Takaful (Islamic Insurance) Practices: Challenges and Prospects in Nigeria

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ABSTRACT

The concept of insurance evolves from mutual help in times of need and distress, rather than a business proposition for profit making as practised today. In conventional insurance, the relationship between the insurer and the insured is that of buyer and seller. This is not the case with Islamic insurance (takaful). Takaful promotes shared responsibilities, solidarity, mutual assistance and cooperation to protect participants (policyholders) against risks and misfortunes in accordance with the policy. Hence, profit is not the main objective of takaful. Takaful practices in Nigeria are relatively new. The publication of Takaful Operational Guideline (2013) in Nigeria implies a new era for takaful practices in Nigeria. The study examines takaful challenges and prospects in Nigeria. It considers conventional insurance and reasons conventional insurance is unacceptable in Shariah. It also explains meaning, elements and key features of takaful; outlines how conventional insurers and takaful operators can make profit; highlights major differences between conventional insurance companies and takaful companies; explores takaful companies' challenges and hitches/bottlenecks to takaful practices in Nigeria.

Keywords*: Takaful, Insurance, Takaful practices, Takaful challenges, Nigeria*

1.0 INTRODUCTION

The concept of insurance evolves from mutual help in times of need and distress, rather than a business proposition for profit making as practised today. In conventional insurance, the relationship between the insurer and the insured is that of buyer and seller. This is not the case with Islamic insurance (*takaful*). Takaful promotes shared responsibilities, solidarity, mutual assistance and cooperation to protect participants (policyholders) against risks and misfortunes in accordance with the policy. Hence, profit is not the main objective of *takaful*. *Takaful* is derived from Arabic word '*kafala'* which means to aid or help out. *Takaful* requires each participant to contribute (*Tabarru*) proportional amount to the *takaful* scheme fund/pool. This implies that *takaful* participants are indirectly involved in charity and social welfare. Takaful practices in Nigeria are relatively new; therefore, the publication of *Takaful* Operational Guideline (2013) implies a new era for *takaful* practices in Nigeria. Hence, the need to understand *takaful* practices; identify challenges for *takaful* operators (companies); and hitches/bottlenecks to *takaful* practices in Nigeria. The study examines *takaful* challenges and prospects in Nigeria. It explains conventional insurance and reasons conventional insurance is unacceptable in *Shariah*; considers meaning, elements and key features of *takaful;* highlights development of *takaful*; explores how conventional insurers and *takaful* operators make profit; outlines major differences between conventional insurance companies and *takaful* companies; identifies challenges for *takaful* operators (companies) and hitches/bottlenecks to *takaful* practices in Nigeria.

2.0 AIM AND SIGNIFICANCE OF STUDY

The study examines *takaful* challenges and prospects in Nigeria. The study is significant for several reasons. First, it promotes *takaful* practices in Nigeria in view of *Takaful* Operational Guideline published by the National Insurance Commission (NAICOM) in 2013. Second, there is shortage of published academic research on *takaful* in Nigeria. This is apparent as the literature reveals three academic researches on *takaful* in Nigeria (Olayemi, 2012; Usman, 2012; Yusuf, 2012). Hence, the study contributes to knowledge on *takaful* practices, challenges and prospects in Nigeria. Third, growth of *takaful* in Nigeria is beneficial, as its profitability connotes enhanced penetration of insurance and improved public perception of the Nigeria's insurance industry. Although the Nigeria's insurance industry growth rate has increased; the industry contributes less than two percent to the nation's Gross Domestic Products (GDP). Lastly, *takaful* is similar to conventional insurance; however, there are differences in the structure of *takaful* products that distinguishes them from conventional insurance products. Hence, the need to explore *takaful* practices, challenges and prospects in Nigeria.

