

## THE ROLE OF TAKAFUL INSURANCE IN BUSINESS CONTINUITY OF SMES OWNED BY MOSLEMS IN NIGERIA

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### **ABSTRACT**

*Takaful Insurance is growing in Nigeria due to the large Moslem population who do not buy conventional insurance for their personal and business risks are not in tandem with Shari'ah provisions. The government, in a bid to increase the insurance penetration in the country, introduced both micro-insurance and Takaful insurance in 2016. The general objective of this study is to examine the impact of Takaful insurance among small and medium enterprises while the specific objective is to identify the impact of Takaful insurance on business continuity of Small and Medium Enterprises in Nigeria. The Ex-post facto design was used for the investigation. This design assumed the form of an experimental design where an existing case is observed for some time in order to 'study' or 'evaluate' it. The purposive sampling technique was adopted for the work. A total of 250 copies of the questionnaire were administered to respondents drawn from the four Takaful insurance companies. The findings indicate that Takaful insurance provides protection against fortuitous losses those small and medium sized business owned by Moslems who do not believe in conventional insurance and that also it has helped improve business continuity of SMEs in Nigeria. The study concluded that Takaful insurance has protected the risks from these SMEs that would not have been insured by the conventional insurance companies. These recommendations were made based on the findings from the study and conclusion above, that: the Takaful insurance companies should intensify efforts in reaching the Moslem owned SMEs especially in the Northern part of the country; there is need more awareness on the concept and associated benefits of insuring risks using Takaful insurance.*

**keywords:** Business Continuity, Risk Management, Shari'ah, SMEs, Takaful insurance

## Introduction

Takaful insurance is a form of insurance that derive its origin from the mutual insurance. The concept was introduced following low patronage of conventional insurance products by some Moslems who felt that the conventional insurance goes contrary to their religious beliefs. Islamic Insurance (Takaful), has been described by Pius & Velmurugan (2021) as a type of Insurance that follows Islamic Shariah. Mutual cooperation, uniform interest, and shared responsibility are the major features of the Takaful Model. Pius & Velmurugan maintained that Takaful Insurance has a huge opportunity in the Indian Insurance System, as India is the second-largest country in the world with regard to Muslim population. This means that it is an insurance product that strives well in countries with large Moslem populations.

According to Amuda, *et al* (2020) Islamic insurance or Takaful insurance specifically attempts to bring both social and economic benefits to participants especially in emerging economies whose citizens are predominantly Moslem. The patronage of this concept of insurance is as a result of the fact that it is compliant with Islamic principles. Amauda, *et al* (2020) also posited that there are various Islamic economic concepts such as musharakah, mudarabah, murabaha, Takaful among others with the aim of improving the economic system to the Moslem community through partnership in business transaction and wealth creation which are important for sustainable human and material development. They also argued that Takaful insurance is about sustainable social and economic development especially among the participants (Amuda, *et al* (2020). This form of insurance will assist Moslem who may not want to insure their risks or participate in other forms of financial intermediation provided by conventional insurance to do so. Hence, they have the alternative of buying insurance products which are compliant with Islamic principles or the precepts from the Quran, or rather, these products are Shariah complaints. According to the

National Insurance Commission (2023) Takaful insurance and Micro-insurance were introduced to as to facilitate the improvement of insurance penetration in Nigeria and to get insurance those who might not have had the opportunity of buying conventional insurance products. Presently there are four insurance companies selling insurance products in the country.

