



# Takaful: How it works & its present Challenges

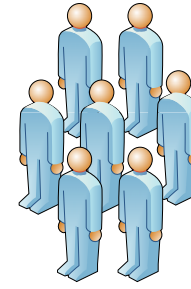
*P. Ahmed, CEO  
Pak-Qatar Family Takaful Limited*

# Agenda



- Takaful – How it works
- Takaful – The three main models
- Takaful - The need
- Takaful – Its challenges

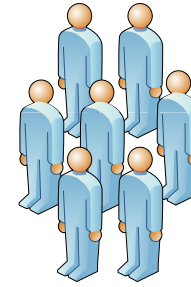
**Participants Contribution**



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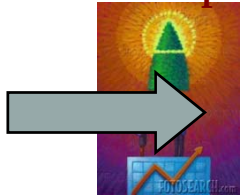
**Pool of Contributions**

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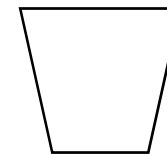
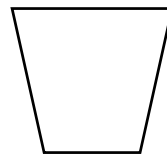
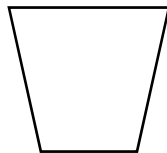
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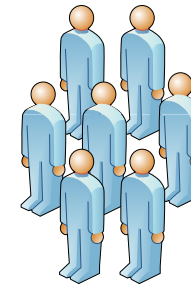
**Investment in  
Shariah Complaint Securities**



**Profit from Investment  
(Part of the profit goes to the  
Company for acting as mudarib)**

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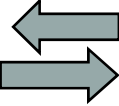
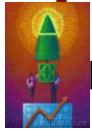




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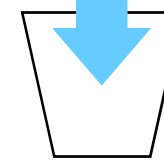
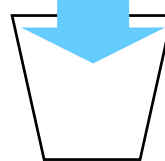
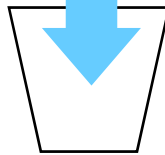


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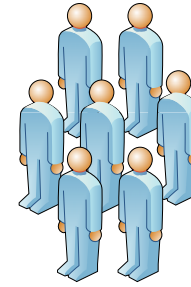
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**Claims Re-Takaful Expense etc.**



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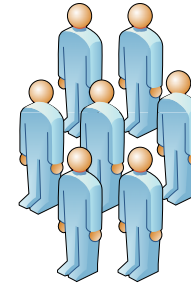
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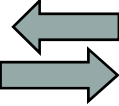
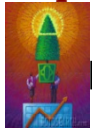
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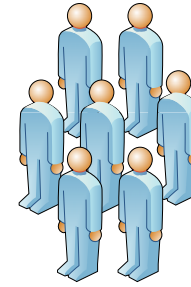
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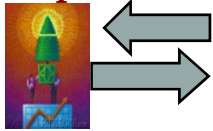
**SURPLUS**

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**Participants**

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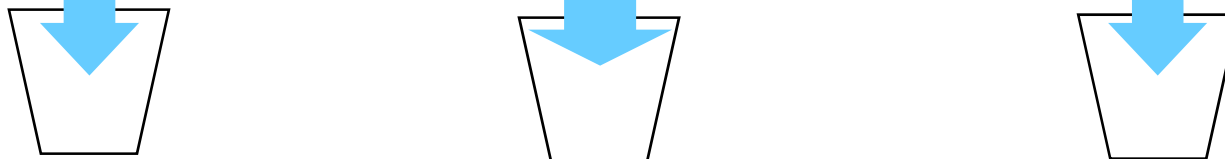


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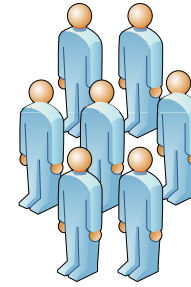
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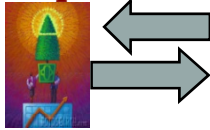


