



The Uncertainty of Conventional Health Insurance Scheme: solutions through Takaful in Nigeria

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Abstract ;

The objective of this article is to critically review the health insurance scheme in order to unfold its uncertainties and provide the possible through Takaful (Islamic insurance) in Nigeria. The study used secondary data/desk review on the related literature. The study finds that health insurance is a special coverage that provides for the payments of benefits as a result of sickness or injury. The paper concludes that Cconventional insurance seems to be weighing risk and burden of uncertainty upon some parties, while Sharia considers any transaction as a humane. Therefore, the article made recommendations for adopting takaful as a better alternative to conventional health insurance scheme in Nigeria, such as: all Shariah complying States in the northern Nigeria and those state governments that have significant percentage of Muslim population across the country should implement takaful in the medical and health sector with a view to enable Muslims benefit from it as a “halal” health insurance scheme; well coordinated body for managing the Takaful in different aspects our life.

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1. **Introduction**

Insurance is one of the old practices in the history of mankind. Historians have reported that, the people of Hammurabi have started something to do with insurance two thousand years because the birth of Jesus. The Romans and Greeks later continued the practice. This practice continues to be adapted from one nation to the other up to the 15th century. The 15th century witnessed the beginning of insurance in more organized form with offices and banking system, which started in Italy. The insurance started with ships and the goods they transported at that time. Subsequent developments included insurance for human lives and ship captains. It continued until life insurance was exclusively initiated and insurance became universal enterprise not only for ship captains. It was in 1583 that receipt of life insurance was made for English called Richard Martin (Murtala, 2022).

In 1666, a very huge fire disaster took place in London which culminated in the burning of about thirteen thousand houses, as a result of which fire disaster insurance was introduced. However, insurance is a new scheme to Muslim world, until the time of Sheikh Muhammad Amin bn Umar, popularly known as Ibnu Abidin Al-Hanafi (who died in 1252H). Al-Hanafi was the first Muslim scholar who spoke about

insurance in his book titled “Raddul Muhtar Alad Durril Mukhtar”. Even then, the insurance was only used on goods freighted through the sea or ocean. Ibnu ‘Abidin (Al-Hanafi) stated that: “an important issue about what businessmen do for their security, whereby an infidel who should be fought is indemnifying all the goods that have been lost in ships” (Ibnu ‘Abidin, 170, as cited in Murtala, 2022). This is how it continued up till this moment that insurance is universal even in Muslim countries, despite the reservation of shariah on the elements of conventional insurance.

Thus, an Islamic version of the insurance is important in order to overcome the problems associated with the conventional insurance from the lenses of Islamic shariah. Today, the Islamic insurance is found in different areas including that of health and other related matters. One of the challenges facing the whole of Africa and Nigeria in particular, is in the area of health insurance system. According to the World Health Organization WHO (2010), Nigeria is among the five countries that contribute 50% to the annual global mortality among infants and children below five years of age, as a result of several curable diseases like Malaria, measles, diarrhea, malnutrition and inadequate immunization. In order to tackle these diseases, the federal government of Nigeria has made medical service

accessible, available and affordable to the masses by establishing National Health Insurance Agency (NHIS) under the law of CRA 2005 Decree 35 of 1999, with the aim of imposing out of pocket payment for improving healthcare services.

In view of this background, the paper will critically review the health insurance scheme in order to unfold its uncertainties and provide the possible through Takaful (Islamic insurance) in Nigeria. The article is divided into six sections: section is introduction; section two deals with conceptual clarifications of the health insurance scheme and its typology; section three is the discussion on the uncertainties of conventional health insurance; section is the solution of these challenges through Takaful Islamic (insurance) in Nigeria; section five concludes the paper; and section is the recommendations.

2.0 Health Insurance Scheme

Health Insurance is a term that relates to a type of insurance which essentially covers client(s) medical expenses. The principles of health insurance are like other policies. The health insurance policy is a contract between an insurer and an individual / group in which the insurer agrees to provide specified health insurance cover at a particular “premium” subject to terms and conditions specified in the policy (IRDA, 2011). This is because Outreville (1998) sees a contract

of insurance in which one party, the insurer, undertakes, for a premium or an assessment, to make a payment to another party, the policyholder or a third party, if an event that is the object of a risk occurs. It is often defined as a contract of indemnity. The insured is not to make any profit out of the insurance but should only be compensated to the extent of the pecuniary loss.