Nigeria as observed earlier above has a large Moslem population which could have been a motivating factor in growing Takaful Insurance in the country. Some of these Moslem do not buy the conventional insurance products arguing that the practice of the conventional practitioners go contrary to their Shariah. The government in a bid to increase the insurance penetration in the country decided to introduce both microinsurance and Takaful insurance in 2016. Part of the National Insurance Commission argument for the introduction of these classes of insurance is that it will help deepening insurance penetration in Nigeria. The essence of this study is to find out in the Moslems that owners of small and medium sized enterprises are aware of Takaful insurance and its benefits for insurance protection of their risks. Presently there only four (4) Takaful Insurance companies as against 57 conventional insurance companies as listed in the National Insurance Commission (2022) website, before now in 2017. It is pertinent to note in 2004 there were only one (1) subsidiary following the opening of two (2) windows for the introduction of this form of insurance in the country before a licenced full-fledged Takaful operator could come into operation. This ugly scenario deserves to be explored to assess the situation and identify the major problems being encountered so far with a view to unlocking the great prospects that remain untapped in the Nigerian Takaful industry (Ardo & Saiti, 2017).

The establishment of a thriving Takaful insurance subsector of the Nigerian insurance will go a long way in driving entrepreneurship in the Northern Nigeria especially among the Moslems who might have reservations for conventional insurance for the protection of their risks and those of

their business and also benefitting from other financial intermediation accruing from the insurance industry.

### **Objectives of the study**

The general objective of this study is to examine the impact of Takaful insurance among small and medium enterprises and how it can improve the performance of these firms; while the specific objective is:

- i. Identify the effect of Takaful insurance on business continuity of SMEs owned by Moslems in Nigeria.
- ii. Examine the role of Takaful insurance in providing business continuity to SMEs owned by Moslems after a loss.

### **Research Question**

In view of the above objective, the research question for the study is stated below:

- i. What is the effect of Takaful insurance in protecting SMEs owned by Moslems in Nigeria?
- ii. Does Takaful insurance provide business continuity to SMEs owned by Moslems after a loss?

### **Research Hypothesis**

H<sub>0</sub> Takaful insurance does not provide business continuity to small and medium sized enterprises owned by Moslems in Nigeria.

## Concept of Takaful insurance

Takaful insurance is a form of mutual insurance developed by Moslems who felt that the conventional insurance goes contrary to their faith. Nevertheless, as a mutual insurance the patronage of the products cuts across religion. Thomson Reuters Report (2018) revealed that the total assets of global *Takaful* industry grew up to US\$ 46 billion in 2017 with 324 number of *Takaful* operating companies, including more than 112 General *Takaful* Operators (TOs) and 76 life TOs around the world. For composite *Takaful*, there are 113 composite *Takaful* and 21 Re-*Takaful* Operators (RTOs) around the world — the number of operators based on the total assets in the global *Takaful* market of 2017. More so that there are significant numbers of existing *Takaful* companies, the insurance market is embracing new *Takaful* operators along with a huge customer demand for this sector in many countries (Standing Committee for Economic and Commercial Cooperation of the Organisation for Islamic Cooperation, 2019).

Moslems according to Jaffer, *et al* (2010) account for 25% of the world's total population, but despite rapid growth in recent years, insurance sales within Moslem population remain a small fraction of the total insurance market. They argued that historically, the incompatibility between conventional insurance and key tenets of Islamic belief created the significant barrier to sales of conventional insurance products to the segment of people. Jaffer, *et al* (2010) maintained that these differences have led to very low penetration rates and have left Moslems with little external protection for their dependents or possessions. This means that the Islamic faith is not in tandem with the principles and practice of conventional insurance. This means that there should be an alternative to these products which is the basis for the introduction of Takaful insurance products in most countries of the world.

The term Takaful according Alhabshi & Razak (2022) has an Arabic root of *kafala* which means to guarantee and in terms of usage and implication, the term *kafala* denotes the agreement by one party to indemnify another for liability that had been agreed earlier on. Alhabshi & Razak posited that Takaful has proven to be the fastest growing sector of the insurance market with unprecedented double digit rate of sustainable growth over the years. It is with this mind that Abubakar, *et al* (2017) describe Takaful as the Islamic alternative to insurance of the conventional system, which they term as an efficiently applied systems of cooperative risk sharing. However, Abubakar, *et al* (2017) argued that Takaful is not different in its philosophy with conventional insurance as it is an idea that focuses on mutual cooperation between members in order to secure their mutual protection. This brand of insurance has been used in most countries to grow their insurance penetrations. Islamic insurance also known as Takaful, is an alternative model to conventional insurance; which is forbidden in Islam, it having some elements which are against Islamic law such as *riba* (usury), *gharar* (ambiguity), and *maisir* (gambling) (Shafique, *et al* 2015). In contrast to conventional insurance, Takaful, according to Shafique, *et al* (2015) is incorporated on the base of mutual assistance, responsibility, mutual protection and assurance, incorporated into the concept of *tabarru* (donation).

