

WorldAsia Roundtable Series - *“Key Business Drivers and Challenges for Pakistan Takaful Operators ”*

Event Brief

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Roundtable Series Brief

WorldAsia, a powerful knowledge initiative to promote influential business events, executive briefings and financial training workshops in GCC and emerging markets, kicked off its Roundtable Series by addressing the key business drivers and challenges of the nascent Takaful industry in Pakistan on 24 April 2008. The high powered Roundtable comprised of various stakeholders in the industry including local Takaful players, representatives from Securities and Exchange Commission of Pakistan (SECP), members of conventional insurance industry and Islamic commercial banking professionals. Captian M. Jamil Akhter – CEO Takaful Pakistan; Pervaiz Ahmed – CEO Pak-Qatar Family Takaful; M. Vaqaruddin – CEO Pak-Qatar General Takaful; Tariq Husain – CEO Emirates Global Islamic Bank; Haleem Nasri – Project Coordinator Dawood Family Takaful; Dr. Mumtaz Hashmi – Advisor SECP; Mohammed Ali Ahmed – Deputy GM EFU Life Assurance and Tariq Ali – CEO WorldAsia were amongst the panelists. Ashar M. Nazim – Managing Director Islamic Capital Partners was the moderator for the discussion.

The Roundtable got off the ground with an overview of the Takaful industry. With 3 General and 1 Family Takaful player and 2 expected to obtain licenses in the coming months, the industry is at a rudimentary stage. Pakistan insurance market is immensely untapped with a penetration of less than 1pc but holds tremendous opportunity at the back of an above average economic growth of 6-7pc; growing per capita income; population of 165 million with 97pc Muslims keen to align themselves with their Islamic identity; growth in Sharia' compliant assets and strong rise of Sharia' compliant investors in the GCC looking east.

The discussion gave the participants an opportunity to highlight the necessary steps in taking this nascent industry forward. Creating awareness of Takaful amongst the masses was considered to be the most crucial step by common consensus. Human resource development was another key issue highlighted which needs immediate attention. It was also stressed that selling products based on religious principals alone would not seize the required target market, but Sharia' compliance together with a competitive and quality service offering would increase the local Takaful penetration.

The Roundtable also facilitated the participants to obtain an Islamic banking perspective in terms of market positioning. The Islamic banking industry is making its mark in the financial services industry, indicated by 50pc growth as compared to conventional growth of 13pc last year. This has been possible through the proactive approach and patronizing support of the Islamic banking regulator – State Bank of Pakistan. SECP, the regulator for the Takaful industry was urged to take a similar approach. In response to that SECP informed the participants that more comprehensive Takaful rules are in the advance stages of development and would be available to enhance operations of existing as well as new Takaful players.



The participants were of the view that the path for the industry is straight forward for next five years, which does not require out-of-the-box thinking initiatives. Takaful is practiced in several countries at present and local industry can move ahead by simply adopting their approach. It was further highlighted that each of the players should set targets and work towards fulfilling those targets. If the industry focuses on targeting 10pc of the local population, 16.5 million individuals is a significant number to kick start Takaful operations.



The session also discussed commercial viability of Takaful operations. Pervaiz Ahmed of Pak-Qatar Family Takaful took this opportunity to announce their plan to take their sales force to 3,000 in the next 5 years. Along with strengthening its own operations and sales force, Takaful operators see Bancatakaful as an attractive opportunity to leverage on Islamic banking presence all across Pakistan. This approach is considered necessary in building volumes, increasing outreach and at the same time facilitating economies of scale. Bancatakaful is a mutually benefiting exercise with banks becoming one-stop-shop for an individual's complete financial needs. A few vital operational issues of Bancatakaful were identified as well; training of banking staff in Takaful operations and developing targeted products.



Another issue highlighted was initiation of Takaful window operations by conventional insurance players. According to Takaful Rules 2005, window operations are not allowed till 2010. However, conventional players want to tap this highly attractive market and are all in for Takaful windows. They are of the view that since existing insurance companies have established market presence, initiating Takaful windows would facilitate the industry in reaching high volumes. However, Takaful operators have a contrary view and propound that while Takaful is at an embryonic stage at present, conventional involvement would create confusion amongst customers by questioning the religious credibility of Takaful. According to Takaful operators, introducing Takaful as a separate entity by existing conventional insurance players is a more practical and less perplexing option.



The Roundtable also shed light on the need for a world-class Academy to address the human resource and product development requirements of the Takaful industry. It was stressed that such an institute would facilitate in bringing together conventional academia, Takaful practitioners and Sharia' scholars while the international linkages would provide greater outreach, quality and international standard to the training provided.



