

Emerging Asian Markets in Takaful: Pakistan, Sri Lanka and Thailand – The Tide is Swelling

In this wrap on the takaful market, we look at the emerging takaful markets in Pakistan, Sri Lanka and Thailand. On Pakistan, through two sets of eyes, we look at the nascent but rapidly growing takaful potential in a market that is 97% Muslim and the drivers to make takaful a major force. On Sri Lanka, we zero in on a company's experience in developing its takaful business in a predominantly non-Muslim country, while sharing the lessons learnt and offering tips on the challenges faced. On Thailand, we bring an almost blow-by-blow account of how they started the first takaful life product in the predominantly Buddhist kingdom.

PAKISTAN:

Takaful – The Opportunity to Serve the Needs

Mr Pervaiz Ahmed, Chief Executive Officer, Pak Qatar Family Takaful, himself an expert in both traditional insurance and takaful, gives an incisive assessment of the priority issues in the market, while calling on takaful operators to rise to the challenge of making takaful more pervasive and entrenched than traditional insurance in meeting the needs of the people through its compelling philosophy and customer-centric strategies.



Soon after the introduction of Takaful Rules, Pakistan saw its first general takaful operator in 2005. Since then, another two operators in general and one in family takaful have commenced operations.

Understanding the Market Dynamics

To truly comprehend the opportunities for takaful in Pakistan, we need to see where the present insurance sector stands and at the same time keep our sights on the demographic data, as shown in Table 1.

On the other hand, Table 2 shows the total premium volume, insurance penetration, and insurance density of

Table 1: Demographics of Pakistan

Population:	165 million
Population Growth Rate	1.83%
Median Age	20.9 years
Age structure	0-14 years: 36.9%
	15-64 years: 58.8%
	65 years and over: 4.3%
GDP per Capita	US\$752
GDP Growth Rate	6.6%

Table 2. Pakistan – Insurance Volume, Penetration and Density

Total Premium Volume	US\$D949 million
Life	US\$375 million
Non-Life	US\$574 million
Insurance Penetration (premiums as % of GDP)	0.8%
Life	0.3%
Non-Life	0.5%
Insurance Density (premiums per capita)	US\$5.9
Life	US\$2.3
Non-Life	US\$3.6

Pakistan in 2006-07. The best way to understand these meager values is by comparing them to another nation which shares many traits with Pakistan. India, a much larger neighbour, has an insurance penetration of 4.8%, against Pakistan's 0.8%, and its insurance density is US\$38.4, against Pakistan's US\$5.9.

The major reasons for this poor market penetration especially in life insurance sector have been:

- Very few market players with low capital base. Currently only four life insurance companies are operational.
- Negative image of conventional insurance in public at large mainly due to very low service standards and lack of needs-based selling.
- Conventional insurance is traditionally considered as haram and un-Islamic by the majority in the country.

Table 3: Pakistan Banking Sector

Total Number of Banks	40
Size of Banking Sector: Total Assets	PKR4.4 trillion
Growth in Banking Sector	16%
Total Consumer Financing	PKR50 billion
Secured	PKR15 billion
Growth in Consumer Financing	15% - 20% annually

The Islamic Banking Sector

Other financial service sectors which are rapidly growing such as consumer banking are also not yet effectively utilising these tools. Table 3 shows how rapidly this sector is growing and the possibilities it holds for takaful. This is an area where the conventional insurance companies are working on moving into, but thus far, they have just touched the surface. Given the figures as shown in Table 3, there is a lot of room for growth, and thus a lot of challenge for the new takaful players in the country.

When specifically looking at the Islamic banking sector, takaful sees an even brighter market. The Islamic banks are bound by their Shariah boards to only utilise takaful for all their financial protection needs. Islamic banking presently stands at approximately 3.2% of the total banking sector (PKR4.4 trillion in total assets), and the State Bank of Pakistan is pushing to bring this ratio to 15% in the next few years.

These values make it very clear that there exists a significant gap in the market for financial protection tools in Pakistan. This gap is a big opportunity for takaful as well.

