ANALYSIS OF THE PRINCIPLES OF COMMERCIAL INSURANCE: AN ALTERNATIVE VIEW POINT

BY

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A RESEARCH PROJECT SUBMITTED TO THE POST-GRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR AN AWARD OF MASTER IN BUSINESS ADMINISTRATION, IN THE DEPARTMENT OF BUSINESS ADMINISTRATION

JANUARY 1998

DECLARATION

I hereby declare that the project was written by me; and that it is a product of my own research work. It has not been presented in any previous application for a higher degree.

All quotations, sources of information and materials are duly acknowledged by means of reference.

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CERTIFICATION

This project titled "**ANALYSIS OF THE PRINCIPLES OF COMMERCIAL INSURANCE: AN ALTERNATIVE VIEW POINT**" prepared and submitted by Aliyu Mamman meets the regulation governing the award of Master of Business Administration (MBA) of Ahmadu Bello University (A.B.U.) Zaria. It is therefore approved for its contribution to knowledge and literary presentation

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DEDICATION

This work is dedicated to those struggling for establishment of justice on Earth.

ALIYU MAMMAN
JANUARY, 1998

ACKNOWLEDGMENT

First and foremost, I express my gratitude to Allah (SWT) for granting me respite and ability to undertake this research.

The quality and efficacy of this project research work owes its success from the personal experience, inspiration and resourcefulness of my supervisor, Mallam Nasiru Maiturare. I am particularly indebted to him for correcting the manuscript and shaping this work. Your constructive criticism and intellectual advice at all stages of writing this project are well appreciated.

My appreciation and thanks also goes to my parent whose untiring care and attention have molded me into what I am today. I am profoundly grateful to members of my family especially my beloved wife, Barira for her understanding and psychological support in the course of the research.

My appreciation further extends to Dr. Usman Bugaje, Awwal Ahmad and Abubakar Jibrin for their encouragement, advice and support in the choice of the topic. I also express hearty thanks to Abdulsalam Umar for his professional typing of the manuscript. May Allah reward him abundantly.

My appreciation extends to staff of the Islamic Learning Centre where I obtained most of the references . I also wish to thank the Head of Business Administration Department, Kaduna Polytechnic, Mrs. Muslimat Omotosho, staff of the department and the entire staff of Kaduna Polytechnic for their assistance and cooperation throughout the period of the study.

ABSTRACT

The need for protection against perils and associated financial losses is inherent in man. From the beginning of history man relied on various institutions like family, tribe, state, etc to satisfy this need. Presently, the western type of insurance is widely in practice. Analysis of the system reveals that it contains elements of profiteering, exploitation and even wagering.

Considering the indispensability of insurance in industrial development as well as in large scale organisation of commerce, industry and agriculture, an alternative approach to current insurance system was explored. The principles and concepts of insurance business and practice advocated by Islam is seen by eminent scholars as an option that is largely free of the shortcomings of modern insurance system.

The Islamic form of insurance is categorised into contributory and non-contributory schemes The contributory schemes arc organised by the private sector on mutual and cooperative basis The non-contributory schemes on the other hand are wclfaristic in nature exclusively under the supervision of the stale. They cover perils to human life, limbs and health.

Pending when the Islamic insurance will be widely in practice, individuals and corporate bodies holding policies under the present dispensation, should appraise themselves of the insurance law, so as to at least minimise the current exploitation of the insurecs by the insurance companies.

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ABBREVIATIONS

e.g.	For example
etc.	etceteras and so on
i.e.	That is
SWT	Subhanahu Wa ta'ala - Glory be unto Him (Allah)
Q	Qur'an
SAW	Sallallahu Alaihi Wa Sallam - May peace and blessing of Allah be with him
P.B.U.H.	Peace Be Upon him

GLOSSARY OF ARABIC WORDS

1.	Allah	God
2.	Qur'an	Holy Book of the Muslims
3.	Tafsir	Commentaries of the Holy Qur'an
4.	Al-Nisa i	Fourth Chapter of the Holy Qur'an
5.	Dirham	Legal tender for the Arabs during the life of Prophet Muhammad (SAW)
6.	Islam	Religion of the Muslims
7.	Zakkat	Annual obligatory alms from the wealthy Muslims

1.0 CHAPTER I: INTRODUCTION

1.1 INTRODUCTION

Human activities are surrounded by risks and uncertainties. This is due to limited knowledge of the past and more seriously the future. Insurance originated from the need to find safeguards against possible risks to self, property or interest. Societies at different historical stages adopted insurance schemes. However, nature, structure and scope of the scheme differ from one society to the other. Ideology, philosophy and level of civilisation are the determining factors.

Modern commercial insurance is indeed a product of modern capitalism. It is a child of capitalist acquisitive society, which is built on the competition of private enterprise of which taking of risks is the main manifestation. Risks may arise under any economic system but the peculiarity of the capitalist system is that it is left to private individuals or bodies to assume them (A. Rahman: 1979). For the individual to have the courage of pursuing business interests, there is a need for means of eliminating or at least minimising losses in the event of any Insurance contract serve the purpose. From here one can understand that insurance has a key role to play in industrial development as well as in large scale organisation of commerce industry and agriculture.

The insurance contract as it is today, contains elements of profiteering, exploitation and even wagering. The agreement is usually prepared by the insurer in such a way that the insured stands the greater risk of loss than the insurer. As such insurance companies declare huge profit annually and policy holders suffer loss of premiums. The magnitude of lapses were illustrated by Janner in these words "During the previous fourteen years (i.e. 1920-34) nearly $100,000,000 policies had lapsed and their owners lost upwards of $100,000,000. The income of the company concerned was $27,470,000, the management expenses and shareholders dividends amounted to $314,980,000. But policy-holders received only $271,600,000 and the interest funds were increased to $215,000,000. The dividends to shareholders have been more than doubled in this period.1

A member of British parliament, Harcourt Johnstone, also called the attention of the British Parliament in March 1934, to the gravity and extent of what he termed the 'organised swindle' of certain industrial insurance activities. He also pointed out that large sums of money due to the policy holders all over the country were never paid.2

From the words of Janner and Johnson, one can understand that policy holders pay more than necessary to cover the cost of services rendered to them by insurance companies. It is estimated that about 40 to 44 per cent of the premium is absorbed by expenses, commissions

and profits, while the insured benefits by 50 per cent only of the valuation surplus. Thus, there is great waste of premium monies, good deal of profit making and exploitation.

Individuals and organisations conscious of the exploitation abstain from holding insurance policies. Considering high risk associated with most modern businesses abstinence is not the best option. Where then lies the solution? Islam provides a viable and rational alternative.

The religion being a practical one contains everything that is good and beneficial to man irrespective of time, place or the stage of cultural, social and technological development. Its principles and system is based on knowledge, justice, benevolence, goodness and wisdom. Furthermore, as Islam is a religion of man it protects his person, interests and property and provides all the necessary elements that are conducive to his personal and social welfare safety of his person and property. On that note Allah (SWT) said: "And fight them until there is no more mischief (and oppression) and the way of life prescribed by Allah is established in its entirety." (Qur'an 8:39).

1.2 STATEMENT OF PROBLEM

In developing countries like Nigeria, insurance is yet to assume its proper position in the business affairs of individuals and corporate bodies. Considering its vital role in the economic development of any nation, the inhibiting factors need to be identified and tackled. Is it

ignorance on the part of the general public or scarcity of insurance outfits? Are there scaring and prohibitive elements inherent in the system? If there are, how do we remove them and free the system from exploitation tendencies? The study is set to address these and related questions.

1.3 PURPOSE OF THE STUDY

The objective of holding insurance policy is to safeguard self, property or interests against possible risks. Going by the present dispensation, risks associated with the policies (especially on the part of the insured) seems to be higher than the one safeguarded. This suggests that something is wrong with the system.

The purpose of this study is two fold: First, to find out what is wrong with the modern commercial insurance. Second, to present the Islamic arrangements on insurance as an alternative.

1.4 SIGNIFICANCE OF THE STUDY

The study will be of immense use to the following:

1. Potential and actual insurance policy holders

Awareness will be created in them of their rights (in the agreement) and availability of substitute in the event of dissatisfaction. This will check undue use of what seems to be a monopoly power by the modern insurance outfits.

2. Insurance Companies

They will be made to consider interests of the insured in preparing the agreement. Otherwise alternative will be sought for.

3. Policy Makers

If not for government ineptitude, there will not be need for insurance on life, accident sickness and related issues. The study will remind policy makers of their responsibility of taking care of the poor and the weak.

4. Scholars

It is hoped that the study will stimulate further research in the area

5. The General Public

The study will make people to appreciate the comprehensiveness and practicality of Islam.

1.5 SCOPE AND LIMITATIONS OF THE STUDY

Scope: The study will examine the nature, structure and requirements of the modern commercial insurance with a view to finding its inadequacies and present Islamic insurance as an alternative.

Limitations: The limitations of the study are:

1. Divergent Views

   Insurance in Islam is treated under jurisprudence. This is an area where scholars agree to disagree. Time and space will not allow presentation of all views.

2. Practicability or Implementation of Some Ideas

   It is not all ideas expressed that can be practicable at least for now. This is due to the absence of the right authorities and enforcement agents.

3. Secondary Data

   In some instances, the analysis may not reflect reality. This is due to the use of secondary sources in gathering data.

4. Finance

It is the wish of the researcher to obtain data from countries practicing Islamic insurance.

That is not possible due to inadequate finance.

NOTES

1.[1] Rahman, A (1979) Banking and Issuance
The Muslim Trust London

2.[1] Ibid

2.0 CHAPTER II: LITERATURE REVIEW

2.1 INTRODUCTION

To put the research into perspective, contributions of some authors in the field will be reviewed in this chapter. For easy comparisons and contrasts among several studies, the topical approach to literature review is adopted.

2.2 EVOLUTION OF INSURANCE

Generally, every generation benefits from the achievement of its predecessors, makes its own contribution and passed on the enriched heritage to future generations. Insurance was no exception to this rule. The concept as it is today evolved over time resulting from contributions by various societies and civilisations.

Recent archeological discoveries of Babylon has shown that the Babylonians were the first among the ancient people to evolve and practiced a commercial contract. This contract was later used and known as the "contract of bottomry." It forms the nucleus of the modern insurance.

