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Application of Islamic Insurance (Takaful) as a Panacea to the Present Economic Downturn in Northern Taraba State, Nigeria

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Abstract

Purpose - This study examines the application of Islamic insurance (Takaful) as a strategic mechanism for addressing the ongoing economic downturn in Northern Taraba State, Nigeria. The research explores the potential of Takaful to enhance economic resilience, promote financial inclusion, and support sustainable socio-economic development in a region characterized by agricultural vulnerability, insecurity, limited access to formal financial services, and unstable household incomes. **Design/methodology/approach** - The study adopts a mixed-methods approach, integrating quantitative and qualitative analyses. Data were examined to assess the role of Takaful contributions (tabarru') in risk mitigation, livelihood protection, and business continuity among households and small and medium enterprises (SMEs). The analysis is further grounded in Islamic normative sources, including relevant Qur'anic injunctions and Prophetic traditions that emphasize mutual cooperation, solidarity, and ethical risk-sharing. **Findings** - The findings indicate that Takaful provides an effective alternative to conventional insurance by promoting collective responsibility, reducing financial vulnerability, and strengthening risk management mechanisms. Empirical evidence suggests that Takaful contributes to greater financial inclusion among Muslim communities, enhances economic empowerment, and supports the sustainability of household and business activities during periods of economic uncertainty. The principles of mutual assistance (ta'awun) and ethical financial participation emerge as key factors in fostering community resilience. **Research implications/limitations** - The study focuses on Northern Taraba State and may not fully capture the diverse socio-economic conditions of other regions. Future research may undertake comparative studies across different states or examine long-term impacts of Takaful adoption on poverty reduction and economic growth. **Originality/value** - This study contributes to the growing literature on Islamic finance by demonstrating the practical relevance of Takaful as a Shari'ah-compliant instrument for economic stabilization. It highlights the role of Islamic insurance in promoting equitable development, social protection, and financial sustainability within vulnerable communities.

Keywords: Islamic Insurance; Takaful, Economic Downturn; Risk Mitigation; Business Continuity; Shari'ah Compliance; Financial Inclusion; Northern Taraba State.

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Introduction

The prevailing economic issues in Nigeria currently, and especially within the Northern part of Taraba State, have created difficulties and made life harder for individuals, families, and institutions trying to ensure financial stability. Issues like inflation, high levels of unemployment, poverty, insecurity, and other problems have had an adverse effect on people's economic well-being in the region. As a result, there is a rising need for an alternate financial system that can aid in ensuring economic stability, risk protection, and social security for the population.

One such financial system that would be of help is the Islamic insurance, otherwise referred to as *Takaful*. In contrast to traditional insurance, which is prone to various features of interest and uncertainty, *Takaful* insurance involves individuals contributing money to a common pool to help protect each other in the event of financial loss or risk. It entails financial transactions carried out using ethical means, with the primary focus being on providing social well-being benefits to society.

The emergence of Islamic insurance (*takaful*) has substantiated a paradigm shift in the global financial services industry, and this shift, though emanated from the Islamic countries, has today been accorded global popularity [1]. Yet, in Nigeria, *takaful* is considered a new phenomenon with its absence in insurance legislation and near-zero appearance of *takaful* companies, even with a Muslim majority population in the country [2].

Northern Taraba State, Nigeria, has experienced an economic downturn characterized by reduced investment, diminished agricultural productivity, and rising poverty levels. Factors contributing to this decline include communal clashes, policy shifts such as subsidy removals, and low access to financial instruments [3],[4]. In response, scholars and policymakers have explored alternative financial instruments grounded in ethical principles. Islamic insurance (*Takaful*) has emerged as a potential solution due to its risk-sharing model, cooperative principles, and alignment with Islamic ethical values [5],[6].

The Qur'an encourages mutual assistance and the protection of wealth, principles foundational to *Takaful*: "And cooperate in righteousness and piety, but do not cooperate in sin and aggression" (Qur'an 5:2). Similarly, the Prophet Muhammad (peace be upon him) emphasized the collective responsibility of believers: "The believers, in their mutual kindness, compassion, and sympathy, are like one body: if one part suffers, the whole body responds with wakefulness and fever" (Sahih al-Bukhari 6011) [7]. These teachings provide a Shari'ah-based rationale for risk-sharing mechanisms in Islamic insurance.

The objective of this study lies in its context-specific examination of Islamic insurance (Takaful) as a practical solution to the contemporary economic challenges facing Northern Taraba State, Nigeria. While previous studies have largely focused on Takaful from the perspectives of insurance performance, customer awareness, risk management, poverty alleviation, and corporate social responsibility, this study uniquely investigates how Takaful can serve as a comprehensive mechanism for addressing a regional economic downturn characterized by poverty, insecurity, unemployment, limited financial inclusion, and agricultural vulnerability.

Another important contribution is the integration of Islamic financial principles with local socio-economic realities. The study moves beyond theoretical discussions of Takaful by demonstrating how its principles of cooperation (ta'awun), risk sharing, and collective responsibility can be applied to support farmers, small-scale entrepreneurs, youths, and low-income households in Northern Taraba State.