3.0 THEORETICAL FRAMEWORKS

3.1 **C**onventional insurance

Insurance is a agreement between two parties (insurer/seller and insured/buyer) whereby the insurer undertakes to indemnify the insured in the event of loss(es) covered, in exchange for premium paid by the insured (Atkins and Bates, 2009; Boland *et al*., 2009; Thoyts, 2010; Blunden and Thirlwell, 2010; Fadun, 2013). *Takaful* promotes cooperative risk-sharing and mutual assistance. Modern conventional insurances are unacceptable in *Shariah*. Although, *Takaful* is similar to conventional insurance; there are differences in the structure of *takaful* products that distinguishes them from conventional insurance products. For instance, life insurance involves use of certain elements which contradict *Shariah* rules. These include: *al-maisir,* which means ‘gambling’; *gharar,* which means ‘uncertainty’; and *riba,* which means ‘interest’. Conventional insurers are concerned with profitability, thereby investing in interest-bearing assets; but, *takaful* operators’ investments are restricted to interest-free assets. *Takaful* ensure that both its policyholder and shareholder funds are invested in assets not associated *riba* (interest). Likewise, *takaful* operators are prohibited from dealing with banks involved in the practice of *riba* (Anwar, 2008: Dusuki, 2011; Olayemi, 2012).

3.1.1 Why conventional insurance is unacceptable in *Shariah*?

From *Shariah* perspective, conventional insurance is not consistent with Islamic principles. In 1985, Islamic academia asserts that the conventional insurance is good; however, the presence of three elements in conventional insurance is against *Shariah*. These include: *riba* - lending and borrowing funds/investment at fixed interest; *gharar* - uncertainty resulting from deception or lack of clear terms and conditions; and *al-maisir* - speculation or gambling. These are briefly examined below.

Riba (interest): The term Riba is an Arabic word which means an increase, an additions or excess. In a loan transaction, it connotes any increase or advantage obtained by lender as a condition for granting a facility. *Riba*, in any form, is totally forbidden by *Shariah*. The institution of *riba* impact negatively on individuals and society, as it fuels development of undesirable and unhealthy (selfishness, greediness, exploitation) traits. This implies that there is an element of *riba* in conventional life and general insurance policies; for example:

• In life insurance, the amount payable at the time of claim (death/maturity) is much more than the amount received by way of premium; and

• In both life and general insurance, the insurance funds are invested in interest-based instruments.

Gharar (uncertainty): is any form of contract that unjustly favours a party at the expense of the other. There are some elements of *gharar* in conventional insurance contract; for example:

• The resultant benefits of conventional insurances depend on outcomes of future events, which are not known at the inception of contract; and

• The forfeiture of premium paid in respect of lapse of life insurance, and the short period insurance premium scale in general insurance are unfair and unjust.

Al-maisir (gambling): *Al-maisir* connotes any form of business where financial gain results from mere chance, speculation and conjuncture; but, not from employment or legitimate business (self employed or otherwise). Gambling constitutes unearned gains acquired by individuals or group. *Shariah* prohibits gambling. There are some elements of gambling in conventional insurances; for example:

• In general insurance, the policyholder loses the premium paid if there is no claim during the insurance year. Besides, the premium paid is far lower than the claim or benefit payable in the event of claim. Likewise, insurance firms may incur loss where aggregate claims amount/outlay is higher than earned premium; and

• In life insurance, the contract amounts to a wagering in the event of policyholder's death. Besides, the policyholder stands to lose the premium paid if he is unable to sustain premium payment in accordance with the term of the policy. However, some Muslim scholars argue that in view of human life value, conventional life insurance should not be perceived as a wagering (Omar and Taylor, 2000; Htayi and Salman, 2013a).

