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Comparative Perspectives on Takaful and Conventional Insurance: Exploring Barriers to Islamic Finance Growth in Nigeria

Abiodun Rasheed Salawu

University of Greater Manchester, UK

Correspondence:

Abiodun Rasheed Salawu, Department of Islamic Economics and Finance
University of Greater Manchester
Email: as78bbs@bolton.ac.uk; salaudeen.abiodun@gmail.com

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ABSTRACT

Many developing countries have a low level of insurance penetration, which affects their economic stability and financial inclusion processes. This is primarily due to the resistance that conventional forms of insurance face in areas where Muslims comprise majority populations. This resistance stems from prohibitions against elements commonly associated with conventional insurance, such as riba (interest), gharar (unreasonable risk), and maysir (gambling) (Ayub, 2019). Takaful, an alternative based on mutual risk-sharing (ta'awun), donation (tabarru'), transparency, and ethical investments, may provide a culturally relevant option (Sulaiman and Zakariyah, 2021; Billah, 2019). However, Takaful has not yet achieved the success of conventional insurance, despite regulatory improvements in multiple jurisdictions. As a result, it lacks opportunities to develop protections for low-income individuals and SMEs. The objective of this qualitative comparative study is to explore the structural and institutional characteristics of Takaful versus conventional insurance and reveal barriers to its growth. This study also assesses the inclusion potential of Takaful. Data were collected using semi-structured interviews and document analysis, with findings highlighting the need for greater awareness, improved regulatory infrastructure, and innovative product development strategies. Results contribute to a refined framework for incorporating macroeconomic factors into Islamic Finance development strategies for developing countries.

KEYWORDS

Takaful, Islamic Finance, Insurance

1 | INTRODUCTION

The role of insurance in the modern economy cannot be overstated; it facilitates risk management, fosters income stability, and advances long-term economic growth. Studies have shown that an effective insurance industry can enhance financial stability; improve access to capital; and create inclusive growth (World Bank, 2022; OECD, 2021).

However, while these benefits exist, insurance penetration continues to plague emergent economies such as Nigeria, where large portions of the populace remain reliant on informal means for sharing risk (Demirgüç-Kunt et al., 2018; World Bank, 2022). The existence of a protection gap limits communities' ability to build resilience and restricts countries' progress towards achieving their respective goals of inclusive development.

In addition to structural constraints (e.g., low-income level; weak institutional quality; or a lack of financial literacy), there are also cultural and ethical reasons for not adopting insurance. In largely Muslim societies, as well as in predominantly multi-religious communities, individuals often believe conventional forms of insurance are incompatible with the teachings of Islam because of concerns regarding interest (riba), uncertainty (gharar), and gambling (maysir) (Ayub, 2017; El-Gamal, 2019). Consequently, these beliefs may continue to hinder people from taking advantage of formal financial systems; thus, perpetuating financial exclusion among at-risk populations.

The emergence of Takaful as a Sharia-compliant alternative has provided an applicable solution to overcome such obstacles. Takaful is based on the principle of creating a mutual investment pool to provide protection against risk through cooperation and by investing ethically. By providing protection against the "risk of need" using ethical investments, Takaful allows for financial protection while aligning to religious values, promoting social solidarity (Iqbal & Mirakhor, 2017; IFSB, 2023). Despite extensive literature describing the structure and operation of Takaful products, not enough research has examined the contextual and behavioural influences of Takaful adoption (especially in underdeveloped insurance markets).

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Most prior studies have identified a range of barriers to the adoption of Takaful including low awareness, affordability issues and regulatory constraints; however, these barriers are frequently investigated separately. There is limited understanding as to the interactive nature of these barriers within specific institutional and macroeconomic environments. In addition, limited exploration of the critical influence of trust on Takaful adoption exists. Although trust has been extensively identified as a key factor influencing financial participation, little research has determined the ways in which perceptions of conventional insurance influence attitudes to alternative insurance models such as Takaful.

Hence, this paper aims to investigates the structural differences between Takaful and conventional insurance, and the barriers to Takaful adoption in Nigeria. Specifically, the research will focus on:

1. Analyse the institutional, operational, and market differences between Takaful and conventional insurance.

2. Identify the key demand-side, supply-side, and regulatory barriers limiting Takaful's acceptance. And

3. Examine the influence of trust and perceptions on stakeholders' attitudes towards Takaful.

The research has three main contributions: First, it provides insight into how distrust of conventional insurance leads to mistrust of Takaful through a mechanism called "trust spill-over". Second, it develops a comprehensive model that links demand-side, supply-side, regulatory and macroeconomic constraints. Third, it provides contextual information about the role that Takaful can play in promoting financial inclusion for the "underserved" and small and medium-size business.

In contributing to the existing literature on Islamic finance, financial inclusion and development, Takaful is placed as part of the larger behavioural and institutional dynamics of an emerging economy. The next section will discuss the conceptual and empirical background for this study.

2 | LITERATURE REVIEW

2.1 | Insurance, Financial Inclusion and Market Constraints

Insurance is widely accepted as an essential component to financial development and contributes to the stabilization of economies, facilitating the management of risk and fostering inclusive growth. Recent research has indicated that insurance plays a critical role in enhancing a country's resilience, encouraging investment, and assisting with poverty alleviation by reducing risk (World Bank, 2022; OECD, 2021). Despite the foregoing benefits of having insurance available to all individuals, insurance penetration in many developing countries remains limited, including within Nigeria, due to a combination of both behavioural and structural constraints.

Among the many reasons cited in recent literature for limited access to insurance products is that it is being driven not only by a lack of income but by also there being a lack of both trust of financial institutions and knowledge of the importance of having insurance (Demirgüç-Kunt et al., 2018). Many cultural and social groups use informal practices to mitigate risk and, as such, do not see the need for more formal ways of managing risk via insurance. Therefore, it has been suggested that financial inclusion will occur only if people believe that they can afford to pay for a service or product and that it is acceptable within their culture or socio-religious perspective (IFSB, 2023; El-Gamal, 2019). This has led to an increased interest in alternative financial models that are congruent with the socio-religious values of a country's citizens.

2.2 | The Emergence of Takaful and its Contribution to Islamic Financial Systems

Building upon Shar'iah compliant and risk-sharing (cooperation among two or more parties), the growth of an Islamic Financial System that promotes justice, transparency, and safety of various kinds has matured into a unique financial system that focuses on building a just society and deriving value from the legitimate activities associated with these systems. There are three primary prohibitions that act as the foundation for Islamic finance: riba (interest), gharar (excessive uncertainty), and maysir (gaming). The purpose of the prohibitions is to create just and equitable financial transactions that will be tied to the real economy (El-Gamal, 2019; Iqbal & Mirakhor, 2017). Conventional financial systems are fundamentally different from the systems of Islamic finance because of the above-mentioned prohibitions.