Bottomry was a commercial contract whereby money (or goods) was advanced for trade purposes either as true loans at a certain fixed rate of interest under which the lender had no right to any share in the proceedings of the trading venture or as a mixed loans and partnerships which in addition to the payment of a fixed interest to the lender irrespective of the result of the trading, entitled him to receive a share of the profits exceeded a certain sum. This was on the understanding that the borrower should in consideration of a high rate of interest, be freed from liability in the event of certain accidents happening e.g. failure of goods to arrive at their intended destination. Should the goods arrive however, the borrower would then be liable for repayment of the loan plus interests (Rahman 1979). In summary, the contract embodies the following:

1. The contract in some cases is for a true loan and not partnership in others for a loan with limited partnership.
2. The merchandise or money advanced was under the custody of and used by the trader not retained by the lender.
3. The trader was wholly free from liability for the debt on the happening of a contingency provided for in the loan.
4. The rate of interest was very much higher than that charged on an ordinary loan which was at that time limited to 20%.

The next stage in the evolution of bottomry and by extension insurance was the adoption of the contract by the Greeks. The contract was not merely adapted and adopted but was also perfected to such an extent that number of very notable nineteenth century Maritime lawyers had claimed that Greek contractors of bottomry, were so nearly identical in nature with those in vogue in London in 1860 (Rahman 1979).

The main points of the loan contract by the Greeks were:

1. The agreement which was practically the Bottomry bill or bond of respondentia states the conditions of a loan deposited at a bank.
2. The security was generally of at least twice the value of the sum advanced.
3. The period of the loan
4. The rate of interest, which varied from 10% to 12% for outward voyage only and 22 % to 30% for voyage; penal rates were charged if the conditions were broken.
5. The risk provided against - which were total loss of principal and interest if the ship was lost or captured at sea; loss of proportions of principal and interest in the event of some or all of the cargo being jettisoned or of a ransom being paid.
6. Representation of lender on voyage
7. Obligations of borrowers - to take most direct course; to repay loan to lender, his representative or assignee; to declare if money had been borrowed already on the same grounds; not to give second mortgage on goods as such action was held to be fraud by the first as well as the second mortgage.

8. Captain powers of borrowing:

The final stage in the evolution of bottomry in ancient times was the adoption of the custom by the Romans. Some writers argued that it was in Rome that the principles in the bottomry bond were translated into insurance as we understand it today. In support of their arguments, they cite three separate sources:

A. According to Professor Trennery, the earliest documented reference to marine insurance occurs in Livy. A guarantee was given by the Roman governments in 215 B.C., under terms of this guarantee, the government undertook in return for a premium (in this case the premium consisted of goods and supplies necessary for the Roman army in Spain and supplied by the "Publican") to insure the safe arrival of certain other shipments of supplies shipped by the private trading companies who were the owners of these supplies.

B. The letter written by Cicero to Caninius Salut about 500 B.C. in which the former requested the letter to guarantee a sum of money that was to be transported from Laodicea to Rome.

C. According to Suetonins, there was a severe famine in Rome in A.D. 58 which gave rise to popular demonstrations against the emperor(Clandius). This desperate conduct was due to the fact that no one expected any more food to be imported during winter

season. Clandius, therefore, in order to persuade the importers to render a vital service to the state, not only offered to pay a fixed bounty on all imported corn, but also accepted personal responsibility for all losses arising from storms.

The above arrangements argued Trennery, possessed all the necessary conditions of a genuine insurance contract, namely, ownership of insured properly, risk and premium.

The contract of bottomry as practiced by the Babylonians, Greeks and finally the Romans, was an elementary form of insurance in those times. It was a rudimentary form of something like insurance, but did not contain the essential elements of modern insurance.

Early signs of modern insurance in a scientific form seem to appear in the European countries in the middle of the 13th century. Many examples of marine insurance were found in many parts of Europe. The early practice of marine insurance in a scientific form, and on the "premium basis" is undoubtedly associated with the merchants of the cities of Lombordy and Florence (A.D. 1250) in Italy. In the middle ages, trade was mainly centred in the Mediterranean with well known trade routes to the East (Constantinople and India) and to the North. The northern Italian cities, Florence, Genoer and Venice became centre for banking, commerce and insurance (Dunsdale 1964).

It was confirmed by Professor Grossman, that the first precursors of insurance institutions were the funeral associations (Collegia teniuoium) were formed during the period of the Roman Empire by craftsmen, merchants and actors. Italy boasts the first known insurance agreement which was executed at Genoa on 13th October, 1347. A second agreement was signed in Patermo in 1350. In 1369, Marine insurance was legally regulated in Genoa. Then marine insurance spread to France, England, Germany and other countries of the world through trade links and colonialism.

2.3 RISK AND INSURANCE

Risk is at the very centre of insurance and before moving on to examine the latter in more detail it is essential that we understand fully the concept of risk.

2.3.1 Definition of Risk

Risk is a concept with several meanings depending on the context. Generally it means exposure to peril or danger. Mathematicians define it as:

> "... the degree of dispersion of values in a distribution around the central position occurring in random chance patterns. The larger the degree of dispersion, the greater the risk."1

Economists and statisticians use it to measure the range of possible outcomes which may occur at some future times. To a businessman risk means uncertainty in respect of the future earnings, cash flow and the assets of his undertakings.

Even in insurance terminologies, risk has different meanings. It may mean the thing insured, the insured peril, the expected cost of a claim or uncertain future events. All these amount to superficial definition. Where the intention however, is a scientific study of insurance as a discipline, risk is uncertainty concerning loss (Norman 1974). Since risk represents uncertainty and not loss, the two concept need to be examined.

2.3.2 Risk and Loss

Loss is an unintentional decline in, or disappearance of, value arising from a contingency. There are three different types of losses which may arise from damage to, or destruction of property. These are:

i) The loss of the article

ii) The loss of the use of the article

iii) Extra expenses which may arise from the loss

For instance when a car has an accident the owner incurs the expense of repair, the loss of use and the expenditure of making good the damage caused to third party property. These various losses require insurance protection.

Loss occur by chances not overtime. Chance of loss is the long run relative frequency of a loss. It indicates the probable number and severity of losses out of a given number of exposures. It is arrived at by the application of the law of large numbers. This law states that the larger the group of similar exposure units, the closer the actual looses

experienced by that group will approach those that can be anticipated. This law can be illustrated either apriori or by statistical influence.

Apriori or deductive probabilities are those where the outcomes are certain, such as the games of change; the cost of a dice, the loss of a coin, or the cut of cards. It is theoretically possible to calculate the objective probability. If a coin is tossed the probability of a 'head' is 1 in 2. This is deductive probability.

The second method of measuring chance of loss is by arriving at probabilities on the basic of statistical inference. In other words the likely outcomes are assessed by observing the frequency by which events have occurred in the past. This in order to calculate the probability of loss of a car proposed for insurance, data must be collected on a similar types of loss over a given period of time. If, for instance out of 100,000 similar cars, 100 have been lost, the chance of loss is 0.1 per cent.

Chance of loss plays a crucial role in insurance because it is the basis upon which rates are calculated. It also influences the insurer in deciding whether or not to offer insurance and if so, at what rate of premium.

2.3.3 Types of Risks

Risks are classified based on cause and consequence. The classes are as follows:

(i) Pure Risk

It refers to the uncertainty that involves loss or no loss without a gain. For example the risk of a thief stealing an insured car is a pure risk. The possibility is either that the car is stolen, in which case the owner has suffered a loss, or that it will not be stolen, in which case the owner has neither gained nor lost. Property is normally exposed to pure risk arising from perils such as fire, flood, collision and earthquake. Pure or static risks can be dealt with by insurance techniques, because they are more predictable based on past experience.

(ii) Speculative Risk

This is a risk that involves uncertainty of loss, gain of break-even. For instance, a trader may buy yams from a village at N8.00 with overhead cost of N2.00, thus the total cost is N10.00 and he hopes to sell them in Kano for N15.00. He is thus speculating as he may gain or lose. The risk involved is termed speculative risk. If he sells at any price higher than N10.00, he gains but if lower, he incurs a loss and if at N10.00 he breaks even.

Many business risks fall into category of speculative risk, such as the risk associated with changes in consumer taste, change of government policy, prices of raw materials, availability of foreign exchange, etc. These kinds of risks are normally dealt with by management techniques.

(iii) **Fundamental Risks**

These are risks that are impersonal in both cause and consequences. They arise from the social, economic and political pressures occurring within the society, and from purely physical phenomena which affects a whole community. Technology, unemployment, war, inflation, political instability and changing customs are sources of fundamental risks. floods, windstorms, draught, volcanic eruptions and earthquakes are fundamental risk arising from physical phenomena. These risks commonly have catastrophic characteristics.

(iv) **Particular Risks**

These risks are personal and arise from individual events such as the burning of a house, the robbery of a bank and act of personal negligence giving rise to personal injury.

2.3.4 Risk Management

The distinction between risks is very important because it helps in deciding whether the risk is susceptible to treatment by insurance or not. Commercial methods, initiated by the business enterprise, are used in handling speculative risks. Fundamental risks on the other hand are best managed by government. Only pure and particular risks form the area in which insurance operates.

The control and management of pure risk is known as risk management.. It has been aptly described as the identification, measurement and economic control of risks that threaten the assets and earnings of a business or other enterprise. Reduced to its bare essentials, risk management is concerned first with protecting an organisation from losses which would jeopadise its solvency, and secondly with reducing the cost of risks.

The risk management process falls into three stages:

1. Identification of Risk - This involves discovering the sources from which risks may arise, what can cause a loss.

2. Evaluation of Risk - Refers to evaluation of the impact on the individual or organisation. If a loss should occur, how severe would the loss be?

3. Treatment of Risk - Selecting the most effective technique or techniques to deal with risk or what can be done about the situation?

When the risk manager has identified and evaluated the risks that threaten the assets and earnings of the enterprise, he must select the optimum method of treating them. There

are many strategies available to him. These strategies may be used singly or in combination. They are as follows:

1. Risk Avoidance

Risk is avoided when a person refused to accept it. This technique is usually by people who have a high aversion towards risk. A person may not travel by air to avoid a plane crash. A family may decide to rent a home so as to avoid the risks associated with the ownership of property. A firm may avoid introducing a product if the method of production is so hazardous that it produces a sharp increase in premium greater than the likely improvement in profit.

