



Takaful

Azeem Pirani

Head of Marketing & Alternate Distribution

Pak-Qatar Family Takaful

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Agenda



- Takaful – A product and an ideology
- History of Takaful
- What is Conventional Insurance?
- Why so few users of Conventional Insurance?
- Differences between Takaful and Conventional Insurance
- How does Takaful work?
- Why do you need to know about Takaful?
- Conclusion

Takaful- A product and an Ideology



- Takaful comes from the Arabic root-word 'kafala'-
guarantee
- Takaful is not only a tool to mitigate loss or to make
halal profits. It is an ideology which promotes
 - Solidarity and joint guarantee
 - Self reliance and self sustainability for community
well being
 - Assistance to those that need it
 - Community pooling system

History of Takaful



- Origins in the First Constitution of Madina.
- It evolved and continued in one form or the other throughout the Abbasid period and even later during the Ottoman empire.
- Serious efforts were made in modern times, in 1970s to come up with an Islamic alternative to the conventional insurance.
- The first Takaful company was set up in Sudan in 1979, almost simultaneously followed by another one set up in Bahrain.

History of Takaful (cont.)



S. NO.	EVENTS	DATE
1	Prophet Muhammad (PBUH) validated a system of community self help and financial assistance	At the start of Hijri
2	Unanimous decisions by Muslims & Fatwa issued by National Religious Council of Malaysia .	1972
3	First International conference on Islamic Economics was held in Makkah .	1976
4	Fatwa issued by Higher Council of Saudi Arabia in favour of Islamic Insurance model.	1977
5	Development of Takaful in modern times by establishing the first Takaful Company in Sudan .	1979
6	First National Reinsurance in Sudan .	1979

History of Takaful (cont.)



S. NO.	EVENTS	DATE
7	Establishment of The Islamic Arab Insurance Company in Saudi Arabia which was later relocated in UAE .	1979-80
8	Dar Al Mal Al Islami Trust, Switzerland .	1981
9	Saudi Islamic Takaful and Re-Takaful Company, Bahamas .	1983
10	Islamic Takaful Company in Luxembourg .	1983
11	Development of Takaful in modern times by establishing the first Takaful Company in Malaysia .	1984
12	Takaful Act, an act passed to provide for the registration and regulation of Takaful business in Malaysia .	1984

History of Takaful (cont.)



S. NO.	EVENTS	DATE
18	Syarikat Takaful, Singapore.	1995
19	Islamic Insurance Company, Qatar.	1995
20	ASEAN Takaful Group evolved into ASEAN Retakaful International (ARIL) in Labuan, Malaysia.	1997
21	Establishment of Dubai Takaful Insurance Company, UAE.	1997
22	Establishment of Trinidad-Tobago Takaful Friendly Society.	1999
23	Establishment of Amana Takaful in Sri Lanka.	1999

History of Takaful (cont.)



S. NO.	EVENTS	DATE
24	A code of Ethics was developed for the Takaful Industry by Takaful Malaysia and Takaful Nasional.	2000
25	Al Aman Takaful, Lebanon .	2002
26	Incorporation of Pak-Kuwait Takaful Company Ltd., the first Takaful operator in Pakistan .	2003
27	International Takaful conference held in London to promote Takaful business.	2003
28	A paper was published by Bahrain Monetary Agency (BMA) which proposed rules to regulate the Takaful and ReTakaful industry.	2004
29	Takaful Insurance forum organized by Egyptian Insurance Supervisory Authority (EISA) was held for the recognition of a growing interest in Takaful scheme.	2005
30	SECP notifies Takaful Rules in Pakistan .	2005

What is Conventional Insurance??



- A tool for Risk Mitigation and Financial Protection
- A tool to enable people to save (Life Insurance)
- Penetration of Insurance
 - Pakistan: 0.7% of GDP
 - India: more than 3% of GDP
 - Iran: approx. 1% of GDP

Why so few users of Conventional Insurance??



- Society of conservative spenders
- Ignorant of the benefits
- Religious reasons
 - Tawakkul issue
 - “Tie your camel first, then put your trust in Allah (SWT)”.
<Tirmidhi>
 - “It is better for you to leave your heirs wealthy rather than poor and asking others for their needs”.
 - Non-Shariah compliant elements