Meanwhile, Muslim scholars argue in favour of or against conventional insurances arise from the extent to which they believe such contracts are diluted by impurities discussed earlier. At one extreme, some Muslim jurists defended conventional insurance by distinguishing its features from the elements of impurities (Muhammad, 2007). Conversely, insurance contracts were found to be in conflict with *Shariah* law (Zaman, 2008). Consequently, *Shariah* experts' views may be classify into three broad groups (Rashid, 1993; Sadeghi, 2010):

The first group includes advocates of conventional insurance, who denied the presence of gambling and high degrees of uncertainty in conventional insurance contracts. Their only reservation was for investment of surplus insurance funds according to *Shariah* principles. They denied the presence of gambling in insurance contracts based on dichotomy between risk taken in gambling (illegal business), and risk taken in trade (legal business). For instance, a gambler assumes risks voluntarily for the sake of gains; but, individuals or firms insure their risk to secure indemnity following a loss in accordance with the policy terms. Hence, a high degree of uncertainty in conventional insurance is disputed, as it is possible to predict the probability of occurrence with the law of large numbers. The law of large numbers assist insurers in asserting frequency of likely incidences, to some extent. Hence, the element of uncertainty in conventional insurance is negligible according to the view of this group.

The second group of scholars approved general insurance but disapproved of life insurance, as it involved gambling and uncertainty. The group argued that in general insurance (non-life insurance), though some uncertainty may exist in the claim amount, the premium payable is pre-agreed and does not involve uncertainty. They further argue that in life insurance contracts, uncertainty exist as the insured does not know the premium payable over the term (period) of insurance years. Lastly, they assert that *takaful*, with a donation element as part of the contribution, offsets *gharar* (uncertainty) (Masud, 2011; Htayi and Salman, 2013b).

The third group of scholars believe that elements of gambling, interest and uncertainty exist in all types of conventional insurance. Consequently, they advocate that *takaful* is prefer to conventional insurance, as it is devoid of gambling, interest and uncertainty (Masud, 2011; Arifin *et al*., 2013; Htayi and Salman, 2013a).

Nagaoka (2007) attributes these differences to dichotomy between those who attach greater importance to the concept of Islam finance and those who deem it desirable to respond to the practical demands of Islamic finance. A pragmatic approach, however, exist in between the extreme views of the first and the third groups can result to a balance between the formal demands of *Shariah* and the economic necessity of the time in providing insurance for everyday life (AbdulRahman, 2007; Masud, 2011).

3.2 MEANING OF *TAKAFUL*

Further to the foregoing, unless every aspect of insurance practices complies with *Shariah* requirements, it is against *Shariah*. Hence the need for alternative insurance system (*takaful*) based on *Shariah* principles. The fundamental principle of the Islamic economic system is equitable distribution of wealth. *Takaful* is a system which encourages people to contribute money for mutual help in times of need. Islamic economic system deemphasises accumulation of wealth and its concentration in the hands of few individuals or group. The *takaful* term is derived from Arabic word '*kafala'* which means 'joint guarantee' or 'guaranteeing each other'. *Takaful* contract involves group of individuals (policyholders or participants) that guarantee one another against loss or damage suffered by unfortunate members (Ahmad Musadik, 2010; Yusuf, 2012). It is based on principle of mutual cooperation *(ta'awun)* and donation *(tabarru')* whereby participants' risks are shared collectively and voluntarily by participants to guarantee mutual protection of the members (Manjoo, 2007; Stagg-Macey, 2007; Redzuan *et al*., 2009; Dusuki, 2011). It is therefore logical to refer to *takaful* policyholders as '*takaful* partners'. *Takaful* is being practiced now as an alternative to the conventional insurance, as it provides mutual financial support to policyholders. *Takaful* is also considered as an alternative financial instrument for insuring assets, liabilities and other personal interests (Abdulrahman, 2009). Although, *takaful* is a form of mutual insurance; it is not similar to mutual cooperative schemes which exist in Europe and the United States (Anwar, 2008).