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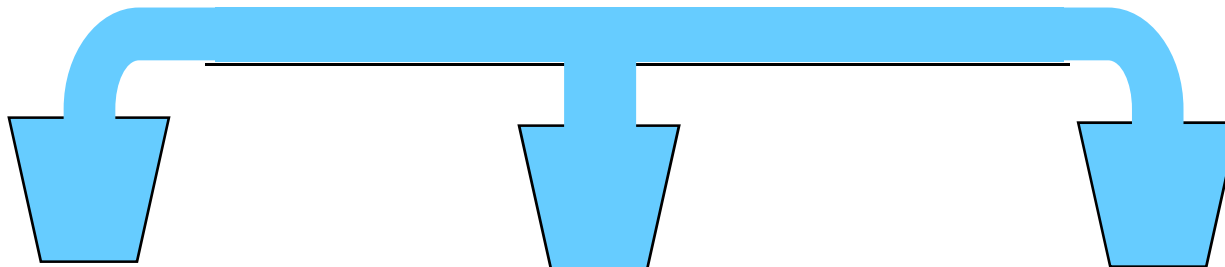


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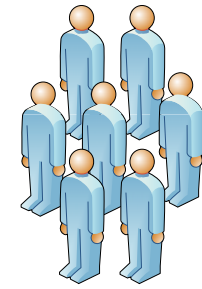
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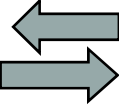
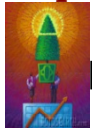
**Contingency Reserve Charitable Distribution Among Participants**



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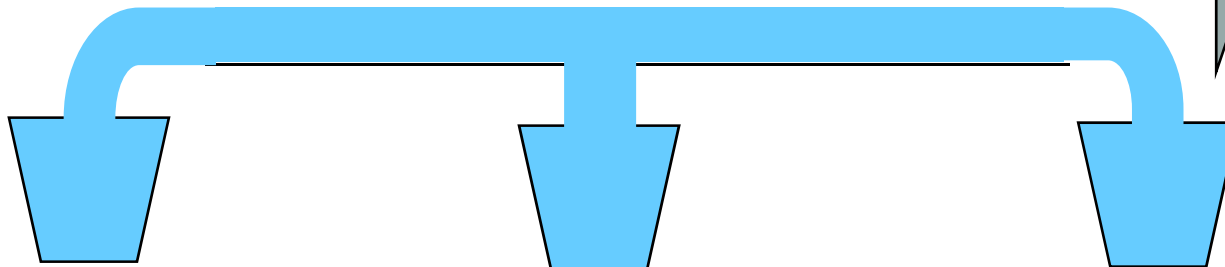


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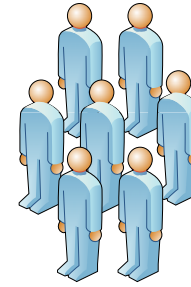
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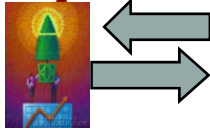
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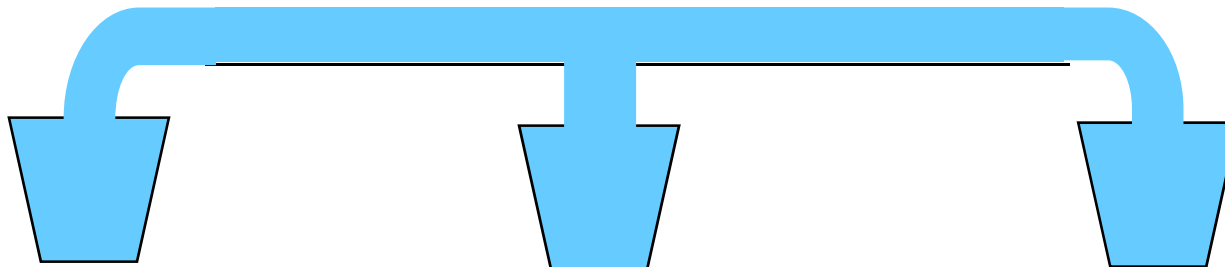