The avoidance of risk is a negative technique. It is difficult if not impossible to avoid risk completely because avoidance is only done at an opportunity cost. This is particularly so in business context. A person who rents property to avoid the risks associated with ownership accepts in the lease another risk - that of legal liability for its return in good condition.

2. Risk Reduction

Risk reduction is used in the reduction and prevention of the chance of loss. It concentrates on two areas - physical and moral hazards. Physical factors concern such physical devices that are erected to reduce fire and burglary hazards. Human hazards

can be estimated by strict adherence to carefully worked out procedures such as adequate supervision and staff training.

3. Risk Retention

Risk retention or assumption may be defined as the failure to insure or otherwise transfer a risk either wholly or in part. Risk retention is probably the most important of the non insurance techniques. It may be either planned or unplanned. Reasons for the unplanned *includes*:

i) Ignorance - Unplanned assumption of risk may stem from ignorance. A landlord may insure his building against the perils of nature like fire, flood and other physical furtuities and yet not be fully insulated against risk because he is unaware of his legal liabilities.

ii) Inertia - Risk may be assumed out of inertia. The head of a family may be aware of the need for protection against his premature death and delay the purchase of life cover until he is persuaded by a life insurance salesman. A risk manager may be aware of the existence of a risk and yet is complacent in treating it until a loss teaches him a lesson.

iii) Neglect - Risk may be retained through neglect. A property owner may fail to adjust the sum insured at a time of rising prices only to find himself penalised by the average clause when a claim arises. A risk manager may successfully identify a risk but woefully under-estimate the loss exposure as happened with legal liabilities.

Reasons for planned risk retention includes:

i) Deliberate Action: Some unimportant risks may be intentionally ignored. This is so if the loss exposure is too small to be of concern. The loss of a biro or lead pencil causes no financial burden to an individual so the risk of loss is ignored. Risks are also ignored if there is no way of meeting them. Comprehensive insurance may be unavailable for vehicles which are more than five years old. Owners of such vehicles are necessarily compelled to be their own insurer for own damage. Similarly insurance is unavailable for some extra-hazardous occupations and excluded risks.

ii) Management Strategy: Risk may be assumed as a deliberate management strategy. This is planned risk assumption. The risk manager may decide, for example, that the small frequent and regular loss is more than a futuitous risk requiring the protection of insurance. Often the status of the organisation exposed to the risk will influence the decision. The possibility of insuring against a loss of N1,000 would probability be attractive to a one-man business, but not to a company with assets running to millions of Naira. Thus, the bigger the enterprise and the higher the frequency of small losses, the more likely it will be that proper treatment is by inclusion of these losses in operating budgets, as a directly borne expense, rather than by recourse to insurance.

iii) Self-Insurance: This is a special case of planned retention. There is self-insurance when a contingency fund is set up to meet fortuitous losses and retain the small but frequent losses.

Financial advantages accrue to the organisation adopting self-insurance. The funds earns interest which accrues to the organisation. The organisation's own staff can build up specialist insurance knowledge such as claim handling expertise and expenses are commensurate with services needed. Moreover the fund may offer a way of making provision for a risk looked upon with disfavour by commercial insurers.

Self-insurance has its drawbacks too. First, the principle of insurance is the spreading of risk. Self insurance ties up capital which could otherwise be employed in the furtherance of the business. Second, a loss in the early years of the fund may exhaust it and leave the firm in financial difficulties. Third, the cost of insurance premiums can be known in advance and budgeted accordingly, there can be no such certainty with contribution to a fund. Fourth, the organisation operating the fund will lose the claims handling and loss prevention services provided by insurers. Fifth, the cost of providing specialist staff may exceed the saving of premiums.

4. Captive Insurance Companies

They are insurance companies set up by industrial or commercial groups primarily to insure some of the risk of their parent company. Captive insurance is self-insurance at corporate level. Sometimes these companies are referred to as "do it yourself insurance companies."

Variety of reasons are put forward for the interest in captives, which are largely explanations of why a do-it-yourself approach will often prove cheaper than insurance placed on the conventional market. First, premiums paid to the captive are treated as business expenses, thus placing this advanced form of self-insurance on the same footing as outside insurance and enabling the company to develop a logical and progressive risk financing plan. Secondly, an insurer may be making a profit on a particular organisation's insurance, there being a wide spread feeling amongst companies with good loss records that they are subsidising the poorer risks; a captive will retain that profit within the organisation. Thirdly, a captive will receive the investment income on funds which would otherwise accrue to a conventional insurer. Fourthly, a captive will have lower operating costs than a conventional insurance company. It will not need sales men and branch networks; and being involved with just one client with large block of business, administration and accounting procedure will be simpler. Fifthly, insurers are often accused of being unreasonable with regard to granting of cover with large deductibles and the discount allowed; a company with a captive will be able to select the deductible it considers to be appropriate at a discount it feels to be truly reflective of the risk retained. sixthly, connected with the question of deductibles, a captive will have access to the reinsurance market which generally requires lower rates for excess of loss cover than will be charged by direct insurers for insurance with a large deductible.

The main disadvantage of captives is that they rely heavily on the reinsurance market for their survival, because in many cases the limited amount of business which a small captive can retain means passing on over half the premiums to reinsurers.

5. Risk Sharing

Risk sharing is the device by which the insured seeks to share risk with an insurer or insurers. The main forms of risk sharing are described as follows:

(i) Coinsurance: This describes the situation whereby the insured does not have adequate insurance cover by design or accident and therefore remain his own insurer. He is therefore his own insurer for the uninsured of the risk.

(ii) Excess or Deductible: An excess is a deductible from each claim. It is used by the insured to obtain a cheaper premium, for example, in motor insurance, and by the insurer to eliminate trivial claims with disproportionately high processing expenses.

(iii) First Loss Cover: Where the insured feels that the risk to be insured cannot possibly be subject to total loss, for example, heavy industrial machinery, first loss cover can be arranged so that the sum insured is fixed at less than the full value. The figure agreed must be sufficient to cover the maximum likely loss on any one occasion. It is similar arrangement to excess in that the insured is left to bear the balance of any loss which exceeds the first lost limit.

2.3.5 Risk Transfer

Some of the most important risks faced by individuals and business as well as public enterprises cannot be avoided or retained. The only option left for consideration is the shifting or transfer of risk to another party. Risk can be transferred to others by insurance and several other means.

i) Insurance

Insurance is on important device of transferring risk. The primary economic function of an insurer is the assumption of the pure risks of many insured.

ii) Contracts Other than Insurance

These refers to other risk transfer devices apart from insurance. By careful wording of contract conditions, responsibility for particular occurrences can be placed upon other parties to the contract. For example in sales contacts, a company can try to absolve itself from responsibility for the consequences, perhaps of the supply of faulty products other than the replacement of the product. In theory this sort of condition is quite useful but in practice does not always give the 100 per cent security that is often assumed and cannot of course be applied to consumer sales.

Under the terms of a lease, a landlord may transfer responsibility for damage to his building to the tenant. A building contractor may be required to accept full responsibility for loss or

damage arising out of the works to the property both of his principal and of third parties. In sub-contracting for construction work, liability for injuries to workmen or the public at large might be allocated by the contract conditions.

2.3.6 Reasons Why an Insurer Assumes Risks

By assuming the risks of the many insureds, the insurer, in effect creates a risk for himself. Why is he able to accept risks that the insureds wish to transfer? Basically he is armed with risk handling devices which are not available to the individual insured and this makes the risks transferred to him capable of being profitably borne.

The following points makes the insurer to assume risks that the insureds wish to transfer:

1. **Increased Knowledge**

   Being a specialist in risk bearing the insurer necessarily has a greater knowledge of risk than the individual insured.

2. **Pooling**

   Pooling of the combination of many similar exposures, permits the operation of the law of large numbers and therefore makes risk predictable. As the number of exposures increases the percentage of deviation of actual from expected experience diminishes. If the pool of risks is still not large enough to increase predictability (e.g. risk associated with space

exploration) insurers will arrange inter-company pools so that the spread is wide enough to reduce the deviation of the actual losses from the expected.

3. **Loss Prevention**

The insurer may further reduce his risk by engaging in loss prevention activities. These risk reducing facilities are not available to the individual insured.

4. **Greater Financial Capacity**

The insurer is willing to assume the risks of the insured because of his ever growing large financial assets which are readily available to meet losses which an individual, uninsured cannot meet himself.

5. **Further Transfer of Risk**

Insurers have open to them the reinsurance mechanism whereby they can transfer part or all of the risk they have assumed to their reinsurers.

All these factors operate to reduce the uncertainty of the insurer. Therefore, the risk of the insurer is much less than the sum of the uncertainties of all the insureds. The purpose of insurance is thus the reduction of the uncertainty of the insureds in the face of pure risks.

2.3.7 Criteria for Insuring a Risk

Although insurance is concerned with pure risks, however, not all pure risks are insurable, certain criteria must be followed:

1. There must be large number of risks of a similar kind so as to make it possible to forecast with reasonable accuracy the proportion of the whole that will sustain loss.
2. The occurrence of loss must be fortuitous because a loss deliberately brought about by the insured is not suitable for insurance.
3. The peril insured against must produce a loss which is quantifiable in money or material terms. Quantifiable or determinable losses constitute the basis of premium.
4. The cost of insurance must be feasible, as otherwise this becomes so prohibitive that no one can pay the premiums.
5. The possible loss must not be catastrophic. This is because catastrophies are difficult to predict and therefore not amendable to insurance

2.3.8 The Benefits of Insurance

Insurance has many benefits some of which are as follows:

1. Man is driven by self interests to avoid danger, therefore, he tries his best to seek guarantees against any probable loss to his person, property or business. The insuree wants to ensure against probable peril with the insurance company in return for some payment in the form of a premium. The insurance company promises to compensate the insuree for his loss or debt in return for a premium.

