur some unusual or additional expenditure on deaths, births, marriages, etc. This practice is based on the teachings of Islam on social solidarity (*Takaful*), anchored on the concept of trusteeship (*mudarabah*) and cooperation.



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2.1 Historical Background of Takaful

It is believed, in Islam, that interdependency and social solidarity are necessary for a happy society to be realized. It is worthy to note that many countries of the world (including non-Muslim ones) have given room to the operation of *Takaful* to compete with conventional insurance in exercising control over their insurance markets.



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2.1 Historical Background of Takaful

The countries with Commercial *Takaful* operators are Malaysia, Bangladesh, Sri Lanka, Australia, Singapore, Ghana, Egypt, USA, Iran, Lebanon, United Kingdom, Luxembourg, Senegal, Tunisia, Algeria, Saudi Arabia, Bahrain, Qatar, Kuwait, Jordan, UAE and Sudan (AAIC, 2003).

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 2.2 Misconceptions Regarding *Takaful*
 Operation

(a) That risk Protection (through social solidarity) is against Taawakkul – total dependence upon Allah (SWT)

“Shall I leave my camel untied and seek Allah’s protection on it, or should I tie it?” The Holy Prophet replied, “Tie your camel and then depend upon Allah (SWT)”.

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 2.2 Misconceptions Regarding *Takaful*
 Operation

(b) That all insurance is a form of gambling

Speculative risk, which cannot be estimated with any degree of accuracy, is not covered by any *Takaful* arrangement. In *Takaful*, there is Taawuni (mutual assistance or assurance) which involves refund of contributions to participants when the need arises.

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 2.2 Misconceptions Regarding *Takaful*
 Operation

(c) That all dimensions of insurance seek to maximize Profit which takes the benefits away from the policy holders

But *Takaful* operates with the following virtues:
 (i) Operators are mutual or cooperative entities. It is not a case of insurer and insured. (ii) Its goal is community well-being and self-sustaining operations – not high profits.

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2.2 Misconceptions Regarding Takaful
 Operation

(d) That all Takaful operators are the same

Operational arrangement depends on the nature of the Muslim societies and their commitment to the achievement of set objectives. In Sudan, *Takaful* is operated based on the principle of **Tabarru** (voluntary contribution); in Bahrain and Malaysia based on **AlMudharabah** (profit-sharing); in Saudi Arabia based on **Al Wakalah** (fee-for-services); etc.

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2.2 Misconceptions Regarding Takaful
 Operation

(e) That it is Safer to say "I don't need Takaful".

But a *Takaful* scheme gives us an opportunity to practice the virtues of Islam..... including Self-Purification. The Prophet (PBUH) says "Whosoever fulfils the intention of his brother, Allah will fulfill his intentions; and Allah always helps he who helps his brothers". *Takaful* arrangement is one of the best means of helping one another for the achievement of sustainable development in societies.

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2.2 Misconceptions Regarding Takaful
 Operation

It is clear that conventional insurance, as presently practiced, is regarded as **Haram** in Islam since it is perceived as containing the elements of uncertainty (Al-gharar), gambling (Al-maysir) and interest (Al-riba). These three elements are eliminated under a *Takaful* (Islamic insurance) arrangement.

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2.3 Challenges to the Globalization of *Takaful*

- i). Insurance Penetration
- ii). Shari'a Acceptability
- iii). Supporting Structures
- iv). Reward Structure
- v). *Retakaful*
- vi). Investment Avenues
- vii). Flexibility
- viii). Dealing with Interest

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3.0 STATEMENT OF METHODOLOGY

Since this is a case study, the historical development and operational procedures of the main variable are analyzed and interpreted for an appreciation of Cooperative *Takaful* in practice, and how it could be promoted into becoming Commercial *Takaful*. Abdurraheem Alhaji Zubairu has not given any name to his contributory scheme, started since 1989, but this study considers it as a typical cooperative "*Takaful*" arrangement.