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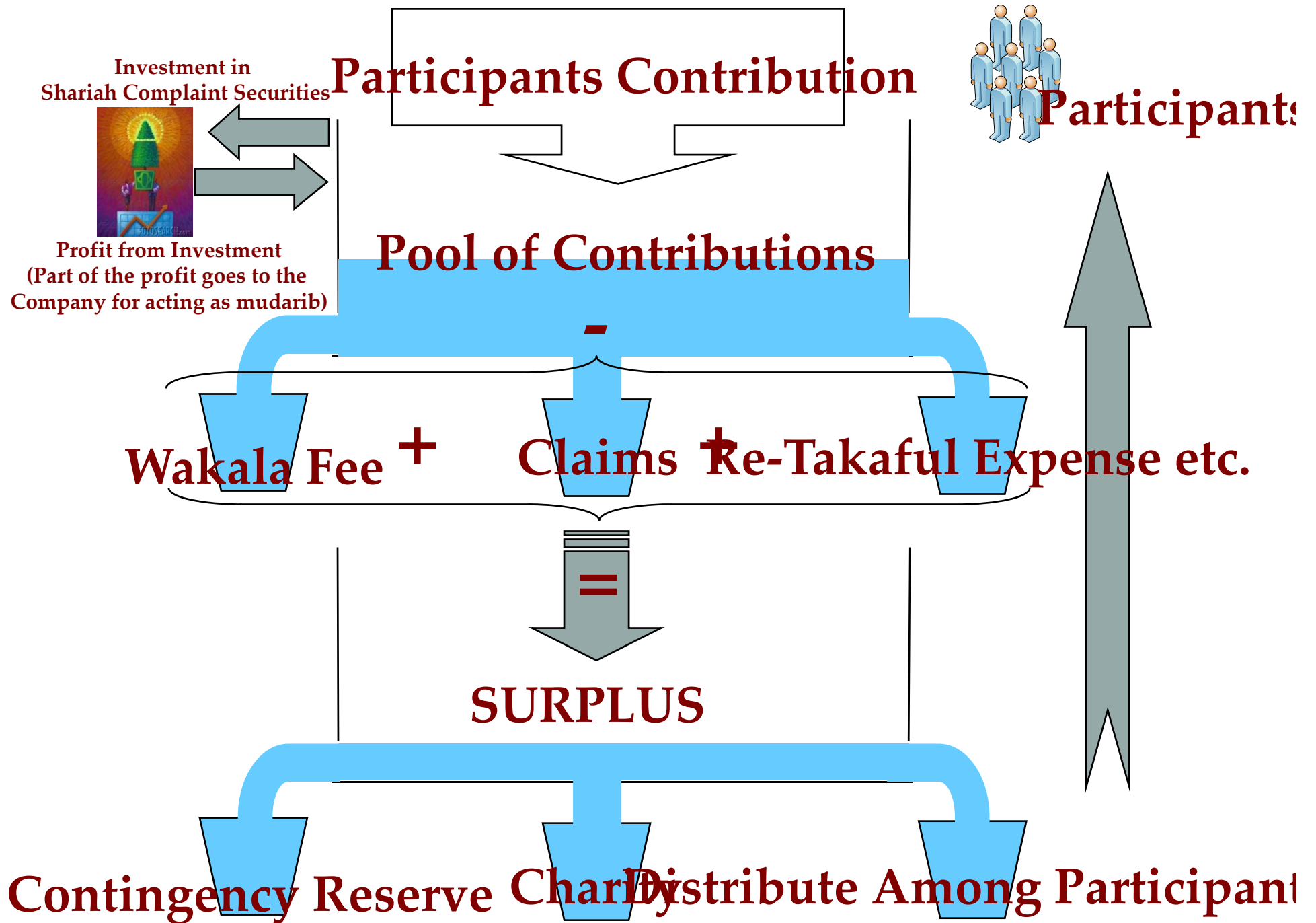