2. Insurance build up the economy. Insurance companies are able to collect huge funds from the public in premiums which are invested in national productive industries. This constant flow of funds into trade, commerce and industry helps in the growth of wealth and capital in the country. Thus insurance savings help in building up the national economy of a country.
3. Insurance provides peace of mind and sense of security to the insurees which is a reasonable return for premiums.
4. Employment Opportunities: The insurance industry is an important employer of labour. The total number of persons employed in the industry as at 1990 is 30,000 (Norman 1974). These range from insurance intermediaries to the clerical and management staff of the insurance companies. The employment prospects are widely spread in firms operating in the industry which establish branch offices on a country-wide basis. In addition, the industry provides jobs for external auditors, advertisement agencies, lawyers, engineers, contractors, etc. The industry is therefore contributing its share in assisting government to tackle the problem of unemployment.
5. Financial Intermediation: Insurance is very active in the financial intermediation process. It brings together and turns into capital small sums of money which would otherwise have remained unused or spent. Insurance contributes more to a developing economy through capital accumulation than by reparation of losses through compensatory measures. The total funds of the insurance companies rose from N756 million in 1979 to

N1,938 million in 1985. The paid up capital of these companies increased from N5.3 million in 1979 to just under N80 in 1985 (see Table 2.1).

6. Investment Functions: The premia charged by insurance companies for the security they provide are accumulated over time. Also, the great majority of contracts written by life offices contain a high investment content. As a result a life office quickly reaches a situation where its total income exceeds the outflow thereby increasing insurance funds. The reserve assets of many individuals are thus held by insurance companies. These assets are available for investment throughout the whole economy as compared to the greater likelihood that the individual reserve funds would remain idle. Insurance companies are thus, closely connected with the economic development of the nation in that they take part in all fields of productive investment and are available - together with the other sections of the money market - in providing short and long term funds for governments, companies and private investors.

7. Conservation of Foreign Exchange: The Nigerian Reinsurance Corporation which commences business on 1st February, 1978, was set up to check the country's foreign market's import of reinsurance. With the establishment of the corporation as well as the appearance of other reinsurance companies, a good amount of premia, which were hitherto lost to international reinsurance centres are now retained in the country. The 20 per cent legal cession which every registered insurer cede to Nigeria has enabled it to trade with other reinsurers abroad with the aim of earning some foreign exchange on the

inward business. It also enabled it to generate substantial funds which in due course would further contribute to the economic development of the country.

In the first 10 years of its establishment, the gross premium income of the corporation rose from N22 in 1978 to N155 million in 1986. Profits rose from N1.4 million in 1978 to N26 in 1986 (see Table 2.2). No doubt much of this money is ploughed into the economy, either through investment in government securities, industrial shares and real estates.

2.4 DEFINITION OF INSURANCE

Insurance, like other social science concepts has no single acceptable definition. It is often defined as the transfer of risk. This definition is insufficient because it does not contain other fundamental aspects of insurance. Insurance is therefore defined as:

> "...a device for reducing risk by combining a sufficient number of exposure units to make their individual losses collectively predictable. The predictable loss is then shared proportionately by all units in the combination."2

The above definition implies both that uncertainty is reduced and that losses are shared. These are the important characteristics of insurance.

2.5 DEFINITION OF INSURANCE CONTRACT

A contract of insurance can be defined

> "as a contract whereby one person or organisation, called 'the insurer' undertakes in return for the agreed consideration called the 'premium' to pay to another person called ' the assured' a sum of money or its equivalent on the happening of a specified event."

The specified event must have some element of uncertainty about it; the uncertainty may be either:

a. In the case of life assurance, in the fact that, although the event is bound to happen in the ordinary course of nature, the time of its happening is uncertain.

b. In the fact that the happening of the events depends upon accidental causes and the event, therefore may never happen at all. In the latter case the event is called an accident (Rahman 1979).

Thus in a very simple words, a contract between two parties, the insurer and the insured, the former promises to compensate the latter on the happening of a definite event, in return for his contribution.

An insurance contract or agreement involves five essential elements:

1. There must exist a risk to be insured against
2. The property must possess value
3. There must be no possibility of profit
4. A premium must be paid; and
5. The insured cannot act as an insurer of the person or persons with whom he is insured

The Premium

Premium is the amount of money the insured agreed to pay to the insurer instalmentally usually at intervals in return for a compensation to be given in the events of occurrence of the peril insured against. The amount depends on the estimate of the risk involved as calculated by the insurer.

As soon as the contract is concluded, the insured becomes bound to pay the premium. The acceptance of the premium by the insurer is an indication that the contract is complete.

The Policy

Policy in insurance contract refers to the description of the event insured against, and the possible exceptions under which the insurer will not be held responsible. It also contains conditions on which the validity of the policy depends.

The Peril Insured

Peril refers to any event the insured seek to insure against and the insurer is willing to accept. The perils differ according to the class of insurance, but in all cases reference is made to the description in the policy in order to find it out. The description must be made with great accuracy and precision.

The Claim

The insured is entitled to enforce the policy when the event insured against actually happens. The loss must be caused by the event insured against. A loss not caused by the peril does not come under the policy.

Nullification of the Contract

The contract stands nullified in the event of:

i) misrepresentation of facts by the insured technically called "breach of good faith."

ii) performance of willful act by the insured in causing the event insured against.

2.6 CLASSIFICATION OF INSURANCE

Insurance can be classified based on the function it performs or classes of business:

2.6.1 By the Functions it Performs

This is to categorise insurance according to the object or event insured, and may be considered as follows:

1. **Insurance of the Property of the Policy Holders**: The term 'property' in this context refers to all possessions rather than mere premises. Theft, material loss or damage, and fire insurances are all within this category. They covered the insured property (or property for which he is responsible) against loss or damages. Other examples are hull policies in marine insurance.
2. **Insurance of the Liability of the Policy Holder**: The insured person may become liable at law for the death, injury, or disease of another person, or may have legal liability for damage to their property. Examples are general liability, employers liability and marine collision liability indemnities.
3. **Insurance of the Person of the Policy Holder**: This involves insurance in connection with the life, limbs or health of the person insured. Life and health insurance fall within this category.
4. **Insurance of the Rights or Financial Interest of the Policy Holder**: This is a rather miscellaneous category to describe those insurances which do not fall conveniently within any of the previous three sub-divisions. Examples are fidelity guarantee and credit insurance.

The above classification is not water-tight since insurance such as marine, hull or motor policies do cover material damage as well as liability to third parties. Personal accident cover is included in a comprehensive motor policy.

2.6.2 By Classes of Business

Historically, insurance was divided into four main departments - marine, fire, life and accident. The appearance of new companies or specialist insurers meant this classification was not rigidly followed. Thus a young company could merge fire and accident in a general accident business. Also, a specialist department could handle marine or aviation business in a separate department from the accident department.

The followings are classes of insurance according to nature of business:

1. **Marine Insurance**: Marine trade and the perils of the sea have been with man from time immemorial. Marine insurance, in keeping with man's long association with the sea is many centuries old. Examples of marine insurance are hull policies which insure the actual vessel and its equipment and cargo policies.
2. **Life Insurance**: One of the deepest desirest of the prudent man is to ensure that his dependents are provided for, especially in the event of premature death. Thus, life insurance is also of very ancient origin, and the present day practice may be sub-divided into ordinary life insurance, including individual insurances and group life and pensions insurance, industrial life insurance, and annuities.

3. **Fire Insurance**: Fire insurance as we know it is about 300 years old. Examples within this category are insurances of material loss or damage by fire and special perils and consequential loss arising from such material damage.
4. **Accident Insurance**: This somewhat miscellaneous term applied to all classes of business not covered by the three previous classes. Personal accident insurance and theft are two examples.

Because of enormous growth or technical complexity concerned, most insurers now regard motor, engineering and aviation insurances as a separate department, although with composite insurers they were formerly considered to be within the accident fields.

5. **Motor Insurance**: The growth of this class of business especially since the second world war has been so phenomenal that most insurers now regard it as a department on its own.
6. **Engineering Insurance**: This is very technical class of business, and a sizable proportion of the effort made by insurers in connection with it is the loss preventive work of surveys and inspections of boilers and the like, insured by them, or proposed to them for insurance. The insurance usually cover boilers, electrical plant, lift and cranes.
7. **Aviation Insurance**: This is another class of business which has seen enormous growth since the second world war, and is highly specialised. Insurances may be arranged covering damage to the aircraft legal liabilities and personal accident benefits, among others.

2.7 INTEREST IN THE MODERN COMMERCIAL INSURANCE

Interest refers to a fixed rate the creditor charges the debtor on the principal borrowed. It may also be defined as a predetermined excess or surplus over and above the loan received by the debtor, conditionally in relation to a specified period. Interest contains the following three elements:

1. Excess or surplus over and above the loan (i.e. the principal)
2. Determination of this surplus in relation to time
3. Bargains to be conditional on the payment of a predetermined surplus to the creditor.

As far as commercial insurance is concerned, it is dependent for its profits on interest which is completely involved in it at all stages of its business, from the calculation of the premiums to the payment of indemnity to the insuree who has suffered a calamity. Most of the funds collected in premiums are invested in fixed earning (i.e. interest) investments by the insurance companies and only a small portion of their money is invested in other projects. This is because they consider it safe and free from risk, and as their policy is to play safe in order to protect the interests of their clients, fixed-earning investments are the most likely choice for them.

The business of modern commercial contract in practice thrives on interest. The two are so closely linked that it would be difficult, if not impossible to separate them within the existing system.

2.8 GAMBLING IN THE MODERN INSURANCE

Gambling means getting something easily or receiving a profit without working for it. Its encompasses all forms of acts by which wealth is acquired or divided by devices of chance. In gambling even if there is no fraud, the gambler gains what have not earned or looses on mere chance. Examples include lottery, betting, wagering, etc.

A cursory study of commercial insurance business will show that it does resemble gambling. A number of economists have admitted that commercial insurance is a form of gambling or speculation.

The resemblance can be shown by a comparison:

a. In both, the amount betted (or insured) is paid back to the better (or insured) when certain events have taken place.

b. In the case of the non-occurrence of an event, nothing is paid back to the better (or insured). This applies both to commercial insurance and betting.

c. How the bet or stake in case of betting (and peril in case of commercial insurance) will actually occur and who will be the winner, the better in case of betting (and the insurce in case of commercial insurance company) is anybody's guess.

d. The premium money in commercial insurance is exactly like the stake in betting as far as legal commitments are concerned.

e. The gain of the house in betting and the company in insurance is always certain, while the gain of the better or the insurce is doubtful: he may gain or lose.

f. On the whole, the house against all gamblers, and the commercial insurance company against all the insured, are always the winners. (Rahman 1979).