The Challenges

There are significant challenges for takaful in Pakistan. These include:

- **Education & Awareness:** This is definitely the most obvious issue which new takaful operators have to deal with. People have a lot of confusions and misconceptions about the need for risk mitigation, Islamic modes of financing and the difference which takaful would offer.
- **Human Resource:** Considering the rapid growth in all sectors of economy, the country is suffering from a dearth of trained and experience human resource. This issue is faced by all the industries generally and financial sectors specifically.
- **Ambiguity in Regulatory Statutes:** Given how recently the rules were formulated by the Securities and Exchange Commission, there still remain a lot of aspects which need clarity. The regulators are still undecided about allowing window operations to exiting conventional insurers. If regulators decide to allow window operations, it would be detrimental to the takaful cause and pose difficulty for the dedicated players.
- **Uncertainty in dealing with the Law:** As with the

regulatory rules, takaful has also not had to deal with the courts yet. Thus, here also there is an element of uncertainty as how the contracts, which are designed in light of Shariah rulings, would be interpreted in a court of law.

- **Thin margins:** Unlike conventional insurance companies, takaful operators' primary source of revenue is the wakala fee which they will collect from every contribution. This leaves relatively little room to manoeuvre and so they will need to work very hard to ensure that their operations are not just very effective, but also very lean. To achieve this, they will need to invest heavily in technology.

Thus we see that the challenges are not small by any measure, but they can definitely be overcome.

Conclusion

If the present and future takaful operators take the challenges by the horn and strive to provide products which meet the needs of the people, are priced so that they can be affordable, are serviced in a customer centric manner, and finally consider Shariah limitations as their strength, there is no reason why takaful cannot be successful in Pakistan. In fact, it can easily achieve levels which even the present insurance companies have thus far been unable to reach. ■

About Pak-Qatar Family Takaful

Sponsored by strong Qatari financial groups like Qatar National Bank, Qatar International Islamic Bank, Qatar Islamic Bank, Qatar Islamic Insurance Company, Masraf Al Rayan and The Amwal group, Pak-Qatar has the financial muscles to fully exploit the opportunities available in the market. It has launched two separate companies one for general takaful and the other for family takaful.

Being the premier in this area, Pak-Qatar plans to provide the Pakistani public with full range of family and general takaful products for both individual and corporate customers.

Pak-Qatar's key selling propositions are:

- Needs-based selling;
- Appropriate and competitive pricing;
- Immaculate customer service;
- Transparency and high ethical standards.

Being Shariah-compliant and halal would not be the only reason for a customer to use our offerings; rather, it would be an additional feature for the people who intend to only venture in halal options.

Bancatakaful, ie marketing takaful products through branch network of banks, would play an important role in business development of Pak-Qatar. Currently there are six dedicated and 15 Islamic windows of conventional banks operational in Pakistan. Pak-Qatar is the only family takaful operator in the country. ■

PAKISTAN:
The Potential in Takaful – More than a Calling



Mr Abdul Rahim Abdul Wahab, Director & Actuary, Actuarial Services, Sidat Hyder Morshed Associates (Pvt) Ltd in Pakistan, gives an overview of the insurance market and the inroads being made on the takaful front.

The insurance sector has shown an average growth of 26% over the last five years (life insurance 27.4% and general insurance 24.6%) compared to the 7% average growth in GDP. A split of insurance premiums for past five years is shown in Chart 1.

However, despite this high growth, the penetration rate (total insurance premium as % of GDP) is quite low. Currently the penetration rate is 0.8% and is growing by an average of 7% (over last five years). A 2005 study shows that Pakistan is ranked 55th out of 57 developing countries in terms of premiums per capita.

The Non-Appeal of Conventional Insurance

As conventional insurance was the only form available till recently, it is believed to be one of the major contributing factors for this low penetration rate in Pakistan, where 97% of the population are Muslims.

The takaful alternative, gaining increasing popularity in many countries worldwide, is still in its infancy in Pakistan, having only recently been introduced. The Takaful Rules issued in 2005 have set the ground for takaful companies to be set up as independent operations. It is gaining increasing public awareness in recent months with new players entering the market, and the concept is gradually gaining momentum.

More Newcomers Going into Takaful

The interest in setting up takaful companies can be seen from the fact that, over the past 12 years, there have been no new life conventional companies set-up in the country. The last licence was when the government opened life insurance to the private sector. Since the Takaful Rules have been promulgated, there has been active interest by at least three players to set up family takaful companies in the country, one of which has already got a licence.

On the conventional general side, there have been three new players in recent years all of which have been associated with existing financial institutions primarily to service their own group business.