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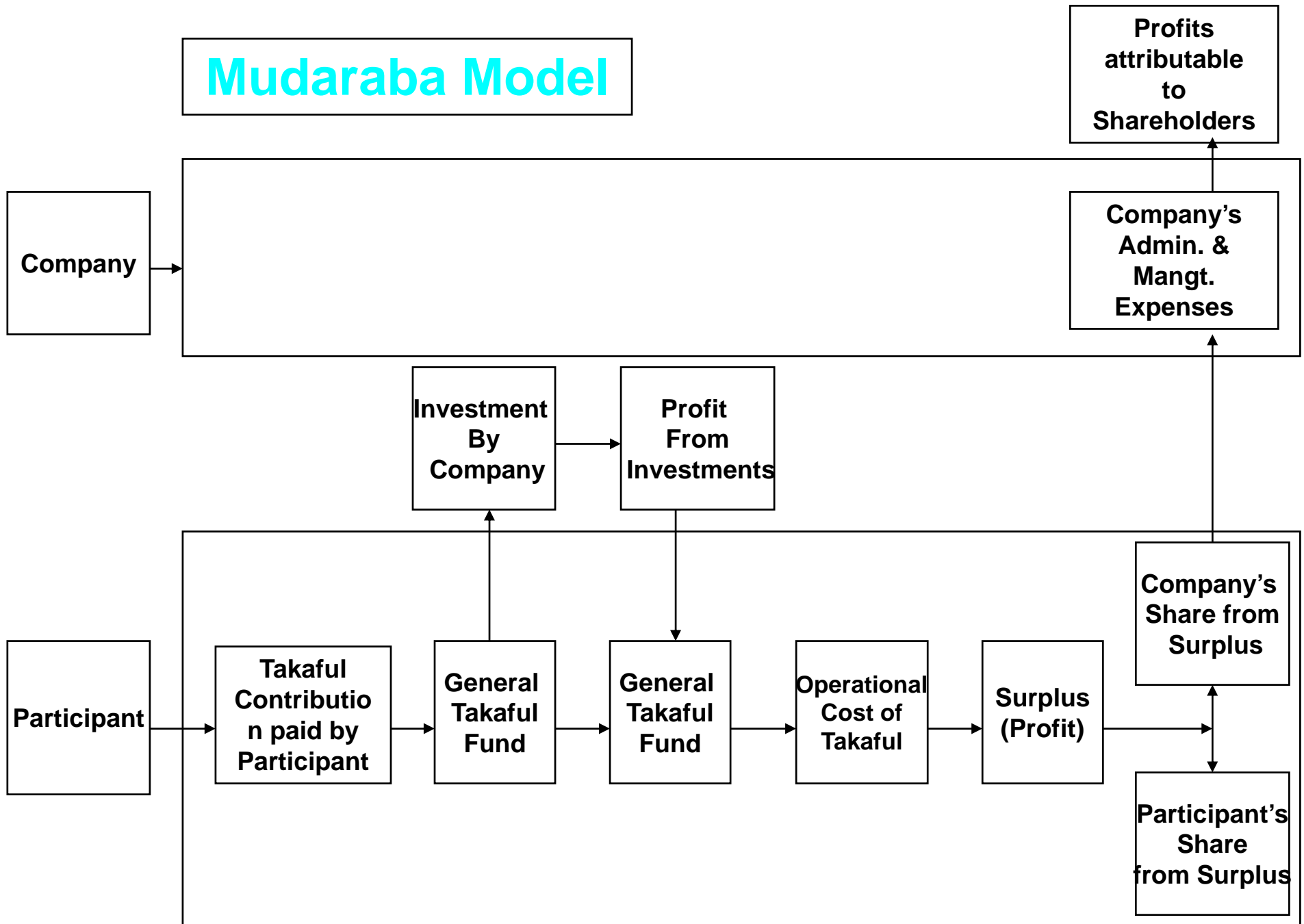