Thus the element of gambling and wagering is glaring in the contract of insurance.

2.9 PROBABILITY OR RISK IN INSURANCE

Risk literally means uncertainty. In business it means going into a venture without knowing exactly what will be the outcome. According to Imam Ibn Taymiyyah risk is involved when one does not know what is in store for one at the end of a business ventures or bargain.

Risks are normal in business but that of insurance is abnormal. This is because the participants, especially the insuree are deluded by the false hope of winning. In other words the defrauded party agrees under the misunderstanding that there is no fraud.

Risk permeate all the fundamental elements of insurance contract.

a. Premium: The actual amount of premium money to be paid by the insuree is determined by means of "law of large numbers" approximation and conjecture. There is also no guarantee that the insured will conclude payment of his installments. When that happens, the insured looses all that was paid before. Elements of risk is present in the determination of premium and its payments.

b. Indemnity: Indemnity which is a form of guarantee against future risk, is also not free from the element of risk. The insured does not know the amount of compensation he is likely to get in case of an accident or a peril. There are quite a few unknown events. How much compensation will the insured be paid? When will he be paid? There is no definite answer to these questions. And if the peril does not happen, he may not be paid anything at all.

Sometimes the insurance contract is called an indemnity contract at a price. But it is not true because indemnity is not always paid. Even if the price is paid, compensation may not be paid in case of the non-occurrence of a peril. As such it cannot be called an indemnity contract at a price. It is only a promise to pay compensation which is sometimes fulfilled and sometimes not.

2.10 ELEMENTS OF UNCERTAINTY IN INSURANCE

Uncertainty signifies an unspecified element in the quality, quantity or price of a thing. It also refers to the state of mind of the individual which corresponds to the degree of probability of an occurrence (or chance) in the objective situation: therefore, uncertainty becomes a sequel of probability.

The uncertainty in insurance contract is of three kinds:

1. It is uncertain as to whether the occurrence will really happen;

2. Whether it will happen during a given period of time; and

3. It is uncertain as to the dimension of the occurrence

Uncertainty is unavoidable in insurance and prevails at all levels of its business from the time of the signing of the contract to the time of the paying of risk money to the insuree who suffered a calamity. The existence of uncertainty is the fundamental condition for the existence of insurance.

2.11 INSURANCE UNDER CAPITALIST SYSTEM

The Industrial revolution ushered in a new economic system known as Capitalism. It is a system in which private ownership of means of production is allowed and encouraged. The competitive nature of the system resulted in technological advancement and consequently a tremendous growth in the production of goods. New means of transport were available resulting in extra-ordinary expansion of domestic and foreign trade. Accidents causing death, injury, or disability became common in mechanised factories, coal mines and rail transport. Alongside industrial development, cities started registering increases in their populations. The perils of fire, theft and waylaying also increased. Expansion of commerce and industry, the ever-growing complexities of civilisation and the phenomenal increase in hazards and perils, heightened awareness for the need of insurance (Siddique M.N. 1995).

Attempts were made by governments, religious and cooperative bodies to satisfy the needs. The growing complexity of civilisation and the extra-ordinary rise in the need, made a new

organisational structure necessary. Enterprising people soon realised the vast potential for profitable business in the area.

The result was emergence of big insurance agencies first based on partnership and subsequently in the form of joint stock companies. They never had the good or graceful aim of providing a needed service to their fellow human beings. Rather like all other capitalist oriented activities, they pounced on these needs exploitatively in order to maximise personal profit. In this exploitative spirit of such ventures, all accepted moral norms were thrown overboard. The new business ethics encouraged them to have recourse on a very large scale, to practices based on fraud, deceit trickery and gambling.

Large scale business in this sector proved to be even more lucrative than that in the other capitalist sectors. This led to the rise of monopoly. The principle of perfect competition failed, as it had failed in most other capitalist activities to keep the margin of profit within reasonable limits and to prevent exploitation of the consumers. The process continued till people begin to look for alternatives.

2.12 INSURANCE UNDER SOCIALIST SYSTEM

Following the untold misery and suffering of ordinary people under the purely capitalist economy, thinkers began the search for an alternative economic arrangement with a view to securing justice. The search, championed by Karl Marx resulted in the establishment of the

socialist system. The system aimed at nationalisation of the means of production and centralised state economic planning to ensure people their basic needs and social justice. First it was introduced in Russia and later had impact over vast area of the world.

Under this system, the production, of wealth, commerce and transport being controlled by the state, the need for insurance does not arise in the same way as it does for private entrepreneurs. Benefiting from the law of large numbers, the state can itself very well compensate for sudden financial losses in the fields of production of wealth, commerce and transport. Insurance is needed under this system in the sphere of what is now called social insurance. Outside this sphere the insurance needs of small farmers and other people are locally met by cooperative societies which operate with the help of voluntary contributions, and partly, states subsidies.

2.13 ISLAMIC VIEW ON INTEREST GAMBLING, RISK (PROBABILITY) AND UNCERTAINTY IN TRADE

Unlike other religions named after their founders, Islam has no association with any particular person, people or country. It is not the product of any human mind but a universal religion and its objective is to create and cultivate in man piety, honesty, goodness and wisdom.

Islam Is an Arabic word and connotes submission, surrender and obedience. Another literal meaning of the word is "peace" and this signifies that one can achieve real peace of body and mind only through submission and obedience to Allah (SWT). Such a life of obedience brings with it peace of the heart and establishes real peace in the society at large. Technically, Islam is a way of life which is absolutely free from evil, corruption and injustice and is at the same time self corrective and self preventive of possible evil incursions and degeneration. "God commands justice, generosity and kind treatment with kith and kin, and forbids indecency, wickedness, injustice and oppression. He admonishes you so that you may learn a lesson (Qur'an 16:90).

The religion has elements of a permanent way of life which comprises a complete system of thought and practice and civilisation and have laid down principles and given detailed instruction for the solution of all human problems.

2.13.1 Interest

The first of the elements forbidden in Islam was interest. It is regarded as an economic evil harmful to society economically, socially, as well as morally. Imam al-Razi in his commentary of Qur'an mentioned some of the evils.

1. The taking of interest implies appropriating another person's property without giving him anything in exchange, because one who lends one '*dirham* for two '*dirhams*' get the

extra 'dirham' for nothing. Now, a man's property is for (the purpose of) fulfilling his needs and it has great sanctity, according to the '*hadith*' 'A man's property is as sacred as his blood.' This means that taking it from him without giving him something in exchange is *haram*.

2. Dependence on interest prevents people from working to earn money, since the person with *dirhams* can earn an extra *dirham* through interest either in advance or at a later date, without working for it. The value of work will consequently be reduced in his estimation, and he will not bother to take the trouble of making a business or risking his money in trade or industry. This will lead to depriving people of benefits, industries, trade and commerce, building and construction.
3. Permitting the taking of interests discourages people from doing good to one another as is required by Islam. If interest is prohibited in a society, people will lend each other with good will, expecting back no more than what they have loaned, while if interest is made possible the needy person will be required to pay back more on loans (than he has borrowed), weakening his feelings of good will and friendliness toward the lender. (This is the moral aspect of the prohibition of interest).
4. The lender is very likely to be wealthy and the borrower poor. If interest is allowed, the rich will exploit the poor and this is against the spirit of mercy and charity. (This is the social aspect of the prohibition of interest).

For the fact that interest was deeply rooted in the economic and social life of the community, the law of prohibition was gradually introduced to avoid unnecessary inconvenience and hardship to the people. (Rahman 1979).

a. The first injunction of the Holy Qur'an only reminds people that interest does not add anything to individual or national wealth but on the other hand decreases it. (Qur'an 30:39).

"That which you give in interest in order that may increase on other people's wealth. It increases not with Allah: but that which you give in charity seeking Allah's pleasure, increases manifold."

b. The second commandment forbids Muslims to take compound interest (usury) if they want real and lasting happiness, peace of mind and success in life (Qur'an 3:129).

"O you who believe? Devour not usury, doubling and quadrupling the sum lent. Fear Allah and observe your duty to Him, that you may really prosper." The devouring of interest had created greed, avarice, persimony and selfishness in those who took interest; hatred, anger, enmity and jealousy in those who had to pay it. Therefore, Allah had condemned and prohibited interest and prescribed charity as an antidote to it.

c. As some people were mixing trade with interest and did not find much difference between the two, the Holy Qur'an warns them of the evil consequences of this attitude and admonishes them to abstain from this evil.

"But those who devour interest cannot stand except like the one whom *Satan* has bewitched and maddened by his touch. They have been condemned to this condition because they say 'Trade is just like interest' whereas Allah has permitted trade and forbidden interest. He who after receiving admonishing from his lord, abstain from taking interest, shall be pardoned for his action: his affair is with Allah (to judge). But he who repeats the same offense, he shall go to hell, where he shall abide forever. Allah has deprived interest of all blessing and made charity fruitful. And Allah likes not an ungrateful sinful person."

In this verse the money lender is likened to a madman. Just as a madman loses his sense on account of his disordered intellect, in the same way the money lender is so concerned with money-making that he divorces himself from common sense. He is so senselessly foolish and impudent that he does not mind how his selfishness and greed are cutting at the very root of human love, human brotherhood and fellow feeling, and destroying the common good of mankind. He does not care that he is gaining prosperity at the expense of many. This is how he behaves like a madman in this

world. In the next world he will rise like a madman at the time of Resurrection, for in the Hereafter a person will rise in the same condition in which he dies here.

d. Then came the final commandment of Allah, prohibiting interest and declaring it unlawful in the society. (Qur'an 2:278).

"O Believers, fear Allah and give up interest what is still due to you from interest, if you are true believers; but if you do not do so, then take notice of war from Allah and His messenger. If however you repent and forego interest you are entitled to your capital do no wrong, and no wrong will be done to you. If your debtor be in straitened circumstances give him time till his monetary condition becomes better. But if you remit the debt by way of charity, it will be better for you if you only knew it."

