

# Risk Management in Takaful

## What Makes the Difference?

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# AGENDA

- Def. Risk Management
- Key Objectives of Risk Management Specific to Takaful
- Key Areas of Risk Management in Takaful
  - Shari'ah Compliance
  - Investment Management
  - Human Resources



# Risk Management

Risk Management in Takaful Industry is a process to **identify LOSS EXPOSURES** faced by an Operator and to select the most appropriate **techniques for treating such exposures**



# Key Objectives of Risk Management Specific to Takaful

## Takaful Operator Should Protect

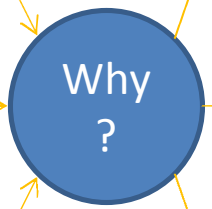
## Why?

## How?

Taburru Fund

Participants Investment Account

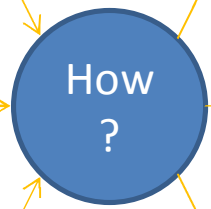
Shareholder's Fund



Meet Claims & Expenses

Grow Lifelong Savings

Generate Profitable Returns



Quality Underwriting & Shari'ah Compliance

Prudent Investment Management

Quality Human Resource

# Key Areas of Risk Management in Takaful

Shari'ah  
Compliance

Investment  
Management

Human  
Resources



# Shari'ah Compliance

- Shari'ah Compliance is a **continuous end-to-end process**. The Operator should be fully Shari'ah Compliant at all times
- The **scope of Shari'ah compliance** includes most importantly the Takaful Model, Takaful Products, Investments, Contract Wordings, Marketing Collateral, Surplus Sharing and Fee Structures
- **Shari'ah non-compliance is a real risk** which can lead to serious losses:
- **Case in Point (Sukuk):**
  - In late 2007, a leading Shari'ah Scholar proclaimed that **85% of Sukuk are raised with buy-back clauses**, hence are Shari'ah non-compliant. Consequently, the issuance of Sukuks in 2008 fell dramatically



# Shari'ah Compliance (Contd.)

- **Shari'ah Compliance in Investments:**
  - Shari'ah non-compliance in Investments results in **purification of income through Charity**. This means loss of shareholder's income
  - Permissible investment avenues may later become impermissible which would require the Operator to **discontinue the investment** or donate Charity accordingly
  - **Screening Criteria** to determine permissible investment avenues increases time and cost in the short-term but improves corporate credibility in the longer-term
- **Shari'ah Compliance in Underwriting:**
  - Risks accepted could turn out to be unacceptable later which would require the Operator to **cancel the contract** or donate income to charity



# Investment Management

- Success of Takaful Industry is directly linked to **Asset Management Capabilities** of Takaful Operators
- There is **limited availability** of Shari'ah Compliant Investment Options, which potentially leads:
  - **Lower Investment Returns**
  - **Restricts Product Innovation**; lack of quality long-term investment options means Annuity Plans are not competitive
  - **Increases Liquidity Risk**
  - **Investment Areas for Family Takaful and General Takaful are different.** Family Takaful need to meet long-term liabilities
- Restrictions on the Asset Allocation is **difficult to follow** due to limited availability of Shari'ah Compliant Investment Options



# Human Resources / Talent & Capacity Building

- SURVEY CONDUCTED BY RIPHAH UNIVERSITY, CENTER OF BUSINESS, ISLAMABAD.
- In a survey of over 60 banks in Karachi, Pakistan, July 2008
- **75%** of senior bankers needed **qualified staff** in Islamic banking and finance, and
- **88%** wanted their staff to be **trained**.
- **92%** considered the organization **benefited from training** of their staff, while
- **90%** indicated that training enhanced their capacity.
- **66%** of respondents showed **willingness to absorb candidates with MBA in Islamic Finance and Banking** in their organization.
- Quoted from Prof. Anis Ahmed, Professor and Vice Chancellor, Riphah International University, Islamabad



# Human Resources / Talent & Capacity Building (Contd.)

- Global Takaful industry is witnessing a surge in the number of Takaful operators. New companies, however, cannot compete unless equipped with qualified human resources
  - Difficult to **retain key staff**
- There is serious **lack of Takaful professionals and Shari'ah Scholars**;
- Conventional Academia and Conventional Financial Institutions cannot prepare the human force to face the demands and challenges of Takaful Industry; **Need Specialized Academics**;
- Hiring of Takaful practitioners should be based on **Character and Competency** of the individual;
- **Talent and Technology** will help bring creativity and innovation in the industry



Jazaak Allah Khairan for Listening !

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