



## IMPACT OF ISLAMIC BELIEF ON THE DEMAND FOR LIFE ASSURANCE POLICIES IN LAGOS STATE, NIGERIA

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### ABSTRACT

*Religion has been identified as an important factor that shapes people's perception about life. Particularly issues relating to safety and security, arising from this, the challenge lies on the insurance practitioners in Nigeria to explore the opportunities provided by the number of Muslims in the country, who have not bought insurance, because of its considered conflict with their faith. Hence this study which discusses how Islamic belief has affected the demand for life assurance and how policies whose operability will be on a mutual and co-operative basis devoid of the competition of private enterprise can be promoted. In doing this questionnaire was administered to some Islamic mission in Lagos State South West Nigeria and spearman's rho correlation was used to test the hypothesis. It was found out that the respondents agreed that providing for the future and one's dependant is good but the current way that conventional insurance is practiced is a factor contributing to why they do not consider buy insurance. rather they have explored other ways to meet their future and dependant's need. The findings showed that Islamic believes does affect the demand for life insurance products; however the effect is relatively low or decreasing.*

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**Keywords:** Life assurance, Belief, Demand.

### 1. INTRODUCTION

The question of uncertainty has since the beginning of human existence remained unanswered. This is because God due to reasons best known to him had refused to endow man with the wisdom to predict future event. And despite all the advances in technology, science and philosophy, Man has a limited knowledge about himself, his future and the universe [Oluoma \(1999\)](#). The implication of this limited knowledge of man about the future is that he is faced with various unexpected occurrences, some of which will be positive, while others negative. But what will be unfortunate will be where such person will have to live with the impact of negative occurrences for a very long time.

There has been a close relationship between uncertainty and risks (Baju, 2004), so also there is a general agreement about the unavailability of a generally acceptable definition of risk Oluoma (1999), Oyetayo (2006), Vaughan and Vaughan (2002), Bickelhaupt (1979), William *et al.* (1995), Adams (1996), Denenberg (1980); Dorfman (1994); Harrington and Niehaus (1999). However, there is a general agreement as to the fact that risk is present in all human endeavours as there is uncertainty as to what will be the likely outcome about a person's action, and there is no certainty however about the exact time, date, year, or place when such event like death will occur to anyone.

Hence, for the human life, there is uncertainty about when death will occur, but there is the certainty that death must occur.

The need therefore to provide for the needs of one's dependants after life necessitate the need for life assurance. In addition, life assurance the endowment type may be taken out to provide for specific expenditure in the future and the categories for which life assurance will provide for include the risks of premature death, death, longevity, disability and sickness.

### 1.1. Demands For Life Assurance Policies

Demand for any product may be affected by a number of factors depending on the nature of the product and the considered utility derivable there from. And for a product like life assurance, the demand for insurance arises from the satisfaction that a consumer gains from the increase in financial security achieved by transferring the risk of loss to an insurer (Diacon, 1985) such factors as the country's level of development, in terms of standard of living and availability of medical infrastructures, life expectancy, level of dependency of the old on their children and government as well as the number of educated people in that country will be important influences on the demand for life assurance.

Another factor which may determine the degree of acceptability of life assurance or any form of insurance policy will be the person's religious belief. There is a strong correlation between one's religious belief and the extent of risk aversion; noting also that historically religion has provided a strong opposition to life insurance, believing more that God's protecting care will be enough.

There is absolute unanimity however among Muslims that all forms of business contracts or bargains which contain any of the unlawful elements like interest (Al Riba) an excess or increase which is without equal counter value; gambling (Al Maiser) or uncertainty (Al Gharar) be declared illegal and invalid. This is not to say that Islam forbids commercial transactions but rather Islam economics and finance is different from conventional economics as a result of the following; morality as been an integral part of the law of sharia; it is only ethical in other ideologies, such as capitalism, communism and socialism. There is also the pre-eminence of the hereafter in all religions including Islam while no consideration is given to it in any other ideology, by implication modern theories do not cater for any religious belief; they only make use of ethical codes which change with time.

Rahaman (1979); also agreed that if commercial insurance can be rid of the elements mentioned above, and organized in right principles then it can be embraced.

