



TAKAFUL

Opportunities & Challenges

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Takaful Recap: Definition

Section 2 of Malaysian Takaful Act 1984 defines Takaful as *“a scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose”*.



Takaful Recap: Elements of Takaful

- **Risk Sharing:**

- Risk is **shared** between participants and not bought or sold between them and the Operator

- **Nature of Contract:**

- **3 party contract** involving Operator, Waqf, and the Participant
- There is no direct contractual relationship b/w Participant & Operator
- Contract is based on the principles of **Taburru**

- **Ownership of the Fund:**

- The Operator does not own the Waqf Fund and serves as the Fund's **Wakeel**
- Contributions received are regarded as **Amanat**



Takaful Recap: Elements of Takaful

- **Role of the Operator:**

- Operator manages the Waqf Fund in the capacity of a Wakeel and the Investments for Halal profits
- The Operator is remunerated through a fixed Wakala Fee and cannot make any underwriting profits

- **Investment Management:**

- All investments are done based on Shari'ah guidelines

- **Shari'ah Compliant:**

- Takaful is accepted by Shari'ah Scholars as a Halal risk mitigation tool



Takaful Recap: 3 Takaful Models

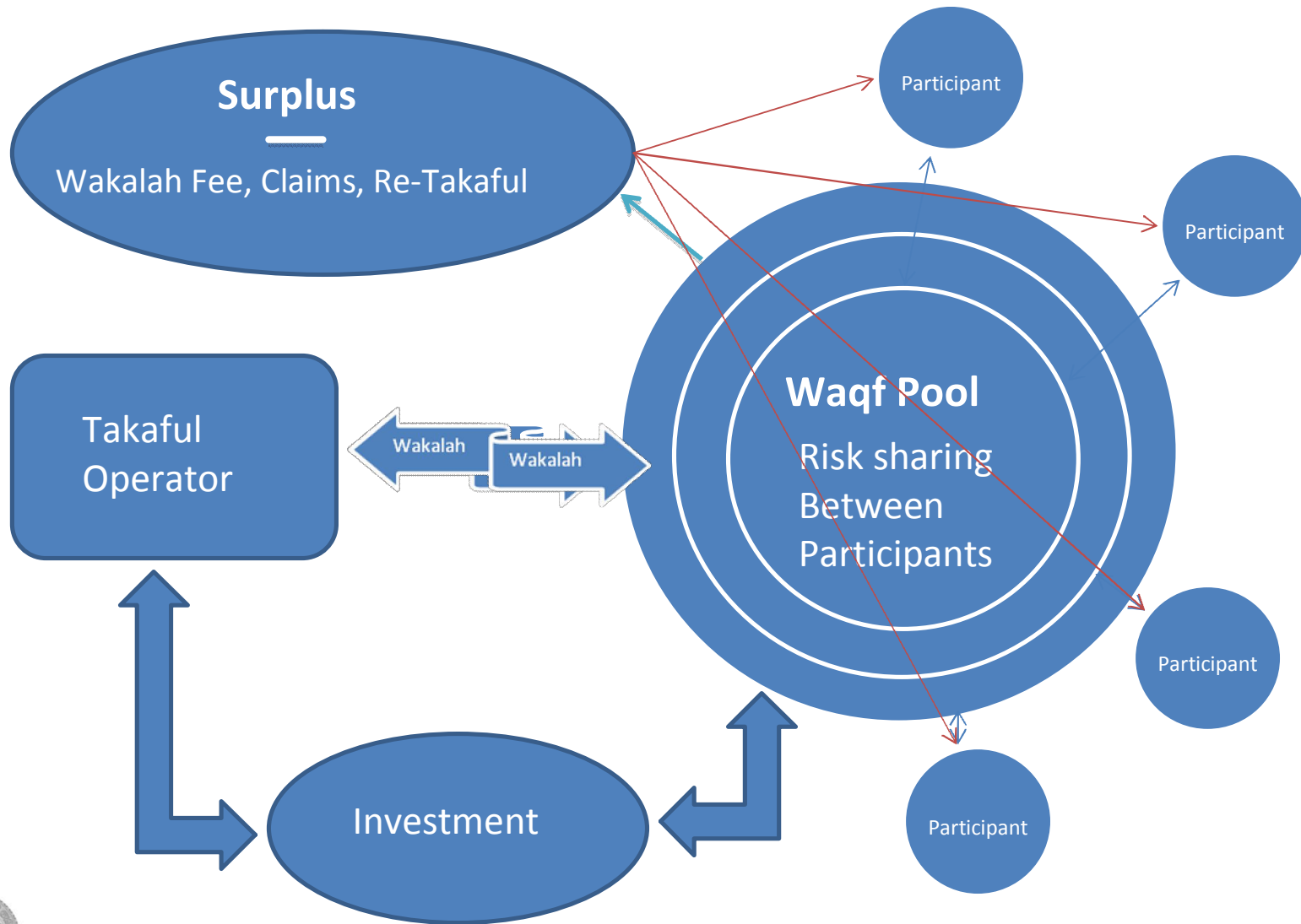
Mudarabah Model

Wakala Model

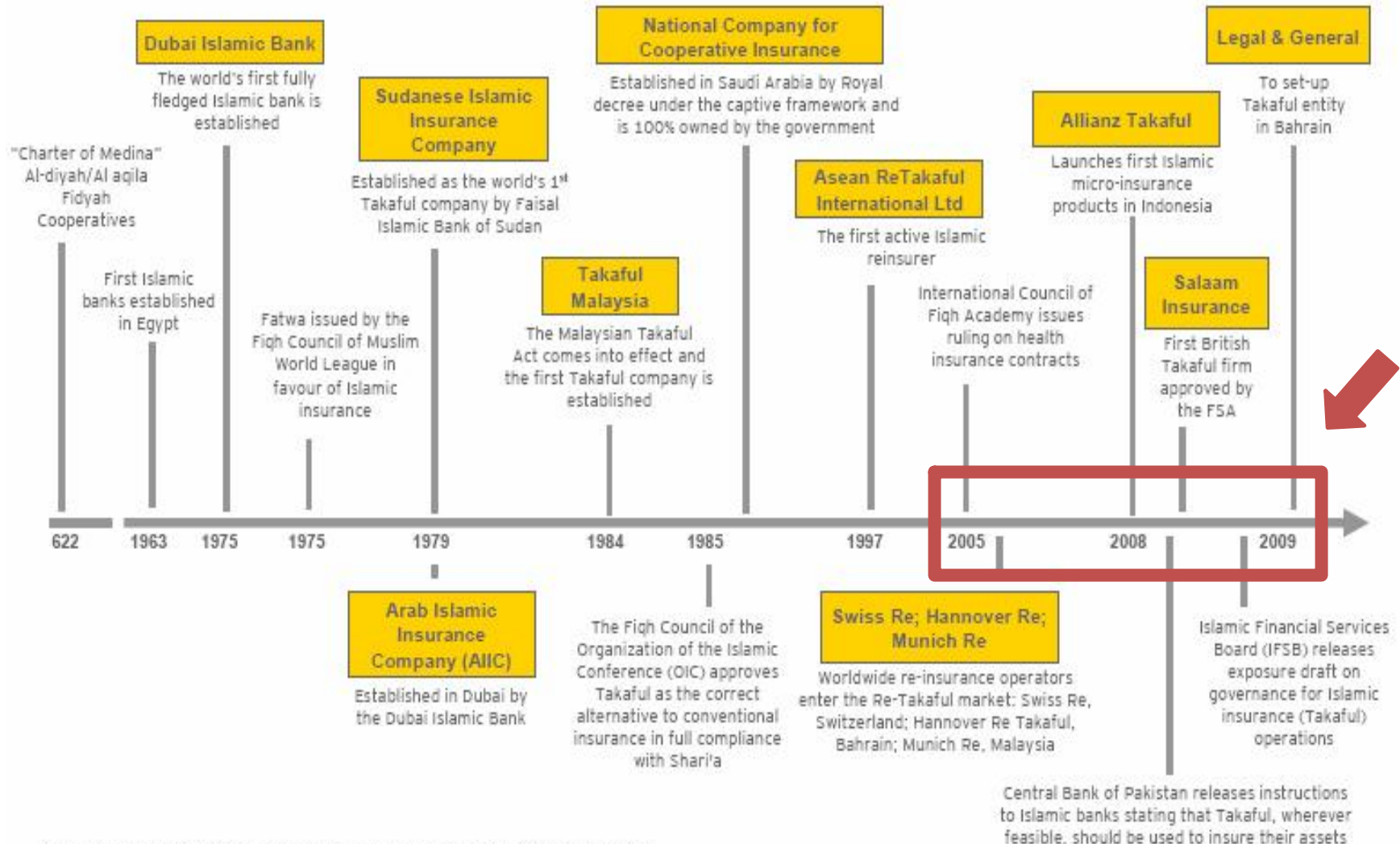
Wakala-Waqf Model



WAKALA-WAQF Model



Progress of Takaful - Global



Source: Factiva; Literary Search; IFSB; Central Bank Annual Reports; Ernst & Young analysis