On the takaful side, however, there have been interest expressed by five new players, three of which are now operational. All this, in the course of just two years, does indicate a fair amount of potential for growth seen by takaful operators.

The Islamic Banking: A Success Story

A parallel to takaful can be drawn from the success and growth of Islamic banking in Pakistan. Since the launching of a comprehensive Islamic banking policy in December 2001, there are now six full-fledged Islamic banks and 13 conventional banks offering a network of 200 branches. Even foreign banks operating locally have opened “Islamic Window operations” in order not to be left behind. Islamic bank assets and deposit base grew by over 60% in the period December 2005 to December 2006. (Assets: 2006 – PKR 83 billion; and 2005 – PKR 50 billion / Deposits: 2006 – PKR 118 billion; and 2005

– PKR 72 billion).

In a recent presentation, the governor of State Bank of Pakistan advised and encouraged Islamic banks to grow its share from 3.5% to 15% over the next few years, which she admitted was ambitious but is being achieved in some countries. The acceptance and success of Islamic banking is a harbinger for the takaful potential in Pakistan.

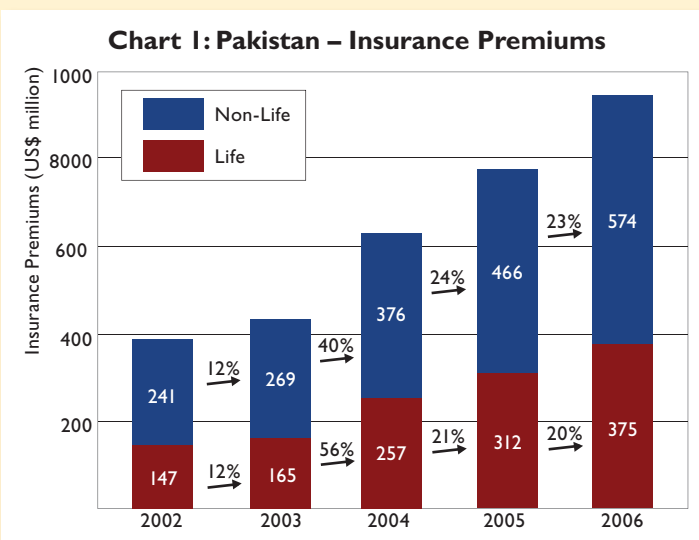
Synergy in Growth for Islamic Banks and Insurers

Further, Islamic banks in Pakistan are required by Shariah laws to insure themselves with a takaful operator, once available. Hence, the growth of Islamic banking would also provide synergy to the growth of takaful and the resulting growth potential is enormous. Islamic banks and financial institutions play a strategic and important role in the distribution of takaful products. Just as bancassurance played an important role in the distribution of personal lines insurance products, bancatkaful is an important driver for takaful. One may say that the success of takaful largely depends on the performance of Islamic financial institutions on a global basis and how integrated they become.

The Current State of Takaful Play

Takaful solutions have recently come up in the market with four takaful operators currently having licences. The first licence was issued to Pak Kuwait Takaful in last quarter of 2005, the second one to Takaful Pakistan in March 2007 and recently Pak-Qatar General and Family Takaful Companies were issued licences.

The market, however, needs and expect many more players as the capacity of three players is largely insufficient and the demand is likely to be much higher. However, there is a need for education and awareness of the masses regarding the takaful concept and its acceptance by Shariah scholars, and the benefits of having financial protection in general, so that the market potential may be fully realised.



SRI LANKA:**Lessons and Tips from A Driven Takaful Newcomer**

Mr S A H Mohideen, Chartered Insurer and General Manager, Ceylinco Takaful Limited, looks at the basic but critical issues and challenges that face newcomers and other takaful operators in the market from a first-hand experience of having being part of the team that launched the new takaful company just a year ago, with all the attendant challenges. There are still only two takaful operators in the market.



With the first entrance into the takaful market by Amana Takaful, the tough legal barriers for entry were at least overcome in 2002, heralding a new era for the insurance history of Sri Lanka. Ceylinco Takaful Ltd entered the field in the latter part of 2006 as the second takaful operator in the market.