Furthermore, the study contributes to the growing literature on Islamic finance in Nigeria by providing a localized framework that links Takaful with sustainable economic development, financial inclusion, business continuity, poverty reduction, and social welfare. It therefore expands the discourse on Takaful from being merely an alternative insurance system to a broader instrument of socio-economic transformation.

Literature Review

The review of related literature provides an understanding of existing studies and scholarly discussions on Islamic insurance (Takaful) and its role in economic development and financial stability. It examines previous works on the concept, principles, and applications of Takaful, as well as its contribution to poverty reduction, risk management, and economic growth. The review also examines findings from related studies to identify gaps in knowledge and establish a foundation for examining the application of Islamic insurance as a possible solution to the present economic downturn in Northern Taraba State, Nigeria.

Arifin, Yazid, & Sulong are of the view that the roots of takaful can be traced to the principles of mutual support and cooperative risk-sharing, which are deeply embedded in Islamic teachings [8]. According to Nazir & Noor, there are three core principles in takaful namely: mutual responsibility, cooperation, and the protection of each other from various hardships, tragedies, and disasters [9]. In the early Islamic period, the concept of solidarity and mutual aid was practiced through systems like "aqilah," where members of a tribe would contribute to support the families of those killed in battle. This tradition of

mutual assistance and shared risk paved the way for the development of the takaful industry.

Fauzilah et al. and Zahariah et al, both examine aspects of Takaful, albeit from different perspectives -SMEs' flood risk management and company performance, respectively. Fauzilah et al. focus on developing a Takaful property framework tailored to protecting SMEs from the financial and operational impacts of floods [10]. Their findings reveal that the current Takaful schemes are unattractive to SMEs due to high costs and fragmented coverage, which significantly hinders the penetration of such products. They further highlight the dual nature of losses faced by SMEs - tangible (e.g., damage to equipment) and intangible (e.g., income loss), which exacerbate recovery challenges. In contrast, Zahariah et al investigate macroeconomic and firm-specific factors, such as GDP, inflation, liquidity, and firm size, that influence the performance of Takaful companies [11]. Their study emphasizes the importance of these variables in shaping managerial strategies and enhancing the industry's overall performance.

Bisan, Yazeed, Rasha & David examine the broader impacts of Takaful insurance, focusing on its developmental, economic, and societal roles. Bisan et al, position Takaful insurance as a tool for achieving competitive advantage and organizational and societal prosperity, using the Jordanian Islamic Insurance Company as a case study. They highlight the importance of Takaful in enhancing productivity and adapting to changing consumer needs [12]. The study emphasizes awareness and the integration of Takaful into various sectors to expand its developmental impact. Conversely, Amirul, Mohamad & Sharifah investigate the societal role of Takaful operators, employing the Corporate Social Performance (CSP) framework to analyse their contributions through structured interviews with industry leaders. The study reveals that Takaful operators fulfill their societal responsibilities through CSP programs funded by profits and community-driven initiatives, offering a comprehensive view of the industry's collective contributions [13].

It is stated that the existence of micro finance and micro Takaful is considered a poverty alleviation strategy to empower people and lift them from poverty, and retain their financial ground. Micro Takaful, therefore, protect SME'S, aiding their basic needs, especially average, low, and poor SME's who cannot afford the specific sum required by the takaful companies, and provides a way of pooling resources among themselves against unforeseen specified risk, in a shari'ah (Islamic law) compliant manner. The weight of micro enterprises is the crucial outlook for employment opportunities of a nation, especially a developing country like Nigeria with abundant unemployed teeming youth.

This study differs from previous studies in several ways. Earlier studies, such as those of Fauzilah et al., focused on Takaful as a risk management tool for SMEs, while Zahariah et al. examined factors influencing the performance of Takaful companies. Similarly, Bisan et al. concentrated on the role of Takaful in achieving competitive advantage, and Amirul et al. explored the corporate social performance of Takaful operators.

In contrast, the present study does not focus on company performance, customer preferences, or organizational competitiveness. Rather, it examines Takaful as a development-oriented financial instrument capable of addressing multiple economic challenges within a specific Nigerian locality. It provides a holistic analysis of how Takaful can enhance economic resilience, support agriculture, reduce poverty, improve access to finance, strengthen entrepreneurship, and promote social stability in Northern Taraba State. Therefore, the major distinction of this study is its emphasis on the application of Takaful as a strategic tool for regional economic recovery and sustainable development in Northern Taraba State, a dimension that has received limited scholarly attention in existing Takaful literature.

Method

This study adopts a descriptive research methodology to examine the application of Islamic insurance (Takaful) as a panacea to the present economic downturn in Northern Taraba State, Nigeria. The study relies on secondary sources of data, including textbooks, journal articles, conference papers, published and unpublished research works, government publications, and relevant online materials relating to Islamic insurance and economic development.