Progress of Takaful - Pakistan

- **2002**
 - Insurance Ordinance is issued which includes provision for Takaful; the word “Takaful” is used
- **2003**
 - IJTIMA’ held in Darul Uloom, Karachi on permissibility of Takaful
- **2004**
 - A committee to frame Takaful rules was founded
- **2005**
 - SECP notifies Takaful Rules
- **2006**
 - First General Takaful Company established (Pak-Kuwait General Takaful)
- **2007**
 - First Family Takaful Company established (Pak-Qatar Family Takaful)
 - First Takaful Group catering both Family (Life) and General Takaful needs established (Pak-Qatar Takaful Group)
- **Total 5 Operators:** 3 for General Takaful & 2 for Family Takaful, since the promulgation of Takaful Rules in 2005



Takaful Operators Worldwide

- Number of Takaful Operators Worldwide: **124** (Jan 2009, E&Y, WTC 2009)
 - Excludes:
 - Approx. 36 window operations
 - 15 Operators present in Iran
- Number of Takaful Operators in Pakistan: **5**
- **Global Market Size** (E&Y, WTC 2009)
 - 2004: US\$ 1.4 billion
 - 2006: US\$ 2 billion
 - 2007: US\$ 3.4 billion
 - 2010: US\$ 4.3 billion
 - 2012: US\$ 8 billion
- Takaful is growing 35% faster than conventional insurance worldwide (Dr. Ahmed Al Janahi, Managing Director NOOR Takaful, WTC 2009)



Re-Takaful Worldwide

More than
18
Re-Takaful
Operators
worldwide

- **Islamic Takaful & Retakaful Co. (IRTCO.)** (Bahamas)
- **Hannover ReTakaful B.S.C. ©** (Bahrain)
- **Solidarity Islamic Takaful & Retakaful Co.** (Bahrain)
- **PT Reassuransi Internasional Indonesia** (Indonesia)
- **Amin Reinsurance Company** (Iran)
- **Al Fejr Retakaful Insurance Co.** (Kuwait)
- **Asean Re-Takaful International** (Malaysia)
- **MNRB Retakaful Berhad** (Malaysia)
- **Islamic Takaful & Re-takaful Co.** (Saudi Arabia)
- **Islamic Takaful and Re-Takaful Co. (ITRCO.)** (Saudi Arabia)
- **Tokio Marine Nichido Retakaful Pte Ltd** (Singapore)
- **National Re-insurance Co. (NRICo.)** (Sudan)
- **Sheikhan Insurance & Reinsurance** (Sudan)
- **Sudanese Insurance & Reinsurance Co** (Sudan)
- **BEIT laadat Ettamine Tounsi Saoudi Re-insurance (B.E.S.T. Re)** (Tunisia)
- **ACR ReTakaful Holdings Limited** (UAE)
- **Dubai Islamic Insurance & reinsurance Co.** (UAE)
- **Takaful Re Limited** (UAE)

Source: ICMIF Takaful, www.takaful.coop



Takaful: Regulatory Framework

- Countries which have a regulatory framework for Takaful, include:
 - Pakistan, Malaysia, Saudi Arabia, Bahrain
- Countries which does not have a regulatory framework for Takaful, include:
 - Kuwait, UAE, Egypt, Indonesia