## **OVERVIEW OF SMALL AND MEDIUM ENTERPRISES**

Small and Medium Enterprises Development Association of Nigeria (SMEDAN), (2003) defines SMEs as enterprises which employ less than 200 persons and possess assets which value excluding land and building is less than ₦300 million. Taking all these into consideration, Ebitu, *et al.* (2015) posited that generally, small businesses are usually associated with little capital outlay, minimal

fixed assets, highly localized in the area of operation, and often with unsophisticated management structure.

The reason why there are many small businesses in the economy is that they require very little capital by their promoters. According to Rathora & Mathur (2019), Small and Medium (SME) enterprises are the valuable industries in India and they are second largest contributor after agriculture in any economy. Small and Medium enterprises play a significant role in any economy through creating huge employment opportunities for skilled and semi-skilled people Rathora & Mathur, 2019). Rathora and Mathur revealed that approximately 40 per cent work force in India work for these small enterprises. This shows that they are major employers in the economy too.

In Nigeria, the typology may not be too different as small scale enterprises, according to Ufot & Olom (2015) are common in the county. Ufot & Olom (2015) argued that these enterprises constitute an important part of a country's business system. The small and medium enterprises include retailing, wholesaling, servicing, agriculture and extractive activities in mining and lumbering (Okaka, 1990, Ogundele & Opeifa, 2004; Ogujiuba, et al, 2004, Ogundele, 2007). They are visible in most parts especially those operating in the informal sector of the economy.

### **Business Continuity**

Business Continuity Management according to Goh (2015) is a holistic management process for the identification of potential threats to an organization and the impacts to business operations those threats. He argued that business continuity management provides a framework for building organizational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities. This could involve the management of an incident or emergency, if not managed properly, can develop into a disaster or

crisis. Besides affecting normal business operations, such an unplanned disruption can tarnish an organization's image.

### **Research Methodology**

The Ex-post facto design was used for the investigation. This design assumed the form of an experimental design where an existing case is observed for some time in order to 'study' or 'evaluate' it (Asika, 1991; Crotty 1998; Asenahabi, (2019). In this case, this study is on the impact of Takaful insurance on small and medium enterprises and how it could help improve insurance penetration in Nigeria. The qualitative method was used in the analysis of the collected data through the administered copies of questionnaire. The population for the study is made up of the respondents drawn from the four Takaful insurance companies in Nigeria. A total of 250 questionnaires were administered to respondents drawn from these companies.

The sampling technique for the study included purposive sampling techniques, a sampling of the identified section of the sector. The selection of this sampling method is as a result of the fact that there are only four Takaful insurance companies in the country.

The research instrument for the collection of data for the study was the structured questionnaire which was divided into two sections consisting of the bio-data of the respondents and the second section containing questions drawn from the research questions. The data collected were presented in a descriptive manner. The inferential statistics were used to discuss the results of the study which were presented based on the regression analysis table. The 250 copies questionnaires were completed by the respondents which made the response rate to be 83.33%; hence, it is satisfactory to be used for analysis. The reliability test in this study was done by using the statistical test of



Cronbach's alpha ( $\alpha$ ) and the result showed that the variables studied are reliable at the cronbach's alpha ( $\alpha$ ) value of 0,7.

## Results and discussions

This section analysed data collected based on the research question 1 which asks: What is the effectiveness of Takaful insurance in business continuity of small and medium sized enterprises in Nigeria?