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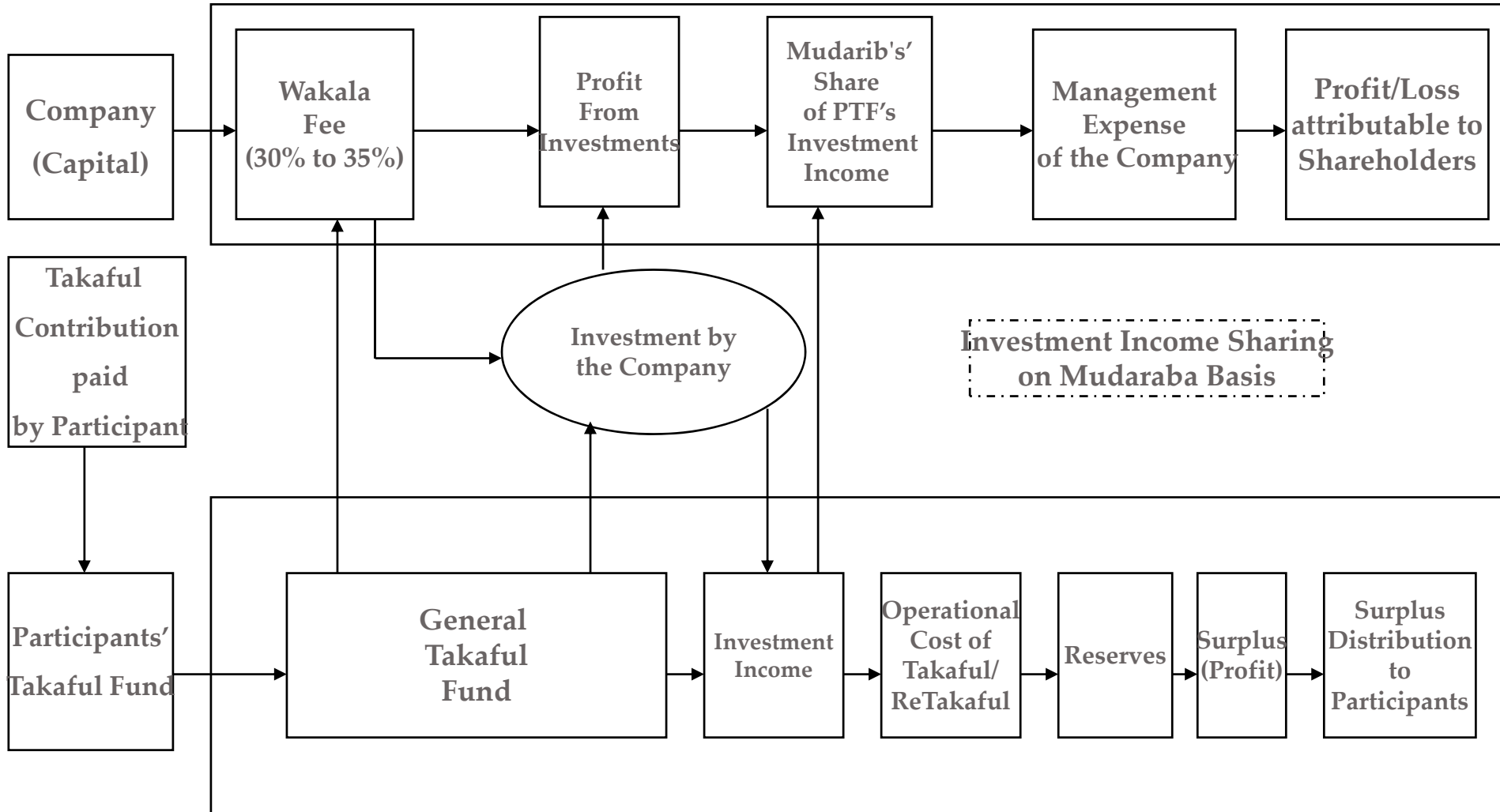
