

# EFFECTUALISATION OF THE FAMILY TAKAFUL MODEL IN A RESILIENT EMERGING ECONOMY

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BY

IBRAHIM A. ONALEYE

DIRECTOR: JAIZ TAKAFUL INSURANCE PLC  
TRUSTEE: JAIZ CHARITY & DEVELOPMENT FOUNDATION  
JAIZ ZAKAT AND WAQ'F TRUST FUND

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## • INTRODUCTION

- Last year's Summit had as its theme, Re-Thinking the Takaful Model but participants appeared to have refused the call to move to mutuality and opted to stay with the Takaful Model.
- As a cooperative financial model it draws its inspiration principally from Surat Al-Baqarah verse 261 where God said ".....the likeness of those who spend their wealth in the way of Allah, is as the likeness of grain (of corn), it grows seven ears, and each ear has a hundred grains. Allah gives manifold increase to whom HE wills. And Allah is All-Sufficient for HIS creatures' needs, All-Knower. The emphasis here is on charity and the reward in the hereafter.
- In **ISLAMIC INSURANCE**, there is family takaful for life, health etc, while general insurance is for non-life as in the conventional system, subject to compliance to Shariah principles.



Be that as it may, there is a level of overlap in these definitions, such that some authors have subdivided Islamic insurance, loosely into Family Takaful and General Takaful. Some regulators follow the above classification.

- My paper is principally on Family Takaful and will make appropriate reference to General (non-life) Islamic Takaful insurance.
- It is apposite at this juncture to reign in the mode of operation of the two and by so doing, show case their distinctive features from conventional insurance.



## • MODE OF OPERATION OF NON-LIFE TAKAFUL

- An Islamic Non-Life Insurance company transacts business on a cooperative basis in accordance with the principles and subject of the Shariah.
- All the functions of conventional insurance companies including but not limited to the following, underwriting, claims administration, reinsurance, marketing, investment, management etc are carried out by these general takaful insurance companies and these should conform to Islamic Shariah Code.
- Islamic Non-Life insurance companies have developed extensive facilities to transact all classes of general insurance such as life, marine, fire, motor, accident, aviation, engineering, contractors all-risk, consequential loss, etc.

- The basic criteria for rate marking (an important factor in a sound analysis of risk, as both the insured and the insurer are interested in a fair rate) are:-
- That premiums should be adequate but not excessive to meet the claims and
- The premium should be allocated among all the insured on “fair” basis.
- The above criteria are even more rationally followed by a Takaful Company whose mode of operation is summarized below.
- A policyholder enters into contract with a management company on the basis of Al-Mudarabah in accordance with the “partnership” clause of the policy.



- This clause stipulates the rights and obligations of the participant policy holders as well as that of the company. The company acting as the entrepreneur collects the takaful contributions (insurance premium) from the participants and manages the various classes of the general takaful funds. The premium amount payable is made as a “Tabarru” and credited into the “General Takaful Fund” of the **Company**.
- The profits earned from the Shariah compliant investments of the company are equally lodged into the fund. The company shall pay from the General Takaful Fund, compensation or indemnity to co-contributors, who have suffered a defined loss caused by one or more of the insured perils during the policy period.
- Operational cost and re-insurance premium are equally charged against this fund.

- A further reserve for unusual losses is to be built up from this fund.
- The surplus after meeting these expenses and reserves will be shared between the participants and the company with the exception of participants who had earlier been compensated for losses suffered.
- **MODE OF OPERATION OF AN ISLAMIC LIFE INSURANCE SCHEME**
- Islamic Life Insurance scheme is more aptly described as family takaful and does not use the word assurance as used by the conventional life insurance lexicon because of its Shrik connotation.