The Roundtable concluded with outlining the implementation steps for the industry. Collective representation of the Takaful industry by introducing a single brand and development of a Takaful Association were the two most important recommendations suggested. In addition to effectively perform an industry wide campaign for the promotion of Takaful such steps would bring together key stakeholders, facilitate practical product innovation, develop human

resources for the industry and align industry practices with global trends. Captain Jamil of Takaful Pakistan informed participants that establishment of such a venture is in the process. It was reiterated further that the above steps can only be achieved through collective and dedicated efforts by both the players and the regulator.

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Key Business Drivers and Challenges

Demand

Growth Drivers

Insurance is virtually an untapped industry in Pakistan with current penetration of less than 1pc of GDP as compared to 4.8pc in India and 4.9pc in Malaysia. Penetration target of 2-3pc over next five years appears achievable.

Pakistan is a large natural market for Takaful, having a population of 165 million people, with 100 million under 30 years of age, and 97pc Muslims.

Growing affluence, with per capita income doubling over last five years, at almost \$1,000 in 2008, makes Takaful cover more affordable.

A notable keenness amongst the general masses to align with the Islamic identity, further vindicated by the spectacular rise of Islamic banking system over the past five years bodes well for Takaful in Pakistan.

Takaful cover will be required for rapidly growing Sharia' compliant assets, driven by the rise of Islamic banking as a parallel system in the country. Islamic banking is forecast to grow in the range of 40pc ~ 50pc through 2012.

"I feel Pakistan offers strong potential for Takaful. 10pc market penetration in initial years can bring 16.5 million customers."

Haleem Nasri
Project Coordinator
Dawood Family Takaful



Supply

On the road to creating a new industry

Four Takaful operators, both family and general, have launched operations in Pakistan since the promulgation of Takaful Rules in 2005. Licenses are expected for at least two more shortly.

A brand new concept in Pakistan, the industry needs the critical mass of operators to be taken seriously. Conventional insurance providers should be encouraged to explore setting up separate Takaful subsidiaries.

Focused outreach efforts in regional markets, such as road shows for financial investors, direct invitations to blue chip financial institutions, visible participation in industry events, are missing. Same is true for reaching out to strategic investors such as Takaful and insurance operators in the region.

SECP was urged to champion the cause of augmenting the Takaful industry through providing an enabling environment.

“SECP has no reservation and has recognized the need for Takaful. We are ready to champion the cause.”

Dr Mumtaz Hashmi
Advisor
Securities and Exchange Commission of Pakistan



Awareness

Market branding, positioning & visibility

Lack of awareness regarding Takaful products is considered to be the most significant issue confronting the industry.

More aggressive brand awareness efforts are required for Takaful as compared to Islamic banking due to negative perception about insurance amongst the masses, reflected in a low market penetration relative to other countries.

No out-of-the box thinking is required at this point, following the model of other regions is sufficient to gain clarity and focus.

Joint efforts by conventional and Islamic insurance players, as well as the regulator, for marketing Takaful as a single brand are essential to create awareness.

“Simply focus on ‘catching the wave’... mimic the regional model.”

Syed Tariq Husain
CEO
Emirates Global Islamic Bank



People Strategy

All encompassing approach toward HR development

Currently, Takaful training programs of conceptual nature are being offered by a few institutes like Center for Islamic Economics, Pakistan Insurance Institute, Al-Huda CIBE along with on-the-job training, however, need for a collective macro level approach towards professional development remains.

To equip the nascent Takaful industry with trained human resource, there is a pressing requirement for a world-class training and research Academy that links all major stakeholders – Takaful operators, professionals, academicians, regulator, Sharia’ scholar – with leading international business schools as well as the international Takaful industry. Participating operators were urged to allocate a significant budget in their business plan for quality training.

Islamic finance session chairs could be established in leading business schools to the country to expand outreach of education offered in this discipline.

HR compensation structure and professional development plans should be utilized effectively to mobilize, motivate and retain talent.

“Lets link academia with operators... think long term.”

Mohammed Ali
Deputy GM
EFU Life Assurance



The Regulator – SECP

To play a more active role

Takaful rules have been in place since 2005, more comprehensive amended rules are in the process.

SECP was urged to follow SBP's footsteps in taking a more proactive approach to monitor and regulate operations of the Takaful industry. Involvement of Ministry of Commerce should be minimal or non-existent.

To promote the industry and encourage investors, greater incentives should be provided to Takaful operators. Promoting good corporate governance, transparency and market discipline while making the licensing and approval process less cumbersome.

To encourage competition and quality service offering, SECP was advised to set industry targets and monitor these targets in terms of market share and number of Takaful operators over the next five years.

“SECP is committed. We have formed a committee, hired consultants, scholars... we are working on more comprehensive Takaful rules.”

Dr Mumtaz Hashmi
Advisor
Securities and Exchange Commission of Pakistan



Foreign Investment

The gold rush

Oil driven revenues have generated excess liquidity in the GCC region which is looking east for Sharia' compliant investment avenues. Pakistan has been on the radar of GCC investors due to their familiarity with the market.

