



Takaful insurance can fetch \$1b worth business a year

JAVED MAHMOOD talks to **Pervez Ahmed**, Chief Executive Officer Pak-Qatar Family Takaful Limited to find out developments taking place in the Islamic insurance sector in Pakistan

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

A: Out of a total population of 165 million, there is a huge potential of 50 million insurable people in this country. In monetary terms I can say that the Takaful Insurance sector can generate up to one billion dollars worth business a year in Pakistan. Being a Muslim country, Pakistan's 97 per cent population is Muslim that is a strong 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 insurance business in Pakistan is at an infancy stage as it is yet to complete even one year of its inception here. Last year we got the licence in March/April, but started operations from August/September. At present five Takaful insurance companies (three general and two family) are operating in the country.

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

A: We got licence in March last year and took off operation from Karachi. Now we have set up offices in 10 cities in the country that shows the aggressive expansion and marketing approach of the company.

Takaful

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 the Takaful Operator.



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

A: Lack of awareness is one of the most important 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.

Q: How you are going to handle the problem of the lack of awareness?

A: We are pursuing a 4-pronged strategy. We are increasing interaction with the media, print as well as electronic media. We are also approaching the chambers of commerce and industries in the country, going to the universities/colleges and some communities. We will also approach the people in the rural areas to increase the customers base and to provide the benefit of Family Takaful to the needy people.

Meanwhile, Takaful Association of Pakistan is also being established to promote this sector in a sustained manner in the country and to create awareness on regular basis.

Q: What is the ratio of insurance penetration here?

A: Currently the life insurance penetration in Pakistan is only 0.3 per cent in Pakistan while in India it is 3 per cent. This shows in Pakistan the penetration of life insurance is at bottom-line.

Q: What are the fears of people about insurance?

A: The concept of Takaful is not clear in the mind of Pakistanis that is one of the major hurdles in the required growth of this sector at this stage. The people do not want a long-term insurance contract due to different reasons.

Q: There are a lot of complaints against insurance agents. How your company is going to tackle this aspect?

A: It is true that the people have a lot of reservations and complaints against the insurance agents. In fact, the insurance agents have shattered the confidence and trust of the insurance policy holders.

However, Pak-Qatar Family Takaful is taking this aspect very seriously. We keep a strict check and balance on the insurance agents. Whenever a person gets insurance policy through us, we contact the person and inquire from him the terms and conditions of insurance promised by the agent. This strategy of ours has created confidence in the customers and removed doubts and ambiguities in this business. We have

also made it clear to our agents that the sale of insurance policy should be free from ambiguities, fraud and it should be transparent.

Q: What is the paid-up capital of the Pak-Qatar Family Takaful?

A: The Securities and Exchanges Commission of Pakistan has prescribed 300 million rupees worth paid-up capital for the Family Takaful, but the paid-up capital of Pak-Qatar Family Takaful is much higher than this slab, Rs 525 million, that reflects the financial strength of the company and serious approach of the management to run the company on a strong manner from the beginning.

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 Shari'ah. 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 emphasised 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.

The core principles 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 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 Takaful Fund or participants' 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. If there is any surplus left from the contribution after deducting all expenses it is divided among the participants as it belongs to them.

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 Qatri group decided to have both General and Family (Life) Takaful companies in Pakistan. The company was thus incorporated in the year 2006 and got its license to operate on 16th August 2007. The company has 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. The group has made a combined investment of 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% Shariah based alternative to conventional insurance to the public at large. To meet this aim each company has a Sharea board comprised of 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.

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 Family Takaful and Pak-Qatar General 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; and Doha Bank. The three sponsor banks together have a 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 of Takaful?

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 bonus. 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.

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. Being part of this would be a positive move for your organisation.

Takaful aims to provide products that are competitive in rate and impeccably services. Your organization will have no reason to leave Takaful for any other form of risk mitigation.

General Takaful will provide peace of mind and financial security to the policyholders.

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.