Takaful products offer wide range of cover for individual and business activities. Typical uses of *takaful* include insurance of property, vehicles, goods, valuables, health, accidents and life (Willis, 2007; Daud, 2009; Divanna and Shreih, 2009). The policyholders' pay subscription to assist and indemnify each other and share the profits. Profit accrues from business conducted with the *takaful* fund. There are two common forms of *takaful*: *Modarbah* and *Wakalah*. *Modarbah* means profit and loss sharing. *Modarbah* is a form of business in which one party provides capitals and the other provides required experience and skill to operate the business. The business profit sharing is pre-determined by mutual agreement. In the event of loss, the capital provider bears the loss and the manager forfeits the reward for efforts and skills provided. In the case of *Wakalah*, the *takaful* operators act as an agent for the participants by managing the *takaful* pool or fund for a fee.

3.2.1 Elements of a *takaful* system

There are five elements that must exist to establish a proper *takaful* system:

• *Niyya*, which means utmost sincerity of intention to follow the guidance and adhering to the rule and purposes of *takaful*.

• Integrating *shariah* conditions like risk-sharing under *tacawuni* principles, coincidence of ownership, participation in management by policyholders, avoiding *riba* and prohibiting investments, and including *mudaraba* principles or *wakala* for management practices.

• Incorporating moral values and ethics by operating in good faith - with honesty, full disclosure, truthfulness and fairness in all dealings.

• No unacceptable element that contravenes *shariah.*

• Strict adherence to Islamic rules for commercial contracts, including:

- ❖ Parties must have legal capacity and be mentally fit;
- ❖ Existence of insurable interest;
- ❖ Principle of indemnity prevails;
- ❖ Payment of premium is a consideration (offer and acceptance);
- ❖ Mutual consent, including voluntary purification; and
- ❖ Specific time period of policy (period of insurance) and agreements (conditions).

3.2.2 Key features of *takaful*

The main features of *takaful* include:

1) The policyholders are participants and contributors of the *takaful* fund.

2) The main purpose of the contribution is not for profit.

3) *Takaful* is not mainly for risk taking; but to reflect the nature of pooling the risk and collective risk management.

4) The *takaful* operator is not the owner of the fund; but, a custodian of the fund.

5) The surplus accrued from *takaful* operations belongs to policyholders solely under *Wakalah* model; and to both policyholders and *takaful* operators under *Modarbah* model.

6) Since the surplus goes back to participants in proportion to their contribution, there is an inbuilt check on over-pricing.

7) Funds are invested in *Shariah* compliant instruments or assets. For instance, such fund cannot be invested in: interest yielding assets; gambling institutions; firms producing liquor, cigarette and tobacco; and entertainment firms.

3.3 Development of *takaful*

In modern-day contexts, the first *takaful* company - Islamic Insurance Company of Sudan - was founded in Sudan by the Faisal Islamic Bank in January, 1979 (Anwar, 2008). The Bank's Shariah Supervisory Board approved this endeavour, and in January 1979, the Islamic Insurance Company was established as a public company under the *Companies Act*, 1925 (Sudan).

In Malaysia, the Islamic Insurance Company was established as a private limited company. The Malaysian government constitutes a task force on the establishment of Islamic insurance in Malaysia. The task force report indicates that *takaful* has enormous benefits to Malaysia. Consequently, the Malaysian government promulgated the *Takaful Act,* 1984, which regulates *takaful* in Malaysia (Ali, 2008).

In 1985, the Council of Islamic Scholars in Mecca approved *takaful* as a *Shari'ah*-approved alternative to the conventional insurance system. This led to mutual *takaful* companies being established in different Muslim countries, including Dubai, Bahrain, and Malaysia (Anwar, 2008). Presently, Malaysia has the most mature *takaful* operating alongside conventional banking and insurance (Anwar, 2008).

In Nigeria, African Alliance Insurance Company Limited, the oldest specialist life assurance, introduced *takaful* into the market in 2003. Subsequently, Niger Insurance Plc and Cornerstone Insurance Plc also introduced *takaful* products in Nigeria. *Takaful* Operational Guideline (2013) establishes *Shariah* Supervisory Board for operations of takaful in Nigeria. This is appropriate as the establishment of a *Shariah* Supervisory Board is a prerequisite for *takaful* operation (Ali 2008).