Much discussion has taken place with respect to the compatibility of conventional insurance products with Shari'ah. Opponents of conventional insurance contracts state that they incorporate elements of excessive uncertainty and speculative rewards (risk and uncertainty) and relate to the investment of interest-bearing financial instruments; so, they are therefore prohibited (Hussain et al., 2025). There is some agreement in contemporary Shari'ah interpretations that allow for limited use of conventional insurance contracts under conditions of necessity. However, most scholars advocate for the development of alternative, Shari'ah compliant models of insurance (Ayub, 2019; Hussain et. al., 2025).

Takaful was developed as a cooperative model of insurance to provide an alternative to conventional insurance products. Takaful is based on the principles of cooperation and risk sharing, whereby participants pay a premium into a pooled fund that can be used to cover participant loss. In this cooperative model, the fund manager is only acting in a management capacity and does not bear any of the risk associated with the payment of claims to its participants (Bhatti & Shoaib, 2025). The governance and incentive structures of Takaful are created by various operational models, including the Wakalah, Mudarabah and hybrid models (Adeyemo, 2021).

In addition to its operations, Takaful is also informed by various other socio-economic ideals of Islamic finance such as social good (maslahah) and fair and equitable distribution of wealth (IFSB, 2023). Therefore, Takaful can be viewed as a financial product, but one that also serves to increase financial inclusion of individuals in a manner that is consistent with the ethical principles of the Islamic faith, in that conventional financial institutions have excluded them.

Interestingly, many of the contemporary issues related to the Takaful industry have been attributed to its relatively slow rate of industry growth as compared to conventional insurance. Significant evidence suggests that ethical compatibility is insufficient to drive Takaful demand and should not be the sole variable in evaluating Takaful industry development. In addition, consideration should be given to some other factors including institutional, economic, and behavioural variables that influence Takaful development (Abdullah & Chee, 2020).

2.3 | Comparative Perspectives: Takaful and Conventional Insurance

The recent literature is mostly centred around a comparative analysis of Takaful compared to conventional insurance with emphasis on the underlying operational structure, efficiencies, and market performance. The literature provides valuable insight into how the two different systems operate in multiple economic and institutional environments.

A structural level comparison identifies the primary difference as the underlying risk model. In conventional insurance, risk is transferred, meaning that the insurer assumes the liability of risk in return for a premium. Takaful, on the other hand, participants share risk on a cooperative basis, and the operator manages the Takaful cash pool (Hussain et al., 2025). Therefore, based upon these two different methods, each system's foundational difference affects the contractual arrangements, governance structures, and the way in which each system provides financial incentives to its participants.

Although in some settings, Takaful has some potential economic efficiencies, there exist some limitations on its performance which are related to the insufficient market size and scalability (Jeje et al., 2025). Furthermore, Bhatti and Shoaib (2025) identify that economic conditions, perceived value, and ethical considerations influence the selection of Takaful or conventional insurance as an option when consumers compare the two. The perception and awareness of consumers were identified as important behaviour factors. According to Ashraf et al. (2024), the poor awareness level of Takaful by the populace hindered its adoption. Many consumers view Takaful and conventional insurance as the same, thereby undermining the potential value of Takaful (Abdullah & Hassan, 2020).

Limited use of comparative literature has focused on quantitative measures of performance and efficiency including profitability and consumer decision-making choices; however, there continues to be limited understanding of the underlying mechanisms that influence adoption, specifically related to the interaction of institutional constraints, market conditions, and behavioural factors such as trust. This issue has relevance in emerging markets as the influences of weak institutional environments and macroeconomic instability contribute to the overall financial behaviour of the financial constituents and, subsequently, there exists a need for additional qualitative research that is contextually grounded and is reflective of the lived experience of Takaful stakeholders, as well as provide an in-depth understanding of the potential barriers to Takaful adoption.

2.4 | Barriers to Takaful Development

Despite the benefits of Takaful, the Takaful Sector suffers from an array of Interrelated Structural, Institutional, and Behavioural Barriers that are limiting its development. Recent literature shows that these Constraints do not exist in Isolation and, in many cases, reinforce each other's impact upon limiting the Takaful Market Penetration and Development (IFSB, 2023; World Bank, 2022).

2.4.1 | Regulatory and Institutional Constraints

Regulatory quality is key to development of the financial sector; however, Takaful markets in many developing countries still struggle with institutional weaknesses. Many developing countries continue to regulate Takaful under conventional insurance regulatory structures (i.e., no separate or dedicated regulatory framework for Takaful), which results in regulatory ambiguity in relation to Takaful's compliance with these regulations and negatively affects Takaful's operational efficiency (IFSB, 2023).

In addition to this, there is also a shortage of technical expertise within the existing supervisory agencies to provide adequate oversight and regulation of the actuarial models and Shariah governance in Takaful. The lack of standardised frameworks globally also limits cross-border expansion and means that Takaful cannot achieve scale across borders. Recent studies provide evidence that the existence of strong institutional environments and appropriate regulations are critical determinants for successful Takaful markets (Bhatti & Shoaib, 2025).

2.4.2 | Awareness, Perception, and Financial Literacy

One of the most noted barriers to Takaful adoption is low levels of awareness among the public regarding Takaful, its perceived value and its use as a financial model. Furthermore, most individuals have a very limited understanding of insurance products in general, making it impossible for them to differentiate between Takaful and conventional insurance products (Ashraf et al., 2024; OECD, 2021).

Additionally, Misperceptions regarding cost, access, and structure create additional barriers to Demand for Takaful. Recent research indicates that Trust and Perception are important factors in determining an individual's Financial Behaviour. Prior negative experiences with Financial Institutions will create a perpetual scepticism towards an individual's willingness to engage in formally insured Financial Products (Demirgüç-Kunt et al., 2018). Therefore, improving awareness of Takaful alone will not be sufficient, without addressing and increasing the institutional credibility of Takaful institutions.

2.4.3 | Constraints Associated with Macroeconomic Factors and Overall Market Conditions

Demand for insurance and, therefore; Takaful, is influenced by macroeconomic conditions. Key factors such as income instability, unemployment and inflation restrict people's ability or willingness to commit to long-term financial products (World Bank, 2022; OECD, 2021). In many developing countries, the volatility of their economies decreases their ability to pay for financial products, particularly for those in lower wealth classifications.

In addition, the lack of availability of Shari'ah-compliant investment products and instruments results in a limited level of diversification of Takaful operator portfolios and prevents Takaful operators from being innovative in the development of new products or services (Islamic Financial Services Board, 2023). As such, Takaful is related to the Shari'ah finance ecosystem overall, and the absence of sufficient financial infrastructure can also constrain the rate of Takaful development (Hussain et al., 2025).