According to Rangachary (2001), health insurance is commercial establishment and the management of insurance company expects at the end of the period to get a return on the investment that it has made in setting it up. According to IRDA (2011), Health Insurance Policy would normally cover expenses reasonably and necessarily incurred under the following heads in respect of each insured person subject to overall ceiling of sum insured (for all claims during one policy period).

- a) Room, Boarding expenses
- b) Nursing expenses
- c) Fees of surgeon, anesthetist, physician, consultants, specialists
- d) Anesthesia, blood, oxygen, operation theatre charges, surgical appliances, medicines, drugs, diagnostic materials, X-ray, Dialysis, chemotherapy, Radio therapy, cost of pacemaker, Artificial

limbs, cost or organs and similar expenses.

Lastly, Gary (2015) sees health insurance as a special coverage that provides for the payments of benefits as a result of sickness or injury, which includes insurance for losses from accident, medical expense, disability, or accidental death and dismemberment.

2.1 Types of Health Insurance Scheme:

2.2.1: Cooperative Insurance

The cooperative insurance is a mutual aid system where the members share their premium to establish mutual assets, and the funds are paid out at times of unexpected contingencies, to compensate for the financial deficit and stabilize the lives of the members and their family in preparation for various risks that jeopardize our daily life such as the death, hospitalization, house damage or traffic accidents (JCIA, 2021). A cooperative is a non-profit organization established voluntarily by a group of people who desire to improve their lives and carry out various activities. Anyone who pays membership fee in accordance with the terms and conditions of each organization can become a member. The members of a cooperative are able to take advantage of various services offered by each cooperative and can reflect their own views on the operation. As symbolized by the slogan, "One for all and all for one," cooperatives aim to

protect and enrich the lives of their members based on the concept of mutual help (JCIA, 2021).

As an insurance business, Takaful is perceived as a cooperative insurance, where members contribute a certain sum of premiums money to a common fund with not profits purpose but to uphold the principle of "*bear ye one another's burden*" (Barakah & Al-Saleh, 2011). The services of cooperatives are wide-ranging and related to all aspects of our daily life, including agriculture, forestry, fisheries, purchasing, banking, insurance, job creation, traveling, housing, welfare, and medical care. Cooperatives around the world share the same principles to put these values into practice. Especially, they are internationally expected to serve as one of the organizations to be able to resolve or relieve social problems in each country including unemployment, poverty, and disparity (JCIA, 2021). Muslim jurists generally agree that Islamic insurance Takaful is based on principles of mutuality and cooperation (Barakah & Al-Saleh, 2011). This is because there are necessities for shared responsibility, joint indemnity, common interest and solidarity, and freedom from Islamic forbidden elements such as gambling, uncertainty and interest.

2.1.2: Commercial Insurance

Commercial insurance, also called business insurance, can shield your

business from costly risks like injuries, theft, property damage, and lawsuits. Small business owners can purchase different types of commercial insurance coverage, which compensate them for financial losses arising from a variety of situations (Tech Insurance, 2022). Generally, commercial insurance protects a business from standard risks, or liabilities, including: client lawsuits; Property theft and damage; customer or employee injury; and unexpected events. It will not protect a business against everything, but business insurance can be a lifesaver in (potentially) expensive situations (Tech Insurance, 2022).

One of the most important components of a business entity's insurance program is the coverage provided by *commercial general liability (CGL)* policies. These traditionally broad policies insure against the risk that the insured may cause injury to third parties. Accordingly, this type of insurance policy – protecting the insured against claims for damages brought by third persons or entities – is often described as providing “third-party coverage,” in contrast to policies providing “first-party coverage,” which cover damage to the insured's own property. Most all liability policies, including the CGL, furnish a defense for the insured. That means that the insurer appoints and pays an attorney (and court costs) to defend the insured in a lawsuit stemming from a covered

occurrence. Prior to a suit being filed, the insurer will investigate the claim and may make a pre-suit offer to resolve it. Importantly, the insured is obliged to fully cooperate in the investigation and, if suit is filed, in the defense. In most situations, the insurer has the right to “control the defense” in the sense of deciding whether or not to settle the claim or go to trial, but the interest of the insured have to be paramount (Lexis, 2019).

