

## Government must exempt taxes on Takaful sector to encourage savings, insurance penetration



“The government must exempt taxes on Takaful sector which I believe would result in a big change as far as savings and insurance penetration is concerned. Moreover, the SECP must act as an effective regulator by ensuring proper implementation of policies but, unfortunately, it seems that they do not have adequate resources to manage the Takaful sector.”

P. Ahmed

CEO, Pak-Qatar Family Takaful Limited.

Pervez Ahmed is the Director and founding Chief Executive Officer of Pak-Qatar Family Takaful Limited, a company specializing in providing Shari'ah-compliant Takaful solutions based in Karachi, Pakistan.

P. Ahmed started his career from State Life Insurance Corporation (SLIC) of Pakistan in 1989, and being quick to acquire management skills progressed to the rank of Deputy Manager, and then switched to American Life Insurance Company Limited (ALICO) in 1995. Thereafter, he joined Commercial Union Life Assurance Company Limited (later, merged into New Jubilee Insurance Company Limited) as Head of Sales and Marketing and developed alternate distribution channels, including pioneering in Bancassurance.

Prior to establishing Pak-Qatar Family Takaful, Ahmed was associated with a management training and consultancy firm in Middle East and Pakistan as Chief Operating Officer and Organizational Development Consultant. Academically an MBA with majors in Finance & Marketing, and Fellow of Life Management Institute (USA), Ahmed also has a Post Graduate Diploma (PGD) in Islamic Banking and Finance from the Centre of Islamic Economics (CIE), Darul Uloom Karachi. His interests include research in the field of Islamic Finance.

Ahmed is regarded as one of the pioneers of the concept of Family Takaful in Pakistan. He has an active policy-making role in the committee formed by Securities and Exchange Commission of Pakistan to review Takaful Rules 2005.

*While talking to Money in an exclusive interview, P. Ahmed highlighted the overall progress and future of Takaful in Pakistan. Following are excerpts of how he reacted to our queries.*

**Money:** Can you give us short briefing about the operations of Pak-Qatar Family Takaful Limited since its inception in Pakistan?

**P. Ahmed:** Pak-Qatar Family Takaful, the pioneer of family Takaful in Pakistan, was incorporated in 2006 and the company got the license in August 2007 to commence Takaful business in Pakistan,

which is an alternate to conventional insurance. Pak-Qatar Family Takaful Limited is regarded as a progressive Shari'ah Compliant company providing need-based and cost-effective Takaful solutions in Pakistan. We started both, General and Family Takaful in the year 2007 with an initial focus on corporate customers only which was extended to individual customers last year in the month of April. Currently, we have offices in 13 cities all over Pakistan, of which offices of both Pak-Qatar Family Takaful and General Takaful are present in five major cities. The head offices of Pak-Qatar Family Takaful and Pak-Qatar General Takaful are situated in Karachi, besides two more offices in the city. We offer a complete range of products to our corporate and individual customers. We are the only Takaful company in Pakistan which concurrently offers General and Family Takaful. Many other companies in Takaful business either offer General Takaful or Family Takaful but we are in both businesses.

**Money:** What is your company's vision and policy to cater the needs of Pakistani market?

**P. Ahmed:** Our Company's vision is to provide financial protection of Takaful to everyone, which is supported by some of the strongest financial institutions in the state of Qatar. Takaful is a tool that provides financial protection in both cases. It provides financial protection in case of any accident or untoward incident and also provides financial protection for long term savings so that our customers could efficiently overcome their financial needs. Our vision for Pakistan is pretty much important to us as the insurance penetration in Pakistan is terribly low. Around 8 to 10 percent of the families have so far obtained insurance/ Takaful coverage in Pakistan whereas this percentage was around 70 to 80 percent in the developed countries. We feel that in Pakistan, Takaful coverage should reach to at least 40 to 50 percent families.

**Money:** What major milestones have so far been achieved by Pak-Qatar Family Takaful? Please also elaborate in terms of expansion and financial achievements?