Takaful vs Conventional Insurance



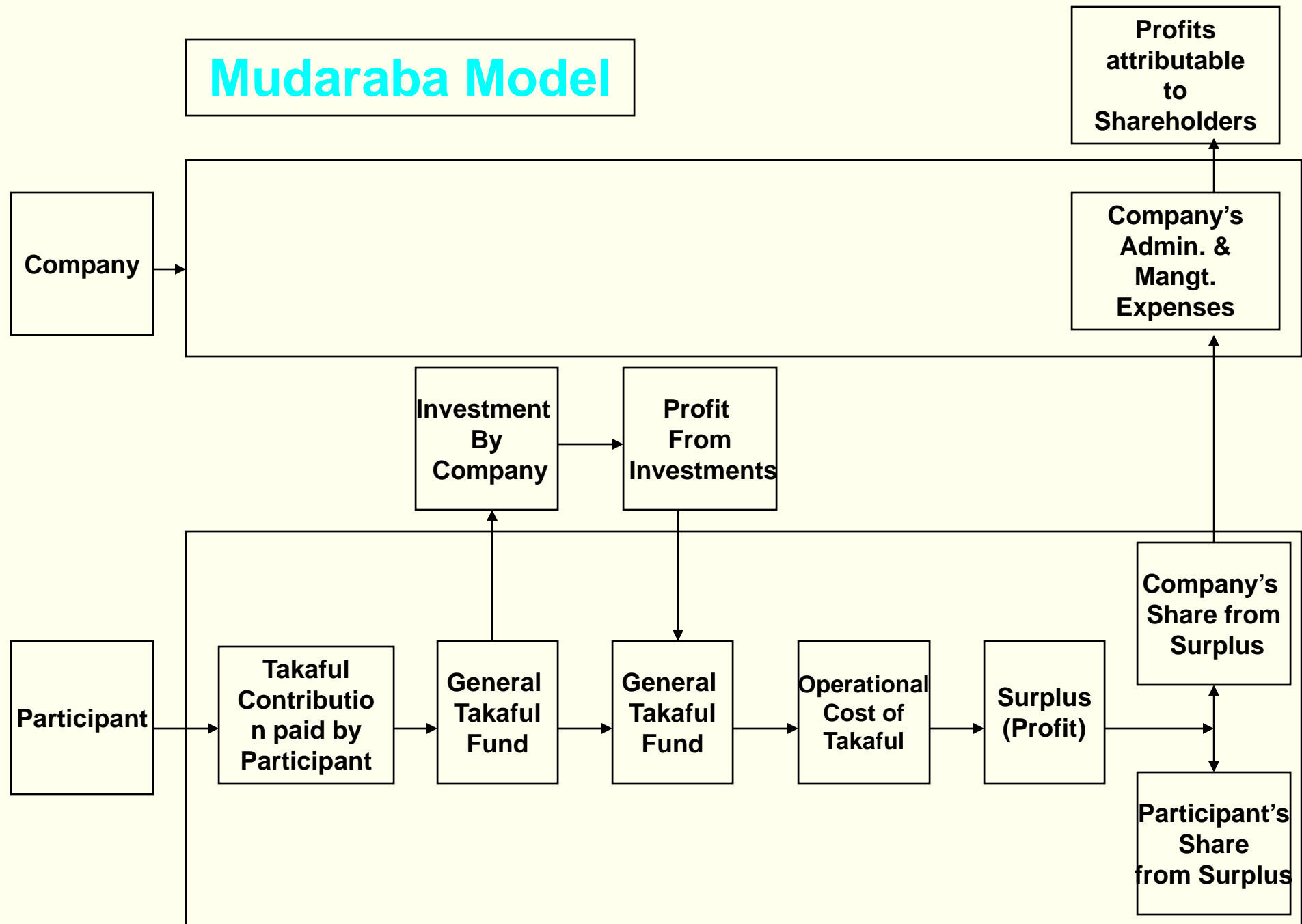
- Key differences between Takaful and Conventional Insurance are:
 - Risk Sharing Vs. Risk Transfer
 - Wakeel Vs. Guarantor
 - Ameen Vs. Owner
 - Different type of Contract