The descriptive approach is considered suitable because it enables the researcher to analyze existing information and provide an understanding of the role of Takaful in addressing economic challenges. Data collected from these sources are subjected to content analysis in order to examine the principles, functions, and potential contributions of Islamic insurance toward promoting financial inclusion, reducing economic risks, and improving economic wellbeing in Northern Taraba State. The method is appropriate because it allows for a systematic review and interpretation of existing literature relevant to the study.

Result and Discussion

Conceptual Basis of Takaful

Takaful is an Arabic word derived from the word Kafala. Basically, Takaful refers to an arrangement of joint guarantee by a group of participants based on mutual-agreement to indemnify one another in the event of a defined loss. Investopedia website defines Takaful as Islamic insurance which entails members contributing money into a pool of funds to be utilized in mutually guaranteeing members against loss or damage [14]. Takaful concept is based on Shari'ah provisions aimed at fulfilling the responsibility of individuals in cooperating to protect one another.

Takaful, commonly referred to as Islamic insurance, provides a Shari'ah-compliant mechanism for managing risk in a manner consistent with Islamic ethical principles. It is grounded in the values of mutual cooperation (ta'awun), shared responsibility, and collective guarantee (kafalah). This system differs significantly from conventional insurance, which is largely driven by profit motives and contractual exchanges. Instead, Takaful emphasizes solidarity and social welfare [15].

Takaful, which has deep historical roots in Islamic tradition basically grounded in mutual assistance, risk-sharing, and community cooperation. According to Ghani and Lambak, mutual aid and solidarity were key elements of the social structure, which can be traced back to the early Islamic civilization [16]. Over 1,400 years ago, back to the time of Prophet Muhammad, this principle emphasizes helping one another and sharing risks [17]. In pre-modern times, Muslim communities often relied on informal networks of mutual support, where individuals pooled resources to assist those in need during times of hardship or crisis (Ghani & Lambak, 2018; Nazir & Noor, 2018) [18],[19]. This practice, known as ta'awun, where participants contribute to a collective fund that provides financial assistance to one another [20]. Ta'awun laid the groundwork for the takaful model. The legitimacy of Takaful is strongly supported by Qur'anic teachings that encourage cooperation and social responsibility, where Allah (SWT) says in the Qur'an:

وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَىٰ وَلَا تَعَاوَنُوا عَلَى الْإِثْمِ وَالْعُدْوَانِ

And cooperate in righteousness and piety, but do not cooperate in sin and aggression [21].

This verse highlights the importance of collaborative efforts in promoting good, which forms the ethical basis for Takaful operations. While on altruism and social welfare, which is part of Takaful, Qur'an 59 verse 9 says:

وَيُؤْتِرُونَ عَلَىٰ أَنفُسِهِمْ وَلَوْ كَانَ بِهِمْ خَصَاصَةٌ

And they give preference to others over themselves even when they are in need [22].

This passage reflects the spirit of selflessness and communal care that underpins the concept of *tabarru'* (donation) in Takaful schemes. The teachings of the Prophet Muhammad (SAW) further reinforce the principles of cooperation and mutual care on Unity and collective support, where He (SAW) said:

مَثَلُ الْمُؤْمِنِينَ فِي تَوَادِّهِمْ وَتَرَاحُمِهِمْ... كَمَثَلِ الْجَسَدِ الْوَاحِدِ

The believers, in their mutual kindness, compassion, and sympathy, are just like one body. When one of the limbs suffers, the whole body responds to it with wakefulness and fever [23].

This hadith illustrates the interconnectedness of the Muslim community and the importance of mutual protection. And for assistance in times of hardship, the Prophet (SAW) said:

مَنْ نَقَّسَ عَن مُّؤْمِنٍ كُرْبَةً... نَقَّسَ اللَّهُ عَنْهُ كُرْبَةً

Whoever alleviates the hardship of a believer, Allah will alleviate his hardship [24].

This shows the ethical motivation behind participating in systems like Takaful.

Fundamental Principles of Takaful

The structure and operation of Takaful are grounded in a set of core Sharī'ah principles that distinguish it from conventional insurance systems. These guiding principles ensure that Takaful functions within an ethical, cooperative, and legally compliant Islamic background.

Tabarru' (Voluntary Donation)

A central element of Takaful is *tabarru'*, which refers to the voluntary contributions made by participants into a collective pool. Unlike conventional insurance premiums, which are paid in exchange for a contractual obligation, these contributions are made with the intention of assisting other members. By donating a portion of their funds, participants forgo individual ownership of that amount, enabling it to be used for compensating members who experience losses. This approach converts the arrangement from a commercial contract into a charitable one, thereby reducing elements of uncertainty (*gharar*) [25].

According to the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Takaful, otherwise called Islamic insurance, is an arrangement whereby a group of persons undertakes to manage injuries resulting from a specified risk to which all members of the group are vulnerable. To facilitate this arrangement, members of the group donate in the form of a contribution to establish a common insurance fund as a legal entity with independent financial liability to be utilized in indemnifying participants in the event of injury, subject to certain stipulated conditions. In carrying out this task, the fund is managed by a group of participants or a joint stock company that manages the fund for a specific fee [26].