Opportunities & Challenges



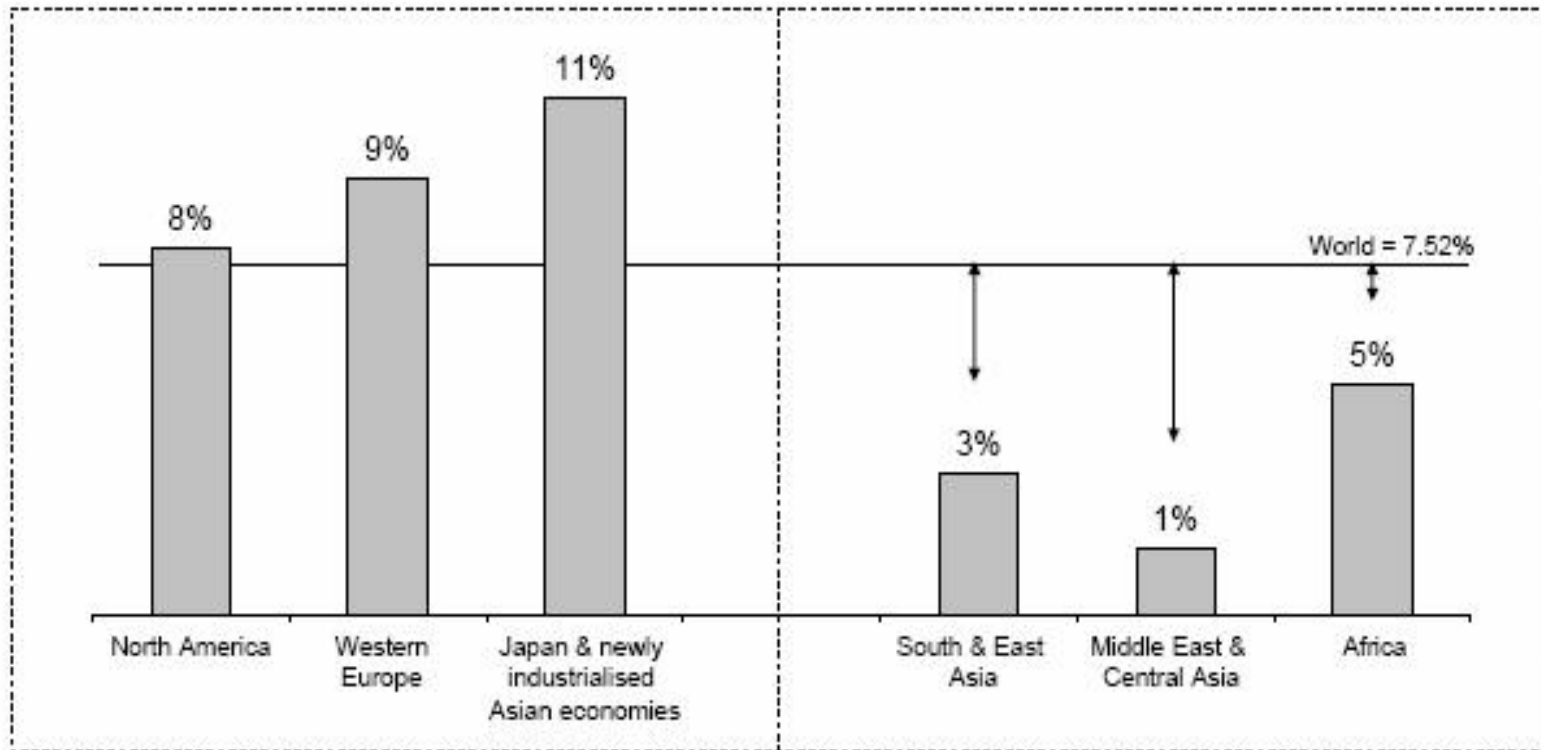
1.

Opportunities for Takaful

Muslim-majority regions (most OIC countries) display an underdeveloped insurance sector



Premiums as % of Nominal GDP in 2006 (US\$ mn)



Premiums per Capita in 2006 (US\$)