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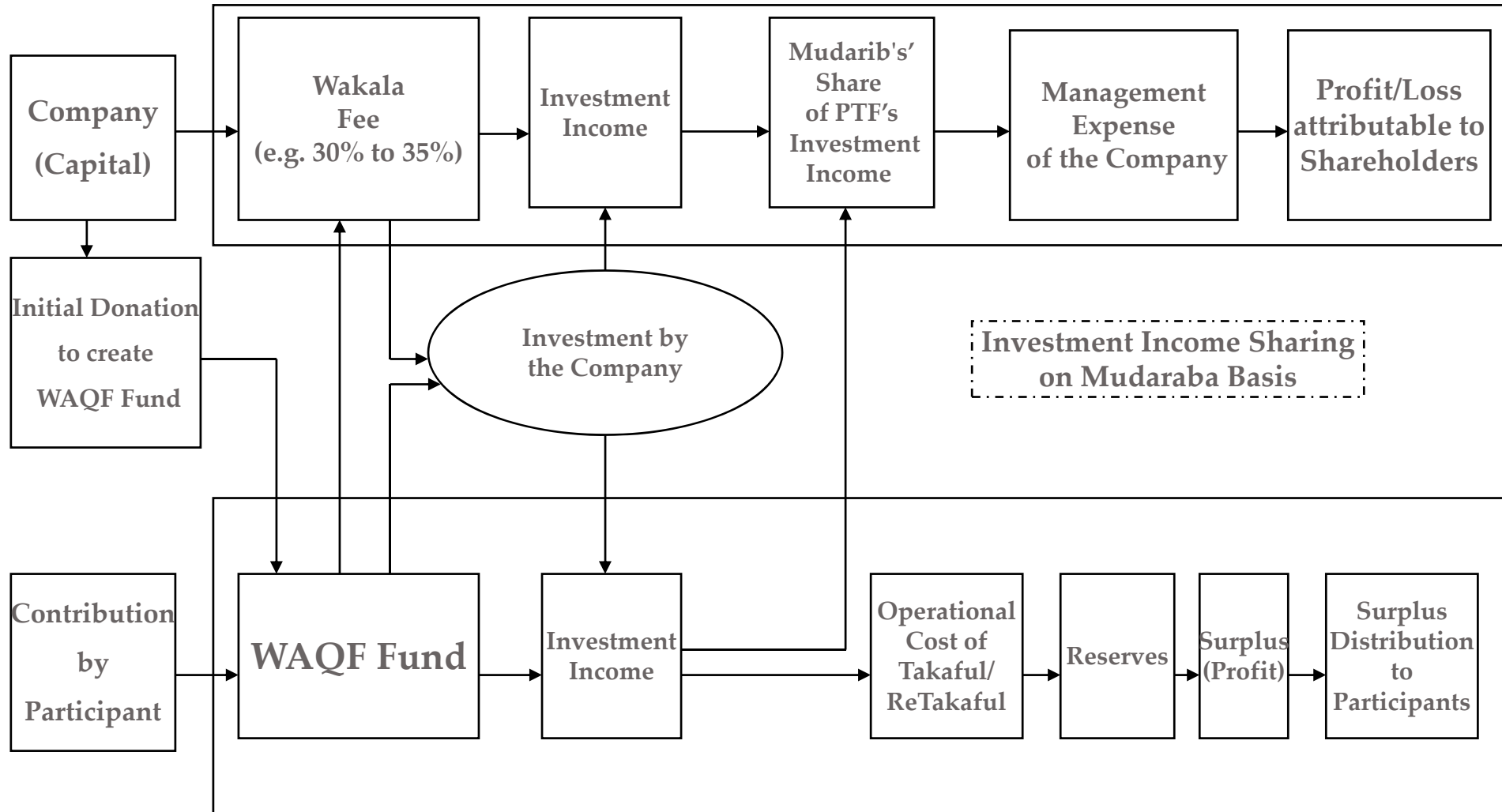
# Mudaraba Model