From a jurisprudential standpoint, this principle legitimizes Takaful because it avoids the prohibited sale of risk. As emphasized by Muhammad Taqi Usmani, the concept of *tabarru'* is fundamental in ensuring the Shari'ah compliance of Takaful [27].

Ta'āwun (Mutual Cooperation)

The principle of ta'āwun, meaning cooperation and mutual assistance, forms the ethical foundation of Takaful. It is derived from the Qur'anic command encouraging believers to support one another in righteous acts:

وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَىٰ وَلَا تَعَاوَنُوا عَلَى الْإِثْمِ وَالْعُدْوَانِ

And cooperate in righteousness and piety, but do not cooperate in sin and aggression [28].

Within the Takaful framework, participants collectively agree to provide financial support to any member who encounters hardship. This transforms Takaful into more than a financial tool; it becomes a social institution that fosters solidarity and communal responsibility [29].

Kafālah (Mutual Guarantee)

Kafālah, or mutual guarantee, serves as the contractual basis of Takaful. Under this principle, all participants jointly undertake to indemnify one another against specified risks. Each participant assumes a dual role as both contributor and beneficiary. Compensation for losses is drawn from the pooled resources, reflecting a shared commitment to collective welfare. This concept has historical roots in early Islamic practices such as *'āqilah*, where communities jointly bore financial responsibilities [30].

Risk Sharing

A distinguishing feature of Takaful is its emphasis on risk sharing rather than risk transfer. In conventional insurance, risk is shifted from the insured to the insurer. In contrast, Takaful distributes risk among all participants, ensuring that losses are collectively borne. This promotes fairness, equity, and mutual accountability, which are central to Islamic economic values [31].

Prohibition of Riba (Interest)

Compliance with the prohibition of riba is a key requirement in Takaful operations. Islam strictly forbids interest-based transactions, as stated in the Qur'an:

وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا

Allah has permitted trade and prohibited riba [32].

Accordingly, Takaful funds are invested exclusively in Shari'ah-compliant ventures, avoiding interest-bearing instruments. This ensures that financial activities remain ethically permissible [33].

Elimination of Gharar (Excessive Uncertainty)

Gharar refers to ambiguity or uncertainty in contractual arrangements that may lead to injustice. Conventional insurance contracts often involve uncertain outcomes and unclear obligations. Takaful addresses this issue by adopting transparent procedures and structuring contributions as donations. This minimizes ambiguity and ensures fairness in all transactions [34].

Avoidance of Maysir (Gambling)

Maysir, or gambling, involves outcomes that depend on chance, where one party benefits at the expense of another. Certain aspects of conventional insurance resemble gambling due to the uncertain exchange of premiums and claims. Takaful avoids this by emphasizing cooperation and shared benefit rather than speculative gain. Contributions are treated as donations, and benefits are distributed fairly, thereby eliminating zero-sum outcomes [35].

Surplus Distribution

It has been observed that an important feature of Takaful is the equitable distribution of surplus funds. At the end of an operational period, any excess funds remaining after claims and expenses belong to the participants. This surplus may be redistributed among members or retained for future use, reinforcing the principles of fairness and collective ownership.

Shari'ah Governance

Takaful operations are subject to strict Shari'ah supervision through a dedicated board of scholars. This body ensures that all activities, including contracts and investments, comply with Islamic legal and ethical standards. Such governance mechanisms enhance transparency, accountability, and trust among participants [36].

Ethical Investment Practices

It is observed that the general opinion is that Takaful funds are invested only in permissible (halal) sectors, excluding industries such as alcohol, gambling, and interest-based finance. This approach aligns Takaful with the broader objectives of Islamic economics, including the promotion of social justice, ethical conduct, and sustainable development.

Operational Models of Takaful

The implementation of Takaful in practice is facilitated through several Shari'ah-compliant operational models. These models determine the contractual relationship between participants and the Takaful operator, as well as the procedures for managing funds, distributing profits, and handling risks. Selecting an appropriate model is essential to ensure both efficiency and adherence to Islamic legal principles.

General Structure of Takaful Operations

In a standard Takaful system, participants contribute funds based on the principle of *tabarru'* (donation), which are pooled together to provide compensation for members who experience losses. The Takaful operator is responsible for managing these funds but does not assume ownership; rather, the operator performs a managerial or fiduciary role.

These operational bases are designed to:

1. Define the nature of contractual relationships clearly
2. Ensure accountability and transparency
3. Eliminate prohibited elements such as *riba*, *gharar*, and *maysir*
4. Promote fairness in the allocation of profits and surplus

The most commonly applied models include the *Muḍarabah*, *Wakalah*, and *Hybrid* approaches, each with distinct characteristics.

Muḍārabah Model (Profit-Sharing Approach)

The Muḍārabah model is derived from a classical Islamic partnership contract based on profit sharing [37]. Under this arrangement:

1. Participants supply the capital through their contributions
2. The operator functions as the entrepreneur (muḍārib)
3. Profits generated from investments are shared according to an agreed ratio

In the event of loss, the financial burden is borne by the participants, while the operator loses only the effort invested in managing the fund [38].