2.4.4 | Constraints Associated with Operation and Competitive Factors

Operational inefficiencies and competitive disadvantages are critical drivers of the continued constraints on the overall growth of Takaful operators. Because Takaful operators must comply with dual regulatory standards and pay the additional overhead of operating on a Shar'iah compliant basis (IFSB, 2023), they generally operate at a higher level of administrative expense than conventional insurance carriers (IFSB, 2023).

In addition, smaller pools of participants contribute to Takaful's inability to effectively diversify risk or control per-unit cost, which results in decreased competitiveness of Takaful products when compared with those of the traditional insurance industry. In contrast, traditional insurers benefit from historically established brand recognition, greater distribution channels, and deeper pockets to dominate the market share of traditional insurance (Bhatti & Shoaib, 2025). Thus, scale, innovation and support from institutions are essential to enhance Takaful's competitiveness in the greater insurance market.

2.5 | Takaful and Financial Inclusion

Takaful has gained increasing interest in recent literature regarding how it can enhance financial inclusion. Takaful operates as a Shar'iah-compliant instrument; therefore, it is intended to provide access to a method of risk protection for those who have been excluded from conventional insurance systems for ethical or cultural reasons (Demirgüç-Kunt et al., 2018; IFSB, 2023). Takaful is frequently positioned as a mechanism to provide financial inclusion and provide low-income and underserved populations with access to insurance protection. Micro-Takaful programs have been successful in providing affordable and accessible forms of risk protection, thereby reducing vulnerability to economic shocks, and enhancing household resilience (OECD, 2021; World Bank, 2022).

Although theoretical evidence shows that Takaful can contribute to financial inclusion, actual empirical evidence shows that Takaful has had a limited contribution to financial inclusion to date. There is evidence that ethical compatibility has increased interest in adopting Takaful, continued adoption is affected by affordability, awareness, and institutional trust (Ashraf et al., 2024). In many instances, these barriers outbalance any inherent advantages of Takaful resulting in low penetration rates in highly populated Muslim markets.

Recent studies show that financial inclusion outcomes result from broader systemic conditions including regulatory quality, macroeconomic stability and the level of market development. This indicates that without the creation of additional, adequate institutional reforms and supportive policy frameworks, Takaful alone will be unable to overcome barriers to financial inclusion (IFSB, 2023).

2.6 | Research Gap and Conceptual Contribution

Despite the increasing literature on Takaful and conventional insurance, there are ongoing gaps to consider. First, while there are recent comparative studies contributing to a broader understanding of structural differences, efficiency, and consumer preferences (Hussain et al, 2025, Jeje et al, 2025, Bhatti & Shoaib, 2025), most of these are quantitative in nature and focus on measurable outcomes. Therefore, they provide little understanding of the dynamic mechanisms that contribute to adoption.

Second, current literature regarding barriers to Takaful development regularly isolates these works from exploring the collective interaction among demand-side factors, supply-side factors, regulatory factors, and macroeconomic factors. This fragmented view on distinct barriers established in the literature reduces the ability to provide a full understanding of why low adoption rates continue to persist in emerging markets that offer Takaful products.

Third, current literature lacks qualitative, context-relevant studies to report the perspective of key stakeholder groups – operators, regulators, and consumers. Evidence of this exist in Nigeria, as there is a considerable body of literature regarding conventional insurance the Takaful literature base is limited, despite being a significant emerging market.

Finally, limited studies exist that explore the concept of trust as a behavioural determinant for adopting insurance products. While studies have documented the importance of trust in financial systems, there is inadequate literature focused on how existing perceptions of conventional insurance products have impacted attitudes toward Takaful and other alternative insurance models.

This study will employ a qualitative multi-stakeholder design to explore the comparative complexity of Takaful and Conventional Insurance in Nigeria. This study will further contribute to existing literature by providing a single framework for examining three unique characteristics of influence: structures, institutions, and behavioural considerations. Specifically, the concept of trust spill-over effect will provide further understanding of how existing negative sentiment toward conventional insurance products adversely influences Takaful adoption.

Existing Conceptual Framework

Figure 2.1:

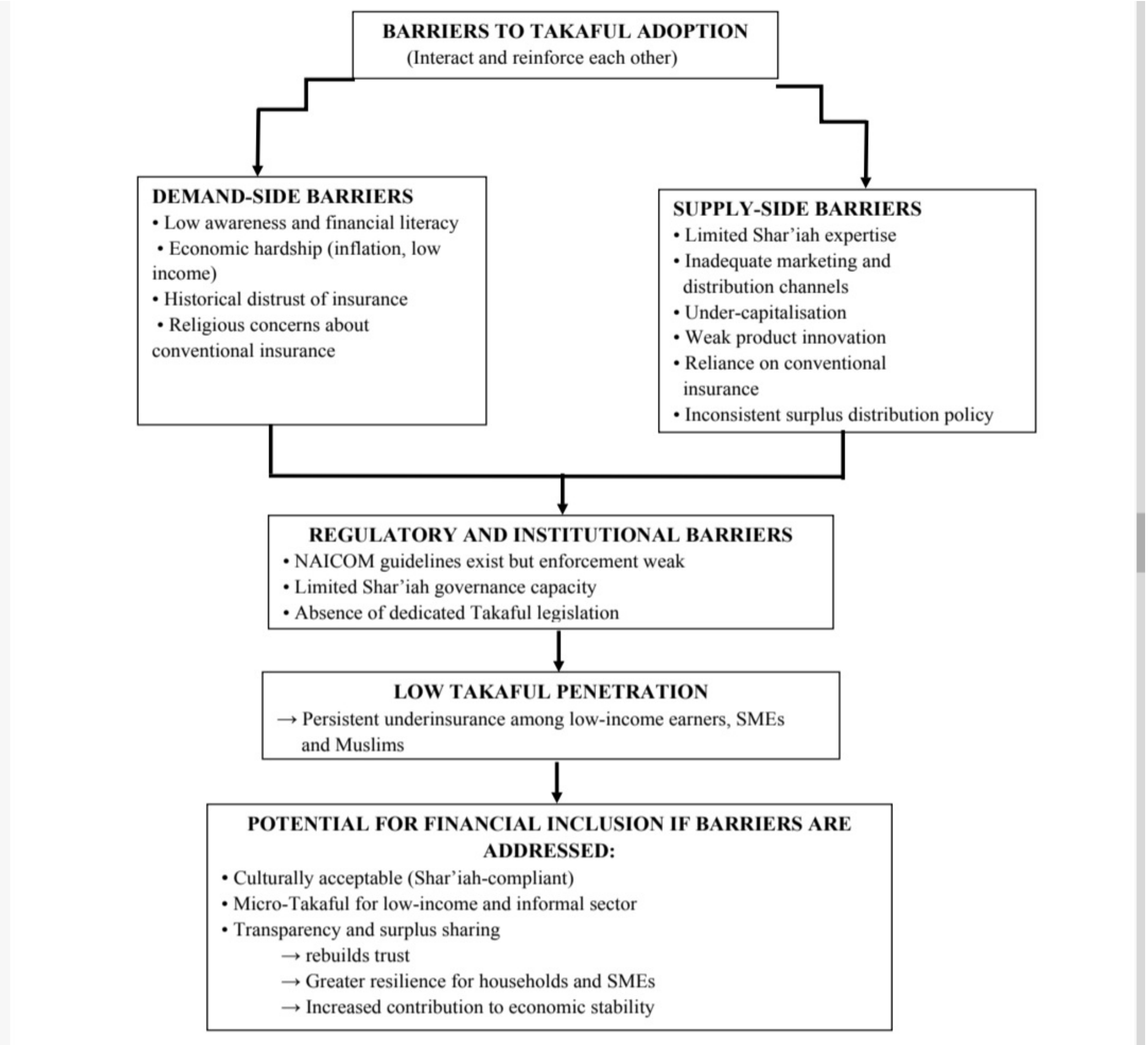


Figure 2.1 Conceptual framework illustrating the interaction between the Takaful adoption process in Nigeria and financial inclusion via demand-side, supply-side and regulatory barriers, (This is based on Bello, 2021; Olayemi, 2022; Sulaiman & Zakariyah, 2021; NAICOM, 2023).

3 | METHODOLOGY

3.1 | Research Design

For this study, a qualitative interpretive comparative case study research design will be used to examine the structural and operational differences between Takaful and conventional insurance. The research will also explore barriers to Takaful growth and the potential for Takaful to promote financial inclusion in Nigeria. This comparative research design enables an analytical side-by-side view of the two insurance models, and how they function within their real-world context as separate "cases", providing an examination of where Takaful and conventional insurance converge, diverge, and interact contextually among the demand side, supply side and regulatory environment (Yin, 2018).

This bounded case study provides a context for the development of the researcher's theoretical framework and illustrates the development barriers and challenges that Nigeria experience. The study's design facilitates both theoretical replication and depth of study, as well as allows for triangulation to strengthen the study's credibility (Stake, 2013; Flick, 2014).

3.2 | Research Context: Nigeria

Nigeria represents an important and understudied country of interest for exploring the growth of Takaful. As one of Africa's largest economies, Nigeria has a limited penetration rate for insurance, a very high level of financial exclusion, and a heterogeneous population that incorporates diverse faiths (as evidenced by the World Bank, 2022; Demirgüç-Kunt et al., 2018). Therefore, these characteristics make Nigeria an ideal environment for assessing both the ability of Takaful to Thrive in an Alternative Economic Model and the barriers that will restrict its growth.

Despite the emergence of Takaful in the Nigerian insurance market, there continues to be low rates of existing Takaful adoption within Nigeria. Empirical evidence from existing studies reveals that Takaful does have some potential in emerging markets, but structural inefficiencies, institutional issues and low awareness among Nigerian consumers often stunt its development (Jeje et al., 2025; IFSB, 2023). Therefore, there is an opportunity to explore how structural and institutional constraints along with behavioural factors are limiting Takaful's growth.

As a result, this study not only provides insights from a context-related perspective but also contributes to the overall body of academic and practitioner literature on the development of insurance in emerging economies; Islamic finance; and financial inclusion within emerging markets (as highlighted by the World Bank, 2022; OECD, 2021).

3.3 | Research Approach

The research is based on an interpretive paradigm that focuses on the subjective meaning of lived experience as well as a social construction of reality (Saunders et al. 2019; Bryman 2016). As such, interpretivism lends itself to the study of religiously based financial behaviour, stakeholder views regarding ethical finance, trust relationships, and the nature of institutions working within faith-sensitive environments in developing countries (Creswell & Poth 2018). Unlike quantitative research measured by the positives of measuring and generalising, interpretivism captures the subjective nuances of interpreting whether 'Takaful' is different from conventional insurance in response to ethical objections to riba, gharar, and maysir (Ayub, 2019; Billah, 2019). The interpretive approach fits with the objectives of studying 'how' and 'why' Takaful is a barrier to financial inclusion, and 'how' to promote financial inclusion through micro-Takaful.

3.4 | Data Collection Methods

3.4.1 | Semi-Structured Interviews

Semi-structured in-depth interviews were the data collection method used for the main source of data. The interviews were completed from March to June 2025 (zoom) and averaged 35 minutes in duration. The interviews followed a semi-structured interview guide of 14 predetermined questions and flexible probing questions (Appendix A). The responses to the predetermined questions sought to address stakeholder perceptions of: (1) what are the barriers to Takaful (awareness; affordability; trust spill-over; regulatory gaps); (2) what have been their experience with the Takaful claims process; (3) how would they like the Takaful surplus to be distributed; (4) how do they view the ability of micro-Takaful to promote financial inclusion (Kvale & Brinkmann, 2015). The interviews were audio-taped with the written consent of the participants, and transcribed verbatim. The audio tapes were also supplemented by field notes to maintain objectivity.

3.4.2 | Documentary Analysis

Documental analytics using triangulation was employed to analyse and confirm the interview data. Documented sources totalled 47. They included four NAICOM Takaful Guidelines (2013, including 2024 amendments) and 43 operator annual reports and brochures (range: 2019-2024), NAICOM market conduct/statistical reports (range: 2020-2025), Shari'ah board resolutions, and various industry publications between August 2014 and October 2023 (See Appendix B for a full listing). The documents contextualised the formal policies, metrics (i.e. gross written contributions and surplus practices) that are in place to measure performance, along with the history of regulatory shifts, and were used to compare the stated intentions with realities experienced in the Takaful environment (Argyris & Schön, 1974; Creswell & Poth, 2018).

3.5 | Sampling Strategy

To find individuals with information-rich characteristics within the value chain of the insurance industry, the sampling strategy was characterised by purposive sampling (Palinkas et al., 2015) supplemented with snowballing for access to individuals who were more difficult to reach. The final sample included 24 individuals.

Table 3.1 Participant Profile (N = 24)

Category	Number	Role/Position (examples)
Takaful operators	5	CEOs, Head of Operations, Shar'iah coordinators, Marketing managers
Conventional insurers	5	Chief underwriter, Head of Retail, Claims manager
Regulators and Shar'iah advisors	4	NAICOM Director level, Shar'iah Supervisory Board members
SME owners (with insurance)	7	Insured for Takaful Products
Retail customers	3	Muslim consumers aware of Takaful options
Total	24	

3.6 | Data Analysis Approach

Thematic analysis was performed following Braun and Clarke's (2022) six-stage approach of: (i) reading the data repeatedly to become familiar with it; (ii) using open-ended inductive coding techniques; (iii) producing initial themes from the coded data; (iv) reviewing/clustering the themes and then comparing them against previous literature; (v) defining and naming the themes produced; and (vi) writing a narrative which captured the themes accordingly. NVivo 14 aided with coding, developing an audit trail and using constant comparison methodology (as stated by Bazeley and Jackson, 2013). Multiple means of analysis were used, such as simply using inductive emergence (e.g., nature of trust spillover) and using deductive assessments of the elements of the conceptual framework, including demand/supply/regulatory barriers, in addition to conducting comparisons with literature (as seen in Figure 2.1). The coding tree sample is available in Appendix C.