Possible Future Growth Markets for Takaful

Currently Growth Markets for Takaful



- Sigma No. 4 (2007), Ernst & Young Analysis

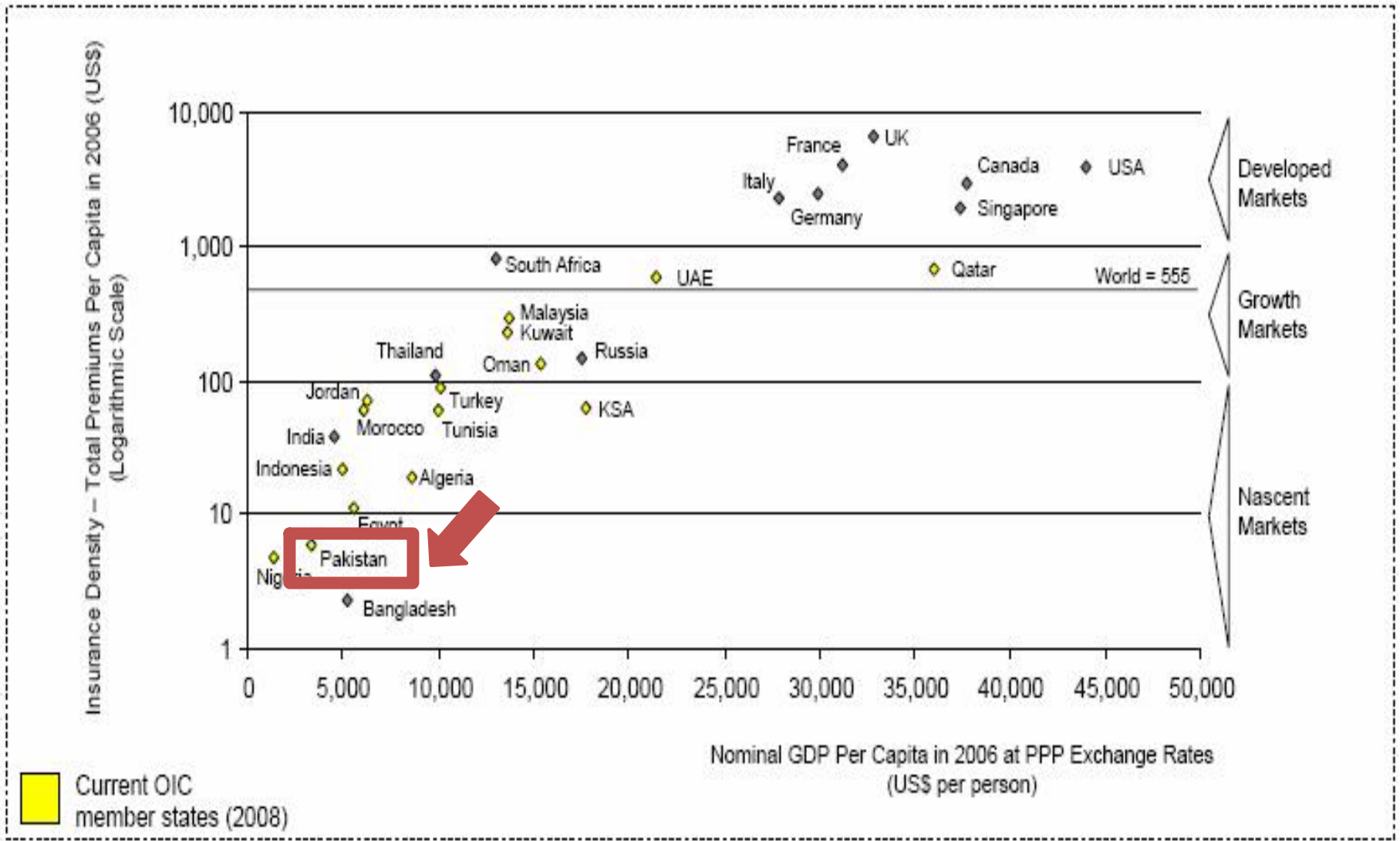
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Opportunities for Takaful

Insurance markets in Muslim countries are largely at a nascent or growth stage of development and exhibit low insurance density...



Insurance Density and GDP Per Capita for Select Countries (2006)