Commercial insurance is divided into two main categories: property insurance and casualty insurance. Property insurance provides coverage for property that is stolen, damaged, or destroyed by a covered peril. The term “property insurance” includes many lines of available insurance. Commercial Property, Inland Marine, Boiler and Machinery, and Crime are the most common commercial property coverage lines (Metropolitan Adjustment Bureau, 2007). As with other insurance policies, there are two types of protection typically provided by CGL policies: indemnity (liability) coverage and defense coverage. Indemnity or liability coverage pays a third party for injury or damage for which the insured is legally liable. Payment can be by way of settlement or after a finding of liability at trial. Keep in mind, however, that except in extraordinary circumstances, the insurer's

obligation to pay is limited to the policy limits purchased.

For many commercial policyholders, their property – physical, tangible, and other, in whatever form the interest – is a valuable asset. Most large businesses typically purchase first-party property insurance policies, one of the oldest forms of commercially available insurance coverage. They do so specifically to protect their property against fire, explosion, weather conditions, and other common perils. As discussed below, first-party property insurance comes in a wide variety of forms that have evolved over time, and becoming, in recent years, increasingly specialized and complex (Lexis, 2019).

Lexis (2019) adds that *commercial property* insurance comes with specially designed underwriting and placement requirements. They are usually intended to provide the insurer with sufficient information by which to value the property and evaluate the risks that may threaten the property. In most standard property insurance policies it is those risks, known in the language of the policies as “perils,” that provide the fundamental basis for the grant of coverage. In other words, coverage often exists or not under the policy based on the specific inclusion in the grant of coverage of the loss causing peril. If the peril causing the loss is not stated, there is no coverage. A proper understanding

of these perils and how they are addressed within the policy is often critical in ensuring that the policyholder has the needed coverage.

3.0 Some Uncertainties in Health Insurance Scheme

Three main factors that render the operations of conventional insurance “haram”, or Islamically non-permissible are: the presence of *gharar* (uncertainty) or excessive uncertainty; *maisir* (gambling) or gambling; and *riba* (interest) or usury or interest (Muhamat, Jaafar & Alwi, 2017). These factors will be explained in the following sub-sections:

3.1: Gambling

By definition, gambling refers to giving or taking money or goods depending on something that is not known how it will end (Questions in Islam, 2013). No matter what the name is, any game or bet that has this property and that is played in return for money or goods are called gambling. The word “maysir” mentioned in the Quran is derived from the word “yusr”, which means ease, which indicates that money or goods are obtained or lost easily in gambling. Gambling is a way of obtaining undeserved money which makes man forget his Creator, prevents him from performing prayers, leads him to laziness, eliminates his strength to work and causes grudge and enmity

among people. All kinds of gambling, which causes irreparable wounds in individual and social life, are *haram* in Islam (Questions in Islam, 2013).

Islam forbids gambling because it is the mother to various social ills. Gambling is an activity that aims to get speedy wealth to serve those with greedy desires. Gambling addictions shall, if left uncontrolled, contribute towards the collapse of individual's self-esteem as well as the institutions of family, society and the country. As such, the issuance of gambling permits by the Government does not fulfill the needs and rights of non-Muslim (Ahmad, Salleh&Halim, 2019). The following verses are from the Quran regarding gambling in Islam:

O ye who believe! Eat not up your property among yourselves in vanities (Al-Baqara, 2/88).

Allah The Most High also prohibited gambling alongside other abominable acts in the following verse, thus:

“O ye who believe! Intoxicants and gambling, (dedication of) stones, and (divination by) arrows, are an abomination- of Satan's handiwork: eschew such (abomination), that ye may prosper. Satan's plan is (but) to excite enmity and hatred between you, with intoxicants and gambling, and hinder you from the

remembrance of Allah, and from prayer (al-Maida, 5/90, 91; Ibn Abidin Raddu'l Mukhtar, İstanbul 1307, V, p. 355; Hamdi Yazır, HakDiniKur'an Dini, İstanbul 1960, II, p. 766).

