

Inspiring growth seen in Takaful insurance

JAVED MAHMOOD talks to **M Vaqaruddin**, Chief Executive Officer Pak-Qatar General Takaful Limited, to discover developments taking place in the Islamic insurance sector in Pakistan

Q: How do you see the potential of Takaful insurance business in Pakistan?

A: In Pakistan 97 per cent population is Muslim that is positive point for the growth of Takaful insurance.

In our country there are millions of people who abhor obtaining conventional insurance that involves mark-up which is un-Islamic and they can avail its alternate, Takaful that is a comprehensive and Shariah oriented risk mitigating facility.

Frankly speaking Takaful in Pakistan is at an infancy stage as four out of five takaful companies are yet to complete even

one year of their operation. At present five Takaful insurance companies (three general and two family) are operating in the country. Takaful Insurance has received a very encouraging response in less than one year period that shows the potential of growth of this mode of insurance in Pakistan. As this sector is yet to complete one-year period of its inception, it would be premature to make any assessment of the share of Takaful insurance in overall insurance business in the country. The market share of this sector can be assessed after the completion of two to three years of Takaful insurance business in the

country.

Q: Any plan of your company to expand outreach in Pakistan?

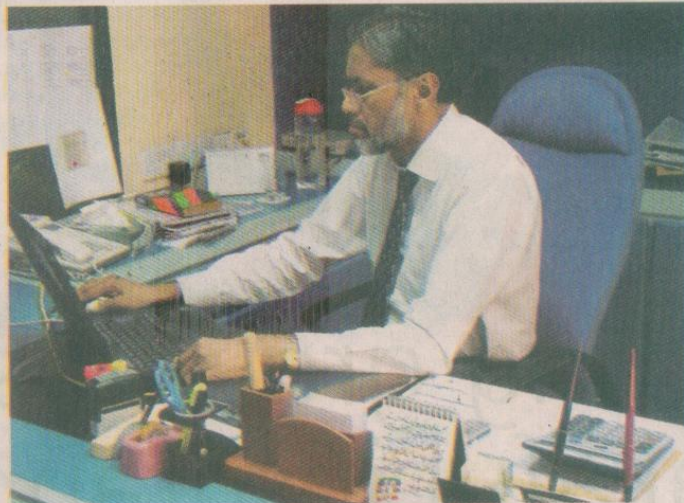
A: We took off from Karachi last year. This year we have established offices in Lahore and Islamabad, which are ready to start operations there. Pak-Qatar Takaful Limited is also renovating its offices in Peshawar and Faisalabad, which will begin operations shortly. We want to penetrate in all provinces of Pakistan, especially in the rural areas to promote Takaful Insurance.

Q: Is your company offering insurance cover to crops?

A: Initially we are targeting only those kinds of products, which are common and offered commonly by the conventional sector. At a later stage our company may consider offering insurance cover for specialized needs like crop takaful.

Q: Any issues/problems being faced by this sector?

A: Lack of awareness is one of the major bottlenecks being faced by the Takaful companies in the country. There is a strong need to create awareness among the masses about the benefits of this mode of insurance in the country. Re-Takaful (like Re-insurance) is also another major area of concern for the companies operating here. As the Takaful companies are at their initial stages of operation, they have less capacity. It therefore becomes difficult for them to go for large risks at this stage. In future with the availability of more capacity they will be able to cater to these large risk as well.



Q: What is the concept of Takaful?

A: Insurance plays a very important role in commercial and personal finance, but while most of us take insurance for granted, for some conventional insurance is incompatible with their religious beliefs. Under Islamic jurisprudence conventional insurance is not permissible.

Therefore an innovative concept, based on solidarity, cooperation and mutuality, which have been the keystones of Islamic society from the days of the holy Prophet (PBUH), began to develop in the early 70s in Sudan, Middle East and Far East Asia and it was called Takaful.

It is important to understand that Islam is not against the concept of insurance but the basis of operation of conventional insurance; which does not meet the requirement of Shariah. In fact, the concept of insurance which simply means the pooling of common resources to help the needy is very much in line with the teaching of Islam which propagates solidarity, mutual help and cooperation among members of the community. The essence of insurance could be seen in the

system of mutual help in the Arab tribal custom of blood money or diyah.

Under this system, a victim or the injured party would be compensated by the members of the community whose action had resulted in the loss of life or impairment of the victim. Therefore, the principle of compensation and group responsibility was accepted by Islam and the holy Prophet (SA W).

Muslim scholars have acknowledged that the basis of shared responsibility is embedded in the system of "aqila" as practiced by Muslims of Mecca (Muhajirin) and Medina (Ansar), and laid the foundation of mutual insurance.

It needs to be emphasized that the operational framework of conventional insurance is against the tenets of Shariah, but not the basic concept of insurance. Takaful which means, "the act of a group of people reciprocally guaranteeing each other," is based on the concept of mutual cooperative insurance. The takaful framework is based on solidarity, responsibility and

brotherhood among members who agree to share defined losses to be paid out of defined assets. The operational framework of Takaful avoids element of Riba (interest or usury) and Gharar (unknown and ambiguous factor in the operation of contract). Riba and Gharar are the basic reasons why Muslim scholars regard conventional insurance as being against the principles of Shariah.