Takaful vs Conventional Insurance

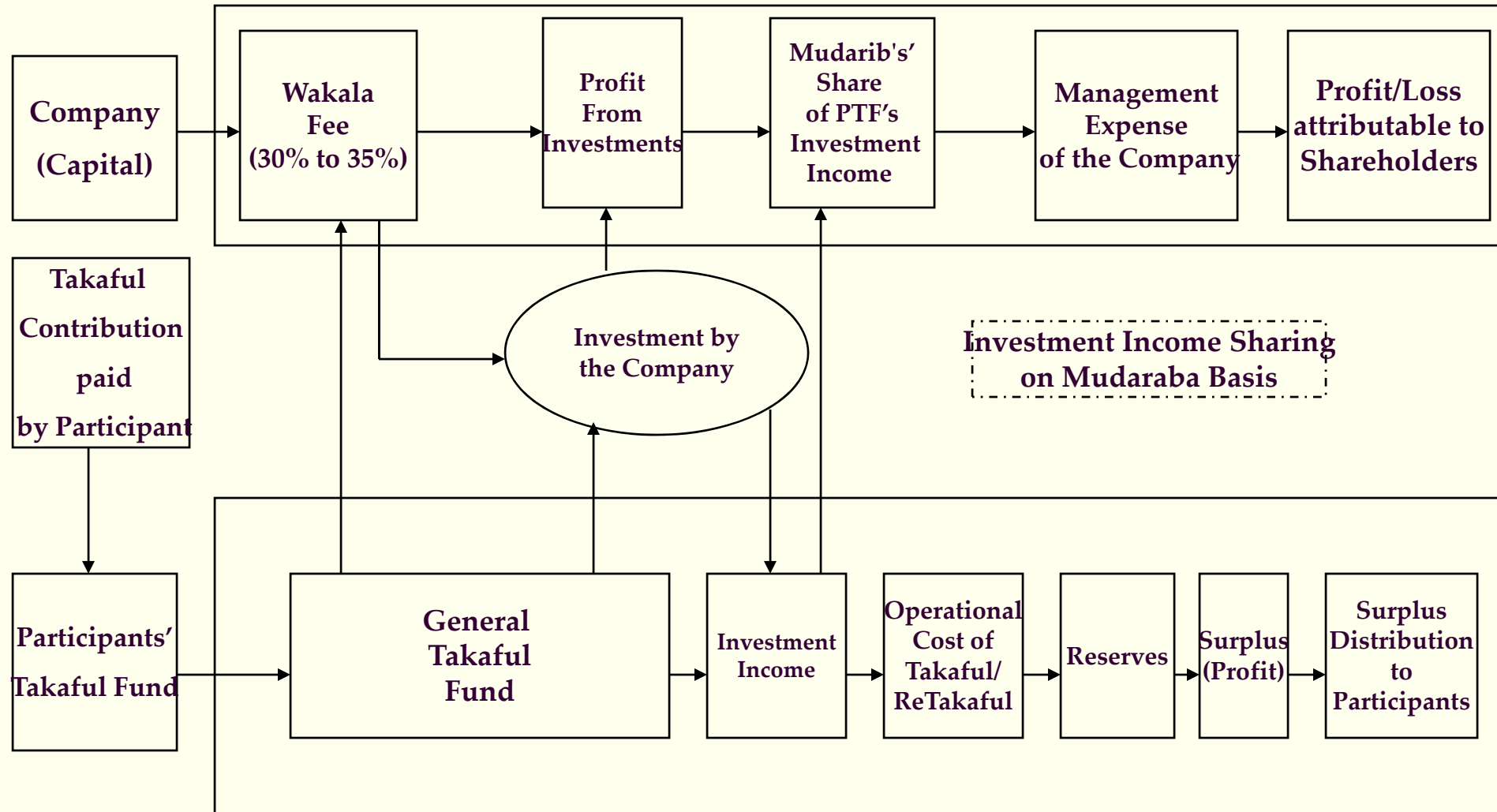


Issue	Conventional Insurance	Takaful
Org. Principle	Profit for shareholders	Mutual for participants
Basis	Risk Transfer	Co-operative risk sharing
Laws	Secular/Regulations	Shariah & Prudential regulations
Ownership	Shareholders	Participants
Mgmt status	Company Management	Operator
Form of Contract	Contract of Sale	Cooperative, Wakala or Mudarbah with Tabar'ru (contributions)
Investments	Interest based	Sharia compliant, Riba-free
Surplus	Shareholders' account	Participants' account