Mode of Operation

1. Contributions are allocated into:
 - I. A risk fund for claims
 - II. An investment fund
2. The operator invests the funds in Shari‘ah-compliant ventures
3. Profits are distributed based on pre-agreed terms

Strengths

1. Reflects traditional Islamic financial contracts
2. Encourages efficient fund utilization
3. Establishes a partnership-based relationship

Wakālah Model (Agency-Based Approach)

The Wakālah model is based on an agency relationship, where the operator acts as an agent (wakīl) for the participants.

In this framework:

1. Ownership of the fund remains with participants
2. The operator receives a fixed fee for managing the fund

Mode of Operation

1. Contributions are pooled into the Takaful fund
2. The operator deducts a management fee at the outset
3. The remaining funds are used for claims and investment purposes

Any surplus generated belongs to the participants rather than the operator.

Strengths

1. Provides clarity in the separation of roles
2. Ensures predictable income for the operator
3. Enhances transparency

Hybrid Model (Combination Approach)

The Hybrid model integrates features of both the Muḍārabah and Wakālah models to achieve a balance between efficiency and incentives.

Under this arrangement:

1. The operator acts as an agent for underwriting activities
2. The operator functions as a partner in investment activities

Mode of Operation

1. A management fee is charged for operational services
2. Investment profits are shared between participants and the operator
3. Surplus from underwriting may be distributed among participants

Strengths

1. Offers diversified income sources for the operator
2. Encourages better investment performance
3. Balances risk and reward

Waqf Model (Endowment-Based Approach)

The Waqf model is based on the Islamic concept of endowment, in which a dedicated fund is established as a separate entity.

1. Contributions are treated as donations to the Waqf
2. The operator manages the fund on behalf of the participants

Mode of Operation

1. Participants contribute to the Waqf fund
2. Claims are settled from this fund
3. Any surplus is retained within the fund for future use

Strengths

1. Strong Shari'ah justification
2. Clearly defined ownership structure
3. Enhances long-term sustainability

Ju'alah Model (Performance-Based Approach)

The Ju'alah model is based on a contract that rewards the operator for achieving specified performance outcomes. The operator receives compensation linked to performance indicators

Mode of Operation

1. Contributions are pooled into a common fund
2. The operator manages the fund
3. A performance-based fee is awarded upon meeting agreed targets

Strengths

1. Encourages efficiency and productivity
2. Aligns operator incentives with performance

Shari'ah Supervision

All Takaful models operate under the supervision of a Shari'ah board, which ensures that:

1. Contracts comply with Islamic legal principles
2. Investments are ethically permissible
3. Operations remain transparent and accountable

This oversight strengthens trust and ensures adherence to Islamic ethical standards [39].

Comparison with Conventional Insurance

Table 1. Comparative Analysis of Takaful and Conventional Insurance Based on Operational Characteristics and Fundamental Principles

Aspect	Takaful	Conventional Insurance
Contractual Nature	Donation-based (<i>tabarru`</i>)	Commercial agreement
Risk Approach	Shared among participants	Transferred to insurer
Fund Ownership	Collective ownership	Owned by the company
Profit Distribution	Shared	Retained by insurer
Shari'ah Compliance	Fully compliant	May involve prohibited elements
Objective	Social welfare	Profit maximization

Table 1 presents a comparative analysis between Takaful and conventional insurance based on their fundamental principles and operational characteristics. The comparison highlights significant differences in contractual structure, risk management, ownership of funds, profit allocation, Shari'ah compliance, and organizational objectives. First, Takaful operates on a donation-based contract (*tabarru`*) in which participants contribute to a mutual fund intended to assist members facing financial losses. In contrast, conventional insurance is founded on a commercial contract between the policyholder and the insurer. Second, regarding risk management, Takaful applies the principle of risk sharing, whereby participants collectively bear risks. Conventional insurance, however, is based on risk transfer, where the insured transfers risk to the insurance company in exchange for premium payments. Third, in terms of fund ownership, Takaful funds are collectively owned by the participants, while the operator merely manages the fund. Conversely, premiums paid in conventional insurance become the property of the insurance company.

The distinction is also evident in profit distribution. Any surplus generated in a Takaful scheme may be distributed among participants according to agreed rules, reflecting the cooperative nature of the system. In conventional insurance, profits are generally retained by the insurer and distributed to shareholders. Furthermore, Shari'ah compliance represents a key differentiating

factor. Takaful is specifically designed to comply with Islamic principles and avoid prohibited elements such as *riba* (interest), *gharar* (excessive uncertainty), and *maisir* (gambling). Conventional insurance may involve such elements and therefore may not fully satisfy Islamic legal requirements. Finally, the primary objective of Takaful is to promote mutual assistance, social welfare, and financial solidarity among participants. By contrast, conventional insurance primarily seeks profit maximization for the insurance company and its shareholders. Overall, the table demonstrates that Takaful is not merely an alternative insurance model but a distinct financial system grounded in ethical cooperation, collective responsibility, and Shari'ah-compliant risk management principles.

