



Family Takaful

Challenges & Possibilities

Al-Huda CIBE Takaful Workshop

Pervaiz Ahmed – CEO Pak-Qatar Family Takaful

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Agenda



- Family Takaful
 - The Need
 - Is it allowed?
 - The History
 - Goals
 - What are the differences?
 - The Challenges
 - The Opportunities
 - How to do it?
 - Conclusion

The Need



- What are the risks?
 - Death / Disabilities / Critical Illnesses
 - Hospitalization and other routine medical expense.
 - Large dependency on debt
- Unavailability of income is disastrous for families
- Accumulation of small amounts in large sums for future needs i.e. saving
- What is needed is risk mitigation

Is it Allowed?



- Is risk mitigation an Islamic concept?
 - In a hadith of the Prophet (SAW) was asking a person to tie his camel and then to have faith in Allah
 - The Prophet (SAW) has said: “To leave your legal heirs wealthy is better than to leave them helpless asking people for their needs”
 - The Prophet (SAW) has said: “Love your brothers as you love yourself”
 - The Prophet (SAW) has said: “Believers support one another”
- There is no Shariah ruling against saving
- The issue of Tawakkul

The History – Conventional insurance in Pakistan

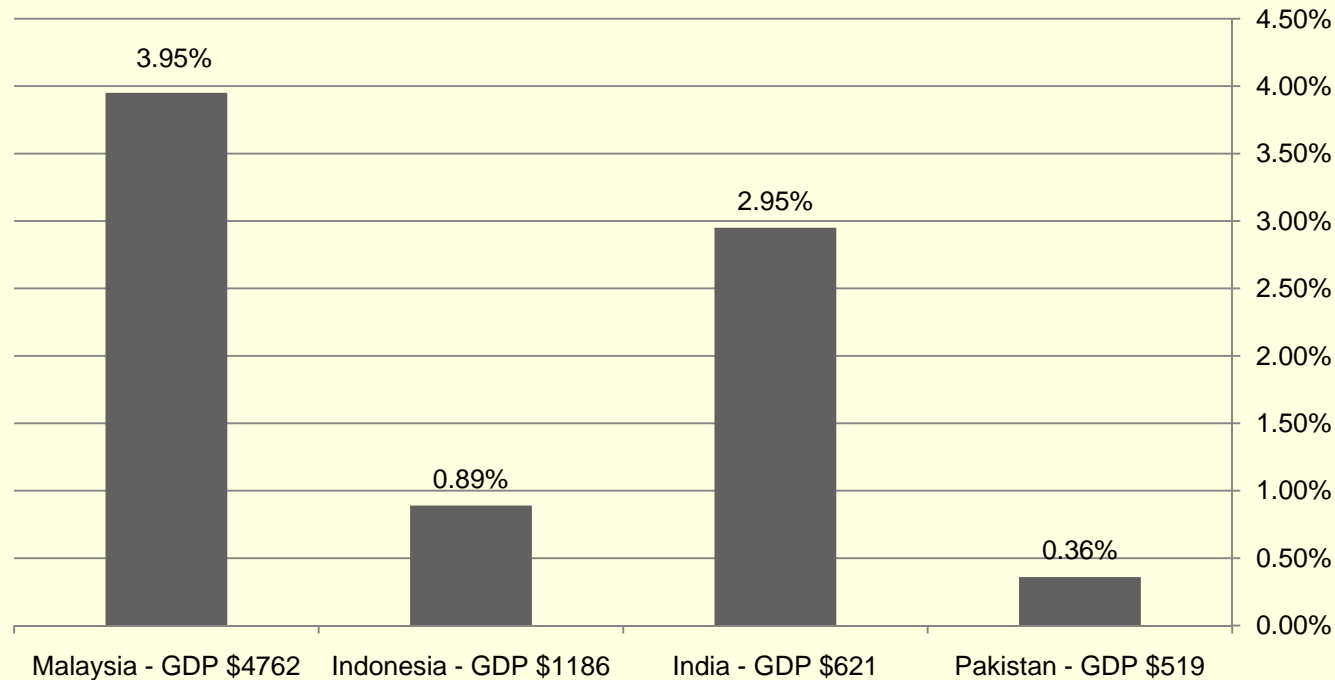


- Most frequently mentioned risk mitigation tool, offering a similar product to Takaful, is life insurance.
- State of the life insurance market in Pakistan:
 - 40 companies operational in the field of life insurance prior to 1972
 - These separate companies were eventually merged into State Life Insurance Corp (SLIC) in 1972
 - SLIC had a monopoly till '92
 - By '96 there were 4 additional private companies
 - Since '96 no new players

The History – Conventional insurance in Pakistan



- Penetration of life insurance in Pakistan and the region. Life insurance premium per capita of GDP



The history – Conventional insurance in Pakistan



- Types of life insurance products in Pakistan
 - SLIC primarily has traditional endowment and whole life plans
 - Private companies use mainly unit linked plans

