



## THE FUTURE OF TAKAFUL INDUSTRY IN PAKISTAN

The rebirth of Takaful came in 1979 in Sudan from where it first spread to Middle East, then to Asian-Pacific countries, and later scattered to different parts of the Western World. It was only in 2005, after the introduction of Takaful Rules by the SECP, that Takaful arrived in Pakistan. Globally, there are now more than 120 Takaful Operators with an annual growth rate of 20%. Insurance giants such as the American Insurance Group (AIG), Allianz, ACE Groups (UK), AXA Insurance, Aviva, Lloyd (UK), Munich Re and Hannover Re have all entered this burgeoning market. So much so that even professional certifications such as CIMA, IIBI, and CII are all now academically engaged in promoting Takaful; such has been Takaful's popularity and success. What more, this global reality continues to expand in all directions, even in a country like ours where insurance have always found it difficult to make business sense.

For 12 years there were no new entrants in the Life insurance sector and very few new entrants came in the General Insurance. However, within a brief span of three years since 2005, five dedicated Takaful companies have launched their operations: three in General and two on the Family side. Others are in the pipeline and will follow suit by the next year. This reflects upon the level of trust and confidence Muslim investors have, especially from the GCC States where the growth of Takaful has been phenomenal, in the local insurance industry despite its historically low penetration rates (0.8%) and poor insurance density levels (US\$5.9). Unless these investors believe that Takaful is an outright replacement and not just an apt alternative of conventional insurance, investments of such nature would not have followed. After all, Takaful provides all the benefits which any conventional insurer does, but with a value-added ethical dimension, Shari'ah-Compliance, and business transparency. With unique features such as Surplus Sharing and Waqf (religious endowment) Takaful is all set to take off in Pakistan. This is what makes it more so attractive.

But for that to happen, to ensure that these high expectations are met, challenges are overcome, and opportunities tapped, Takaful players has to play their roles tactfully and above all, in unity. Its ideological cause and stance should not be compromised for short-term gains or sacrificed in favor of luring malpractices prevalent in the conventional industry. Incorporation of state-of-the-art technology, product innovation, and service efficiency are all integral variables of the Takaful equation. Taking calculated initiatives is the first steps towards progress. For instance, the General insurers have traditionally narrow-focused their clientele to corporate sector because of which product innovation became a luxury as few groups continued dominating the market. General Takaful, on the other hand, cannot afford to run its business on these lines. Instead, it should venture on personal lines and target a broader client-base beyond the readily available. Malaysia, the growth engine of Takaful, where penetration rate is as high as 30%, can serve as a model for inspiration.

The need for financial protection tools in Pakistan can further be gauged from the trend-defining statistic in dependency ratio. Dependency ratio is defined as the proportion of children under 15 years of age and old people over 65 years to the population between ages 15 and 64 years which is economically active. This ratio reflects the burden on the breadwinners in a family to financially support their loved ones. One reason why the conventional insurers so miserably failed to redress this issue is because they are very few in numbers and also of their poor capitalization. To protect Takaful from meeting the same fate, the SECP have rightfully banned window operations and complemented it with a high paid-up capital requirement. This will ensure new capital formation which in turn would result in sizeable investment in technology and human resources. According to an estimate Pakistan life insurance market has potential of generating premiums worth Rs 60 billion. The conventional industry generates less than Rs. 20 billion of premiums per year, 70% of which is underwritten by State Life. This shows the size of the gap which Takaful players will have to fill in.

This however would not be easy. Lack of general awareness and education amongst the masses about the use and benefit of insurance, let alone Takaful, is the biggest impediment in the growth of insurance industry in Pakistan. This is further aggravated by the lack of qualified human resources, lack of training culture and resources, misconceptions, stereotypes, undeveloped

alternative distribution channels, limited reTakaful arrangements, and constricted investment universe. This may sound a lot, but challenges often come disguised as opportunities. Takaful therefore is not in direct competition with the conventional insurance, but with itself. It is the conventional insurers who should feel threatened by what Takaful has to offer. Conventional insurers should have the realization that Takaful is a reality and it would do no good for them if they keep selling something which conflicts with the belief of 90% of the population. Fortunately SECP legally allows conventional insurers to convert their operations to dedicated Takaful services which in my opinion should be opted by most of the Conventional players.

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