- Under the Family Takaful Scheme, participants voluntarily join, by way of a formal contract, a scheme of savings plan on Mudarabah basis.
- The members will be required to pay a fixed amount at regular intervals. The amount of members' contributions' on regular basis) will vary according to members' age at the time of joining the scheme and the mutually determined amount of the "fund" to be built up within a fixed period.
- Each installment of the contribution will be credited into two separate accounts, one being maintained in the name of each "individual" member and the other a "collective" account of all the members of a particular savings scheme. The "individual" accounts are credited by a major portion of the installments paid and a small fraction of about 5% will be credited into the "Collective" account.



- The amount so credited into the “Collective” accounts constitutes the “Special Fund”, out of which compensations will be paid to a member’s heir in the event of death and consequent incapability to pay agreed amount as per the contract. An added advantage is that the deceased members’ heir will get the total amount of his contribution in the “individual” account along with his share of the profits from the investment of the installment into that account. Additionally the outstanding installments will be paid to him from the “Collective” account.
- When a member pays all the installments of the agreed amount and survives, he will be paid back the total amount, credited into his “Individual” account plus his share of profit credited into that account. In addition to that, his net share of the “surplus” as may be assessed in the “collective” account will be paid to him.

- If a member does not want to continue with the savings scheme, he can withdraw his contribution from the “individual” account along with the share of profit by giving due notice, but he may not be entitled to any share of the net surplus from the collective account.
- The erosion in value of saving as a result of the effect inflation on same are obviated under the Islamic framework by the investment of the accumulated funds on a profit and loss basis, and by efficient management of the funds, the value of the savings will rise with the rise in the general price level, thereby maintaining purchasing parity.
- **The General Takaful, is a short term agreement to cover commercial and private risks and aim to financially compensate for losses such as theft or damage and Family Takaful is a long term arrangement in which Takaful Insurance Operators indemnifies the policyholder with financial relief from death, critical illness or debilitating illness.**