3.7 | Reliability and Validity

The trustworthiness of this study was evaluated based upon the criteria outlined by Lincoln and Guba (1985), with additional consideration being given to new standards as proposed by Nowell et al. (2017).

The study's credibility was established through having engaged participants over an extended period, conducting multiple forms of triangulation (interviews plus documents), utilising member-checking (outside 12 of the participants checked their summary), and conducting peer de-briefing. The study's transferability was demonstrated through providing comprehensive context descriptions of the developing countries in which the study was performed, as well as the various participants involved in the research process. There was a detailed audit trail maintained in NVivo as well as per-developed supervisory field notes, therefore, exhibiting the study's dependability. The study's confirmability was assessed using reflexive journaling (refer to Appendix D) and coder-to-coder agreement (89%) with reported key segments.

3.8 | Ethical Considerations

The study adhered to both institutionally and internationally defined ethical guidelines established by BERA (2018). Ethical approval (Ref: BUS-2024-118, 14 January 2025) was granted for the current study. Participants were provided with an information sheet and consent form, outlining that their participation was voluntary, their data would be maintained as confidential, anonymous, securely and encrypted, with the ability to withdraw from the research at any time. Cultural/religious sensitivities (e.g., timing of prayer) were recognised. Five years following the completion of the study, all data will be destroyed.

3.9 | Methodological Limitations

The data from this study are contextualised within Urban Nigeria (Lagos) and may not generalise to rural and non-diverse settings. There is a possibility of bias when collecting self-report data. Through careful questioning and multiple sources of information, researchers attempted to reduce any unwanted biases incurred through participant reports. There were barriers such as: Senior Level Regulators' ignorance; the backdrop of the 2025-2026 economic downturn (with moderating inflation at 15.15% in the month of December 2025) may have impacted how the participants answered questions (National Bureau of Statistics, 2025). Therefore, the aforementioned barriers limit the interpretation of results but do not diminish the thoroughness of the researchers' interpretations.

4 | FINDINGS

4.1 | Structural and Operational Differences between Takaful and Conventional Insurance

Industry professionals showed knowledge of the operational and structural differences between Takaful and conventional insurance. These differences were mostly explained in terms of their respective risk management principles, governance structures, contract terms, and investment types.

The main distinction made by respondents was surrounding how each exists to deal with risk. Takaful operates based on mutual contribution and risk sharing; the participants share the risk, while with conventional insurance the insurance company retains the risk. As Participant 2 described:

"Takaful is based on mutual contribution, and participants share the risk; conventional insurance is where the company takes the risk."

Respondents generally viewed this as a major element of the conceptual basis of Takaful. Many respondents also pointed out that the operator of Takaful products has a fundamentally different role than does the operator of conventional products. While the operator of Takaful products managed and administrated the funds, the operator of conventional products is a risk bearer.

“A Takaful Operator is not taking on the risk like a Conventional Insurance Company. A Takaful Operator is Manage and Facilitate Participants' funds." (Participant number: 11)

Another factor acknowledged by respondents is the difference in governance or oversight between Takaful and Conventional Insurance. They indicated that Takaful Operations are governed by Shar’iah Law, which includes an additional layer of supervision; Shar’iah Supervisory Boards must be in place to ensure both operation and investments are Shar’iah Compliant. As stated by one industry expert:

“Through a Shar’iah board, Takaful has an extra layer of governance which governs the Takaful entity to ensure compliance but also impacts how Takaful businesses are conducted.” (Participant 11).

Many respondents felt that this governance model represents an enhancement of ethical credibility; however, they also felt that it may add additional complications and administrative requirements.

Another significant difference between Takaful and conventional insurance companies relates to how Takaful funds are invested. Takaful investment funds are limited to investments that conform to Shari’ah law and therefore cannot include any investments based on interest or speculation. In comparison, conventional insurance companies have a more flexible investment strategy supported by a variety of instruments. As one participant explained:

"Conventional insurers have the ability to invest in wider ranges of instruments… Takaful operators have to be guided by what is provided under Islamic law, which may limit their options.” (Participant 4).

Even though there is an understanding of these differences by most industry stakeholders, respondents noted that the public does not understand these differences clearly or at all. As noted by Participant 7:

"The differences between Takaful and conventional insurance are clear to those who work in the industry, but most consumers do not see or understand them".

This had led to the effective diminished significance of the operational discontinuities between Takaful and conventional insurance with respect to influencing consumer behaviour. Therefore, even though there is a greater difference than would be expected between Takaful and conventional insurance from an operational perspective, this dissimilarity does not translate to a dissimilarity between the two approaches to the market when viewed from a consumer perception. These observations were consistent across interview responses and supported by documentary evidence, reinforcing the reliability of the findings and highlighting the gap between technical knowledge and public awareness.

4.2 | Barriers to Takaful Adoption in Nigeria

The data collected as part of this study suggest that there are four major barriers that limit the adoption of Takaful in Nigeria; they include awareness of Takaful, affordability of Takaful services, level of trust in Takaful providers and institutional capacity for supporting the continued growth and development of Takaful offerings.

These barriers are interconnected; therefore, they will continue to limit the ability of Takaful to grow and be accepted by the insurance community in Nigeria. As these factors continue to limit the growth and acceptance of Takaful products within the insurance market, they will also limit the potential for further growth within the Nigerian insurance market.

4.2.1 | Limited Awareness and Understanding of Consumers

Having limited awareness and understanding of Takaful, which was identified by all of the participants interviewed, poses a significant barrier for consumers, who have little knowledge about all forms of insurance products, let alone Takaful. According to responses from multiple participants, many of the participants were unaware of the differences between Takaful and conventional insurance due to limited understanding of Takaful and an overall lack of understanding about insurance.

As one participant stated:

“Most people don’t really know the difference. For them, insurance is just insurance, whether it be Takaful or conventional.” (Participant 7).

As a result, the inability for consumers to differentiate Takaful from any other form of insurance reduces the appeal of Takaful products because of little or no value associated with Takaful products. Most consumers cannot identify the features that differentiate Takaful from other forms of insurance such as being a cooperative form of insurance or ethical in nature. One participant also commented:

“People hear about Islamic insurance, but they don’t know how it works or what makes it different.” (Participant 12).