**P. Ahmed:** Within a short span of one year, we achieved the business volume of Rs170 million in the year 2008, which I believe is a good figure. Similarly, Pak-Qatar Family Takaful Limited has been assigned an initial Insurer Financial Strength (IFS) rating of 'A-' (Single A Minus) by JCR-VIS Credit Rating Co. Ltd, which clearly depicts the financial strength of our company. There are number of other insurance companies who have been in business from quite some time now but they have not yet received such recognitions from credit rating agencies.

I believe that one of the major milestones for us was when we brought our business system from Malaysia by making huge investment in Information Technology. This unique Penta Takaful system has been efficiently implemented, giving us edge in the market. We have very advanced technology as compared to some of our established competitors. We not only brought a state-of-art system in Pakistan but also effectively implemented it by employing quality human resource. All I can say is that whatever products we have offered so far to Pakistani market are very unique and Shari'ah compliant.

**Money:** Development of Human Capital is a challenge in Takaful sector. What measures have you taken to ensure quality human resource?

**P. Ahmed:** Alhamdulillah, I can claim that our human resource team is the best in the entire insurance industry. We have a workforce of well qualified Chartered Accountants, MBAs and Graduates from the leading universities. We have a very strong infrastructure operation, which helps us to deliver what we promise to our valuable customers. Within a short span of one year, we have reached 13 cities and a total of 800 consultants are working for Pak-Qatar Group, which I believe is a very big achievement.

**Money:** Any expansion plans for 2009?

**P. Ahmed:** In 2009, we will be focusing more on consolidating our businesses in 13 cities. We have plans to open two more offices in new cities this year and we will be opening up offices in five more cities in the year 2010. Our target is to reach 25 cities across Pakistan by the end of 2010. We do have plans to set up offices in potential rural areas of the country.

**Money:** Investing in technology is a must nowadays to maintain market share. What measures have you taken to enhance your share by staying updated with state-of-the-art technology?

**P. Ahmed:** Pak-Qatar Takaful Group invested in the procurement of state-of-the-art PentaTakaful systems from Malaysia in 2008. We

are also the first company in the financial sector Pakistan which is going to implement SAP. The agreement in this regard was signed on 31<sup>st</sup> December 2008 and currently we are in the process of implementing it, which is yet another pioneering feat. This sizeable investment in SAP is the continuation of our commitment to the people of Pakistan to provide need-based Takaful solutions and exemplary customer-service. Last year alone, we invested one million dollars in technology.

**Money:** What are the biggest problems being faced by your sector?

**P. Ahmed:** The biggest problem faced by our sector is the market awareness. People are completely unaware about Takaful and they even don't know much about conventional insurance. The Pakistani market lacks players while low literacy rate is another reason for low insurance penetration.

Another area of concern for us is the weak regulation by the regulator, i.e. the Securities and Exchange Commission of Pakistan (SECP), which results in unhealthy competition amongst companies involved in Takaful/ insurance business.

We usually take small investments from people on long term basis to enhance their savings which I believe is the best way to enhance saving rate. It has proved to be very effective in many countries like Indonesia, Malaysia and India, where insurance sector helped



a lot in enhancing savings.

In order to promote savings in the country, the government must exempt taxes or give a tax break to the insurance sector as done in the case of mutual funds. I believe tax exemption to Takaful/ insurance sector would result in a big change as far as savings and insurance penetration is concerned.

**Money:** Do you think SECP has come up to your expectations as a regulator?

**P. Ahmed:** As far as the SECP policies are concerned, we have no objection but the implementation of these policies is not there. SECP is not an effective regulators like the State Bank of Pakistan, which aggressively regulates banks. The vacancy for controller insurance continues to remain vacant while Executive Director Insurance post has recently been filled for the first time ever, which clearly depicts that they do not have adequate resources to manage. However, they are efficiently managing family Takaful/ life insurance but the regulator faces immense hardships in dealing with general insurance.