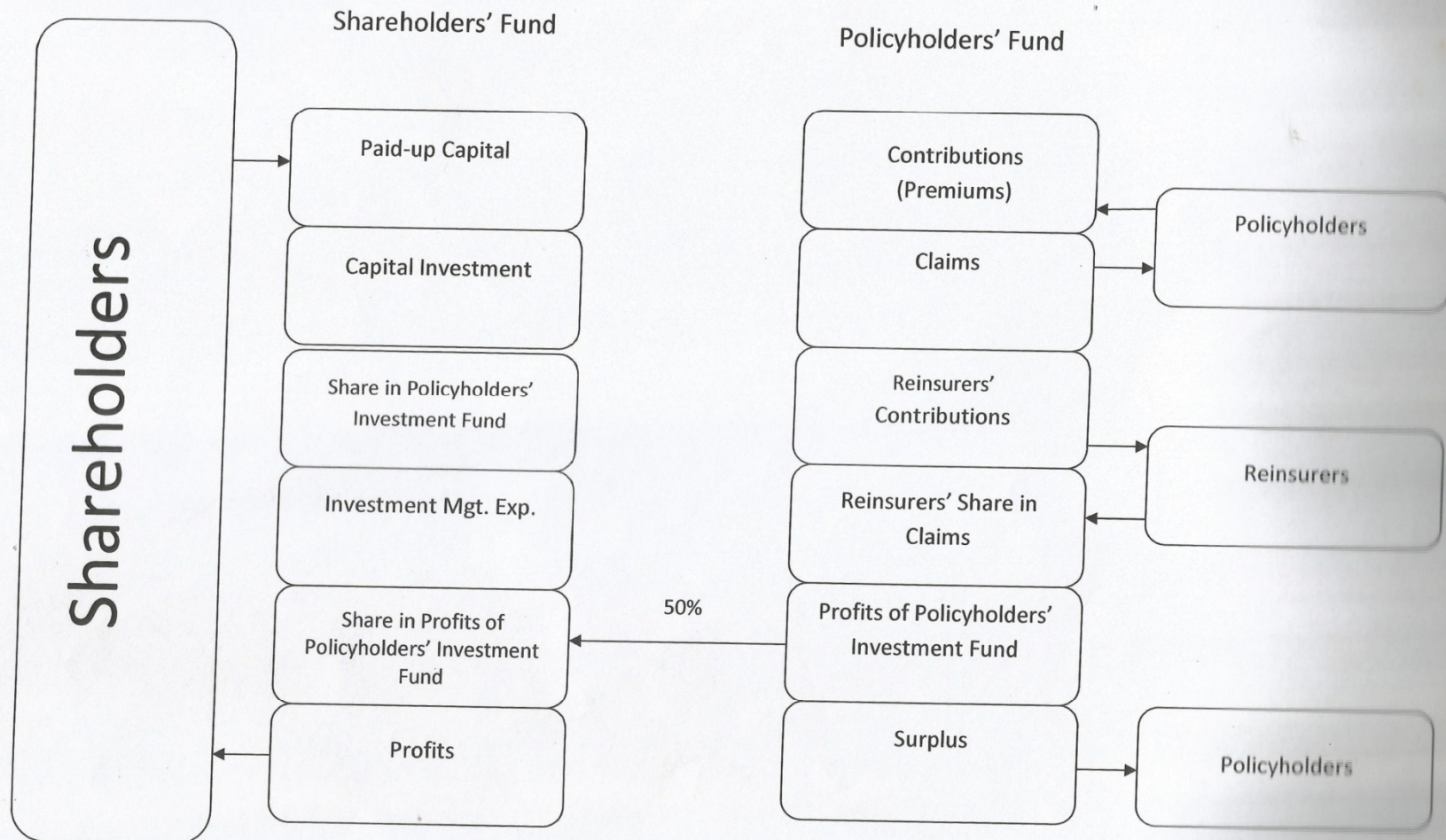


## • **Permissible investments for Islamic Insurance Companies include:-**

- Musharakah (Sharing profit and loss on a productive investment).
- Mudarabah Bond (project finance for a fixed time) with profit being shared.
- Real Estate
- Stock market in ethical products
- Ethical Unit Funds
- Deposits with Islamic Banks
- Co-operatives and Mutual Enterprises
- Commerce

# THE FOLLOWING CHART APTLY CAPTURES THE ESSENCE OF THIS SECTION.

## Segregation of Funds





## ● ELEMENTS OF FINANCIAL STATEMENTS

- There are five elements of financial statements, namely, Assets, Liabilities, Equity, Income and Expenses.
- Assets, Liabilities and Equity relate to the Statement of Financial Position, (Balance Sheet), while Income and Expenses relate to the Statement of Financial Performance (Income Statement or Profit and Loss Account)
- Assets are resources controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprises. The economic benefits imbedded in an asset have the potential to contribute directly or indirectly to the flow of cash and cash equivalents.

- **FINANCE ASSETS**

- The Assets of Insurance Company could consist of cash and bank balances, treasury bills, quoted investments, government securities, agency balances, statutory deposits, unquoted securities and fixed assets in decreasing order of liquidity.

- **CASH AS AN ASSET** could be invested in the following
  - Current Account (Al-Wadiah) Deposit
  - Savings Accounts (Al-Wadiah) Deposit
  - Savings Account (Mudharaba) Deposit
  - Investment Accounts (Unrestricted Mudharaba)
  - Restricted Account (Restricted Mudharaba)
- **Al-Wadiah** is a form of Trust, hence the depositor, i.e. the Islamic financial Institution is regarded as the Trustee to safely



- keep the deposited property and should be returned when needed.
- No return is promised but a payment for safe keeping could be expected.
- **Mudharaba Investment Account**
- **Al –Mudharabah** is a form of partnership whereby the capital provider, rab-al-mal gives a specified amount of capital to the Mudharib (mostly Islamic Financial Institutions (IFI)) ,who as an entrepreneur trades with the capital.
- The profit is shared between the two parties, in accordance to a pre-agreed sharing ratio, losses are borne by the rab-al-al unless the loss is due to willful negligence of the Mudharib and he is then responsible for the loss.
- The AAOIFI describes unrestricted investment account as one in which the investor fully authorizes the bank to invest the funds without restriction as long as it is deemed appropriate. This is unlike the case with restricted investments.