3.4 COMPARING CONVENTIONAL INSURERS AND *TAKAFUL* OPERATORS

In this section we highlight how both conventional insurers and *takaful* operators can make profit; and major differences between conventional insurance companies and *takaful* companies.

3.4.1 How conventional insurance companies make profit

There are five basic ways a conventional insurance can make profits. These include:

- ❖ Underwriting surplus: undertaking policyholders risk and retaining underwriting profits (i.e. premium received less claims outlay less operating expenses).
- ❖ Spread Management surplus: surplus/profit accrues from the difference between the cost of funds and the uses of funds.
- ❖ Information processing surplus: from transactions processing, administering financial products and programs for a fee.
- ❖ Aggregating money returns: funds under management are long-term without accepting investment risk. A larger fund results to reduced management fees and/or the performance fees as a share of positive returns.
- ❖ Direct marketing or distribution returns: this can arise from marketing or distribution products and/or services at a mark-up or brokerage fee.

3.4.2 How *takaful* operators make profit

Considering the principles regulating *takaful*, how do *takaful* operators make profit? In contrast to conventional insurers, *takaful* operators do not bear risk directly; but the participants (policyholders) borne their risks uniquely. *Takaful* operators charge fees for services rendered by managing *takaful* pools or funds. *Takaful* operators can make profits by efficiently and effectively manage pools' expenses within regulated and pre-determined management fee structure.

3.4.3 Differences between *takaful* companies and conventional insurance companies

Table 1 highlights major differences between *takaful* companies and conventional insurance companies.

Table 1: Comparing conventional insurers and *takaful* operators

Conventional insurers	*Takaful* operators
▪ Sources of laws are man-made and set by state	▪ Sources of laws are based on Quran and *Hadith*
▪ Profit motive; maximising returns to shareholders	▪ Community well-being, optimising operations for affordable risk protection
▪ In respect of life assurance, profits and/or bonus units to be returned to policyholders as determined post ante by managers and board of insurer	▪ *Takaful* life assurance contract specifies in advance how and when profits/surplus and/or bonus units will be distributed
▪ Initial capital supplied by shareholders	▪ Initial capital supplied by policholders
▪ Separation of policyholder and insurer with differing interests	▪ Coincidence of interests between policyholders and operator as appointed by participants
▪ Transfer of losses among insurance pools and from policyholders to shareholders	▪ Losses retained within classes of business written and sole obligation of participants

▪ Right of insurable interest is vested in the nominee absolutely in life insurance	▪ Right of insurable interest is determined by Islamic principles of *fara'id* (inheritance)
▪ Insured may elect cost or replacement cost valuation and claim accordingly whether or not they chose to rebuild property	▪ Insured may not profit from insurance and entitled to compensation only for repair or rebuild or replacement
▪ Agents and brokers are typically independent from insurer and paid fees from premiums charged to policyholders that is not disclosed	▪ Agents are employees of the *takaful* and any sales commission should be disclosed
▪ Benefits paid from general insurance account owned by insurer	▪ Benefits paid from contributions (*al tabarru*) made by participants as mutual indemnification
▪ Investment of premiums undertaking by insurer with no involvement by policyholders	▪ Under principle of *mudaraba*, *takaful* contract specifies how premiums should be invested and how results are shared. Under *wakala*, there is a similar practice through which participants can direct their investments to wide range of unitized funds
▪ Insurer invests premiums consistent with profit motive with no moral guidelines. This reveals coexistence of *riba* and *al-maisir*	▪ *Takaful* invests premiums in accordance with Islamic values and *sharia* guidelines
▪ Dissolution: reserves and excess/surplus belong to the shareholders	▪ Dissolution: reserves and excess/surplus must be returned to participants, although consensus opinion prefers donation to charity
▪ Taxes: subject to local, state and federal taxes	▪ Taxes: subject to local, state and federal taxes (if any) plus obligated to arrange annual tithe (*zakat*) donations to charity