In a general sense, Pingle (2010) notes that insurance is like gambling as it is similar to casino business. The casino business is that of converting certainty into uncertainty, such that at least one of the uncertain outcomes results in a gain for the gambler. Where else besides a casino can a person legally earn a 100% rate of return in about one minute? This is exactly what happens when winning bet is made on red in roulette. In exchange for providing this service, the casino takes 5.26 percent of the average bet on red, which allows the casino to pay its costs and earn a profit. The 5.26 percent advantage for the house implies the average gambler must lose (Pingle, 2010).

Because the average gambler must lose, a rational individual must exhibit “risk-seeking” behavior in order to gamble. Behavior is risk-seeking when facing an uncertain situation with a particular expected value is preferred to receiving the expected value amount with certainty. When placing a \$1 bet on red, the gambler could receive more than the -\$0.0526 expected value, because a zero change in wealth can be obtained for sure by not

placing the bet. Thus, the gambler is a risk seeker (Pingle, 2010). This risk is not permissible to be undertaken by a believer because it will affect him, his dependents like family and other members of the community.

3.2: Risk

Risk is defined as uncertainty, volatility or variability in the expected outcome of the process or event. Risk may be differentiated between one that is measurable and quantifiable and that which is not measurable and therefore quantifiable as uncertainty (Majmudar & Parikh, 2008). Risk could be described as the possibility that events will develop worse than planned. The management could not know for certain as to what premiums to charge, or how much to reserve, nor what investment return will be made. Both the variability and the uncertainty are important in understanding risk (Majmudar & Parikh, 2008).

Business insurance is designed to protect your company against *insurable risk*, or the likelihood of a loss. But it's important to understand that even the most comprehensive insurance policies do not cover every type of risk. Insurable risks are risks that insurance companies will cover. These include a wide range of losses, including those from fire, theft, or lawsuits. When you buy commercial insurance, you pay premiums to your

insurance company. In return, the company agrees to pay you in the event you suffer a covered loss. By pooling premiums from many policyholders at once, insurers are able to pay the claims of the few who do suffer losses, while providing protection to everyone else in the pool in case they need it (Tech Insurance, 2022b).

All relevant potentially material risks should, as a minimum, be addressed by the insure in its own risk and capital assessment. Risk that is generally readily quantifiable should be reflected in sufficiently risk sensitive regulatory financial requirements. For risks that are less readily quantifiable, regulatory financial requirements may need be set in broad terms and complemented with qualitative requirements. Risk sensitive regulatory financial requirements should provide incentives for optimal alignment of risk management by the insurer and regulation. A risk sensitive solvency regime could use some or all of the following: i.) premium risk; ii.) claims risk; iii) expense risk; iv) asset / investment riskv) underwriting risk; vi) reserve risk exchange; vii) credit risk; viii) exchange / Currency mismatch risk; ix) market risk; x) operational risk; xii) growth risk; and xiii) volatility risk (Majmudar & Parikh, 2008). In emphasizing the nexus between risk and uncertainty associated with insurance, Pingle (2010) stated that know the risk

seeking behavior is only the result of the “thrill” associated with facing the uncertainty.

3.3: Uncertainties

Conventional insurance business is fraught with uncertainties due to its very nature. Unlike life assurance business, general insurance comprises very many types of covers or sub – classes with distinct characteristics of their own, with broad classifications of long – tailed and short – tailed business. A general insurance policy is usually issued for up to one year, though longer term policies are not uncommon. A claim may or may not occur during the term of a policy. Even when the contingency covered under the policy does occur, the amount of the claim may be the full sum insured or less and in some cases, the amount may not be known for quite some time in the future. Further, there may be several claims with varying frequency, size and amounts during the term of a policy (Majmudar & Parikh, 2008).

Takaful has no contact with excessive uncertainty (*al-ghararalkathir*) since the part of installments paid by each participant is considered to be a donation or voluntary contribution that is directed to a special fund. Should an insured accident occur, this fund is used to provide the compensation. In addition to paying the money necessary to cover the sum of the damage the participant can be

sure he will be paid the income from the other part of installments on basis of the PLS (*profit and loss sharing*) system regardless of occurrence of insurance accident. The operator is aware of the amount of his share that the terms of a contract provide a certain amount of the share agreed upon by the parties to a contract. The amount of income depends exclusively on the operations carried out by insurance company and does not appear to be a fixed interest that does not depend on income (Cheikh, 2013). Life, health and property of a man is believed to be in the possession of Allah, so it is quite natural from the point of Islam that there is uncertainty about what is going to happen to them:

Verily the knowledge of the Hour is with Allah (alone). It is He who sends down rain, and He Who knows what is in the wombs. Nor does anyone know what it is that he will earn on the morrow (Surah Lukman, 34).