- **MUSHARAKAH FINANCING** IN Islamic Finance is a profit and loss sharing PARTNERSHIP arrangement and is normally used in Projects financing.
- The concept is equitable and reflects the rights of the partners The profit and loss sharing concept encourages partners to effectively contribute to the business.
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- **MURABAHAH FINANCING** is an asset based financing concept widely used for housing and vehicle acquisitions by IFI.
- Bay' Al-Murabaha is basically an arrangement where the customers who wish to purchase certain good or assets requests the IFI to purchase the items and sell them to him at cost plus a declared profit margin



- **IJARAH FINANCING** is defined as a process by which the “usufruct (benefit) of a particular property is transferred to another person for a rent claimed from him or her.”
  - It is used for motor vehicles and equipment acquisition.
  - It is similar to conventional leasing.
- **INVESTMENT IN ISLAMIC SECURITIES** are mainly for investment in Islamic Sukuk (Bond), shares and special packages for real estate investment
  - AAOIFI classifies Islamic Bonds into 4
  - Mudarabah Sukuk, the investments here represent ownership of units of equal value in the mudarabah equity and are registered in the names of holders on the basis of individual ownership of shares and returns are in proportion to percentage of holding.
  - Musharakah Sukuk, these are investments in Sukuk that represents ownership of musharakah equity. It only differs from Mudarabah Sukuk in the organization of the relationship between the parties issuing the Sukuk.
  - Ijarah Sukuk, are Sukuks that represent ownership of equal shares in a rented real estate.
  - Salam and Istisna Sukuks represent the sale of a commodity on the basis of deferred delivery against immediate payment.

## • **INVESTMENT IN FIXED ASSETS**

- Allied to the above is the need to have a reasoned calculation and basis for investing in fixed assets.
- From the conventional financial management point of view.
- The techniques include
  - Return on Investment
  - Contribution related to a key factor
  - Payback period
  - Payback period profitability
  - Discounted Cash flow using Net Present Value or Internal Rate of Return



- In most of these techniques, there is always a bench mark for return on investment, cash flow to be generated from the investment, discount factor and cost of capital.
- Interest rate is more often than not used as a benchmark .This is often criticized on the ground that profits and projections based on a rate of interest should be as prohibited as in interest itself.
- By and large, investment and assets acquisitions should factor in cash flow in the short, medium and long term so that Takaful companies can have a robust balance sheet, to be able to meet the expenses of running the business, claim settlement and for distribution of profit.

- **Investment opportunities to create the needed finance assets for Takaful operations globally and in Nigeria include;**

- Investment in Shariah compliant money market instruments of Islamic Banks and some conventional banks have Islamic Banking windows
- Shariah compliant commercial activities
- Investment in ethical funds and in equity of ethical companies
- Investment in Commercial real estates and in high value residential apartments. In Nigeria there are opportunities in the large cities of Abuja, Warri, Port Harcourt and Lagos, part of the Ocean in the latter is being reclaimed to build an Atlantic City and many more are in the offing.
- Investment in infrastructures especially roads, rail and electricity generation and distribution. For roads and rails, the Build, Own, Operate and Transfer (BOOT) options are being encouraged
- Sukuk options at Federal and State levels, for development of roads, railways, housing and inland waterways also exist.
- There are also investment options in telecommunications and in oil and gas (inclusive of local refinery for petrol, diesel and kerosene)
- An industrialization policy of import substitution, is another profitable way of building the investment portfolio of the insurance company



- In some climes, the regulators insist on deposit with the country's Central Bank as a way of protecting investors. In Nigeria, operators are to deposit about 5m dollars for each of family and general Takaful insurance businesses, with the Central Bank.
- This interest earned on this deposit could be used as "Qard Hassan" subject to the rulings of the National Sharia Insurance Boards.
- Nigeria is the biggest economy in Africa, with well over 60% of its 170 million population being Muslims.
- A considerate portion of the Christian population, especially among the Catholics bought unto the first Islamic Bank in Nigeria, Jaiz Bank Plc, either as a shareholder and or as customers.
- In the words of the President of the International Monetary Fund Christine Lagarde on a recent visit to Nigeria ,while reacting to the sharp drop in crude oil prices in the international market, stated that "Nigerians are well known for their resilience and strong belief in their ability to improve their nation and lead others by example".
- "I firmly believe that Nigeria will rise to the challenge and make decisions that will propel the country to greater prosperity".