Strong Regional interest has been witnessed in Pakistan Takaful industry. Noor Financial Investment Company, Emirates Investment Group, Qatar Islamic Insurance Company, Qatar International Islamic Bank, Qatar Islamic Bank, Qatar National Bank, The Amwal Group, Takaful Holdings Limited and Etiqa Overseas Investments, have entered the local market.

Greater marketing efforts are required across the region to highlight the potential of Takaful industry of Pakistan.

“Pakistan financial industry offers an attractive business opportunity for regional investors”

Ashar M. Nazim
Managing Director
Islamic Capital Partners



Collective Wisdom

Establishment of a Takaful Association

Individual steps being taken for greater outreach and country wide presence of Takaful are not enough to achieve the end objective of emerging as a formidable player in Pakistan insurance landscape.

Participating operators were urged to establish a Takaful association which would be the representative body of the industry.

Takaful association will address various challenges encountered by the industry, including product development; undertaking a brand building exercise through aggressive marketing and awareness; lobbying with the government and opinion leaders on regulatory issues; and most importantly investing in further developing the talent pool.

“Companies should come together to decide what is the next step.”

Pervaiz Ahmed
CEO
Pak Qatar Family Takaful



Reaching Out

Bancatakaful has potential

Bancatakaful, leveraging upon rapidly expanding Islamic banking network across Pakistan, is considered essential to initiate Takaful operations in rural areas as well as in building the required volumes and achieving economies of scale.

Bancatakaful a mutual benefiting exercise where the banks become a one-stop-shop for an individual's complete financial needs. Banks are perceived to be more reliable, stable, having a 'touch and feel' appeal.

Several partnership solutions are available with banks, such as joint venture, a distribution channel or a subsidiary. Operators were urged to focus on all of these opportunities.

Issues of training banking staff in Takaful operations and creating targeted products that are palatable for the customers, the bankers and Takaful operators need to be addressed.

“Bancatakaful has great potential... let's use the well entrenched Islamic banking players, our outreach will expand.”

Captain M. Jamil Akther
CEO
Takaful Pakistan



Window Operations

To be tapped in the future

Window operations by conventional players are not allowed till 2010 according to Takaful Rules 2005. However, industry is still divided on implementation of this rule.

Conventional players are keen to tap this highly attractive market. Existing insurance companies have ground level isolation of products and the market presence to initiate Takaful operations.

Takaful operators are against windows. They are of the view that conventional involvement under one entity could create confusion amongst the customers by questioning the religious credibility of Takaful, as significant majority has religious issues with insurance.

Takaful operators feel that conventional players can enter the market by initiating Takaful as a separate entity, considered to be a more practical and less confusing option.

“Takaful is a different ball game... windows might cause confusion in the nascent market.”

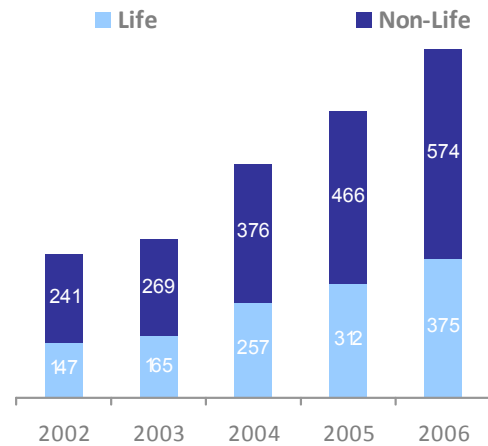
M Vaqaruddin
CEO
Pak Qatar General Takaful



Pakistan Takaful Industry at a Glance

- ④ Established since 2005
- ④ Regulated by SECP, through Takaful Rules 2005
- ④ General Takaful Operators include: Takaful Pakistan, Pak-Qatar General Takaful and Pak-Kuwait Takaful Insurance Company
- ④ Pak-Qatar Family Takaful only Family Takaful Company at present
- ④ Foreign Investors include TN Overseas Investment - Malaysia, Noor Financial Investment Company - Kuwait, Takaful Holdings - Dubai (Representing Amana Takaful of Sri Lanka), Emirates Investment Group, Qatar Islamic Insurance Company, Qatar International Islamic Bank, Qatar Islamic Bank, Qatar National Bank and The Amwal Group

Pakistan Insurance Premium Volume (US\$ million)



Pakistan Insurance Market Statistics
(2006-07)

Average growth (last 5 years in pc)	26
Insurance penetration (premiums as pc of GDP)	0.8
Premium volume (US\$ million)	949
Insurance density (premiums per capita – US\$)	5.9
Ranking out of 57 developing countries (in terms of premium per capita)	55 th