The participants responses also indicated that the challenges of awareness of Takaful were not only limited to the consumers but also included intermediaries and distribution channels. Other misconceptions of Takaful include that Takaful is too expensive to participate in, and that Takaful is only for Muslims. Participants indicated that individuals' lack of trust towards the industry would prevent them from purchasing insurance products. As one participant stated:

"The perceptions and the lack of trust in the insurance industry can be a huge obstacle to buying insurance." (Participant 10)

Another participant elaborated on this point, stating:

"The majority of people still think of insurance as a grey area of the industry and that they are at risk from the industry." (Participant 12)

Participants noted further challenges to meeting insurance requirements from several different perspectives. These included misconceptions regarding product types, policy types, available products, pricing, claims processes, etc. Additionally, some participants indicated that many of the people they worked with in their communities did not feel comfortable speaking to someone about their insurance options.

The reactive nature of the two types of industry providers (i.e., community-based and formal insurance providers) is exacerbated by difficulties in accessing reliable information regarding what products and services were available in their areas. The biggest obstacle facing many people is understanding the type of data that are available on insurance products and the need for education on how to obtain insurance.

Most participants indicated that perceptions of insurance companies and their services can be limited due to previous experiences. Insurance companies have not been able to portray themselves in a positive manner. Thus, insurance providers and their representatives must establish and cultivate a positive image and reputation within their community to successfully serve the needs of their community members. This widespread scepticism regarding insurance companies, particularly in their ability to reliably fulfil their obligations and to transparently process claims, has been widely publicised by the media. As one participant stated:

"People are concerned with delays, and the perception of insurance companies not being trustworthy is affecting all of the insurance industry." (Participant 5)

As such, it can be inferred that this scepticism is not only the result of personal experiences but instead may be influenced by the prevalence of the media depicting negative experiences of individuals with their insurance companies. Many participants have spoken about negative stories about insurance companies denying or delaying payment of claims, and these stories perpetuate and create a culture of mistrust. Another participant cited research showing that:

"There seems to be a general belief that insurance companies do not always perform, which inhibits the ability of consumers to engage with insurance." (Participant 9)

This pervasive mistrust and scepticism extend beyond traditional insurance and as such, has implications for consumer perception and behaviour regarding Takaful. While Takaful is generally viewed as an ethical alternative to traditional insurance, it is still perceived as being part of the greater insurance system. As one participant commented:

"People think Takaful is like conventional insurance, and they are still careful with the way they view it." (Participant 14)

These findings suggest that, while the trustworthiness of an individual insurance company may be important to a consumer's decision to use or purchase an insurance product, the overall insurance industry is perceived and shaped by systemic levels of trust. Therefore, as a systemic function, trust should be understood in terms of how it relates to insurance as an industry.

4.2.4 | Barriers to Growth: Regulatory and Institutional Limitations

According to the participants, regulatory and institutional barriers are important obstacles to Takaful growth. One major theme emerging from the participants identified the existence of an unclear and insufficiently focused regulatory framework as being the source of uncertainty for the operators of Takaful and for the consumers of Takaful products. One participant stated:

"The regulatory framework for Takaful is developing, and that creates uncertainty for Takaful providers." (Participant 2)

In addition to this regulatory uncertainty, the participants also cited capacity constraints due to the limited Shar'iah governance and technical knowledge of the regulatory bodies. One participant stated:

"More technical knowledge is needed to effectively regulate Takaful." (Participant 11)

The lack of consistency in Enforcing Policies on Takaful and limited regulatory support for promoting Takaful has created a broader deficit in Takaful's visibility and credibility as an alternative product within the financial system. One participant noted:

"There has not been a definitive institutional push to promote Takaful and as a result the growth of Takaful has been slow." (Participant 6)

These institutional issues create a restrictive operating environment, which limits both innovation and market expansion, and ultimately stipulates the overall development of the Takaful industry. Finally, several participants noted that irregular income patterns create additional constraints for Takaful. It is important to note that all the participant categories supported these findings, and the contextual evidence supports the conclusion that macroeconomic conditions also shape the current demand for insurance products.

5.0 | DISCUSSION

The purpose of this study was to identify and examine the structural differences between Takaful and conventional insurance, as well as to identify obstacles to Takaful adoption in the Nigerian context. Previous literature has mainly focused on comparing Takaful and conventional insurance based on operational performance and efficiency; however, the findings from this research show that these comparisons are not sufficient to explain why Takaful has not been more widely accepted within emerging markets.

5.1 | Structural Distinctions and Their Limited Market Relevance

The study findings are consistent with previous research (Hussain et al., 2025; Bhatti & Shoaib, 2025) and demonstrate that the way Takaful operates as a financial product is fundamentally different from conventional forms of insurance in terms of sharing risk, governance structure, and how they invest according to Shar'iah principles. There is agreement among insurance industry professionals that these differences form the foundation for Takaful's ethical operation.

However, the findings from this research demonstrate that there is a disconnect between how stakeholders in the insurance market view these differences and how consumers view these differences. While the theoretical difference between the two models exists, the structural differences lack clarity and may not be understood by consumers in the marketplace. Recent evidence has shown that this lack of awareness results in diminishing the perceived distinction of Takaful (Ashraf et al., 2024).

Most importantly, the results of this study indicate that the structural differences between Takaful and conventional insurance models do not correlate with increased levels of Takaful product adoption. There is an inherent assumption made within some literature that the perceived ethical or operational superiority of Takaful will directly result in greater levels of Takaful adoption; however, the results of this study suggest that the success and acceptance of Takaful as a viable alternative model is dependent on the way in which consumers view, understand, and trust Takaful's structural differences.

5.2 | Interconnected Barriers and Systemic Constraints.

A primary conclusion drawn from this research is that obstacles to Takaful getting accepted as an alternative financial service are not unique but interconnected. Prior research has identified barriers such as awareness of Takaful products, lack of affordability and government regulations as individual constraints on Takaful adoption (IFSB, 2023; World Bank, 2022). However, this study illustrates the ways that these challenges work together to reinforce each other.

For instance, a lack of regulatory clarity inhibits the development and therefore the innovativeness of products; subsequently, this reduces the level of competition among product providers, reducing confidence in products for consumers. At the same time, macroeconomic instability reduces affordability for consumers, thereby decreasing the participation of individuals in Takaful and causing operators to lack sufficient scale to compete in the marketplace. The interconnectedness of these challenges demonstrates that they are systemic to the Takaful sector, rather than being the result of one-off events or circumstances.

This finding contributes to existing literature because it articulates a new analytical perspective and approach focused on the systemic nature of the challenges influencing Takaful. Furthermore, it suggests that the adoption of Takaful products requires coordinated efforts across a wide range of areas, rather than a singular policy or market response. Therefore, this study reinforces ongoing discussions in the financial inclusion space that suggests access to financial services is influenced by ecosystem conditions and not simply by the characteristics of individual products.

