



4th Annual

**THE WORLD TAKAFUL
CONFERENCE**
مؤتمر التكافل العالمي

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Leveraging Bancassurance as a Key Growth Channel

Sohail Jaffer, April 15 2009

Partner, FWU Group

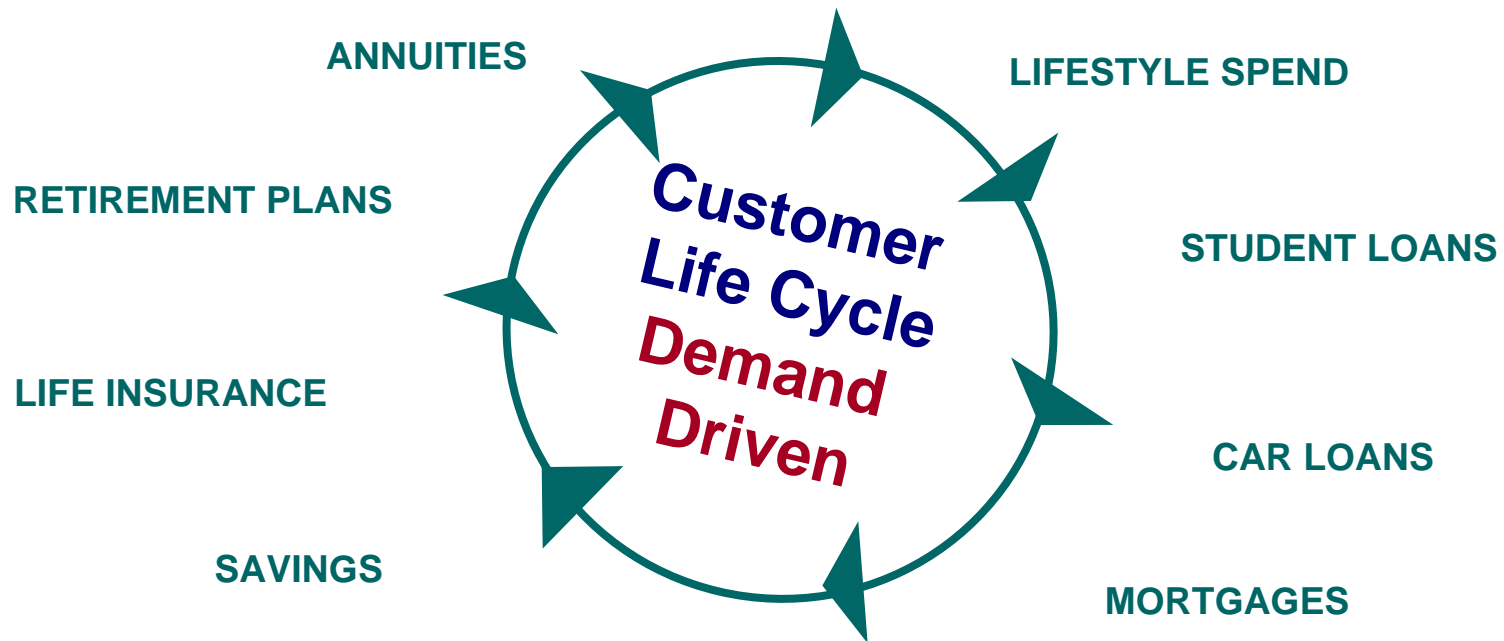
Content

- I. Introduction**
- II. Drivers and Opportunities**
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- IV. Conclusion**



FWU's definition of Bancatakafu

« Bancatakafu is defined as the delivery and distribution of a suitable range of tailored 'bankable' protection and long term savings and pension products designed to meet the lifecycle needs of the customer of a bank or other financial institution.»