Table 1: *Effectiveness of Takaful Insurance in business continuity of small and medium sized enterprises in Nigeria.*

The data collected based on the objective of the study on the effectiveness of takaful insurance in business continuity of small and medium sized enterprises in Nigeria is presented below.

**Table 1**

S/N	Items Statement	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
1	SMEs buy Takaful insurance to protect their personal and business risks	90(36%)	113(45%)	28(11%)	12(5%)	7(3%)
2	Takaful insurance is a good means of risk protection for SMEs	79(32%)	127(51%)	20(8%)	9(4%)	15(6%)

3	Takaful insurance can help in business continuity in Nigeria	112(45%)	67(27%)	27(11%)	31(12%)	13(5%)
4	The advantages of using Takaful insurance as a means of business continuity outweighed the disadvantages	95(38%)	92(37%)	37(15%)	15(6%)	11(4%)

*Source: Field survey, 2023*

75% agreed that the advantages of using Takaful insurance as a means of business continuity outweighed the disadvantages, 15% were undecided while the remaining 10% of the respondents disagree with this statement. This strongly suggests that the impact of Takaful insurance among SMEs is high in Nigeria as far as this study is concern. These findings is line with those Ahmed, 2009; Economic and Commercial Cooperation of Organisation for Islamic Cooperation, 2019; Alhabsh & Razak, 2022) that Takaful insurance has provided Moslems who might not want to buy conventional insurance to buy insurance and protect their risks. This means that the advantages of adopting Takaful insurance in Nigeria as a class of insurance outweigh the disadvantages since it will extend insurance coverage to those risks that would not have been covered as a result of religious bias.

The data collected from table 1 above will be used in testing the hypothesis as stated below.

**H<sub>0</sub>:** Takaful insurance does not provide business continuity to small and medium sized enterprises in Nigeria.

Simple regression analysis of the impact of Takaful insurance on business continuity of small and medium sized enterprises in Nigeria

Table 2

Variable	B	S.E	t-statistic	P
<b>TAKAFUL INSURANCE AND SMEs BUSINESS CONTINUITY</b>	0.5562	0.0379	14.6754	0.0003
<b>C</b>	0.9674	0.0548	17.6527	0.0000
R <sup>2</sup> = 0.6180; Adj R <sup>2</sup> = 0.0554; D W = 0.2328				

*Source: Field survey, 2023*

Regression model developed based on the result is:

$$\text{Takaful insurance} = 0.9674 + 0.5562 * \text{Business Continuity}$$

The above results showed that based on the collected data the more these SMEs buy takaful insurance the more they would have the chance of continuing in business after a loss. This implies that a unit increase in the purchase of Takaful insurance will increase business continuity of small and medium sized enterprises by 0.5562 and significant since p-value < 0.05, we therefore reject H<sub>0</sub>. This implies that Takaful insurance has strong effective impact on business continuity of SMEs in Nigeria. The R<sup>2</sup> = 0.618, which implies that Takaful insurance accounts for 61.8% of the business continuity of SMEs owned by Moslems. In this way, more of these business that would not have purchased conventional insurance would be protected from insurable losses (Abubakar, Ogunbado & Saidi, 2017).

### Conclusions

In view of the above findings, it is established that Takaful insurance provide the avenue for Moslems who may not want to buy conventional insurance to buy insurance so that in the event of a loss caused by insurable perils such SMEs will continue to be in business, which is the essence

of business continuity following a loss. With the introduction of this alternate form of insurance more of these SMEs can buy insurances which gives same forms of protection as the conventional insurance. The Takaful insurance companies, although still few in number, should intensify efforts in getting to these SMEs for their risks protection through this alternate insurance products.

### **Recommendations**

The following recommendations are hereby made based on the findings from the study and conclusion above, that:

- i. The Takaful insurance companies should intensify efforts in reaching the Moslem owned SMEs especially in the Northern part of the country.
- ii. There is need for more creations of awareness of the concept and associated benefits of insuring risks using Takaful insurance.

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