An influential text for the analyses of uncertainty and risk is Frank H. Knight's Risk, Uncertainty and Profit, originally published in 1921 (2006, cited in Lehtonen & Hoyweghen, 2014). Reviewing the basic orthodox economics of his time he examined the ways in which profit arises in the context of free competition. His main claim was that economic theory had failed to make a

strict conceptual distinction between two kinds of risk, the first of which concerns statistical probability calculations, and the second, unique instances and events, the likelihood and success of which can only be estimated, not calculated. The first one he calls 'risk' proper, and the latter 'true uncertainty' (Knight 2006: 46; 232–233). According to Knight, profit only arises from the latter, the chance occurrences. This is because if the probability of events is more or less known, as it always is when risk calculations can be applied, competitive markets make sure that no one can gain in the long run. Profit is 'the one true residual in distribution' (Lehtonen & Hoyweghen, 2014).

Knight insists that it is the role of the entrepreneur to bear the results of true uncertainty, both the positive and negative profits which it gives birth to. Therefore, uncertainty is not a negative thing but a positive precondition for profit making. When a business decision on a large commitment is made, to take Knight's own example, there is no way to calculate the likelihood of the business succeeding. This cannot be done a priori. Nor are there large numbers available. Yet there is information available on somewhat similar cases, and thus the decision can be made based on judged (Lehtonen & Hoyweghen, 2014).

Riba, interest, or usury is strictly prohibited in Islam as dealing with Riba-

based transactions means declaring war with Allah Almighty and His Messenger (Muhammad, peace be upon him) Sura-e-Al-Bakara (2:279). Islam is defined as total submission to Allah Almighty without any condition. It is a complete code of life that consists upon the instructions of Allah Almighty and the practices of the Holy Prophet Muhammad (Peace be upon him). As mentioned by Ahmad, Kashifur-Rahman, & Humayoun (2011), everyone in this world performs religious, social and economic activities in one's life. But most of the times social and economic activities are originated and linked with the religious activities. Islam provides a comprehensive set of instructions to face any challenge. Economic activities reflect the earning and spending pattern of people, which is closely associated with religion in the form of being permissible (Halaal) or forbidden (Haraam).

4.0 Solution through Islamic Insurance (Takaful)

Islamic insurance is in other words called *Takaful*. The word *Takāful* is an infinitive noun (masdar) which is derived from the root verb *kafala* which, in general terms, means joint guarantees (Adepoju, 2013). Thus, *Takaful* could be used to refer to "shared responsibility", "shared guarantee", "collective assurance", "mutual undertakings" etc. It is an understanding among a group of people (called participants) who agree to

reciprocally guarantee each other financially, should any event (as specified in the contract) occur (Adepoju, 2013). According to Sharifuddin *et al.* (2016), Takaful is an Islamic substitute to conventional insurance based on the theory of trusteeship, brotherhood and cooperation encouraged by the beliefs of Islam.

Takaful propagates on the mechanism for mutual protection on the occurrence of a misfortune that requires financial support. It is also referred as Islamic insurance by providing the relevant products and services that comply with Islamic finance precepts (Cheikh, 2013). The majority of Muslims across the world is practicing Takaful as their own way of sharing financial losses to assist each other (Sharifuddin *et al.* 2016). Based on the foregoing, there are some principles of Takaful insurance.

Basically, there are two types of Takaful: family Takaful and General Takaful. To ease understanding, Muhamat *et al.* (2017) equated family *takaful* with life insurance, while general *takaful* is akin to general insurance; albeit consideration for the differences occurs between the *takaful* and conventional insurance. However, *Takaful* complies with the Shari'ah (which outlines the principles of compensation and shared responsibilities among the community) and has been approved by Muslim

scholars. There is now general, health and family (life) *Takaful* plans available for the Muslim communities (Cheikh, 2013).

