

RATING OF TAKAFUL/RETAKAFUL COMPANIES

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DEFINITION OF “INSURER FINANCIAL STRENGTH RATING”

- **A Standard & Poor's Insurer Financial Strength Rating is a current opinion of the financial security characteristics of an insurance organisation with respect to its ability to pay under its insurance policies and contracts in accordance with their terms.**
- **This opinion is not specific to any particular policy or contract, nor does it assess the suitability of a particular policy or contract for a specific purpose or purchaser.**
- **IFSRs do not refer to an organisation's ability to meet non-policy obligations (i.e. debt)**

SELECTED RATING SCALE DEFINITIONS:

A: An insurer rated “A” has **STRONG** financial strength characteristics, but is somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings.

BBB: An insurer rated “BBB” has **GOOD** financial strength characteristics, but is more likely to be affected by adverse business conditions than are more highly rated insurers.

BB: An insurer rated “BB” has **MARGINAL** financial strength characteristics. Positive attributes exist, but adverse business conditions could lead to insufficient ability to meet financial commitments.

HOW DO WE ANALYSE (RE)TAKAFUL COMPANIES?

1. Economic and industry risk
2. **Competitive position**
3. **Management & corporate strategy**
4. **Enterprise risk management**
5. **Operating performance**
6. Investments
7. Liquidity
8. Capitalisation
9. Financial flexibility

TAKAFUL: KEY ANALYTICAL ISSUES

- **The robustness of the legal structure.**
- **The transparency of the financial reporting mechanisms.**
- **The nature of the risk control processes (ERM...)**
- **The robustness of the competitive position.**

QARD HASSAN (BENEFICIAL LOAN)

- **An essential component of every takaful company**
- **An interest free loan facility from the shareholder funds to the takaful fund in the event of any deficit.**
- **Repayable out of future surpluses in the takaful fund.**

- **Not a standard requirement however**

- **Note that fund deficits are entirely the responsibility of the takaful fund members**

TAKAFUL: REPORTING CONSISTENCY

	<u>Takaful</u>	<u>Traditional</u>
Premium income	+ aaa	+ xxx
Claims costs	- bbb	- yyy
Wakala fee	- cc	na
Underwriting expenses	na	- zz
Contribution to takaful fund	<u>(a-b-c)</u>	
Underwriting surplus	na	<u>(x-y-z)</u>
Investment earnings	+ dd	+ dd
Wakala fee	+ cc	na
Management expenses	- ee	
Net profit	<u>(d+c-e)</u>	<u>(x-y-z+d)</u>

KEY TAKAFUL MARKETS ARE HIGHLY UNDEVELOPED:

		Asia	Africa	Emerging	Industrial
Middle East					
Premium density					
– Life	\$14.8	\$56.6	\$30.7	\$46.1	\$1,887.0
– Non-life	\$40.2	\$21.4	\$13.5	\$30.5	\$1,400.0
– Total	\$55.0	\$78.0	\$44.2	\$76.6	\$3,287.0
Premium penetration					
– % of GDP	1%	5%	5%	4%	9%

Source: SIGMA

TAKAFUL: THE FUTURE

- **Takaful Re identifies growth in global gross takaful contributions as:**
 - **2004 US\$3.5 billion;**
 - **2005 US\$4.4 billion +26%**
 - **2006 US\$5.7 billion +30%**
- **15% pa growth, 2020 potentially US\$40 billion**
- **30% pa growth, 2020 potentially US\$224 billion**
- **Some 25% of the world's population are Islamic, say 1.8 billion**
- **Assume 25% take up at \$1,500 ph = US\$0.6 trillion.....**
- **Does Takaful offer an ethical alternative?**
- **But is it attractive to both Muslim and non-Muslim?**

TAKAFUL: SUMMARY

- **Takaful is now part of the established global insurance market**
- **Potential is immense**
- **But is the consumer (participant) appetite really there?**
- **Could it move to be a parallel risk transfer/management solution separate from the established global insurance market?**
 - a) primary
 - b) retakaful
 - c) retrotakaful?
- **This is a brave concept, and conceptually deliverable, but...**

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