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3.0 STATEMENT OF METHODOLOGY

The initiator, A. A. Zubairu, was interviewed and some write ups on the scheme were collected from him in order to enable the researcher to have a good understanding of the scheme and how and why it could be promoted to a Commercial *Takaful*. Beside, the researcher is one of the participants in the scheme, with effect from January 2009.

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4.1 Historical Background of A. A. ZUBAIRU Cooperative "Takafu" Initiative

The monthly contribution initiated and coordinated by A. A. Zubairu, a Deputy Bursar with the Bursary Department of Bayero University, Kano- Nigeria, started way back in 1989 with ten participants contributing N50.00 per month. It was scheduled to cover ten months, with each participant collecting N500.00 when it was his/her month of collection.

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4.1 Historical Background of A. A. ZUBAIRU Cooperative "Takafu" Initiative

Since then the scheme has been designed to cover ten months within a calendar year, with the names of participants arranged to show when each would collect the beneficial payment. Contributions are collected, by the coordinator, from participants at the end of each month. The total amount collected is paid to the beneficial collector for the month.

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4.1 Historical Background of A. A. ZUBAIRU Cooperative "Takafu" Initiative

When increases in emoluments and more sources of revenue to the increasing number of participants to the scheme became apparent, the monthly contributions were increased for the different categories of contributors. Presently (2009 contribution year), there are seventy (70) participants in three categories: A, B and C.

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4.1 Historical Background of A. A.
ZUBAIRU Cooperative "Takafu" Initiative

There are 20 participants in category A, each contributing N100, 000.00 per month. In category B, there are also 20 participants, each contributing N50, 000.00 per month, while in category C there are 30 participants and each contributes N20, 000.00 per month. The three categories were designed to start and conclude the contribution from January to October 2009.

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4.1 Historical Background of A. A.
ZUBAIRU Cooperative "Takafu" Initiative

The scheme is interest-free, commission-free and discount-free! The only expectation of the coordinator from beneficial collectors is wise investment of the amount collected and good prayers for him.

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4.1 Historical Background of A. A.
ZUBAIRU Cooperative "Takafu" Initiative

Discussion: It is important to note the sustainable nature of the scheme, started 20 years ago and still operated with increasing number of participants. This shows that the coordinator has been very committed and dedicated to the continuous existence and survival of the scheme and that the participants have faith in the sincerity and trustworthiness of the coordinator.

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4.1 Historical Background of A. A.
ZUBAIRU Cooperative "Takafu" Initiative

Other important things to note:

- The number of participants rose from ten, at the beginning, to seventy, in 2009, without any element of advertisement.
- The scheme cut across all the memberships of the Unions in the University and beyond, and it has effectively broken all religious, tribal, rank, age and other barriers.

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4.1 Historical Background of A. A.
ZUBAIRU Cooperative "Takafu" Initiative

- Differences in earning power and the project on which part of earned income is to be sacrificed are the two main causes of the categorization made for the participants.
- The total amount the scheme would generate for its participants, in 2009, is N36million naira! This amount is big enough to stimulate economic activities.

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4.1 Historical Background of A. A.
ZUBAIRU Cooperative "Takafu" Initiative

- If earners are to be paid 50% of their annual beneficial payment and the other 50% invested into some long term projects, a lot of additional income could be generated.
- The amount to be invested (N18 million) is just N2million short of the required minimum paid-up capital for establishing a **micro finance bank**, which could be floated on the principle of interest- free banking system.

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4.1 Historical Background of A. A. ZUBAIRU Cooperative "Takafu" Initiative


- This arrangement would show some promotion from the cooperative nature of the A. A. Zubairu "Takafu" Initiative to commercial "Takafu" system that would make the participants enjoy some short term and quick benefits from their investment as well as obtain long lasting benefits from the same investment, while allowing room for massive funds to be generated for economic growth and development.