## 1.2. Statement of Problem

There had been identified four main attitudes which religious opinion may adopt towards social institutions and economic relations and these are:

1. Standing on one side in ascetic aloofness
2. Taking for granted and ignoring them
3. Throwing itself into an agitation for some particular reform
4. Asking for amendment to what is on offer

## 1.3. Research Questions

1. To what extent do Islamic beliefs affect the demand for life assurance products in Lagos State, Nigeria?
2. What modification(s) can be made to make life assurance policies conform to shariah?

## 1.4. Hypothesis

H<sub>0</sub>: Islamic belief does not affect the demand for life assurance products.

H<sub>A</sub>: Islamic belief affects the demand for life assurance products

## 2. LITERATURE REVIEW

Insurance is a risk transfer mechanism whereby the individual or the business enterprise can shift some of the uncertainties of life on the shoulder of another. Liquat (2006)

Religion has been identified as an important factor that shapes people's perception about life, particularly issues relating to safety and security of life and religious people's believe that a reliance on life assurance results from distrust of God's protection for them.

Insurance as it is generally practiced is not compatible with the Islamic faith because of the elements of *riba* (interest) and uncertainty (*gharar*). Rahaman (1979), International Islamic Fiqh Academy (1985) said that conventional insurance as is being practiced does not conform to the requirements of shariah and such contracts are deemed '*fasid*' (defective). In distinguishing Islamic insurance from commercial insurance El- fangary (2005) looked at the following features: the contracting parties and premium property, Purpose and goal of the company providing cover; legality in terms of Islamic belief; nature of contract and mechanism of investing insurance money.

In 2007, Muslims countries accounted for 23% of the emerging markets' GDP. About 11% of insurance premiums (ieUS\$45bn) were written in these countries. Prudence and Daniel (2008). In the world there are an estimated 1.5 billion Muslims around the world who are underserved by the insurance sector. Prudence and Staib and In Nigeria the estimated number of Muslims is put at 76 million. Ekanem (2011)

However, Islamic scholars are divided into two groups regarding insurance, the conservatives and the modernists. The modernist asserts that insurance of any kind is *Haram* because it is an implicit wagering contract; based on uncertainty and an attempt to supercede the will of Allah; while those who are liberal said that insurance against hazards can be modified in a manner which would bring it closer to Islamic principles by means of a contract of donation with a condition of compensation with a further requirement that it be free from usurious business [Qaradawi \(2005\)](#) however this is not to say that Islamic forbid all forms of providing for the future and for one's dependant Quran 2:240 cited thus in the case of those of who are about to die and leave behind them wives, they should bequeath unto their wives a provision for the year without turning them out see also the Quran in Surah yusuf xii 47-49

The Islamic sharia's opinion of insurance contracts that the practical format legalized by Islam for co-operation and solidarity, and giving sacrifices, is donation contracts, in which the cooperator does not intend a financial indemnity in return for what he has done.

The numerous benefits of Islamic insurance are given thus:

1. Contributing in building economics, flourishing and continuing economic projects
2. Developing and investing the money of the stockholders, and insured through the lawful ways
3. Redeeming the consequences of risks, this helps to maintain the insured objects to continue functioning within the production line.
4. Providing job opportunities
5. Helping in providing good living in cases of sickness and disability (Sahraf-El Din)

### **3. CHARACTERISTICS OF THE STUDY POPULATION**

Though there are no records to show the numbers of Muslims in Nigeria as the 2006 census deliberately omitted this information because of its considered sensitive nature. There are about 76 million Muslims in Nigeria ([Ekanem, 2011](#)) and they cut across all the states in Nigeria, though they are concentrated more in the Northern part of Nigeria. A significant number are also resident in the south west of which Lagos is a part of.

Due to the limitations in studying the entire Muslim population of Nigeria, Lagos state in South West Nigeria will constitute the sample area with popular Islamic missions selected to constitute this sample.

Questionnaire will be used to collect data from the sample to establish the impact of religious belief on the demand for life assurance products.