While conventional insurance focuses on financial gain, Takaful emphasizes ethical responsibility and mutual assistance.

Socio-Economic Significance

Takaful plays an important role in modern economies by:

1. Enhancing financial inclusion among Muslims
2. Supporting poverty reduction initiatives
3. Facilitating the growth of small and medium enterprises (SMEs)
4. Promoting economic stability through ethical finance

Its relevance is particularly significant in developing regions where cooperative financial systems can strengthen community resilience.

Economic Challenges in Northern Taraba State

The economy of Northern Taraba is largely agrarian, relying on farming and livestock. Households face challenges such as limited credit access, poor infrastructure, insecurity, and conflicts in areas like Karim Lamido and Lau, which disrupt production and market activities as in Takum and Wukari, [40],[41]. These vulnerabilities underscore the need for financial instruments that mitigate risk and promote economic stability.

Northern Taraba State, similar to many regions within Nigeria's Middle Belt, is confronted with numerous interrelated economic difficulties that impede sustainable growth and development. Despite its abundant agricultural resources and human potential, the area continues to experience structural and institutional limitations alongside socio-political constraints.

High Poverty Rates and Low Income Levels

It has been observed by the researchers that a major issue in Northern Taraba is the prevalence of poverty. A large segment of the population lives below the poverty threshold and depends largely on subsistence farming for survival. This type of agriculture is typically characterized by low productivity, limited income generation, and susceptibility to environmental risks.

Research indicates that poverty remains widespread in Taraba State, particularly in rural communities where deprivation, food insecurity, and inequality are prominent. Factors such as poor farming methods and land degradation further reduce agricultural output, thereby worsening living conditions.

Insecurity and Communal Conflicts

Another major problem is that of security challenges, which constitute a significant obstacle to economic progress in Northern Taraba. The region has witnessed persistent conflicts, including herder-farmer disputes, ethnic tensions, and criminal activities such as banditry and kidnapping.

These security issues disrupt farming, trade, and investment activities. In several communities, violent clashes have led to displacement, destruction of farmland, and the collapse of local businesses, thereby weakening economic productivity and deepening poverty.

Inadequate Infrastructure

The lack of adequate infrastructure has been identified as another major constraint on economic development in the region. Northern Taraba suffers from deficiencies in:

1. Transportation networks
2. Electricity supply
3. Water systems
4. Health and educational facilities

Poor road conditions, in particular, limit access to markets, making it difficult for farmers and traders to transport goods efficiently. As a result, economic opportunities remain underutilized despite the availability of natural resources.

Weak Revenue Generation and Economic Structure

The economic base of Taraba State is relatively weak, with heavy reliance on federal government allocations. Internally generated revenue remains low, restricting the state's capacity to finance development projects.

Although the state possesses significant natural and agricultural resources, these assets are not effectively harnessed. This underutilization contributes to low productivity and limited economic diversification.

Youth Unemployment and Underemployment

The researchers have also identified unemployment among young people as a serious concern in Northern Taraba. There are many of the youths either without jobs or engaged in low-paying informal activities.

This situation has several negative consequences, including reduced economic output, increased poverty, and a rise in social vices. Youth unemployment also contributes to instability, as idle populations may become involved in criminal activities.

Underdeveloped Agricultural Value Chain

It has been observed that agriculture has remained the primary economic activity of the people of Northern Taraba, yet it is hindered by several challenges, such as:

1. Limited adoption of modern farming techniques
2. Inadequate access to credit
3. Poor storage and processing facilities
4. Weak market connections

These constraints prevent farmers from achieving optimal productivity and profitability. Additionally, conflicts over land use between farmers and pastoralists further disrupt agricultural activities.

Limited Access to Financial Services

Access to finance is a major barrier for entrepreneurs and small business owners in the region. Many individuals face difficulties in obtaining loans due to:

1. Lack of collateral
2. Limited presence of financial institutions
3. High interest rates

Even where entrepreneurship support programs exist, participation is often limited by financial constraints and weak implementation mechanisms.

Poor Human Capital Development

The development of human capital in Northern Taraba is restricted by low levels of education, limited vocational training opportunities, and inadequate healthcare services.

These factors reduce workforce productivity and hinder the ability of individuals to engage effectively in economic activities, thereby slowing overall development.

Environmental Constraints

Environmental challenges also play a role in limiting economic performance. Issues such as soil degradation, climate variability, and insufficient water supply negatively affect agricultural productivity and livelihoods.

In some areas, water scarcity significantly disrupts both domestic and economic activities, further compounding existing challenges.

Governance and Institutional Limitations

Weak governance and institutional inefficiencies contribute to the region's economic difficulties. Problems such as corruption, ineffective policy implementation, and limited political commitment have hindered the efficient use of resources and slowed development efforts.