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4.1 Historical Background of A. A. ZUBAIRU Cooperative "Takafu" Initiative


- The scheme has the potentials of generating fund for investment into various economic development projects that would result into more sustainable earnings for its participants, create massive gainful employment, bring down the prices of goods and services to be involved in, and allow room for increased government revenue generation through taxes and charges on the profits and incomes of the floated businesses.

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4.1 Historical Background of A. A. ZUBAIRU Cooperative "Takafu" Initiative


- A.A. Zubairu "Takafu" Initiative is a good attempt at practicalizing the teaching of Islam against any dimension of interest earning, but when the scheme is promoted to Commercial "Takafu", the businesses to be established from the contributions of the participants are to be run as profit-making ventures taking any one of the Islamically accepted approaches of Al-Mudharabah or Al-Wakalah.

 **4.2 Procedural Guidelines and Operational Policies of the Scheme**

The scheme gets the consent of its participants at the beginning of the contribution year on the arrangement made by the Coordinator for their months to collect the beneficial payments. If a participant could not make his/her contribution in a month, for whatever reason, then that month's beneficial collector would not contribute when it comes to his/her month of collection.

 **4.2 Procedural Guidelines and Operational Policies of the Scheme**

Any participant is free to withdraw at any given time during the contribution year, but the amount contributed would not be immediately refunded to him/her until the month slated for his/her collection of the beneficial payment comes. But if a participant withdraws after collecting the beneficial payment, for whatever reason, including death, he/she has to refund the money to all those who have contributed to his/her beneficial payment.

 **4.2 Procedural Guidelines and Operational Policies of the Scheme**

Replacement is allowed for a participant that might wish to withdraw at any time during the contribution year. If no interested person is available for the replacement of a withdrawn participant, then the total beneficial payment would go down in the remaining part of the contribution year.

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4.2 Procedural Guidelines and Operational Policies of the Scheme

Participants are normally required, through moral suasion, to avoid delay in effecting the monthly payment. They are expected to abide by the regulations of the scheme strictly for successful operation. Default in payment is actionable in court, and to date no court of law has ever entertained any case involving the scheme and its participants!

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4.2 Procedural Guidelines and Operational Policies of the Scheme

Discussion : (i) This voluntary scheme is not without good and realistic policies and regulations. (ii) The coordinator enjoys the cooperation of the participants in the successful operation of the scheme for the whole period of its existence. (iii) Participants show the honor required of them in making the monthly contribution regularly and timely.

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4.2 Procedural Guidelines and Operational Policies of the Scheme

(iv) Like any *Takaful* arrangement, participants are not in bondage; they have the right to withdraw at any given time and get back the amount so far contributed to the scheme. They, however, have to abide by the scheme's rules of withdrawal. (v) The provision for replacement of withdrawing participants further confirms the social solidarity and brotherhood nature of the scheme.

4.2 Procedural Guidelines and Operational Policies of the Scheme

(vi) It is interesting to learn that no case of default has ever been recorded by the scheme, despite the large sum of money moving around among the participants. This is a clear prove to the fact that the participants are people of integrity and honor; that the coordinator is a trusted gentleman; and that the scheme is blessed by Allah, since it is not against His teachings in anyway.

4.3 Impact of the Scheme on the Participants

As an economic empowerment strategy, the scheme has impacted positively on the economic lives of the participants as they use their yearly beneficial payments to pursue a number of long term or short term projects. Many of the participants have committed themselves to land acquisition and house construction projects to logical conclusions, using beneficial payments of the scheme.

4.3 Impact of the Scheme on the Participants

Many have purchased vehicles (cars and motor cycles) using their beneficial payments. Many have used the beneficial payments to enhance the capital base of their businesses or float some businesses, using the amount collected as start up capital. Some participants have used part of their beneficial payments for investment into some blue chip companies in the Nigerian capital market.

4.3 Impact of the Scheme on the Participants

Discussion : (i) The scheme has the prospect of economic empowerment to the participants; it is, by extension, a strategy for the economic empowerment of the immediate community and the economy as a whole.(ii) As the participants invest the collected amounts from the scheme, more income accrues to the investee projects/businesses. This would encourage high level of production of goods and services needed.