The above verses of the Qur'an explicitly (without any shadow of doubt) prohibited interest and declared it unlawful.

2.13.2 Gambling

Gambling and all forms of betting, raffling or lottery are prohibited in Islam. The holy messenger by extension prohibited all forms of business in which monotary gain comes from

mere chance, speculation, conjecture and not from work. Prohibition of gambling like interest was gradual.

The first commandments simply referred to its evils and pointed out that its evil was greater than its profit. "They ask you concerning wine and gambling, say: "In them is great sin and some profit for men; but the sin is greater than the profit." (Qur'an 2:219).

The second and final commandment prohibited the practice altogether - "O Believers! Wine and gambling - and diving arrows are an abomination of *Satan's* handiwork. Leave it aside in order that you may prosper. Indeed *Satan* intends to sow enmity and hatred among you by means of wine and gambling, and to prevent you from the remembrance of Allah and from prayer. Will you not therefore abstain from these things? Obey Allah and His messenger and abstain from these things." (Qur'an 5:90).

There are sound and noble objectives behind this strict prohibition (Al-Qardawi 1984). They are:

1. The Islamic teachings urge the Muslims to follow Allah's directives for earning a living, to use natural laws and direct means for the attainment of his objectives, and to employ such causes as produce the desired effects. gambling, which includes raffling, or the lottery, on the other hand, makes a person dependent on chance "luck" and empty wishes, taking him away from honest labour, serious work and productive effort. The person

who depends on gambling loses respect for the laws of causation which Allah established and commended people to use.

2. In Islam, an individual's property is sacred; it may not be taken from him except through lawful exchange or unless he gives it freely as a gift or in charity. Accordingly, taking it from him by gambling is unlawful.
3. Although gamblers claim that loosing does not trouble them, practically they develop hatred and enmity toward one another. There is always a winner and looser. The looser may seem composed but behind his composure is frustration, anger and regret, frustration due to disappointment, anger at the loss of money, and regret for not having played a winning game.
4. Gambling has its own compulsion. The looser plays against in hope of winning the next game in order to regain his earlier losses, while the winner plays again to enjoy the pleasure of winning impelled by greed for more. Naturally luck changes hands, the looser becomes the winner and the winner the looser, and the joy of winning changes into bitterness of loss. Thus the gamblers may persist at playing the game, unable to bring themselves to leave it: this is the secret to addiction to gambling.
5. Because of this addiction, gambling is a danger to the society as well as to the individual. This habit consumes gamblers time and energy, making them non-productive idlers and parasites on society, who take but do not give, who consume but do not produce. Moreover, due to his absorption with gambling, the gambler neglects his obligations towards his Creator and his duties towards his community. It often happens that a

gambling addict sells his honour, religion and country for the sake of the gaming table, since his devotion to this table dulls his sense of values and kills all other devotions.

2.13.3 Probability of Risk

The holy Qur'an has explicitly forbidden all business transaction involving injustice in any form to any of the parties; it may be in form of deceit or fraud, or undue advantage or peril leading to uncertainty in the business or any dealing. "He has enjoined that you should use full measure and a full balance. We charge you only with that much responsibility that you can bear." (Qur'an 6:151-152). In another verse, Allah (SWT) states "Woe to those that deal in fraud - do they not think that they will be called to account on a Mighty Day? (83:1-).

Again in *Suratul Nisa* (4:29-30) Allah (SWT) said: "O Believers do not devour one another's property by unlawful ways; but do business with mutual consent."

It is narrated by Abdullahi bin Umar, Saeed bin Musayyab, Abu Hurairah and Ibn Abbas that God's messenger forbade all transactions containing the elements of probability.

Muslim jurists agree that the presence of probability in any business contract make sit invalid but they disagree on the matters relating to certain details of the specification of quantity or quality in goods that may lead to probability. (Rahman: 1979).

2.13.4 Uncertainty in Trade

Any type of transaction which leads to uncertainty with regard to the price (i.e. the amount of money) to be paid, or the quantity or quality of the object of the sale or the time of payment and the completion of the sale contract, is invalid. The price must be stipulated at some known and determinate rate and the quantity and the time of the payment because any doubt or uncertainty in any of these matters will render the contract void.

There are many sayings of the messenger of Allah which clearly forbade transaction based on conjecture and uncertainty. The purpose of the instructions was to make business transactions fair and eliminate the element of uncertainty from them as far as possible. It is narrated by Ibn Abbas that when the holy prophet came to Madinah, the people were paying one, two or three years in advance for fruit (dates), so he said to them "whosoever pays in advance the price of a thing to be delivered later should pay for a specified measure and weight with a specified period."

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3.0 CHAPTER III: RESEARCH METHODOLOGY

3.1 INTRODUCTION

Methodology refers to the theoretical perspectives or models that inform and guide the researcher in the choice of methods and techniques of investigation as well as analysis of the date collected. In this study, the methodology is in the following steps.

3.2 THE RESEARCH METHOD

Nature of study and information required determines the research method. The study centred on the present and on that basis, the survey method is adopted. Survey research studies both large and small populations by selecting and studying samples chosen from the populations to discover the relative incidence, distribution and interrelations of sociological and psychological variables. (Osuala 1982).

Advantages of the method over others in the present circumstances include:

i) Survey research is oriented toward the determination of the status of a given phenomenon rather than toward the isolation of conservative factors.

ii) The method gives an accurate assessment of the characteristics of the whole population.

iii) Surveys attempt to determine the incidence, distribution and interrelationships among variables.

iv) It focuses on people, the vital facts of people, and their beliefs, opinions, attitudes motivations and behavior.

v) The method identifies present conditions and points to present needs and based on that, sound decisions can be made.

vi) Surveys do more than merely uncover data. They interpret, synthesize and integrate these data and point to implications and interrelationships.

3.3 DATA COLLECTION

Three basic ways were used in securing data:

1. Direct observation
2. Indirect observation
3. Records maintained for other than research purposes.

Direct Observation: The method provides primary data. To ensure valuability of the data for the research, the following precautions were taken:

i) The observation centred on the area of interest i.e. insurance

ii) Observations were recorded as quick as possible

iii) The observations are free from evaluations and value judgments.

iv) Important aspects of the population were identified for proper observation and description.

Indirect Observations: Data was secured from discussions with friends, colleagues and professionals in the area.

Analysis of Data: Records maintained for other than research purposes were also used in securing data. Such records are contained in textbooks, magazines and journals.

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4.0 CHAPTER IV: PRESENTATION AND ANALYSIS OF DATA

4.1 INTRODUCTION

Islam is a dynamic religion. It recognises and appreciates the ever changing environment of man. Any issue or problem which is not explicit in the Qur'an and Sunnah Jurists or Scholars are permitted to make reference, interpret and proffer solutions. Insurance as it is today was not in practice during the life of the holy prophet (SAW) and this gave scholars the opportunity to differ on its verdict. In this Chapter, the opinions will be examined. Also, the Islamic arrangements on insurance will be presented.

4.2 INSURANCE IN ISLAM

There are basically two schools of thought on insurance. The first school is of the view that insurance business is not against any clear law of sharia. Therefore it can be accepted and practiced based on the principle that if a thing does no harm to anyone it can be accepted without infringing any principle of sharia as the prophet said "Do not harm and no harm will be done to you."

The scholars in the school also argued that there are many lawful practices which contain an element of probability (*Garar*) or uncertainty (*Jahala*), but are allowed by the sharia. For

example surety or guarantee (*kafalah)* mutual assistance or friendship (*Mawalah*) deposits (*Wada'a*) mortgage (*Rahn*) agency, contract of wages, etc. If these, they further argued, and many other contracts of the same kind having a considerable degree of probability are lawful, commercial insurance must also be considered lawful. According to them considering the legality and usefulness of the insurance institutions, both for the individual and the community , efforts must be to practice it as enjoined by the Qur'an. "Cooperate with all in what is good and pious."

4.2.1 The Opposing View

The proponents of the practice of modern insurance maintained that since sharia has not explicitly mentioned insurance contract, it is perfectly lawful to be practiced. Scholars not in the support of the view, further argued that even though sharia has not mentioned by name all the unlawful forms of business contracts of transactions, but has laid down the basic principles that determine validity or otherwise of many forms of business. To determine the validity of insurance contract, it must be viewed in the light of these principles. According to them, insurance is an invalid business due to the unlawful elements contain therein. The elements include interest, uncertainty, probability and gambling.

Another reason advanced in support of practice of the modern commercial insurance is that the holy prophet allowed people to carry on their business that involved elements of

probability or uncertainty. On this reason the scholars further argued that people had been used to such dealings over many years and had become a habit with them.

The problems associated with these dealings, therefore, need to be tackled with great care and wisdom. It is a fact of human history that no reform can be introduced into any economy by one statute of legislative act. And this general observation remain true for all times. Fully conscious of this historial process, the holy prophet, therefore, gradually introduced Islamic reforms into the economy of his own time. The people were long accustomed to so many forms of valid and invalid commercial transactions and they could not be stopped overnight. They were allowed for some time to carry on their business transactions according to their century old customs. As they grew stronger and firmer in their faith and fully understood the significance and wisdom of the law of sharia, the holy prophet started to purge the economy of its manifold evils one by one. Finally, before the end of the ministry, all invalid sale contracts and business transactions were disallowed while the valid forms of transactions were retained in the system.

For people to be safe from the exploitative elements of the modern insurance and at the same time enjoy the benefit of a lawful one, the Jurists suggested mutual and cooperative insurance.

4.3 THE ISLAMIC INSURANCE SCHEME

The Islamic scheme of insurance can be categorised into two:

a. Non-contributory (state)

b. Contributory (private)

4.3.1 The Non-contributory Insurance Scheme

Non -contributory insurance is an arrangement in which the insured is compensated on the happening of an event without making any contribution. Such schemes are mainly financed from Zakkat fund and are administered by the state. Public welfare and social security is the foremost economic obligation of an Islamic state. The social security philosophy of the state is based on the following principles:

i) All wealth and property belongs to Allah and the state, as vicegerent of Allah hold it as a trust from Allah. There are many verses in the Holy Qur'an which show that all wealth and property belongs to Allah and the community is holding it as a trust from Him:

> "And give them out of the wealth which Allah given you." (Qur'an 24:33)
>
> "To Allah belongs the Kingdom of the Heavens and Earth." (Qur'an 57:5)
>
> "Believe in Allah and His messenger and spend in charity out of the wealth whereof He has made you heirs." (Qur'an 57:7)

ii) That the state guarantee of social security for all its citizens is on condition of people's obedience to the state laws.