Increasing the share of bancatakaful in Wealth Management

Wealth Management Supermarket

FINANCING :
Personal loans
Mortgages
Credit cards

INVESTMENT PRODUCTS:
Direct Investments
Unit Trusts
Structured Investment Products

BANCASSURANCE
Conventional

BANCATAKAFUL
General & Family
Takaful

Lifestyle Investment Products



Branch network

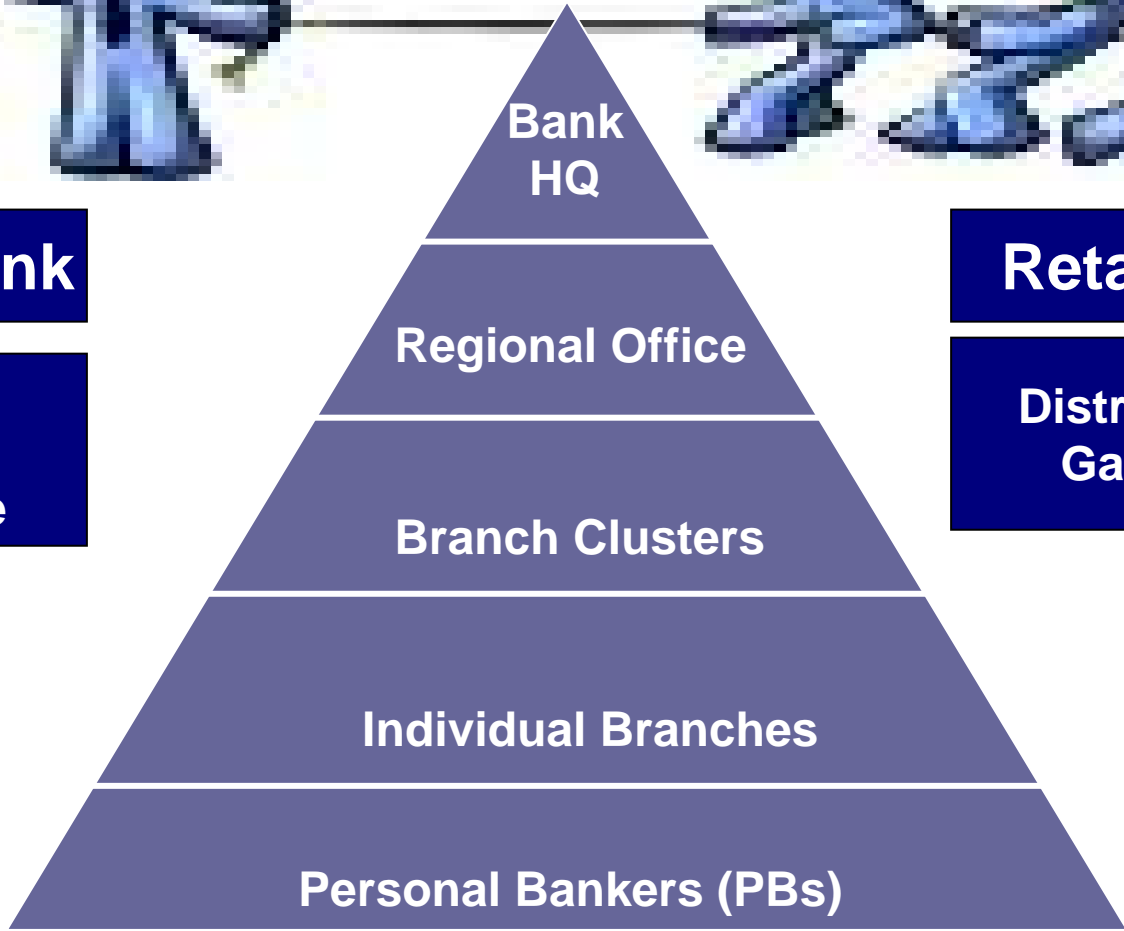


Islamic Bank

Center of Product excellence

Retail Bank

Distribution Gateway



Call Center, Branches and PBs to generate sales leads and referrals to WM advisors and bancasales team

Wealth Management: Sales Organisation



Shelf Space Management Challenges

Wealth Management products

- Investments** ▶ **Open / Guided Investment architecture**
- Conventional Insurance** ▶ **Group Insurance provider**
- Bancatakaful** ▶ **Third Party providers**
Multiple suppliers

How to make the elephant dance ?...