Source: Swiss RE - Sigma No. 4 (2007), Global Insight, Ernst & Young Analysis

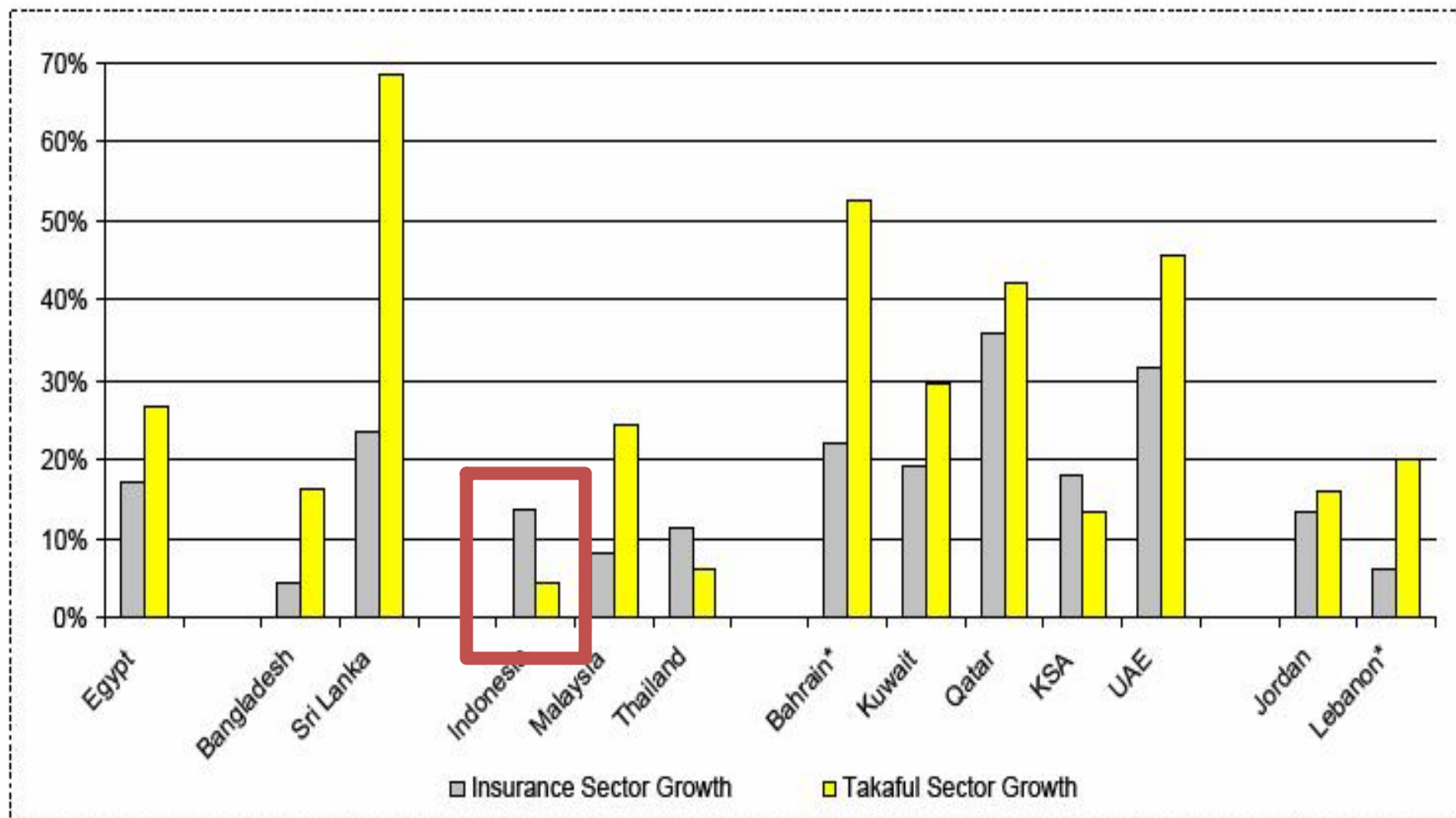
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Opportunities for Takaful

Growth in the Takaful sector has largely outpaced that witnessed in respective insurance sectors...



Growth of the Insurance Sector and Takaful Sector by Country (CAGR % 2004-2006)



“Yes, (Shari’a compliance) it does make a difference, because if you are on the fence, it makes you go one way.”
 – Interview, Senior Management, Takaful Operator (March, 2008)

* Note: Bahrain’s insurance sector growth and Lebanon’s Takaful sector growth are both for 2005-2008 only.

Source: Swiss RE - Sigma No. 4 (2007) and Business Monitor International for Insurance, Takaful Re Limited and Middle East Insurance Review (2008) for Takaful, Ernst & Young
 PA Analysis