Takaful as a Viable Solution to Economic Challenges in Northern Taraba State

From the foregoing, it is observed that Northern Taraba State faces numerous economic difficulties, including poverty, insecurity, inadequate infrastructure, high unemployment, and limited access to finance. Takaful, as an Islamic risk-sharing and cooperative financial system, offers a viable mechanism to address these challenges while fostering inclusive and sustainable development.

1. Alleviating Poverty and Stabilizing Income

It has been observed that Takaful will help reduce poverty by protecting against unexpected financial losses, such as crop failure, illness, or business disruptions. In rural communities that rely heavily on subsistence farming, these risks can exacerbate poverty. By pooling contributions under the principle of ta'āwun (mutual assistance), participants support one another during times of need, stabilizing household income and improving resilience [42]. Micro-Takaful

schemes can further target low-income households, offering affordable coverage that strengthens financial security.

2. Mitigating the Impact of Insecurity

Recurring insecurity and communal conflicts in Northern Taraba disrupt livelihoods and destroy property. While Takaful cannot prevent violence, it provides financial protection that reduces the economic consequences of such events. Participants affected by losses due to conflicts or displacement can receive timely compensation, facilitating recovery and supporting continued participation in economic activities [43].

3. Indirect Support for Infrastructure and Community Development

Although Takaful does not directly build infrastructure, the funds collected are often invested in Shari'ah-compliant projects, including agriculture, real estate, and industrial ventures. These investments can stimulate local economic activities, enhance service delivery, and indirectly contribute to infrastructure development [44].

4. Expanding Economic Base and Diversification

Takaful promotes economic diversification by enabling productive activities. When participants are financially protected against risks, they are more willing to invest in agriculture, trade, and small businesses. This leads to increased productivity, higher incomes, and broader revenue generation, reducing reliance on federal allocations.

5. Reducing Youth Unemployment

Takaful supports youth employment directly, by creating jobs in administration, sales, and fund management, and indirectly, by encouraging entrepreneurship. Risk protection enables young entrepreneurs to start and sustain businesses with reduced fear of loss, thereby fostering economic participation and skill development.

6. Strengthening Agriculture

Agriculture, the mainstay of Northern Taraba, faces risks from climate variability, pests, and conflicts. Agricultural Takaful provides coverage for crops and livestock, helping farmers recover from losses and adopt improved techniques. This enhances productivity, stabilizes income, and promotes food security.

7. Enhancing Access to Finance

Limited access to finance is a major barrier for SMEs and entrepreneurs. The application of Takaful would assist in reducing financial risks for lenders

and borrowers, improving creditworthiness. When businesses are protected against losses, banks and financial institutions are more likely to provide loans, enabling expansion and entrepreneurial growth [45].

8. Promoting Human Capital Development

Health Takaful improves access to medical care by reducing out-of-pocket expenses, leading to a healthier and more productive workforce. Similarly, education-focused Takaful schemes help families finance schooling, contributing to long-term human capital development.

9. Managing Environmental Risks

Environmental issues such as soil erosion, drought, and flooding threaten livelihoods in Northern Taraba. Takaful products designed for environmental and agricultural protection mitigate these risks, encouraging sustainable land use and investment in climate-resilient practices.

10. Strengthening Ethical Governance

Takaful operations are governed by Shari'ah principles, emphasizing transparency, accountability, and social responsibility. This framework promotes trust, financial discipline, and ethical practices, indirectly supporting better governance and resource management in the region [46].

Takaful offers a practical and ethically grounded approach to addressing the economic challenges of Northern Taraba State. By providing risk protection, promoting financial inclusion, and supporting productive activities, Takaful can help reduce poverty, stimulate entrepreneurship, stabilize income, and improve social welfare. Integrating Takaful into regional development strategies has the potential to enhance resilience, productivity, and sustainable growth.

Takaful represents an alternative financial system that can play a significant role in addressing the economic challenges facing Northern Taraba State. The region experiences several socioeconomic difficulties, including poverty, unemployment, inflation, low income levels, and limited access to financial services. Many residents depend on agriculture, petty trading, and other small-scale economic activities as their major means of livelihood. However, these activities are often exposed to different forms of risks such as crop failure, market fluctuations, natural disasters, and unexpected financial losses. Such conditions increase the need for a financial system that provides protection and support to vulnerable individuals and communities.

It has been observed by the researchers that one of the major ways Takaful can address these challenges is through its principle of cooperation and risk-sharing. Under the Takaful system, participants contribute to a common fund

with the intention of assisting members who experience financial losses or unforeseen circumstances. Unlike conventional insurance, which primarily focuses on profit generation, Takaful emphasizes collective welfare and social responsibility. This approach can provide farmers, traders, and small business owners in Northern Taraba with financial security against risks that could threaten their means of livelihood. By reducing the burden of unexpected losses, individuals can maintain economic stability and continue productive activities.