3.5 CHALLENGES FOR TAKAFUL OPERATORS (COMPANIES) IN NIGERIA

The potential for *takaful* is enormous; however, there are several hurdles to be overcome for the market to actualise its potential. Human resources pose a major obstacle to *takaful* growth, as the market faces severe shortage of qualified staff that have adequate knowledge and experience about *takaful*; as well as understanding of *Shariah* finance in Nigeria. We envisaged that the large unemployed and willing populace are ready to learn about Islamic finance. This constitutes ready manpower for the Nigeria's *takaful* market. This implies that *takaful* operators need to allocate funds for human resources development. In this regard, the Islamic Banking and Finance Institute of Malaysia offers a comprehensive training programme on Islamic banking, *takaful* and Islamic capital markets. Bahrain's Islamic Finance and Banking Training also offers courses targeted at financial industry experts, which cover applications of key Islamic banking and financial instruments.

Another major challenge is creation of customer's awareness. Many Muslims live under the misconception that insurance is contrary to Islamic principles, particularly with regard to life insurance. It is necessary to create awareness that *takaful* provides an ethical and acceptable religiously validated solution. In view of the Nigeria' insurance industry distrusts; building the appropriate culture of honesty and sincerity would assist in creating positive customer awareness about *takaful* products in Nigeria.

Takaful is relatively new in Nigeria; hence, the need for adequate implementation of *Takaful* Operational Guideline (2013). It is paramount that the operational requirements should be adequately enforced by NAICOM and other relevant agencies. It is important to set out clear principles on how to manage *takaful* funds, and how *takaful* business should be taxed. Likewise, it is essential to create a regulatory regime that does not treat *takaful* less favourably than conventional insurance in Nigeria. This is necessary to promote virile *takaful* practices, consistent with *Shariah* principles and NAICOM regulations, in Nigeria.

Appropriate accounting standard is another issue *takaful* operators should be concerned with. The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) has created a standard that is the default accounting standard for *takaful* businesses in some Middle East countries. *Takaful* firms in other countries account for *takaful* under International Financial Reporting Standards (IFRS). However, applying IFRS to *takaful* is complex; hence, appropriate skills in this regard are necessary. It is, therefore, paramount to enhance skills on how *takaful* operations can be accounted for *takaful* in Nigeria. Moreover, recent study on Islamic financial transactions accounting (Shafii and Zakaria, 2013) found that practitioners are highly concern on various Shariah issues, including applicability of time value of money, the terminologies used in IFRS and IAS that reflect conventional concepts of banking and *takaful*. Consequently, it is paramount that NAICOM, *takaful* operators and other stakeholders should affirm the acceptable *takaful* accounting standard in Nigeria in order to promote uniformity and consistent *takaful* accounting system.

Limited short-term non-equity financial instruments in Nigeria pose additional challenge for *takaful* companies. This include: *sukuk* and *Shariah*-compliant money market instruments equivalent to treasury bills (Venardos, 2005). This indicates enormous challenges to operators in Nigeria, as *takaful* funds cannot be invested in conventional bonds and cash assets. This portrays complicating for operators regarding management of *takaful* investment portfolio.

Rapidly growing *takaful* companies must ensure that their operations can sustain such growth and resultant expansion. *Takaful* operators in Nigeria must enhance their products innovation in order to offer high level of customer's services. They need to understand evolving customer and market specific needs. Furthermore, they should be willing to renew or re-engineer product design, consumer benefit packages and expand distribution throughout the nation via appropriate distribution channels.