Family Takaful is an arrangement which rests on key Shariah principles of mutual cooperation, solidarity and wellbeing of a community (Jubilee, 2017). Family Takaful deals with many aspects of lives of the people, particularly, family business, such as education, marriage, Hajj & Umrah, saving plans, and life insurance amongst others. African Alliance introduced *Takāful* products to the Nigeria financial market in 2003. Their products include Family *Takāful* plan, Hajj plan, Pilgrimage plan, Education plan, Investment plan, Credit protection plan, Pension plan and Mortgage plan. Nigeria Insurance introduced *Takāful* product into the market in 2005. Their products cover *Sallah* plan, Hajj plan, Education plan, Retirement plan and marriage plan (Adepoju, 2013).

A *family takaful plan* is a long-term savings and investment programme with a fixed maturity period. Apart from enjoying investment profit, the plan provides mutual financial assistance among its participants. The family *takaful* plan is a financial programme that pools efforts to help the needy in times of need due to untimely death and other mishaps resulting in personal injury or disablement (Cheikh, 2013). According

to Cheikh (2013), the *takaful* plans designed by the *takaful* company would enable participants to participate in a *takaful* scheme with the following aims:

- a) To save regularly;
- b) To invest with a view of earning profits which are Sharia compliant; and
- c) To avail of cover in the form of payment of *takaful* benefits to heir(s) should a participant die before the maturity date of his *takaful* plan.

As stated earlier, *General Takaful* offers protection or coverage against risks of a general nature for companies or individuals, i.e. *Takaful* contributors (Muhamat *et al.* 2017). According to Adepoju (2013), *General Takāful* deals with some products in business areas like property, engineering, accident, fire and allied perils, worker compensation, marine cargo, engineering insurance, miscellaneous transport motor insurance, and so on (Adepoju, 2013; Muhamat *et al.* 2017). The fact that general insurers in the country received three times more complaints higher than the family insurers signifies the tardiness of the insurers in managing claims as well as it indicates higher rate of claims cases for this business. It is important to emphasise that, for *Takaful* operator, the investment returns from the general *Takaful* business are used to smoothen the *Takaful* premium (contribution) cost since general *Takaful* mostly comprised short-term

contractual policies. Thus, too many claims cases will impact the *Takaful* operator's financial position (Muhamat *et al.* 2017).

5.0 Conclusion

The paper examined the In a nutshell, the essence of *Takaful* is to resolve the exploitation of man by man in financial transactions. Conventional insurance seems to be weighing risk and burden of uncertainty upon some parties, while Sharia considers any transaction as a humane. It should relieve parties from the burden of uncertainty and do away with perpetual win-lose affairs. *Takaful* is an acceptable insurance system, while conventional insurance is unacceptable because interest based activities are strictly prohibited in Islam as it is ordered by the Allah Almighty in the Holy Quran. In Islam, religious, social and economic activities have strong ties with each other. Therefore, economic activities (that is, earning and spending pattern of any individual) should be in line with the Islamic principles. Banks are actively engaged in different economic activities by developing a liaison among various stakeholders for financial and productive ventures.

Banking activities must be interest free and purely according to principles of Sharia'h for the welfare of the all segments of the society. The Holy Quran has clear instructions regarding business

and trading activities as earnings from trade (Bai) is halal but interest (Riba) based activities are Haraam. Banking activities are the part of economic activities and Islam allows Riba-free banking only.

6.0 Recommendations

Based on the findings of the study, the article recommends the following suggestions as measures for adopting takaful as a better alternative to conventional health insurance scheme in Nigeria:

1. Because of the uncertainties of the conventional health insurance scheme, all Shariah complying States in the northern Nigeria and those state governments that have significant percentage of Muslim population across the country should implement *takaful* in the medical and health sector with a view to enable Muslims benefit from it as a “halal” health insurance scheme.
2. There should be well coordinated body for managing the Takaful in different aspects of our life because insurance is used in health and outside health sector. This is because the Takaful is a very wide area.
3. There should be awareness creation programmes through Muslim clerics during their

sermons and through other media of communications about the availability and accessibility of the Islamic oriented type of health insurance schemes.

4. If Takaful is introduced in the country, the public should be made to understand that the Scheme is no longer a prototype of conventional health insurance;

There should be General Takaful and Family Takaful (both individual and group) in order to take the form of fully Islamic insurance in Nigeria in general.

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