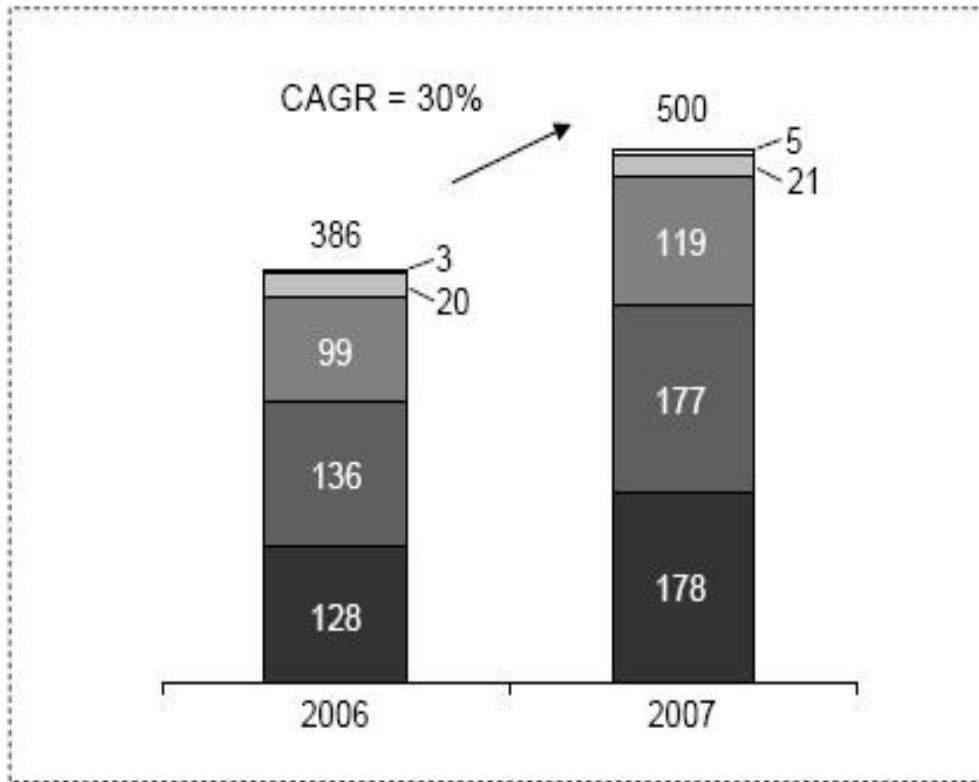
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Opportunities for Takaful

Furthermore, Islamic Financial services continue to flourish in an era of high liquidity...

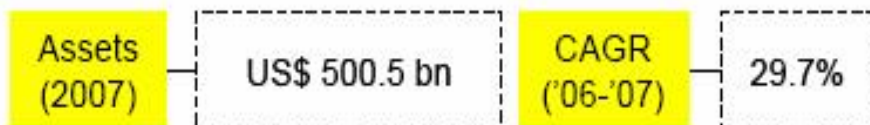


Global Shari'a Compliant Assets by Region (US\$ bn)



CAGR 2006-07	
Sub-Saharan Africa	55%
Australia / Europe / America	6%
Asia	21%
MENA (Excluding GCC)	30%
GCC	39%

Islamic Financial Services Industry – Top 500 (2007)



Conventional Financial Services Industry - Top 1,000 (2007)



Source: Maris Strategies & The Banker, Ernst & Young Analysis

Opportunities often come
disguised as Challenges

1.

Challenges for Takaful

The underdevelopment of insurance in OIC countries can be attributed to a number of factors...



- **Religious**

- Shari'ah sensitivities have led to injunctions against conventional form of insurance. This has severely restricted demand, particularly for personal and life product lines.

- **Cultural**

- An extended family system has historically acted as the primary source of financial support to the dependent population, particularly the elderly

- **Regulatory & Fiscal**

- Insurance sector has historically lacked regulation which has discouraged insurance operators from writing business and subsequently led to reduced customer awareness
- Lack of fiscal incentives aimed at encouraging savings, together with a high level of state support, have annulled the creation of corporate pension plans and reduced the demand for private sector annuity and savings products



2.

