



GENERAL TAKAFUL

Presentation

M.Vaqaruddin
CEO

Pak Qatar General Takaful Limited

**Suite#203-205, Business Arcade, Block 6, P.E.C.H.S, Sharae Faisal,
Karachi – Pakistan**

Contact: 9221-4380357~61 E-mail: M.vaqaruddin@pakqatar.com.pk

Financial Principles and Takaful Operators – Challenges Ahead

- Specialized Financial Standards for Takaful Operators set by the SECP – Challenges in Compliance

Takaful Arrangements can be broadly divided into the following two categories

- **Family Takaful – Takaful for the benefits of individuals, groups of individuals and their families**
- **General Takaful - Takaful other than Family Takaful.**

Takaful Operational Model

- The principal operational model for the insurance risk management & the investment component shall be based on the Islamic concept of Wakala and Mudharba respectively
- All contributions received under Family Takaful contracts shall be credited to the Takaful Business Statutory Fund which will be divided into the following components:
 - Investment Component } Participants Invest Account (PIA)
 - Risk Related Component } Participants Takaful Fund (PTF)
 - Takaful Operator Fees } Participants Takaful Fund (PTF)

Takaful Operational Model (Cont.)

- All contributions received under the General Takaful Contracts, net of any Govt. levies, shall be credited to one or more Participants Takaful Funds (PTFs). A General Takaful Operator may create a single PTF or separate PTFs for different classes of business.

Takaful Operational Model (Cont.)

- Participants Takaful Fund purpose will be to pool the risk amongst participants.
- Role of Takaful Operator shall be to manage the PTF and related risks.
Objective of PTF shall be to provide relief to participants amongst defined losses as per the PTF rules and the Participant Membership Document (PMD).

Takaful Operational Model (Cont.)

- The income of PTF shall consist of the following:
 - Contributions received from the participants (Other than the portion transferred to PIA under Family Takaful Policies)
 - Claims amount and commission received from the Re-Takaful operators
 - Investment profit attributable to participants in the PTF
 - Salvage/Recoveries
 - Qard-e-Hasna by the shareholder fund in case of a deficit
 - Any donation made by shareholders

Takaful Operational Model (Cont.)

- The outgo from the PTF shall be the following:
 - Settlement of losses and expenses occurred therein
 - Re-Takaful cost
 - Takaful Operator's fee – Wakala fee
 - Share of investment profits of PTF as Mudarib
 - Surplus distributed to participants
 - Return of Qard-e-Hasna to the shareholder's fund

Takaful Operational Model (Contd.)

- Technical reserves required to be set up in the PTF shall consist of the following:
 - Unearned contribution reserves
 - Incurred but not reported reserves
 - Deficiency reserve
 - Contingency reserve
 - Reserve for Qard-e-Hasna to be returned in future
 - Surplus equalization reserve

Maintenance of Shareholders' Funds

- Both, Family and General Takaful Companies will be maintained in a similar way under the guidelines of Shariah Board and Central Shariah Board. The SHF will consist of the paid-up capital and undistributed profits to the shareholders.
- The income of the shareholder's fund will consist of:
 - Takaful Operator's Fee (Wakala Fee)
 - Profit on the investment of the SHF &
 - Proportion of the investment profit generated by the investment of PTF as per PTF rules and the PMD.

Expenses of Shareholders' Funds

- Expenses of shareholder's fund shall consist of:
 - All expenses related to Takaful Operator, including all marketing as well as administrative investment and operational expenses except commission and overrides paid to business intermediaries, benefit payments & related expenses as surveyors' fee
 - The Shareholder must undertake to declare unconditionally all contracted liabilities of the PTF, but their liability in this regard shall not exceed the SHF

Challenges #1

Paid-Up Capital

- Paid-up capital of insurance companies including Takaful Companies has been revised to Rs.300m for a new company.
- For Existing insurers and Takaful companies it is required to be increased to Rs.300m phase-wise till the year 2011. As at 31st December, 2007 they are required to bring it up to Rs.120m.
- With the indication that the Govt. has agreed in principle for Takaful windows, the companies that were about to launch separate Takaful companies have withdrawn the idea and are waiting for Takaful windows to be formally allowed.

Challenge #1 (contd)

- Takaful needs a lot of investment in setting up offices, advertising for creating awareness, training staff both officers and marketing. How will this happen with less money for Takaful?

Challenge # 2: Creating one pool vs. many

- Some operators think that one combined pool for all portfolio would be enough.
- Others think that there should be different pools for each portfolio.

My personal opinion

- In the beginning phase of the operation one should go for one combined pool which may be divided into various pools depending on business growth.

Challenge # 3:

Wakala Fee

- Wakala fee is to be decided by the operator in consultation with the Actuary and Shariah Advisors
- Can this be varied with the volume the participant brings
- Should it include acquisition costs or should it be adjusted from the pool
- Needs to be mentioned on the PMD

My Opinion

- The acquisition cost may be deducted from the pool as in that case the exact amount of it would be charged. If we include it in the Wakala Fee than it needs to be estimated. The estimate could be right or wrong .

Challenge # 4:

Sharing of Investment Income

- Funds from participants are accumulated in the pool and they are invested in Shariah compliant securities. The operator needs to make sure that the funds are properly placed and a return is earned on the same. The operator is allowed to keep a portion of the profit as a service charge to meet his expenses for this purpose as he is acting as a Mudarib
- The percentage needs to be decided. Usually it is a ratio of 40:60.
- It will be appropriate if it is kept as low as possible keeping in view the size of the pool
- There should be a provision that this would change in proportion to the size of the pool

Challenge # 5: Re-Takaful Accounting

- This is similar to conventional accounting for their re-insurance arrangements.
- Re-Takaful is basically a risk pooling mechanism as that of Takaful and therefore the Takaful operator has to share in any surplus or deficit arising in the pool
- Re-Takaful accounting should be able to recognize such surpluses or deficits and the system should take it in account when preparing financial statements for Takaful companies

Challenge # 6: Surplus Distribution

- After deducting the Wakala Fees, Claims, Re-Takaful Contributions, Contingency Reserves and Charities etc. the remaining amount in the pool is to be distributed between the participants; it does not go to the shareholders

We have to decide the following:

- Whether the participants who have received claims would be included in the recipients of the surplus amount in the proportion to their contribution or not
- Deciding the quantum to be paid towards charity
- Reserves to be maintained for contingency is something to be looked into
- How to distribute the surplus to late entrants
- A proper computer system to cater to this calculation must be in place as this calculation will have to be done on frequent basis

Jazak-Allah Khair