Q. What are the elements of takaful and how they integrate with each other?

A. The core elements of Takaful are:

- Participants (policyholders) cooperate among themselves for their common good. Every participant pays subscription to help those that need assistance.
- Divide losses and liabilities among the community by a pooling system.
- Eliminate uncertainty in respect of subscription and compensation.
- Not to derive advantage at the cost of others.
- Invest funds in Shariah compliant instruments.

From an operation's viewpoint, under Takaful the members agree to devise schemes under which they themselves guarantee each other. Each participant pays a premium as a contribution to a common fund referred to as Participants' Takaful Fund. The Takaful operator manages the fund. The Takaful operator has to ensure the member's level of contribution commensurate with the degree of risk. Therefore, the Takaful Operator may apply scientific principles in the assessment of the amount of contribution. The members allow the



Takaful Operator to take "Tabarru" (donation) and to pay the losses suffered by other members in the pool.

Q. What if any profit remains in the pool after incurring all operational expenses?

A. If there is any surplus left from the contribution after deducting all expenses it is either retained as contingency reserve, some amount is paid towards charity and the rest is divided among the participants.

Q. Tell us how your group entered into this business?

A. Takaful is a unique way of managing the insurance needs in a manner consistent with religious beliefs.

Encouraged by the framing of the rules for Takaful by the SECP in 2005 our Qatari group decided to have both General and Family (Life) Takaful companies in Pakistan. The companies were thus incorporated in the year 2006 and got their licenses to operate on 16th August 2007. The companies have installed the most modern IT System to provide the best possible service to our participants. This is a Malaysian system known as Pentasoft Takaful. We are capable of catering to all participants' Takaful needs.

Q. What is the paid up capital put into the business by your group?

A. The group has made a combined investment of more than Rs 800 m (Rs 300m in General and Rs 500m in Family companies). We are dedicated Takaful companies who have entered the market with a vision to introduce 100% Sharea based alternative to conventional insurance to the public at large.

Q. How can you say that you work strictly in accordance with Sharea principles?

A. To meet this aim each company by law has to have a Sharea board comprising of at least three learned scholars in Islamic Fiqh led by Hazrat Maulana Mohammad Taqi Usmani Sahib. This Sharea board keeps an eye on every activity that the company is involved in from underwriting to claims settlement and investment to make sure that they are all in accordance with the Sharea principles.

Q. What products do you offer in the market?

A. Pak-Qatar General Takaful has entered the market with the entire range of products i.e. Property (Fire), Marine, Motor, Miscellaneous and Engineering while Pak-Qatar Family Takaful has started operations with Group Health and Group Family Takaful plans. Very soon it is going to launch some individual products as well in Pakistan market.

Q. Who are the major shareholders of Pak-Qatar Takaful Limited?

A. The major shareholders of Pak-Qatar General Takaful and Pak-Qatar Family Takaful are: Qatar Islamic Insurance Company; Qatar International Islamic Bank; Qatar Islamic bank; Qatar National Bank; The Amwal Group; Masraf Al-Rayan;

Fawad Yousuf Securities Limited; FWU Group and Doha Bank. The three sponsor banks together have combined shareholder equity of over 14 billion Qatari Riyals (US\$ 3.8 billion) and total assets of over 95 billion Qatari Riyals (US\$ 26.12 billion).

Q: What are the advantages to a common man if he takes takaful cover?

A: There are inherent advantages in Takaful, which will provide you the following value-added benefits: Takaful is a Shariah compliant method of risk mitigation. This will enable you to get the benefits of a world-class financial protection tool but not have to compromise on any of your beliefs.

Takaful has the possibility of a surplus refund. If the Takaful Pool ends the year with a positive balance, the operator may distribute the balance to the participants based on their net contribution in the surplus.

Q. Why do you think Takaful is growing rapidly?

A. Takaful is rapidly growing globally as a recognized tool for risk sharing, not only because it meets all ethical and religious considerations but also because it is considered to be the most equitable option for risk mitigation.

Takaful aims to provide products that are competitive in rates and impeccably serviced. General Takaful will provide peace of mind and financial security to the participant of takaful fund. General Takaful enables the organization to meet its legal obligations in terms of protection against its assets. It is easy to apply for and set up.

Q. What are Takaful Jargons?

A. The word "Takaful" comes from Arabic root word "kafala", meaning guarantee or taking care of one's needs. Takaful is an arrangement whereby individuals in the community jointly guarantee themselves against future losses or damages. This method of Risk Mitigation has been used for centuries, albeit, under different names. Prior to the advent of Takaful, as we know it today, the most common method has been "Mutual Insurance", which although similar, is not identical.

Takaful is based on the principle of solidarity, mutual help, brotherhood and cooperation among the members of the community. The key elements of any Takaful arrangement are the participants, the Takaful Pool, and the Takaful Operator (Company). The Takaful Pool is managed in the shape of "Waqf" (Endowment) by the Takaful Operator, which acts as an administrator and carries out its role in the form of a "Wakeel" (agent). Participants pool their contributions, which are given in the form of "Tabarru", into the "Waqf", from which they may benefit in the event that they suffer a loss. All claims are paid out by the "Waqf" and not by the Takaful Operator.