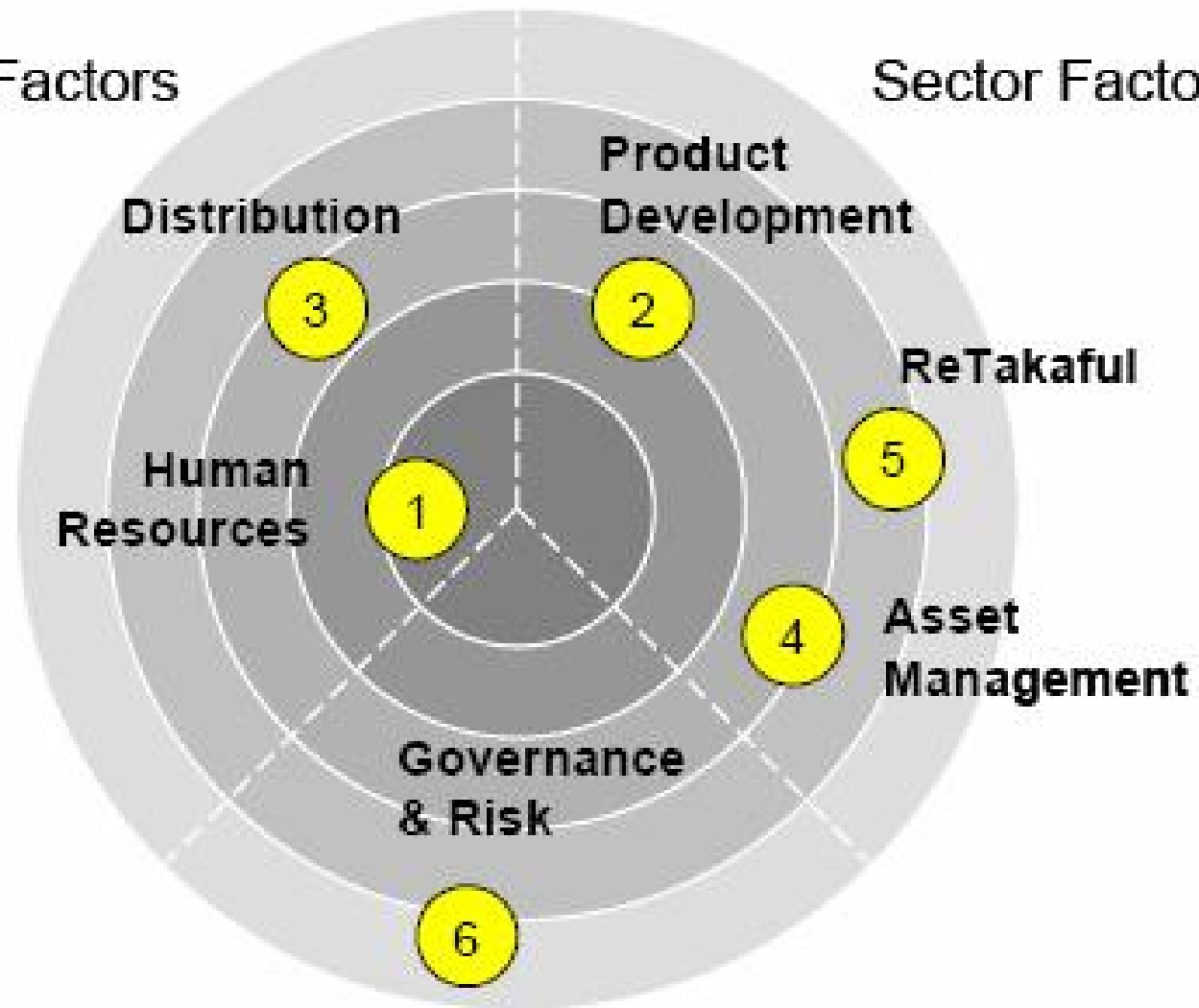
Challenges for Takaful

Industry experts have highlighted six areas which are most likely to affect future profitability and growth...



Operational Factors

Sector Factors



Macro Factors



- **Operational Factors**

- **Human Resources**

- HR are the single largest contributor to an IFS operating expenses and thus have the potential to greatly effect profitability
 - Operators need to shift their focus from recruitment to retention

- **Distribution**

- New entrants should create exportable platforms that can be used in different geographies and leverage existing distribution channels to challenge incumbents
 - Community-based marketing and e-marketing are effective distribution channels

- **Macro Factors**

- **Governance & Risk**

- Regulators need to understand both Shari'ah related issues and the nature of risk associated with Takaful companies



• Sector Factors

– Product Development

- The cut-copy-paste formula will not drive the industry forward. There is great need for product innovation and development of need-based products

– Re-Takaful

- Use to be an issue, but now with the entry of many re-Takaful companies, Re-Takaful arrangements are competitive
- There is still a capacity issue for General Takaful Operators

– Asset Management

- Strategies that successfully combine Shari'ah compliant risk-adjusted returns with actuarial analysis are required to meet claims and ensure profitability of an operator



The Way Forward



- **Takaful can become an “Engine for Economic Growth and Development” in Pakistan, as is the case in Malaysia**
- **Takaful can also help in increasing insurance penetration rate and in boosting savings rate**
- **To achieve this, we recommend the following:**
 - Regulators need to encourage new dedicated players in the Takaful market. This will increase overall market capitalization of the industry
 - A separate Takaful act is required
 - Existing insurance players should be encouraged and facilitated to convert their businesses to full-fledge Takaful Operations for which there is provision in the Takaful Rules 2005 as well



- Existing and new Takaful players should join hands and help improve awareness and education level about Takaful benefits amongst the masses
- Takaful Operators should develop need-based and innovative products and vastly improve their customer-services
- Existing players should treat Shari'ah Compliance as a strength and not as a restriction/limitation



Jazaak Allahu Khairan for your patience

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