It can be deduced from many verses of the Holy Qur'an and the Sunnah of the prophet (SAW) that guarantee of social security for all members of the state is a pre-condition of their obedience to the state laws. The state can demand obedience to its laws from its members only if it guarantees social security to them against hunger, sickness, unemployment, etc. The state absolutely has no right to demand obedience from the people if it leaves them hungry, shelterless, sick and unemployed. The Holy Qur'an confirms this view in theses words:

> "Praise be to Allah, the Cherisher and Sustainer of the worlds. Most Gracious Most Merciful - Thee do we obey and Try help do we seek." (Qur'an 2:5)

From these verse we can see that even the Creator of the universe demanded obedience from His servants only after providing immense favours and unlimited benefits to them.

4.3.1.1 Meaning of Social Security

Social security is a government policy that involves making available necessities of life to every individual according to the prevalent custom, usage and common norms. It does not however mean that the state has to provide all these things to all its citizens. In actual practice, it is only the low paid and non-earning members of the community who need state help in one form or another.

Harry Calvert defined the social security law in these words:

> "Those legal mechanisms primarily concerned to ensure the provision for the individual of a cash income adequate, to ensure for him a culturally acceptable minimum standard of living when the normal means of doing so fails."1

4.3.1.2 The Social Security Schemes

Every individual has the right to livelihood in an Islamic state, and every citizen has the guarantee for his basic needs. It is in fact, the primary duty and responsibility of the Islamic state to see that every citizen gets his basic needs according to the principle of "right to livelihood." And there is complete equality among its citizens as far as the basic needs are concerned. According to this principle, the social security department guarantees the basic needs to all those who are sick, old, needy, poor, unemployed or invalids and are unable to work..

The social security system was fully practicalised by the holy prophet at Madinah (the headquarters of the welfare state). In the payment of social security benefits, the prophet did not distinguish between a Muslim and non-Muslim; and citizens of the state equally benefited.

The schemes are as follows:

i) Family Allowance:

The Islamic social security system recognises the need for children's allowances generally known as 'family allowances' on two grounds. First, Islam encourages people to have large families and therefore, provides an additional allowance for every child born in a family. Second, it makes extra provision for every child born in the form of additional allowance to enable

their parents to maintain them without hardship or suffering to the family. All people, irrespective of their financial position, benefit from this scheme.

ii) Maintenance or Supplementary Allowance

There is provision in the social security system to provide maintenance or supplementary allowance to those families with low incomes. If the income falls below a certain level depending upon the number of children in the family, it is entitled to maintenance allowance. All those families who fulfill the qualifying conditions of a low income or find their income not sufficient to maintain their large families have the right to claim financial assistance from the state social security system under this scheme.

iii) Invalid Allowance

Invalid people are those who have been rendered incapable of work due to prolonged or chronic sickness or accident, or to other reasons. Adequate benefits are paid to these people to maintain their families. If the invalid is unable to look after himself and needs constant care and attention, the social security department provides an attendant allowance for him.

iv) Widows Allowances

The loss of a single bread-winner, the main source of income of a family, can cause untold damage to the interest of the family members. Therefore, it is absolutely necessary that urgent steps must be taken at the death of a family man so that the bereaved family does not suffer as a result of his death.

Islam has made provision in its social security system to meet the needs of the family of the deceased through a widow's allowance scheme. The widows get reasonable allowances sufficient to meet the needs of their children.

v) Maternity Allowance

Child birth may often put extra burden beyond the normal capacity of some people, especially low-income families and thus cause undue suffering and hardship to them. The process of child-bearing entails additional expense and puts a heavy burden on poor people who usually have large families. The Islamic state regards it a legal duty to help such families during periods of confinement by giving maternity allowances to the expectant mothers of confinement and child-birth.

vi) Old Age Pensions

This allowance is mainly for the benefit of the old people who have no other source of income in their old age. The Islamic state takes the responsibility of maintaining the old people by granting them old age pensions.

vii) Miscellaneous Grants

The Islamic state is duty bound to help other people who may be rich but are temporarily under financial strain and are unable to meet their needs. The Holy Qur'an refers to this legal obligation of the state in these words:

> "Alms (Zakkat) is for the poor and the needy and those employed to administer the fund: for those whose hearts have been recently reconciled and debt; in the cause of Allah; and for the traveler, thus it is ordained by Allah, and Allah is full of knowledge and wisdom."
> *(Qur'an 9:60)*

The people referred to in this verse include:

a. Captives of War: Captives of war taken prisoners by the enemy of war taken prisoners by the enemy must be fed even if their ransom in monetary terms has to be paid by the state. Ordinary offenders who have been imprisoned for petty crimes or as a result of civil suits should also be helped to win their freedom by paying their ransom money from the Zakkat Fund.

b. People in Debt: All those people whose liabilities of debt are more than their personal assets should also be helped out of the Zakkat Fund to pay off their debt. However, it is important to see that the debts no circumstances

were incurred for unlawful activities of the debtor e.g. indulging in luxuries, drinking, gambling, etc. The debt must be incurred to provide for the necessities of life, assisting others or other similar purposes.

c. Travelers (Wayfarers): A person who becomes destitute, but who cannot benefit from his wealth because he is away from home on a journey is called the wayfarer. He needs financial aid to enable him complete his journey. He can be provided with financial help out of the Zakkat Fund up to certain requirements during the journey, provided the journey was not undertaken merely for pleasure or for holidaying.

d. Guarantors: When someone accepts security on behalf of a friend or stands guarantee for a neighbour for a debt due by him and who fails to honour his promise, there could be many enforceable factors, e.g. fire, flood, earthquake, lightening, etc. beyond anyone's control which might adversely affect that friend's or neighbour's financial position and render him unable to fulfill his promise.

The guarantor has done a good job in providing assistance to another person by guarantying him, therefore he should not be left to suffer for this act of kindness. It is the duty of the state to come to his aid.

4.3.2 *The Contributory Insurance Schemes*

In the contributory schemes, the participants pay contributions and those who suffer loss, benefit from the common fund. The policy holders are themselves insurers as well as the insurees. The motive is not profit making but self helping through cooperation with other members of the society. There are two types of contributory insurance:

i) Mutual Insurance

ii) Cooperative Insurance

4.3.2.1 Mutual Insurance

Definition: *It is a joint guarantee against loss to any member of the group* (voluntarily formed). In mutual insurance, members of the group guarantee jointly that if any of them suffers a disaster he will receive certain sum of money to help him meet the loss.

4.3.2.2 Organisation

Mutual insurance societies are established on the following principles:

i) **Mutuality:** The motive of the scheme is helping through cooperation with other members of the society. Mutuality is the basis of this form of insurance. Each insuree cooperates with other insurees to lessen the effect of a calamity *which may have fallen upon any of them.*

ii) **The Contract**: It is a mutual agreement between members of a group to compensate one another in the event of a loss in return for a contribution.

iii) **The Premium**: Premium in mutual insurance is meant to cover expenses in case of loss. The amount is therefore small and paid instalmentally. It is also paid at no profit, no loss basis.

iv) **The Policy**: Policies in mutual insurance depend on the mutual agreement of members. Compensation covers events or losses that are agreed upon.

v) **Indemnity:** The sum payable is determined by the extent of the loss suffered. The principle behind mutual insurance is very comprehensive and is not limited to the mere paying out of compensation to those who suffered a loss, but goes far beyond, sometimes beyond the limit of its own common fund. Its rights stretches to other insuree's wealth.

CLASSIFICATION

Mutual insurance societies can be classified based on motives and class of membership. The groups are as follows:

1. **Public or Private Societies**

   Mutual societies can be organised by private individuals. In this case membership is voluntary. Government also for one reason or the other may organise mutual societies and made membership compulsory.

2. **Rural or Urban Societies**

Mutual societies operating in the rural areas provide cover against risks quite different from those of the urban societies and are, therefore, organised or operated on a different basis.

3. **Independent Producers or Wage-earners**

In former times, private mutual societies were organised mainly for humanitarian purposes but now these are formed meet the economic needs of their members. Various types of mutual societies can be formed farmers, wage-earners, landlords, manufacturers, etc - to meet the insurance needs of their members.

4. **Big or Small Societies**

Size or scope of a society is determined by the motive and status of its members. Big societies are formed to meet the economic needs of their members. While small societies are generally formed for social motives.

5. **General or Special Societies**

This classification is based on the sphere of operation of the mutual society. Societies which provide cover against different kinds of risks e.g. fire, life,

burglary, motor-car, etc are called general, and those which operate in the specific branch of insurance are called special.

6. **The Assessment Mutual and the Advanced Premiums**

This classification results from the method of collecting the premiums and covering of losses. In the assessment mutual societies, members contribute fixed amount agreed upon in advance in case of any calamity falling upon a member.

In the advanced premium plan, the estimated premium is paid in advance for one year. In case of losses the members are likely to pay an additional premium and if over-charged they are paid back a dividend.

4.3.2.3 Cooperative Insurance

Definition: Cooperative insurance is merely the application of the cooperative principles to the field of insurance. The aim of cooperative organisations is to establish a business enterprise vested with continuity and permanency.

A general definition of cooperative insurance containing all its essential elements, may be given as follows:

"Cooperation is a voluntary organisation with unrestricted membership and collectively owned funds, comprising wage-earners and small producers in towns and country for the establishment of enterprises under joint management with the purpose of improving their household and/or business economy or creating facilities for work: It is built on a democratic basis of equality and common interest, and surpluses produced are allocated to reserves or distributed among the members in proportion to the utilisation by them of the facilities provided by the organisation."