It is also believed that Takaful can improve financial inclusion within Northern Taraba by providing an alternative financial service that aligns with Islamic principles and values. Some individuals may avoid conventional insurance because of concerns regarding interest, uncertainty, and other elements considered inconsistent with Islamic teachings. This is because Takaful offers an acceptable and ethical alternative that may encourage wider participation in financial protection schemes. Increased participation can strengthen savings culture, promote investments, and create opportunities for economic growth among local communities. In addition, access to Takaful services can support entrepreneurship by giving individuals greater confidence to engage in business activities without fear of total financial loss.

Furthermore, the application of Takaful can contribute to poverty reduction and overall social welfare in the region. Financial support provided through Takaful during periods of hardship can reduce the impact of economic shocks on families and communities. It can help households recover from losses more quickly and prevent them from falling deeper into poverty. Nevertheless, the successful implementation of Takaful in Northern Taraba requires increased public awareness, supportive government policies, adequate regulatory frameworks, and the development of institutions capable of delivering effective Takaful services. With these measures in place, Takaful can become a practical and sustainable solution for strengthening economic resilience and improving living standards in Northern Taraba State.

Takaful can further contribute to economic development in Northern Taraba through its ability to mobilize financial resources and channel them into productive sectors of the economy. Funds generated through Takaful operations can be invested in Shari'ah-compliant business activities and development projects that support economic growth. Such investments can stimulate commercial activities, create employment opportunities, and strengthen local economies. In a region where many people rely on agriculture and small businesses, access to financial support and investments can encourage expansion and improve productivity.

The agricultural sector, which serves as a major source of livelihood for many people in Northern Taraba, can particularly benefit from Takaful services. Farmers are often exposed to numerous risks such as drought, flooding, pests, diseases, and fluctuations in market prices. These risks can result in significant financial losses and affect household income and food security. Agricultural Takaful can provide compensation and support for farmers who experience such challenges, thereby reducing their vulnerability and enabling them to recover quickly from losses. This protection may also encourage farmers to invest more confidently in improved farming techniques and agricultural inputs.

Takaful may also promote the growth and sustainability of small and medium enterprises (SMEs) in Northern Taraba. Many entrepreneurs and business owners operate under difficult economic conditions and often face financial risks that threaten the continuity of their businesses. Unexpected events such as fire outbreaks, theft, accidents, and economic instability can negatively affect business operations. Through business-related Takaful schemes, entrepreneurs can receive financial assistance that helps them manage risks and maintain business continuity. This can strengthen local enterprises and contribute to job creation and income generation within the region.

Another important aspect of Takaful is its emphasis on social solidarity and community welfare. The system promotes a sense of collective responsibility where members support one another during periods of hardship. This strengthens social cohesion and encourages a culture of mutual assistance within communities. In areas experiencing economic hardship, such collective support systems can reduce the burden on individuals and families while promoting social stability. By integrating economic protection with ethical and social values, Takaful has the potential to provide a balanced approach to addressing both financial and societal challenges in Northern Taraba.

Not only that, the introduction and expansion of Takaful services may help reduce dependence on informal coping mechanisms often adopted during economic crises. Many households facing financial difficulties may resort to borrowing at high interest rates, selling productive assets, or reducing essential expenditures such as healthcare and education. Such measures may provide temporary relief but can create long-term economic difficulties. Takaful can offer a more sustainable means of managing risks and financial emergencies, allowing individuals and families to maintain greater financial security while protecting their long-term well-being.

Conclusion

This study examined the application of Islamic insurance (Takaful) as a possible solution to the present economic downturn in Northern Taraba State, Nigeria. The study established that economic challenges such as poverty, unemployment, inflation, financial instability, and limited access to financial services continue to affect the socioeconomic well-being of many people within the region. These challenges have created a need for alternative financial mechanisms capable of providing economic protection and support for individuals and communities.

The study further revealed that Takaful, through its principles of cooperation, risk-sharing, and shared responsibility, can contribute significantly to reducing the effects of economic hardship. The system has the potential to enhance financial inclusion, support farmers and small-scale businesses, encourage entrepreneurship, and provide financial security against unexpected risks and losses. Its emphasis on social welfare and ethical financial practices also makes it a suitable alternative for individuals seeking financial solutions that are consistent with Islamic principles.

The study concludes that although Takaful presents considerable opportunities for promoting economic stability and improving livelihoods in Northern Taraba State, its successful implementation depends on several important factors. Increased public awareness, supportive government policies, effective regulatory frameworks, and the establishment of strong Takaful institutions are necessary to ensure its growth and effectiveness. Therefore, with proper implementation and adequate support, Takaful can serve as a practical and sustainable approach to addressing the present economic downturn in Northern Taraba State, Nigeria.

Author Contributions

Haruna Dahiru Ph.D, Lawan Abdullahi Muhammad Ph.D: Conceptualization, Methodology, Writing – review & editing, Supervision, Project administration. **Ibrahim Steve Paul Anuye Ph.D:** Methodology, Writing – review & editing, Investigation. **Lawan Garba Ph.D:** Conceptualization, Methodology, Writing – review & editing, Investigation.

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Conflict of Interest

The authors declare no conflicts of interest.

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