The History - Takaful



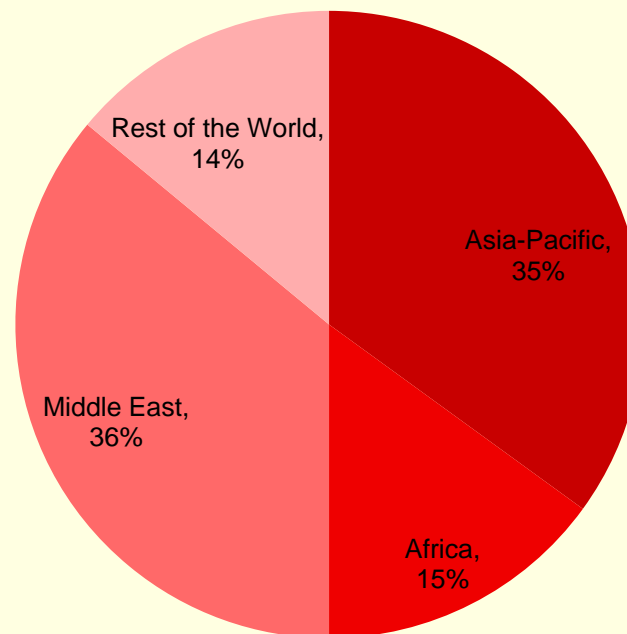
- Takaful timeline
 - First Takaful company started in Sudan in 1979
 - Shortly thereafter another company was set up in Bahrain
 - Subsequently this concept arrived in Malaysia where it grew very rapidly

The History - Takaful



- Takaful timeline

- Presently 80+ companies in 20+ countries



Goals



- To provide an ideal alternative as well as a Shariah compliant method of life assurance
- To perpetuate the spirit of cooperation between members of society
- To allow contributors to help one another and assist financially those who are ill or disabled
- Helping the contributors' families in case they lose their breadwinner

Goals



- Bringing safety and security between those who are involved in Takaful, so they can give all their attention to produce and raise their community's standard of living
- Redistribution of income between society members by providing funds from Takaful donations to the families in need, therefore, allowing people to feel equal

Goals



- Raising the values of donation as well as the principles of Takaful and charity to all who are involved. Takaful money is used to assist those who could be injured without harming anyone in the community.
- Avoid mendicancy by providing money from donation or saving plan that can be used as a project or as an income for a family in need.

Goals



- Rationalize expenses and encourage people to save and invest their surpluses that help the society's economy and keep prices in the normal channel and avoid inflation
- Invest surplus through proper Shariah compliant channels to create returns that come from a justified Shariah compliant source
- To encourage credit financing tools through banks as well as increase production through Takaful estate finances and Takaful property finance while protecting investor's money in the bank

Differences with Commercial Insurance



- The risk
 - Commercial insurance is based on the transfer of risk from the 'insured' to the 'insurer'
 - Takaful shares the risk amongst the participants
- From the Shariah perspective
 - Commercial insurance has elements of interest and gambling
 - Takaful overcomes these elements

Differences with Commercial Insurance



- From the customers' perspective.
 - Takaful offers an equitable arrangement whereby the pool is the owner of all surplus which could be distributed back to the participants.
- Practices
 - Many of the practices in the commercial insurance industry have alienated many in our society
 - Takaful is starting from a clean slate and has the benefit of standards which are beyond just 'the commercial'

Challenges - HR



- Unavailability of trained and committed HR
 - A nationwide issue
 - Financial sector specially Islamic financial institutions are facing this issue with greater severity
 - Insurance has not been the career of first choice.
- Training and development
 - Lack of training culture in the industry
 - Lack of quality training resources

Challenges - Awareness



- Takaful is a new concept both for the general public and the Ulema
- Awareness amongst the general public
 - Low literacy rate
 - Misconception about traditional insurance
 - Low insurance penetration

Challenges- Marketing/Distribution



- Best practices is an issue for conventional insurers as well.
- Relying on existing the sales force could cause damage to the cause.
- Developing a distribution channel which could convey the essence of Takaful and exploit the market opportunities is an uphill task.

Challenges



- Underwriting
- Claims
- Investments

Opportunities



- Family Takaful makes complete business sense
 - A massive untapped market
 - Global players so far have been successful
 - There is great product appeal
- Not limited to just Muslims who are keen to work with products in line with their faith
 - More than 60% of Takaful customers in Malaysia are non-Muslims
 - Dedicated Takaful companies are rapidly opening in nations which have Muslims in minority

How to do it? - Models



- Three models
 - Mudarabah – The Malaysian Model
 - Wakalah – The UAE Model
 - Waqf – The Pakistan Model

How to do it? - Suggestions



- Takaful could attract insurance practitioners who consider conventional insurance as Un-Islamic. These are sizable in number.
- Awareness amongst the Ulema
 - There is a need to publicize/publish the proceedings of Ijma' which took place in Dar-ul-Uloom Karachi to declare Takaful as shariah compliant risk mitigating tool.
- Takaful operators should follow best practices with greater rigor and commitment.

How to do it? - Suggestions



- Takaful should not only be marketed to people who do not buy conventional insurance for religious reasons or buy in case of dire needs.
- It should be promoted as the tool of first choice for risk mitigating. This can only be achieved through better product offerings and top class quality services.
- Alternate distribution channels should be utilized e.g. Bankatakaful.
- Through Takaful, over all insurance penetration could be increased in the country and a huge untapped market could be tapped
- Positive response from the market. People are keen to know.

Conclusion



- Family Takaful brings with itself a very socially conscious product
 - In terms of the way it is designed and applied
 - In terms of the benefits it will bring to the community at large
- Family Takaful brings an economically useful tool
 - By way of the investments which are made
 - By way of the financial benefits it will bring to the people
- Family Takaful makes business sense
 - A massive untapped market
 - Global Players so far have been successful

Jazak-Allah khair



- info@pakqatar.com.pk
- www.pakqatar.com.pk (launching soon!)