5.3 | Evidence of Trust Spillovers: Systemic Trust Constraints to Takaful Adoption

The most significant contribution of our research pertains to the identification of the concept of "Trust' as a systemic constraint that affects a consumer's decision to adopt Takaful products. Globally, Trust has been widely considered to be a major driver of a consumer's participation in financial products (Demirgüç-Kunt et al., 2018), however, our study presents a different picture in the context of insurance in Nigeria.

More specifically, the findings revealed that bad experiences with the claims payment process or the reputation of one insurance company, can negatively impact an individual's overall trust in the entire insurance industry; this is known as trust spill-over, and our study provided evidence of how that phenomenon exists within the Nigerian insurance industry. The overall skepticism that people have towards a large part of the finance system seems to be impacting people's views of Takaful, even though it has ethical and operational features that are different from conventional insurance.

This situation can also be defined as "trust spillover", where negative experiences or perceptions related to one area of the financial system, impacts how credible all other models within that system, are perceived to be. The finding of trust spillover represents a new way to understand the phenomenon of limited Takaful adoption and fills a current gap in the academic literature that tends to focus on trust in terms of institutions versus a trust-based systems framework.

This provides an interesting new behavioural perspective on why Takaful has not yet achieved widespread acceptance and address a critical gap in the literature that has traditionally viewed trust as an institution-specific phenomenon rather than a systemic problem.

5.4 | Evaluating the Role of Takaful in Financial Inclusion

The results of this study provide valuable insight into the potential role of Takaful as a mechanism of financial inclusion and demonstrate that while many of the participants felt that Takaful had the potential to provide culturally appropriate and ethically responsible protection through financial services, the extent to which this potential is realised remains largely unfulfilled in real-world application.

As has been previously demonstrated in existing literature, ethical congruence does not suffice to lead to financial inclusion (Ashraf et al., 2024). In fact, the results of this research suggest that Takaful has many of the same systemic and institutional impediments to financial inclusion as conventional insurance with respect to low levels of participant education and awareness of available products, affordability issues, and a lack of institutional trust among potential participants.

At the same, the research found that Takaful may have some characteristics that make it a viable option for certain groups that are outside of the conventional systems for cultural or religious reasons. However, those characteristics will only be of value if there is an environment that supports the laws and regulations that govern Takaful.

Ultimately, results indicate that Takaful cannot be treated as an isolated solution to financial exclusion but should be viewed as one element of a broader financial ecosystem. A comprehensive effort will be required to reform and eliminate the systemic barriers across the insurance industry to enable Takaful to fulfil its role in promoting inclusion.

5.5 | Implications for Policy and Industry

The findings from this study offers some implications for policy makers and industry stakeholders. The first is the need to create stronger regulatory frameworks that provide clearer guidance and consistency regarding Takaful and to establish the institutional capacity necessary to effectively supervise Takaful operations. This will require the development of enhanced expertise relating to both Shar'iah governance and actuarial processes.

The second implication is that greater priority should be placed on developing awareness and improving financial literacies. However, developing awareness also requires that awareness-building initiatives must move beyond providing consumers with access to information and incorporate building trust and confidence in the insurance industry. Consumers will not build trust and confidence in the insurance sector unless the insurance sector can demonstrate greater transparency, accountability, and quality service delivery.

Third, industry stakeholders need to focus on innovation of products and differentiation within the marketplace to position Takaful products as competitive to other products in the insurance marketplace. Industry stakeholders need to create products that are accessible and affordable for low-income consumers.

The final implication is that there must be increased collaboration between regulators, operators of Takaful companies, and other relevant stakeholders to help address systemic limitations and to facilitate the sustainable development of the Takaful sector.

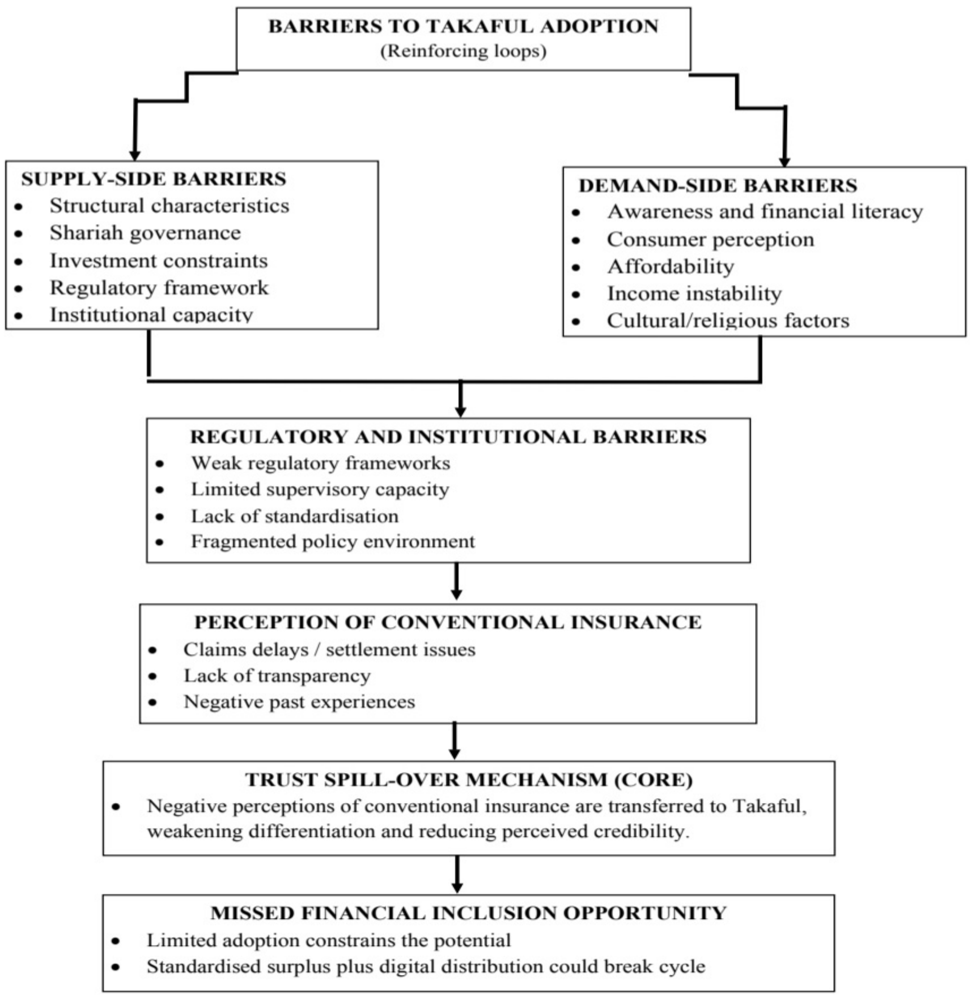
5.6 | Summary of Contributions

This research contributes to the literature in three significant ways. First, it provides a qualitative, context-specific analysis of Takaful and conventional insurance in the Nigerian setting that addresses the scarcity of stakeholder-oriented research on Takaful in emerging markets. Second, it develops a new integrated framework that illustrates the interrelated nature of the systemic barriers preventing individuals from using Takaful. Third, it introduces a new behavioural theory regarding the challenges of Takaful in the form of 'trust spill-over'.