Organisation

Cooperative insurance societies are established on the following principles:

i) **Principles of Cooperation**

Cooperative insurance is a collective enterprise, but is based on the personal interest of the insured. Individual policy holders are loyal and responsible to each other. The society is organised on democratic basis. Each member has one vote at the general meeting of the society. He even participates in the operation and general management of the cooperative society by electing its board and officers.

ii) **The Contract**

It is an agreement between a member and the society to improve his standard of living (surplus income, compensation in the event of loss, etc). In return for contribution (premium or capital) usually paid instalmentally. The entire basis of business or insurance in particular rest upon the plurality of members. The larger the number of share/policy holders, the cheaper and safer will be the scheme.

iii) **The Premium**

Premium or share capital is fixed and paid at once or instalmentally. It is recoverable when the need arises.

iv) **The Policy**

Cooperative insurance is organised on the basis of membership which is unrestricted. Anyone can become its member without any discrimination between occupation or localities of greater risk. As such its insurable interests covers the trading and personal interests of members.

v) **Indemnity**

In the event of any loss, personal or business, the member concerned will be compensated accordingly. Funds not used for such purpose i.e. surplus, is distributed among share or policy holders in proportion to their contributions in the creation of the surplus.

CLASSIFICATION

Cooperative insurance societies differ greatly in their organisation and field of operation. However, they can be divided into two main groups:

a. General Societies

These societies operate in various fields of insurance. They include:

i) Primary Cooperative Insurance Societies:

Primary societies are established by individual members and function more or less on the same lines as primary cooperative societies in other fields of cooperative activities.

ii) Secondary Cooperative Insurance Societies:

These societies are usually formed by local cooperative societies, trade unions and other labour organisations with or without the participation of individual members.

iii) Third Grade Cooperative Insurance Societies:

These societies are formed by cooperative wholesale societies or cooperative unions with or without the participation of local cooperative insurance societies.

b. **Special Societies**

Special cooperative societies operate in one branch of insurance only.

i) Cooperative Labour Insurance Institutions:

These are institutions organised by workers to look after and support the dependents of its deceased members. Such societies can be formed jointly by consumers cooperative insurance societies and the trade union organisations.

ii) Agricultural Cooperative Insurance Societies

These societies are organised to insure risks associated with agriculture, e.g. risk of hail, livestock, crops, forest fires, windstorm, floods and other weather hazards.

Agricultural insurance is affected by two special factors. First, it has to deal with policy holders who are scattered all over the land. Second, there is difficulty of close supervision of the policy holders and the insured objects.

The societies may be formed by individual members or have a state aided national system.

iii) Cooperative Employers Insurance Societies:

In places where employees are not protected by state insurance, they need to form cooperative insurance societies to safeguard their various interests. The societies can be formed based on trade, industry, profession.

4.4 DIFFERENCES BETWEEN COMMERCIAL INSURANCE AND CONTRIBUTORY INSURANCE

Modern commercial insurance and the contributory insurance can be differentiated on the following groups:

i) Commercial insurance is organised on the basis of profit, whereas contributory insurance is based on mutuality and cooperation.

ii) Commercial insurance companies are owned, controlled and managed by shareholders who are rarely policy holders of the same company. Whereas, contributory insurance is controlled and managed by the policy holders themselves.

iii) Insurance companies distribute profit among shareholders, while mutual or cooperative societies distribute profits, if there are any among policy holders.

iv) Commercial insurance companies operate in the interest and for the welfare of shareholders, while contributory insurance societies operate for the interest and welfare of its members who are the policy holders.

v) Funds in commercial insurance belong to the shareholders, while in mutual and cooperative societies, funds belong the policy holders.

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5.0 CHAPTER V: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

In the introductory part of the study, the problem under study, its scope and limitations were stated. The value of the research to others was also explained.

To put the study into perspective, contribution of other authors in the field of insurance, was reviewed. In the course of the review, the modern commercial insurance was critically analysed and found to be exploitative, especially for the insured. This is due to the presence of exploitative elements like interest, gambling, probability and uncertainty in the system. Islam, a religion based on principles of justice and equity prohibited these elements in a business transactions.

On research methodology, the survey method was adopted in the conduct of the study. Data collected by means of direct and indirect observations. Reference was also made to secondary sources like text books, journals, magazines, etc.

From the data collected it was discovered that Islamic insurance is viable alternative to modern exploitative insurance system. The Islamic schemes are in form of contributory and non-contributory run by private individuals or group and the state respectively.

5.2 FINDINGS

When the family or tribal life was replaced by urban life, the individual found himself open to multifarious perils and without the family or tribal protection. Under these circumstances, the individual was largely deprived of family or tribal protection and therefore he looks for other kinds of safeguards. The fulfillment of this need was found in insurance. Difference insurance systems were evolved and practiced in different societies and time. This study examines the western and Islamic insurance systems. The following findings among others were arrived at:

i) Human activities are surrounded by risks and the need for safeguards against them is inherent in man.

ii) The western insurance system widely in practice, currently is exploitative due to the presence of exploitative elements like interest, gambling, probability and uncertainty in the contracts.

iii) Islam being a religion based on the principles of justice and equity prohibited interest, gambling, probability and uncertainty in all forms of business transactions - insurance inclusive.

iv) In the Islamic system, the state runs non-contributory insurance schemes on personal perils like sickness, accidents, death and the like. The schemes are financed from Zakkat and other related sources.

v) Contributory insurance schemes are organised by private individuals on mutual and cooperative basis. Such schemes cover all areas of human endeavour.

5.3 CONCLUSION

The increasing vulnerability of business environment, has made insurance indispensable. From the discussions and findings, it was discovered that the western insurance system currently in practice, is not only unable to fully satisfy the insurance needs of man, but also proved to be exploitative especially for the insured. This study, therefore presents the Islamic insurance system as a viable option. The system unlike the status-quo (modern insurance) is free from exploitative elements like interest, probability, gambling and uncertainty. Not only that, the system was founded on the principles of justice, equity, mutuality and cooperation.

Other conclusions reached by the study include:

A. The modern insurance system is fraught with number of pitfalls. Among them are:

i) The ignorance of the insurees and the complex nature of the policies have left the insurees at the mercy of insurance companies and their agents.

ii) The policy holders pay more than is necessary to cover the cost of services rendered to them by the insurance company.

iii) There is good deal of profit making and exploitation in commercial insurance.

iv) The benefits of commercial insurance are not distributed evenly among all groups of society.

v) The system displays all the features of a modern capitalistic enterprise especially in its tendency towards monopolistic organisation.

B. Insurance is a basic human need, as accidents and their financial consequences requiring insurance cover are universal. Sudden death, disability, disease, unemployment, fire, flood, storm, drowning and accidents related to transportation and the financial loss caused by them are not dependent on one's voluntary actions or occupation. Often the victim and his family are reduced to penury. Invariably their economic efficiency is impaired to the extent that it depends on money and property. This reality requires that insurance be treated as a basic human need over a very wide range of human activities.

C. The need for protection against perils and hazards and the associated financial losses that everyone faces is as important as the maintenance of law and order. Just as the state will not abandon this duty, it should also not entirely left the fulfillment of the insurance needs in the hands of profit seeking entrepreneurs. It should provide succour to people in distress and fulfill needs arising out of any sudden accident, congenital deformity, temporary unemployment, old age, or the death of the family bread-winner. In addition to that the state should also provide an enabling environment for the growth and prosperity of mutual and cooperative insurance societies.

5.4 RECOMMENDATIONS

The role of insurance in the economic development of any nation cannot be overemphasised. By means of insurance uncertainty of loss (financial and otherwise) is minimised and this fosters efficient utilisation of resources. Due to the linkage between economic development and insurance, the institution should be made to function effective. In the light of this, the study do hereby recommend the followings:

i) The state should bring under its jurisdiction all life and medical insurance and most of insurance against accidents. In addition to that, the state should also take preventive measures on perils involving money and properties.

ii) When human life, limbs or health comes to harm by an industrial accident or when it is impaired while carrying out a duty assigned by the employer, the burden of the relief and compensation should be borne by the factory or company. Not only that, employers should be made to pay unemployment benefits if the unemployment is due to some measures taken by them.

iii) A proper fulfillment of the need for insurance is possible only when sufficiently large numbers of people facing the same risk could be associated with it so that the law of averages could reliably operate. In the light of this, mutual and cooperative insurance societies should be allowed and encouraged to flourish.

iv) Individuals and corporate bodies holding policies under the present dispensation should appraise themselves of the insurance law. This is to avoid or at least minimise the current exploitation of the insurees by the insurance companies.

v) There is need for authors to bring into lime light non conventional insurance measures. This will check the undue use of monopolistic power by the insurance companies.

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TABLE 4.2

Contribution of Life Insurance to Total Savings, 1970 to 1983 (₦' Million)

Year	Total Savings	Life Insurance Contractual Savings
1970	586.83	5.46 (0.93)
1971	983.08	10.96 (1.11)
1972	1,578.43	11.70 (0.74)
1973	720.20	13.11 (1.82)
1974	1,815.20	19.69 (1.73)
1975	1,815.20	25.69 (1.42)
1976	2,255.30	34.49 (1.53)
1977	2,592.80	50.90 (1.96)
1978	3,009.40	65.25 (2.17)
1979	4,156.80	69,19 (1.66)
1980	5,769.90	95.89 (1.66)
1981	6,819.70	121.87 (1.79)
1982	8,052.60	122.77 (1.52)
1983	9,443.10	135.05 (1.43)

Sources : 1. *Compiled from Savings Statistics in CBN: Economic and Financial Review, 1977 – 84*

2. *Federal Ministry of Finance and Economic Planning, Insurance Department.*

The figures in parenthesis represent percentage of the total.

TABLE 4.4

The Financial Results of the Nigeria Reinsurance Corporation

Insurance Funds	1978	1979	1980	1981	1982	1983	1984	1985	1986
Gross Premium	22.00	65.26	64.56	94.29	96.00	113.21	108.79	123.29	115.33
Technical Reserves	12.89	28.00	36.65	55.85	63.75	77.55	82.97	89.32	90.69
Underwriting Profit	2.38	3.97	7.12	9.79	12.10	10.44	10.70	4.58	23.80
Profit Before Tax	1.43	5.28	9.04	12.41	14.21	14.15	13.10	10.81	25.98
Shareholders' Funds	4.92	11.51	16.03	22.24	39.34	43.80	46.80	47.97	53.52
Total Assets	19.69	51.82	76.99	126.44	156.74	202.22	217.83	213.13	238.11

Source: Nigeria Reinsurance Corporation