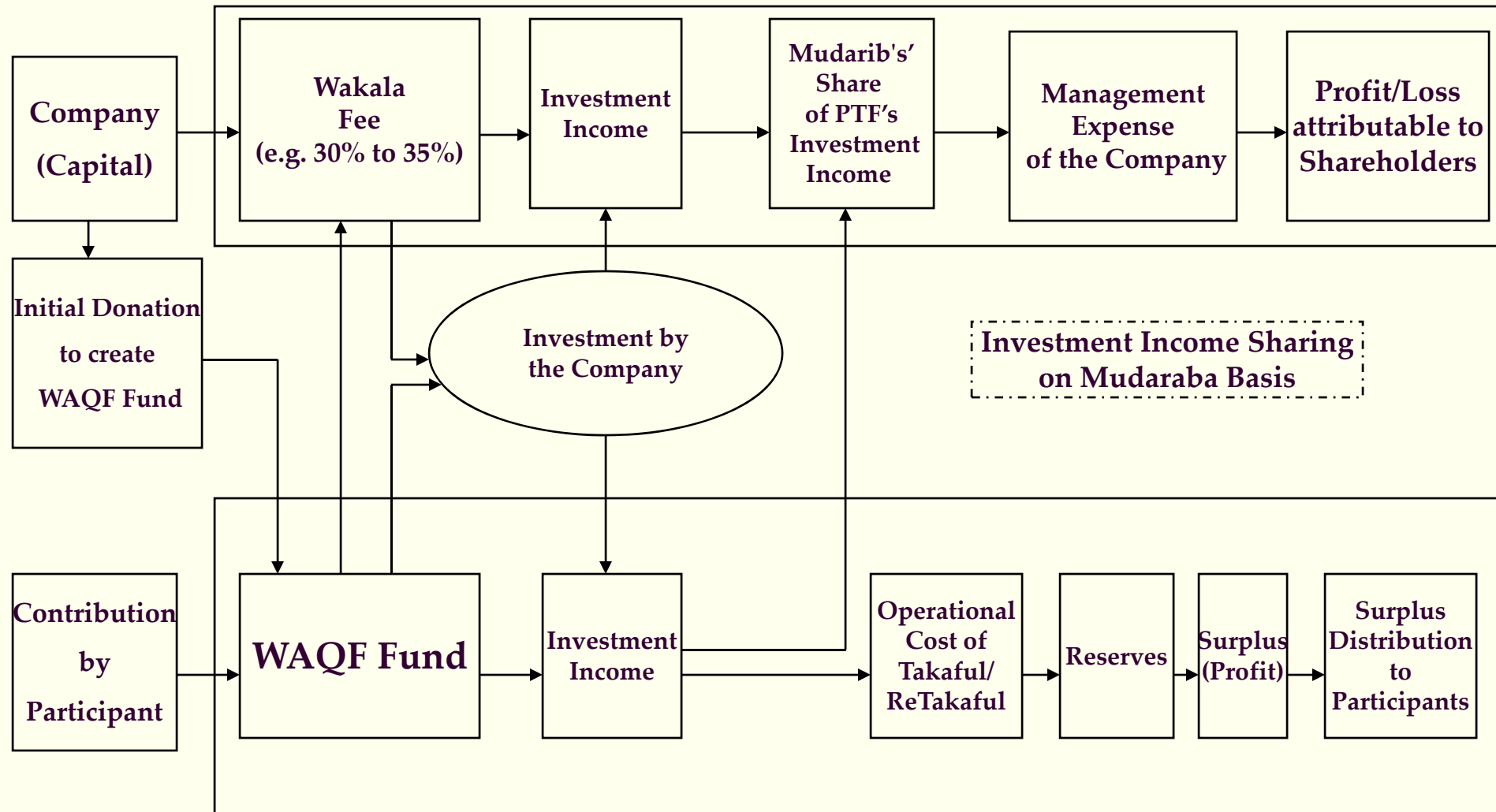
Mudaraba Model



Wakala Model



Wakala-Waqf Model



Why do you need Takaful?



- Very closely linked with the rest of the financial sector, both Islamic and Conventional
- Strong growth in the Islamic financial sector provides Takaful with a natural market
- Economic/Social conditions in Pakistan make Takaful a required product
 - Lack of govt. social safety net
 - Negligible provision of reliable health care by the govt.
 - Quality education is beyond the reach of the average citizen and the institutions provided by the govt. lack the required standards

Why do you need Takaful? (cont.)



- Massive untapped market in Pakistan and the region
- Ethical model for risk mitigation and financial protection
- Very positive foreign experience
 - Almost 60% of all Takaful customers in the Malaysia are non-Muslims
 - Takaful industry ready to launch in the UK. Some companies have their licences and others are in the process.
 - Very successful experience in Sri Lanka

Conclusion



- Takaful is not only here to stay; it's going to GROW!
- It's ethical and Shariah compliant nature allows Takaful to overcome the inherent problems with Conventional Insurance
- Although Insurance coverage is not the norm in Pakistan we need to work to make Takaful something everybody uses
- **Takaful is NOT a type of Insurance, rather it is an ALTERNATIVE to Insurance. This clarity is VERY important to be able to truly understand what Takaful is all about**

Conclusion (cont.)



- As educated professionals WE have a responsibility to our fellow citizens to guide them to what is good for them. Takaful is one of those items which they need to use for their economic and social wellbeing
 - Develop awareness amongst those around us
 - Guide those who need further information to the relevant individuals/organizations

Jazak-Allah Khair



For further information contact:

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