**Money:** What measures have you taken so far or planning to take in future to raise awareness about Takaful products being offered by your company?

**P. Ahmed:** We have taken multi-dimensional steps to raise awareness amongst masses about the advantages of Takaful coverage. First, we focused on training the staff, which was a must so that they could fluently respond to the Takaful related queries raised by people and then, we conducted short courses and seminars in which all stakeholders including representatives from different chambers, and other institutions were invited so that they could better understand the technicalities of Takaful coverage. Moreover, we have recently published a booklet titled "Takaful – An Introduction" and a detailed book will also be launched soon. We conduct regular sessions in various educational institutions of Pakistan to create awareness about Takaful products. We also visit different communities and utilize media to raise awareness. Recently a campaign was launched in the media in which we tried to explain what Takaful is. We are constantly holding interactive sessions at educational institutions and communities to promote Takaful in Pakistan. We are also in touch with various trade associations to promote Takaful in Pakistan. We have conducted awareness program in Lahore Chamber and the same will soon be organized at the Karachi Chamber of Commerce and Industry as well.

**Money:** Can you please comment on the impact of global economic recession on Pakistan's economy?

**P. Ahmed:** I think the reason behind global recession are not applicable in case of Pakistan as we were not that much dependent on exports, we did not had advanced derivatives system and relatively our banking system was a bit more prudent. Our financial and economic issues are different as compared to others, particularly those countries which were worst hit by recession. As far as the impact of global recession on our sector is concerned the gap that exists in the insurance sectors of Pakistan and the developing countries supports us to go for expansion. We believe that even if

7 to 8 more players come in the insurance sector, there will still be plenty of room for others.

I believe that Pakistan is more hit by law and order situation than by global recession. No investor is comfortable in coming to Pakistan to make an investment at a place where his assets, property and even life is at stake.

**Money:** What is your opinion about business climate of Pakistan as the country is going through difficult stage due to political instability, and deteriorating law and order situation?

**P. Ahmed:** Our supporting Financial Institutions in the State of Qatar are very much concerned about the deteriorating law and order situation and political uncertainty of Pakistan. The present political and law and order situation is highly uncertain. There is no certainty here which gives a lot of discomfort to our investors in Qatar.

We have been directed to be very careful in carrying out expansion as we cannot afford to rollback our investments in the days to come if anything goes wrong. As a result, a total of 6 to 7 projects of 2.5 billion dollars which included setting up power plants, cement factory, and hotel chain have drowned because of the poor law and order situation.

I believe Pakistan has never seen a certain situation since 1998 when the country conducted its first nuclear test, which was followed by imposition of Marshal Law by Gen. Musharraf and then the 9/11 incident in the year 2001. To date, Pakistan is busy in its war against terrorism and extremism so the businessmen have never worked in a certain atmosphere from the past one decade.

**Money:** What is the contribution of Pak-Qatar Family Takaful under the umbrella of corporate social responsibility (CSR)?

**P. Ahmed:** Internally we have developed many things as a socially responsible citizen. Pak-Qatar Welfare Takaful Fund has been set up for the lower staff with a vision to improve their lifestyle. We have also established camps in Swat to give a helping hand to the victims of Swat and our staff has contributed minimum one-day salary for the depressed people of Swat. We have also set up two special camps near our Peshawar branch to gather relief goods. Moreover, we have plans to make CSR contribution in the education and health sector as well and we are trying to promote Islamic finance in the country which is the most neglected area in Pakistan.

**Money:** What is the future of Takaful in Pakistan?

**P. Ahmed:** The so far response is phenomenal as people responded very well to our products and services. Generally, people run away from conventional insurance but we have observed that people are taking keen interest Shari'ah Compliant Takaful products. Globally, the future of Takaful is very promising as rapid expansion is going on these days and there was a big scope for Takaful in Pakistan also.

I believe time will come when all conventional insurers would convert into Takaful, which is not a difficult task and they can do that. It is only the matter of adjusting the investment so you may see Takaful excelling in Pakistani market.