- Nigeria has fall back options in solid minerals, agriculture, entertainment, tourism among others.
- The population and the high number of its citizens in self employment is enough to drive an economy to prosperity. Among its citizens are 3 of the richest men and entrepreneurship in Africa.
- What I am advocating is that either alone or in partnering with credible investors, Takaful Operators can build an asset base to finance their obligations under family Takaful, ditto for general Takaful. Takaful operators will be welcomed to partake in financing activities in Nigeria.
- Incentives include the grant of almost 7 years tax free holidays and other tax planning option under its Companies income Tax Act. At the end of every twist and turn in the national race of life, Nigerian remains a resilient and strong nation.
- Investors can transfer the whole of profit tax.



## ● THE MARKETING CONCEPT

- Since marketing as a concept is hinged on the need to create a need awareness for customers, Islamic Insurance, especially the family genre type can easily be sold to all segments of the society irrespective of religious, regional or political cleavages.
- There is the need to appropriately deploy the marketing mix of
  - Physical distribution(easier with a service product like insurance)
  - Price (by having value for premium)
  - Product positioning
  - Promotion by use of effective instruments of advertising, sales literature, trade fairs, direct mails and publicity releases
- The world is now a global village, a vision Prophet Mohammed (PBUH) envisioned several centuries ago, that his Ummah is one. Micro Insurance can equally play a veritable role in this regard.

- “.....Each one believes in Allah, His Angels, His Books and His Messengers.....” Quran 2 verse 285
- Jaiz Bank Plc, the first Islamic Bank in Nigeria relied on this injunction of Allah to invite Christians to invest in the Bank by drawing attention to the prohibition of usury in the Book of Deuteronomy of the Torah part of the Bible.
- The non-halal income earned by Jaiz Bank Plc, was and is being donated to Jaiz Charity and Development Foundation. The latter in its efforts to source for further funds, established Jaiz Takaful Insurance Plc, which is about to be licensed as the first Islamic Insurance Company in Nigeria.





First batch of 602 Internally Displaced Persons (IDPs) being relocated from Government Girls Secondary School, Yerwa in Maiduguri to Dalori camp yesterday, to enable government reopen schools which were closed down because of insurgency.





## Non-interest Banking

**For Enquiries:** Kindly contact us at



**JAIZ BANK PLC,**  
Kano House,  
73 Ralph Shodehinde Street  
Central Business District, Abuja.  
P.M.B. 31 Garki, Abuja, Nigeria.

☎ 234-9-460 (JAIZ) 5249

[info@jaizbankplc.com](mailto:info@jaizbankplc.com)  
[www.jaizbankplc.com](http://www.jaizbankplc.com)

**Jaiz**  **Bank**  
INC 476037

Our interest is **mutual**











## ● CONCLUSION

- In conclusion, I acknowledge the fact that there are still challenges in domesticating the International Financial Reporting Standards (IFRS) and those of Accounting and Auditing organizations for Islamic Financial Institutions (AAOIFI), to financial reporting in Nigeria as in many non-Islamic countries, but we will In Sha Allah cross the bridge when we get there.
- I commend to all, the fraternity displayed by golfers, who unmindful of their opponent's ability to utilize some tips to better his performance, will still go ahead to offer same.
- Let us build on the ethical fraternity and unity existing among we adherents of the three Abrahamic religions of Judaism, Christianity and Islam and support this genre of business to making it the preferred option in ethical insurance and finance.
- Thank You