The Drivers for the Takaful Launch

Although it was a member of one of the largest Sri Lankan conglomerates whose insurance arm enjoys the highest market share in both classes of insurance (long term 33.43% and general 36.87%), Ceylinco Takaful was launched to serve a need. It was a dream of the Group Chairman, Dr Dheshamanya Lalith Kotalawela to launch a takaful company for two reasons:

- Firstly, to popularise the habit of insurance protection among Muslims who were still keeping away from insurance protection. Though 1% of the Muslim population fell victims to tsunami in 2004, only a handful of them had any form of insurance protection.
- Secondly, to make available to others the beneficial offerings of takaful – to offer a choice between conventional insurance and takaful. He firmly believed that takaful should not be confined to Muslims alone, it must be made available to all.

Hence, Ceylinco Takaful's products are focused on the needs and affordability of the middle income group. Deviating from conventional approach, these products offer a combination of benefits under one single policy specifically designed for different segments of the target group.

Challenges and Issues

There are several challenges and problems common to all newcomers to takaful in any market not just unique to Ceylinco Takaful. The rules of the game differ from country to country depending on its legal, ethnic, socio-cultural and market environments.

Technical and Shariah Know-how

The successful operations of takaful require a proper mix of insurance technical know-how and Shariah knowledge. But in reality these two fields of study remain far apart, and it is, indeed, a challenge to achieve the proper mix. A person who is well-versed in both fields is a rare commodity. As a result, takaful concept has been vaguely understood and loosely practiced. The task of educating takaful workers and Shariah supervisors is, indeed, a daunting one because of the following constraints:

- The non-availability of competent trainers and educators;

- The lack of educational institutions locally or in neighbouring countries offering takaful education;
- The high cost involved in learning the subject from institutes based in Middle East and Far East countries;
- The reluctance on the part of Shariah supervisors to acquire sufficient knowledge on insurance.

Changing the Mind-set

Unfortunately, the concept of takaful has been misunderstood. A strong religious flavour has been attached to takaful, resulting in widespread belief that takaful is for Muslims only. Eradicating this fallacy and creating the right mind-set favourable to takaful is an urgent necessity.

On the other hand, carrying out an intensive and effective awareness campaign requires a huge budget which a new takaful company with limited resources could hardly afford.



Columbo, Sri Lanka

Legal Environment

The existing legal framework places takaful companies in a handicapped position compared to conventional insurers. The present set of regulations, evolved over a period of time, was intended to regulate conventional insurers, but the same set is being used to regulate takaful companies as well. This deprives takaful companies of a level playing field.

Investment Opportunities

Various restrictions laid by insurance regulators on the choice of investment avenues for insurance fund serve only to add to the burden of a takaful company.

The dearth of Shariah-compliant investment opportunities in Sri Lanka is another hurdle.

Thus, takaful companies are left with a very limited investment choices.

Culture and Values

At present, takaful operations, to a large extent, follow those of conventional insurance mainly because the management team comprises persons recruited from conventional insurance companies, and these persons have little or no knowledge of Shariah aspects.

A quick transformation from conventional culture to takaful culture and adherence to Islamic values is of paramount importance if the true spirit of takaful were to be preserved.

Retakaful

The purity of takaful is at stake unless and until risks are fully covered by retakaful arrangements backed by very strong retakaful companies.

Due to the dearth of strong retakaful players acceptable to the regulators, takaful companies have no alternative but to seek support from conventional reinsurance market.

Opportunities

The removal of a formidable legal barrier for entry for takaful operation has opened up new vistas of opportunity for takaful operation in Sri Lanka.

The insurance industry in Sri Lanka has been recording a steady growth every year. In 2006, general insurance recorded a growth rate of 15.7% while long-term insurance recorded a growth of 15.5% (Insurance Board of Sri Lanka Annual Report 2006).

Distinct Advantage Over Traditionals

Insurance penetration, which was very low until recently, is on a high note chiefly because of greater awareness created by natural catastrophes and marketing thrusts from big conventional players. As a result, the growth of insurance industry is gathering momentum now, creating new opportunities for both conventional and takaful players.

However, because of the principles of mutuality and the uniqueness of their offerings, takaful companies have a distinct competitive advantage over conventional insurers. Takaful companies are obviously in a better position to exploit the opportunity to their advantage.

Increasing awareness among Muslims about takaful is another development contributing to the expansion of opportunities for takaful operation in Sri Lanka.

Future of Takaful in Sri Lanka

There are ample opportunities available in Sri Lanka for the growth of takaful. Demand for general takaful products, in particular, is on the increase.