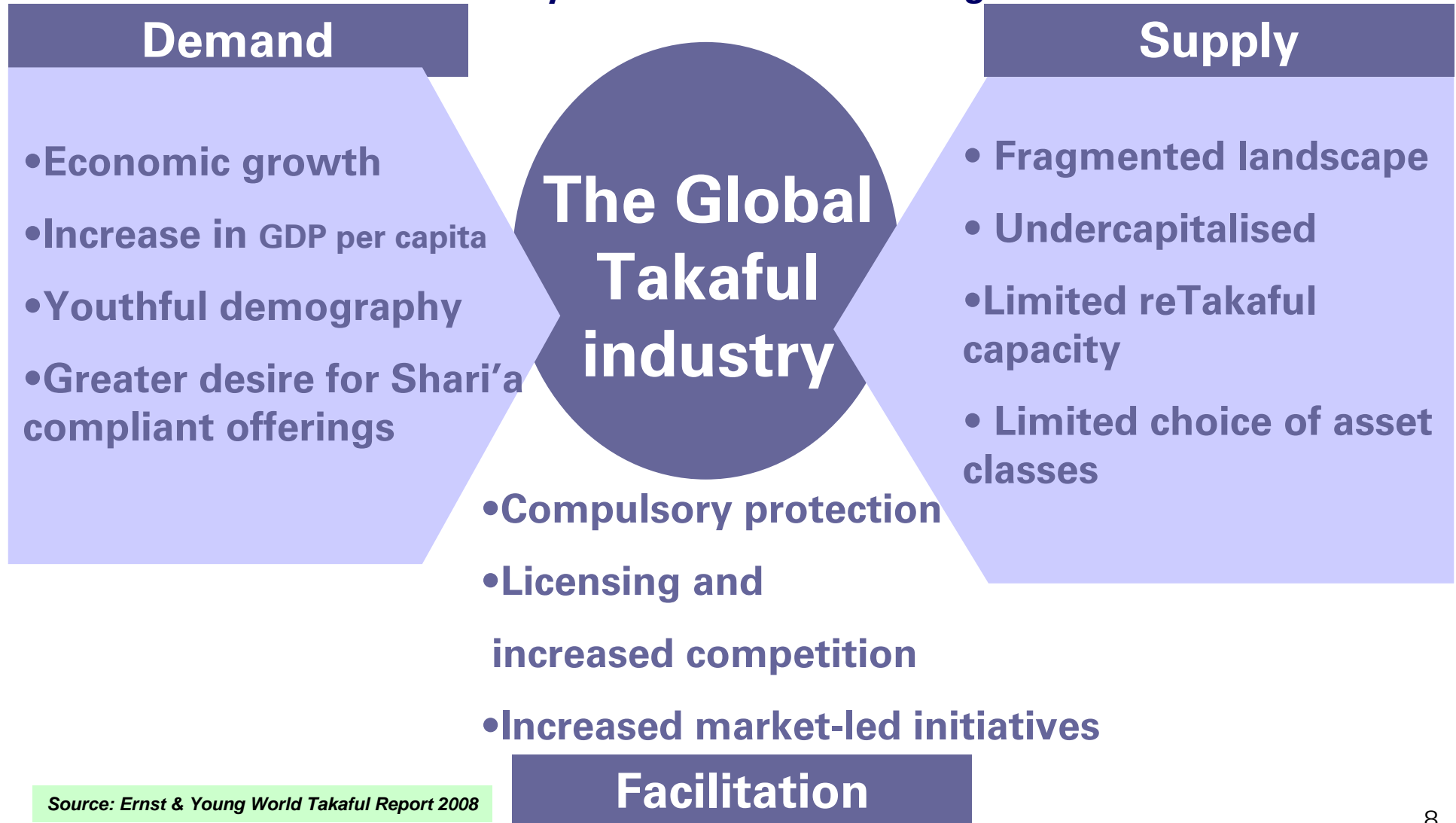
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Change catalyst