5.7 | Revised Conceptual Framework of Takaful Adoption

The importance of systemic trust in Takaful adoption is further illustrated by a "trust spill-over" effect where adverse evaluations of conventional insurance negatively affect attitudes towards Takaful

Figure 4.1: Revised Conceptual Framework of Takaful Adoption in Nigeria (2025)



The findings of this study have led to the development of a modified conceptual framework for Takaful adoption (Figure 4.1). This framework shows how structural, institutional, economic and behavioural variables interact with each other and collectively contribute to Takaful adoption. The key component of this model is systemic trust. More specifically, the identified “trust spill-over” effect has a major influence over Takaful's perceived value within the more extensive insurance Ecosystem.

6 | CONCLUSION

This research has analysed the structural contrast between Takaful when compared to conventional insurance and analysed the barriers of adopting Takaful in Nigeria. The study has found that whilst Takaful is theoretically an ethical alternative to conventional insurance, the adoption of Takaful continues to be limited by a complex collection of structural, institutional and behavioural factors.

This research shows that although there are clear operational and governance differences between Takaful and conventional insurance, those differences do not have a clear reflection in the consumers understanding and market activity. As a result, the adoption of Takaful is influenced by interrelated barriers to adoption, comprising a lack of awareness about Takaful, affordability issues, regulatory difficulties and the continuing lack of trust in the insurance market.

This research has made a significant contribution to the existing body of knowledge by identifying the systemic mechanism of "trust spill-over" which impacts the adoption of Takaful. The impact of Takaful is impacted by negative perceptions of conventional insurance and creates a barrier for Takaful to establish itself as a viable alternative product. The research has added to the existing body of knowledge with an emphasis on how trust at the systemic level impacts participation in finance.

In terms of practical implications, this research highlights the need for improved co-ordination in efforts to develop Takaful. Policymakers must focus on establishing supportive regulatory frameworks, whilst industry stakeholders must focus on transparency, service delivery and increasing awareness about Takaful. The promotion of Takaful should be part of broader efforts to improve consumer trust in the financial system.

The research further demonstrates that while Takaful is a viable tool for financial inclusion, Takaful alone will not achieve this aim. To achieve the aims of financial inclusion through Takaful, Takaful needs to be part of a broader ecosystem which develops the capacity and capability of Takaful, develops the market for Takaful, and develops consumer confidence in Takaful.

This research has limitations. The qualitative nature of the research and the focus on Nigeria limits the ability to generalise the findings of this research to other countries. Future research should consider conducting comparative research using different countries and/or use of quantitative methods to generate further validation and expansion of the findings of this research. Furthermore, future research should explore the trust dynamics associated with other types of financial services to gain a deeper understanding of the trust dynamics identified by this study.

Overall, the research provides new insights into Takaful as both a financial services product and a socio-institutional service. By moving beyond structural comparisons to examine behavioural and systemic issues, this research also provides new insights into the challenges and opportunities of ethical finance in developing countries.

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APPENDICES

Appendix A: Semi-Structured Interview Guide

(Conducted: November 2025 in English; duration 30–45 minutes)

Introduction (3–5 min)

Salutation, purpose of study made known, confidentiality assurance, voluntary participation, Informed consent, approval for recording, right to withdraw

Section 1: Background of Participants

1. Can I know your current position and experience in Takaful / Conventional Insurance / Regulatory / Shar'iah advisory / SME owner/customer.

Section 2: Perceptions and Dimensions of Comparison

2. What do you see as the most important distinctions from the Takaful and Conventional Insurance perspectives (Principles, Operations, Customer Experience)?

3. In your view, how do Muslim consumers preview conventional insurance as compared to Takaful?

4. Do you feel that non-Muslim consumers differentiate Takaful from conventional insurance or do they view it as "just another insurance product"?

Section 3: Barriers to Takaful Growth

5. What are the factors preventing Takaful from being more widely used in developing countries specifically Nigeria? (Probe: awareness, affordability, trust from conventional experience, marketing, product design, regulation, Shar'iah, other)?

6. Is the present Economic environment (inflation, high cost of living, exchange rate) affecting Takaful procurement?

7. Does distrust or a negative experience with conventional insurance affect the perception of Takaful?

8. (Takaful participants only) How much impact does using a reinsurance company have on gaining/losing trust with Takaful customers?

Section 4: Distribution of surplus and Governance

9. How often is surplus distributed to the participants and does there appear to be transparency? Do different distributions by different providers cause confusion and/or mistrust amongst participants?

Section 5: Regulation and Institutions

10. How adequate are the regulatory guidelines currently used for Takaful? Are there any shortcomings needing to be improved upon?

11. Is the adequacy of the availability of Shar'iah expertise sufficient for Takaful supervision and development of products to occur properly?

Section 6: Financial Inclusion and SMEs

12. How does Takaful (especially micro-Takaful) help improve financial protection for low-income individuals and small-to-medium enterprises?

13. In your view, what practical changes (i.e., pricing, payment flexibility, distribution channels, education and partnership) can be implemented to improve Takaful growth?

Closing (2-3 min):

14. Do you have anything else to add or any questions? Also, can you be contacted if need be?

I greatly appreciate your time and the information you provided.

Appendix B: Final Coding Tree (Top Levels – Excerpt)

Level 1– Perceptions of Conventional Insurance

1.1 Religious Restrictions (*Riba, Gharar, Maysir*)

1.2 Lack of Trust, Negative Claims Experience1.3 Considered as a "luxury" or for profit

Level 2 – Perceptions of Takaful

2.1 Ethically and Shar'iah Compatible

2.2 Mutual / Cooperation Model

2.3 Confused with Normal Insurance

2.4 Attractiveness of Distributing Excess / Inconsistent

Level 3 – Barriers on Demand Side

3.1 Awareness and Financial Literacy are Not High

3.2 Affordability and Economic Hardship

3.3 Historical Trust Spillover

Level 4 – Barriers are on Supply Side

4.1 Low Diversity of Product and Innovation

4.2 Ineffective Distribution and Marketing

4.3 Lack of Shar'iah Knowledge

4.4 Low Capitalization

4.5 Rely on Conventional Reinsurances

Level 5 – Barriers on Regulatory and Institutional side

5.1 No Takaful Legislation

5.2 Unenforced Guidelines

5.3 Surplus Policy is Unstable

Level 6 – Potential to Include in Financial Operations

6.1 Micro-Takaful Opportunities

6.2 Risk Management and Continuity for SMEs

6.3 Where you are building Trust through Transparency and Equal Distribution of Surplus