# Wakala Model



# Wakala-Waqf Model





# The Need

- Mr. X is a middle level manager in a Multinational firm, or a self-employed individual earning a decent salary, having a typical family of 5-6 members. His salary, generally, is just enough to meet his monthly expenses such as;
  - Repayment of his Home Finance installments
  - Repayment of personal loans
  - Credit card payments
  - Car leasing/Ijarah payments
  - Children's Educational Expenses
  - Household expenses



# The Need

- If God forbid, he faces a situation where he is not around or unable to make his living due to a major illness or disability ;
- Now...
  - What would happen to the financed home?
  - Who would repay his personal loans and credit cards' payments?
  - Where would the car go?
  - How would his children continue their education?
  - And who would take the responsibility of his family's living expenses.....



# The Need

- And if a person now reaches to the age of 55 – 60, how will he be able to meet the expenses for his,
  - Post-Retirement Life ?
  - Daughters' weddings ?
  - Children's Higher education ?
  - Old parents and self medication ?
- Most of the people do not have the answers to these questions.
- We are either simply ignorant or living in a state of denial.

# The Challenges - Awareness



- Takaful is a new concept both for the general public and the Ulema
  - Awareness amongst general public
    - Low literacy rate
    - Misconceptions about traditional insurance
    - Low insurance penetration
  - Awareness amongst Ulema
  - Requires large investments to get knowledge out to the public

# The Challenges - HR



- Unavailability of trained and committed HR
  - A nationwide issue
  - Financial sector, especially Islamic institutions, are facing this issue with greater severity
  - Insurance has not been the career of first choice.
  - Takaful could attract insurance practitioners who consider conventional insurance as Un-Islamic. These are sizable in number.
- Training and development
  - Lack of training culture in the industry
  - Lack of quality training resources

# The Challenges – Marketing & Distribution



- 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.
  - A need based tool
  - Appropriately priced
  - Immaculately serviced
  - Halaal
- Through Takaful, over all insurance penetration could be increased in the country and a huge untapped market could be tapped

# The Challenges - Marketing & Distribution



- Best practices are an issue for conventional insurers as well.
- Takaful operators should follow best practices with greater rigor and commitment.
- Developing a distribution channel which could convey the essence of Takaful and exploit the market opportunities is an uphill task.
- Alternate distribution channels should be utilized e.g. BankaTakaful.
- Positive response from the market. People are keen to know.

# The Challenges – Service Standards



- Insurance sector in Pakistan has been plagued with service issues...
  - Problem across industries
    - ‘Show the customer that he is stupid’ syndrome
  - Deception & misinformation is common when selling
  - Subsequent customer handling leaves much to be desired
- Advent of powerful communications means customers are more aware and have more options

# The Challenges – Setup & Underwriting



- Heavy investments required in...
  - Business system
  - Developing effective business processes.
- Underwriting and Pricing
  - Takaful operator should be prudent and equitable
  - Wakala fee and other admin charges
    - Full disclosure
    - No hidden charges

# The Challenges – Claims Settlements



- Claims should be settled with Speed and accuracy
- Issue of ex-gratia claims
- Legal issues in case of non-payment of claims

# The Challenges – Investments



- Limited investment opportunities
- Uncertainty regarding application of limits on investments imposed by regulators.
- It is suggested to issue separate investment guidelines for Takaful companies.

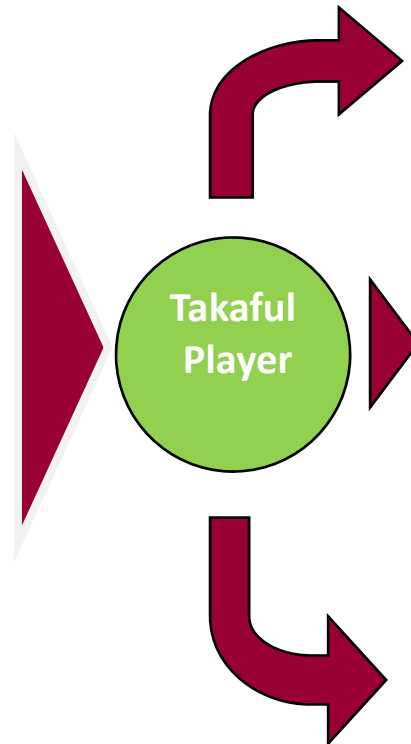
# The Challenges – Globally



- Issues related to Takaful are very similar everywhere
- Magnitude may vary based on the demographics of the country
- Due to greater understanding of Islamic principals in the Middle East there is greater knowledge of Takaful there than in Pakistan, relatively speaking.
- Some issues due to recent nature of Takaful concept

**Key internal improvement areas**

- Human resources
- Marketing and Distribution processes
- Product development
- Service Quality



**Other players**

- Market discipline
- Transparency
- Sharing of knowledge
- Formation of a *takaful* association

**Customers**

- Education and awareness campaigns on risk protection / savings
- Enhanced product development

**Regulators**

- Creating a level playing field between Takaful and conventional insurers
- Emphasis on corporate governance, transparency and market discipline



Jazak-Allah khair