### **4. DATA ANALYSIS AND PRESENTATION**

#### **(a) Analysis of Research Questions**

A total of 320 questionnaires were distributed to selected Islamic missions in Lagos state. At the end of which 300 questionnaires, representing 93.8% were returned and subsequently analyzed to the following questions

**Table-1.**My religion is not in support of life assurance

Response	Frequency(N=300)	Percent (%)	Valid percent (%)	Cumulative percent (%)
Strongly agree	63	21	21	21
Agree	91	30.3	30.3	51.3
Undecided	47	15.7	15.7	67
Disagree	91	30.3	30.3	97.3
Strongly disagree	08	2.7	2.7	100
Total	300	100	100	

Source: field survey, 2011

**Table-2.**Purchasing life assurance means abuse of Allah's protective ability

Response	Frequency(N=299)	Percent (%)	Valid percent (%)	Cumulative percent (%)
Strongly agree	57	19	19	19
Agree	62	20.6	20.6	39.7
Undecided	42	14	14	53.7
Disagree	116	38.7	38.7	92.4
Strongly disagree	22*	7.4*	7.4*	99.7
Total	299*	99.7*	99.7*	

\* One respondent omitted this question

Source: field survey, 2011

**Table-3.**My religion encourages the use of other methods of dealing with risks

Response	Frequency(N=300)	Percent (%)	Valid percent (%)	Cumulative percent (%)
Strongly agree	21	7.0	7.0	7.0
Agree	97	32.3	32.3	39.3
Undecided	81	27.0	27.0	66.3
Disagree	73	24.3	24.3	90.6
Strongly disagree	28	9.4	9.4	100
Total	300	100	100	

Source: field survey, 2011

**Table-4.**Conventional insurance is fraudulent and it is not reliable

Response	Frequency(N=300)	Percent (%)	Valid percent (%)	Cumulative percent (%)
Strongly agree	42	14	14	14
Agree	75	25	25	39
Undecided	75	25	25	64
Disagree	73	24.3	24.3	88.3
Strongly disagree	35	11.7	11.7	100
Total	300	100	100	

Source: field survey, 2011

**Table-5.**I can spend my money on other protective tools instead of insurance

Response	Frequency(N=300)	Percent (%)	Valid percent (%)	Cumulative percent (%)
Strongly agree	60	20	20	20
Agree	91	30.3	30.3	53.3
Undecided	31	10.3	10.3	63.6
Disagree	91	30.3	30.3	93.9
Strongly disagree	27	9.1	9.1	100
Total	300	100	100	

Source: field survey, 2011

**Table-6.**I will prefer life assurance policies that are designed to suit my religion

Response	Frequency(N=300)	Percent (%)	Valid percent (%)	Cumulative percent (%)
Strongly agree	78	26	26	26
Agree	102	34	34	60
Undecided	65	21.7	21.7	81.7
Disagree	47	15.7	15.6	97.3
Strongly disagree	08	2.7	2.7	100
Total	300	100	100	

Source: field survey, 2011

**Table-7.**Reliability Statistics

Cronbach's Alpha	Number of items(N=300)
0.872	300

Source: field survey.2011

Table 7 above shows the reliability coefficient of the research measure used in the study. The statistic employed is Cronbach Alpha method. The Cronbach Alpha coefficient of the research is 0.872. This met the minimum value of 0.75 recommended by Nunnally (1979) for research analysis. Therefore, the research instrument is 87.2 percent reliable, it also further confirm te significance and usefulness of our findings for decision making.

## (b) Test of Hypothesis

The hypothesis formulated in the study was tested in this section, Spearman's rho correlation test statistics using IBM SPSS Statistic version 19 was adopted for the test of the hypothesis. The results are presented in the table below

**Table-8.** Showing spearman's rho Correlation between Islamic Belief and Demand for Life assurance products

			<b>ISLAMIC</b>	<b>DEMAND</b>
Spearman's rho	BELIEFS	Correlation Coefficient	1.000	.300
		Sig. (2-tailed)	.	.624
		N	5	5
	DEMAND	Correlation Coefficient	.300	1.000
		Sig. (2-tailed)	.624	.
		N	5	5

Table 8 above showed the Spearman's rho correlation between Islamic believes and the demand for life assurance products. The positive correlation of 0.300 showed a very low correlation between Islamic believes and the demand of life assurance products, hence the alternative hypothesis is accepted.

This means that though that Islamic believes does affect demand for life assurance products, its effect is relatively low or is decreasing.

## 5. CONCLUSION

There had been a change in the attitudes itemized in the statement of problem as evidenced in recent years and in different part of the world, Nigeria inclusive, that there had been a shift from the earlier two positions to the latter two ,i.e. from aloofness to involvement such that a form of cover known as takaful had been designed not as a competitor to the conventional insurance covers that are available but to address noticed reasons for why these conventional policies are not purchased.

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