4.3 Impact of the Scheme on the Participants

(iii) Mass production of goods and services would necessitate the need for employing more workers, thereby reducing unemployment and increasing income generation by both the employees and the government (through income tax). The multiplier effects would be enormous.

4.3 Impact of the Scheme on the Participants

(iv) If the A.A. Zubairu Cooperative *Takaful* is to be promoted to Commercial *Takaful*, the impact of the scheme, to the immediate community and to the economy as a whole, would be more glaring than it is now. As 50%, or thereabout, of the annual gross beneficial payment is committed to some long term project(s), belonging to the generality of the participants in the scheme, a great deal of economic activities would be generated.

5.0 FINDINGS AND RECOMMENDATIONS

(a) That *Takaful* arrangement is not a new concept altogether as it has a very long historical origin, and it is practiced in different dimensions in different communities.

(b) That *Takaful*, as a social solidarity and brotherhood arrangement, is quite different from conventional insurance scheme and, so, all the worries Muslim communities have on insurance should not be linked to it.


5.0 FINDINGS AND RECOMMENDATIONS

© That for *Takaful* arrangement to be well institutionalized and its industry to be well established in the Nigerian economy and beyond, a lot of challenges have to be overcome. These include creating awareness; supporting structures; *Retakaful* scheme and reward system/structure.


(d) That A.A. Zubairu "*Takaful*" arrangement is a good example of the power of social solidarity and brotherhood needed in various communities (academic, business, trade, vocational, professional, civil service, police, military, media, etc) for economic empowerment.

5.0 FINDINGS AND RECOMMENDATIONS

(e) That what sustains the A. A. Zubairu "*Takaful*" Initiative for about 20 years now is manifold, including: 1) the commitment, trustworthiness and contentment of the Coordinator; 2) the honor and integrity of the participants; and 3) the fact that the scheme is in peace with Allah! Had it been that any of the three is absent or weak, the scheme would not have lasted to date.


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5.0 FINDINGS AND RECOMMENDATIONS

(f) That the A. A. Zubairu “*Takaful*” scheme would have been making greater positive impact on the economic lives of the participants, the immediate community and the economy as a whole, if it has been promoted to commercial level. It is at that level that mass capital formation could be made and more gigantic project(s) financed by the collective contributions of the participants.

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5.0 FINDINGS AND RECOMMENDATIONS

The following recommendations are hereby made:

(i). *Takaful* principles should be initiated by well meaning community activists for the economic empowerment of those that have the wherewithal to participate as contributors and for ensuring sustainable development of the communities. Various dimensions of the scheme should be adopted in line with the peculiarities of each community.

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5.0 FINDINGS AND RECOMMENDATIONS

(ii). The establishment of *Takaful* schemes should be encouraged in Nigeria by community leaders, traditional institutions and governments (local, state and federal) to regenerate the communities towards adequate protection against the risks and uncertainties of poverty, deprivation, financial loss or any other calamity that could be dealt with, using the economic power to be generated through the schemes.

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5.0 FINDINGS AND RECOMMENDATIONS

(iii). To satisfactorily overcome the challenges of establishing successful Commercial *Takaful* in various communities, the promoters should liaise with the relevant government agencies that are saddled with the responsibilities of regulating and standardizing the activities of the businesses to be involved in. This is with a view to ensuring that exceptional provisions are made to protect the *Takaful* businesses against the factors of *riba, maysir and gharar*.

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5.0 FINDINGS AND RECOMMENDATIONS

(iv). As Commercial *Takaful* schemes have the prospects of producing mega businesses like Mega Bank, through synergization, galvanization and consolidation, promoters of the various schemes should ensure that they remain trustworthy, committed and contented as they spearhead the necessary actions needed for the successful establishment of the mega businesses, including *Retakaful* ventures.

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AL HAMDU LILLAH!

Thank you very much for listening!