Lastly, the issue of *re-takaful* (Islamic insurance reinsurance) in accordance with requirements and practices of *Shariah* should be considered by operators in Nigeria. Like conventional insurance, sound *re-takaful* arrangement is a necessity. Although in a situation where *re-takaful* is inadequate to meet *takaful* operators needs, *Shariah* allows them to deal with conventional reinsurers. Since *takaful* is relatively new in Nigeria, we recommend that *takaful* operators should collaborate to establish a *re-takaful* facility or pool in Nigeria. This is beneficial, as it would enhance mutual cooperation among operators and minimise capital outflow from Nigeria. However, it would rather be difficult for such *re-takaful* pool to survive in terms of business support without sufficient number of operators. Initially, the *re-takaful* can take off by depending solely on cessions from *takaful* operators. The pool can be expanded subsequently, and possibly be registered as an independent *re-takaful* company in Nigeria in the nearest future.

3.6 HITCHES/BOTTLENECKS TO *TAKAFUL* PRACTICES IN NIGERIA

There is inadequate infrastructure for *takaful* practice in Nigeria. *Takaful* has an explicit ethical structure that can be marketed to both Muslims and non-Muslims. This is because it is based on principles of fairness, transparency, simplicity and sharing the participants' burdens (Ferguson, 2008). The development of *takaful* depends largely on healthy growth of Islamic banking system. Immature Islamic banking system and poor communications infrastructure constitute major hitches confronting *takaful* practices in Nigeria. Most of the imdediments confronting *takaful* practices in Nigeria are strategic as the market is in its formative stage. To considerably manage these teething problems, appropriate skills and resources can be borrowed from conventional insurance markets (Stagg-Macey, 2007).

As *takaful* originates from an Islamic concept, one of the greatest hitches facing *takaful* practices is the misconception that it is exclusively for Muslims. For example, in multi-racial

Malaysia, *takaful* products have attracted even non-Muslim communities, despite the obvious religious and cultural differences (Ahmad, 2009; Divanna and Shreih, 2009). Nonetheless, the interest shown by non-Muslims and support of Muslims is not enough to create awareness about *takaful* in Nigeria. Low level of awareness about *takaful* is a major impediment militating against *takaful* practices in Nigeria.

Development and marketing of suitable *takaful* products should be a major priority of the operators. Operators need to invest in Research and Development (R & D) of *takaful* products based on needs of *takaful* prospects. This is necessary as conventional insurers have been in business for years and their products and experiences are more obvious than those of *takaful* operators. To overcome these hitches, wider range of *takaful* products should be offered as an alternative to those offered by conventional insurers. Consequently, needs of lower income groups should be adequately addressed, as they constitute greater proportion of *takaful* prospects (Ahmad, 2009; Usman, 2012; Yusuf, 2012).

4.0 CONCLUSION

Takaful promotes cooperative risk-sharing and mutual assistance. Conventional insurances are unacceptable in *Shariah* due to the presence of three elements in conventional insurance is against Shariah. These elements are: *Riba* - lending and borrowing funds/investment at fixed interest; *Gharar* - uncertainty resulting from deception or lack of clear terms and conditions; and *Maisir* - speculation or gambling. *Takaful* is being practiced now as an alternative to the conventional insurance. The progress of *takaful*, however, depends on a healthy growth of Islamic banking. The study has examined *takaful* practices, challenges and prospects in Nigeria. It considered conventional insurance and reasons conventional insurance is unacceptable in *Shariah*; explored meaning, elements and key features of *takaful;* highlights development of *takaful*; explored how conventional insurers and *takaful* operators make profit; outlined major differences between conventional insurance companies and *takaful* companies; identified challenges for *takaful* operators (companies) in Nigeria and hitches to *takaful* practices in Nigeria. The study implications for practice is that the growth of *takaful* would enhance penetration of insurance in Nigeria; improve public perception of the Nigeria's insurance industry; and increase the industry contributes to the nation's Gross Domestic Products (GDP).

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