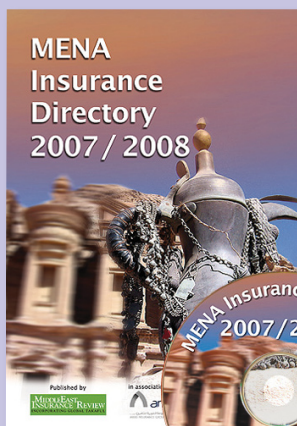
The market share of takaful business in general class increased from 1.71% in 2005 to 2.33% in 2006.

However, the family takaful remains to be developed.

Regulators are considering to change the present minimum capital requirement to risk-based capital. This will be a welcome gesture to new and small players.

Sri Lanka is a growing market for insurance business and takaful has a place, and a role to play. ■

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THAILAND: Takaful – The First Mover’s Story



Mr Surasak Surjirakul, Executive Vice President, Finansa Life Assurance, gives an interesting blow-by-blow first-hand enthusiastic account of how the company moved to launch a takaful product in the individual and family segment following the Asian Tsunami of 2004 which left many affected Muslim families exposed without cover.

Finansa Life Assurance (FLA) decided to penetrate the Muslim market with “Finansa takaful” due mainly to the Tsunami which hit Thailand’s southern provinces at the end of 2004.

Almost 80% of people in the southern part of Thailand are Muslim. Many Muslim families suffered the loss of properties and breadwinners of families with no protection. These people did not have any life insurance. Why? The answer is that traditional insurance is not compatible with their religious beliefs. Traditional insurance violates the rules of avoid riba (usury), maysir (gambling), and gharar (uncertainty).

We then decided to introduce an Islamic insurance, a system of joint-guarantee and mutual help, to the Thai market. To prepare and set up this Finansa takaful product, we set up the Finansa Shariah Committee which consists of Islamic scholars to educate our Takaful Taskforce Committee and staff on the rules and principles of Islamic laws.

Then we filed the product for an approval from the then Department of Insurance (DOI) (known as Office of Insurance Commissioner from 2005).

Finally we got the approval in January 2006. After the approval from DOI, we have received a verified letter from the Chief of Muslims in Thailand to prove that our product does not contradict to Islamic Laws. Therefore, Finansa takaful is the first Islamic insurance product in Thailand.

Lessons from the Neighbour

We also studied family takaful operations in Malaysia. We decided to separate takaful product and operation from our normal business. We used the mudahraba model, which is based on the profit-sharing contract of mudahraba combined with the donation of tabarru agreement. With this model, the contract consists of the participants and the takaful operator. The takaful operator manages the operation to obtain a return from a share of the surplus on underwriting and a share of profit from investments. The objective of tabarru is to enable takaful participants to establish a fund to provide financial assistance to beneficiary of a participant or member who may suffer a loss in the event of a defined misfortune.

The Challenges Faced

Like everything new, Finansa takaful products have taken some time to develop. We had to lobby and defend the concept with the regulators.

Since the first Finansa Takaful product was launched in April 2006, we have received both positive and negative feedback from Muslims. Although we have a certification from the Chief of Muslims in Thailand, some members of the public

still question our products.

The “Walk and Buzz” Strategies

From the beginning, we have been working hard to make Muslims understand the takaful concept by “a walk tactic” and “buzz marketing”. Our management team and members of Finansa Shariah Committee have worked hard on the walk strategy, making several trips to many Muslim communities to meet the leader of each community.


We did buzz marketing through information sharing and building the awareness of the need for takaful products to Muslim communities’ leaders until they were convinced. They, in turn, will explain the concept of takaful to their people, family, relatives and friends.

The Opportunities

Thailand is a non-Muslim country, but at least 15% of Thai population is Muslim. This means that out of the 60 million total population of Thailand, there are approximately 13 million Muslims. This segment form a large number of prospective customers.

In addition, our Finansa takaful products are developed not only for Muslims, but also for non-Muslims.

The Future Ahead

We believe that as more people buy takaful products and there is growth in the market, more newcomers will enter to share in the pie. After 18 months of our launch of the first takaful product in the life market, we are now seeing a new competitor, and maybe a third by next year. We are confident that as the first mover, we will grow in tandem with the market. 



Bangkok, Thailand, by night