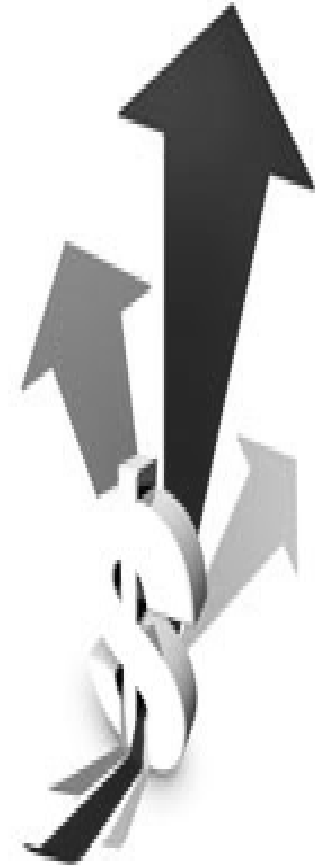
The Takaful industry is poised for significant growth as demand increases and industry enablers are further aligned ...



Source: Ernst & Young World Takaful Report 2008

Growth drivers

- In some countries with majority Muslim populations (Turkey, Egypt, Pakistan, Indonesia) **the takaful market is at an embryonic stage.**
- **Untapped markets:** insurance penetration is below 2% of GDP in the Middle East Region
- The global takaful industry is growing **at 20% per year**, far outstripping the 2.5% annual growth for conventional insurance premiums
- Moody's has predicted that global takaful premiums will rise to **\$7bn by 2015.**



Untapped market potential

- Potential **customer base**: world's **1.5 billion Muslims**
- Bulk of the world's Muslim population is young: **60%** of the global Muslim population is under **25 years of age**.
- The potential to be a customer for **40 years or more**.
- Takaful products must be **price competitive** with conventional insurance products;
- Takaful is inherently ethical and is obliged to invest in **sustainable investments**.
- Further, it distributes the **annual retakaful surplus back to the policyholders**.



Source: PWC, "Takaful: Growth opportunities in a dynamic market" 2008

Malaysia: bancatakaful penetration

VALUE PROPOSITION:

“Bancatakaful enables ITO to tap into banking institutions' large customer base „

1st half 2008 Malaysia Takaful Performance (as @ June 2008)

Key Indicators	1 st half 2007	1 st half 2008	Growth
Contribution Income ₁ (General & Family Takaful)	USD 0.3 billion	USD 0.3 billion	23%
New Business Contribution ₂ (Family Takaful)	USD 140 million	USD 0.27 billion	98.1%
New Business Contribution (Investment-Linked Plan)	152.1 million	351.2 million	131%
Takaful Market Penetration ₃ (In term of # of certificate)	7.7%	8.2%	6.5%
Takaful Assets ₄	USD 1.9 billion	USD 2.5 billion	25%

- Bancatakaful contributed considerably to the increased penetration in the family takaful business.
- Inroads in the penetration rate of bancatakaful in future years in line with the positive trend shown by the conventional counterparts (20% Penetration rate of Bancatakaful).

Malaysia: Bancatakaful Growth

19%, Agents

44% Direct
Marketing

20%,
Bancatakaful

14%, Brokers

2%, Others

Year 2005 in %

- Products sold through agency network have remained fairly constant over recent years

- Conversely direct marketing has seen a steady decline, as Takaful Operators leverage Bancatakaful joint ventures and broker channels to distribute their products

- E-channels have remained fairly small, and are mostly reserved for straightforward motor insurance.

MALAYSIA HAS TO INCREASE THE TAKAFUL SALES VIA THE BANK CHANNEL

Summary Highlights

Takaful Provider

- ▶▶ Cost effective bancatakaful channel
- ▶▶ Competitive products
- ▶▶ Cross selling and branding advantages



Bank Distribution Partner

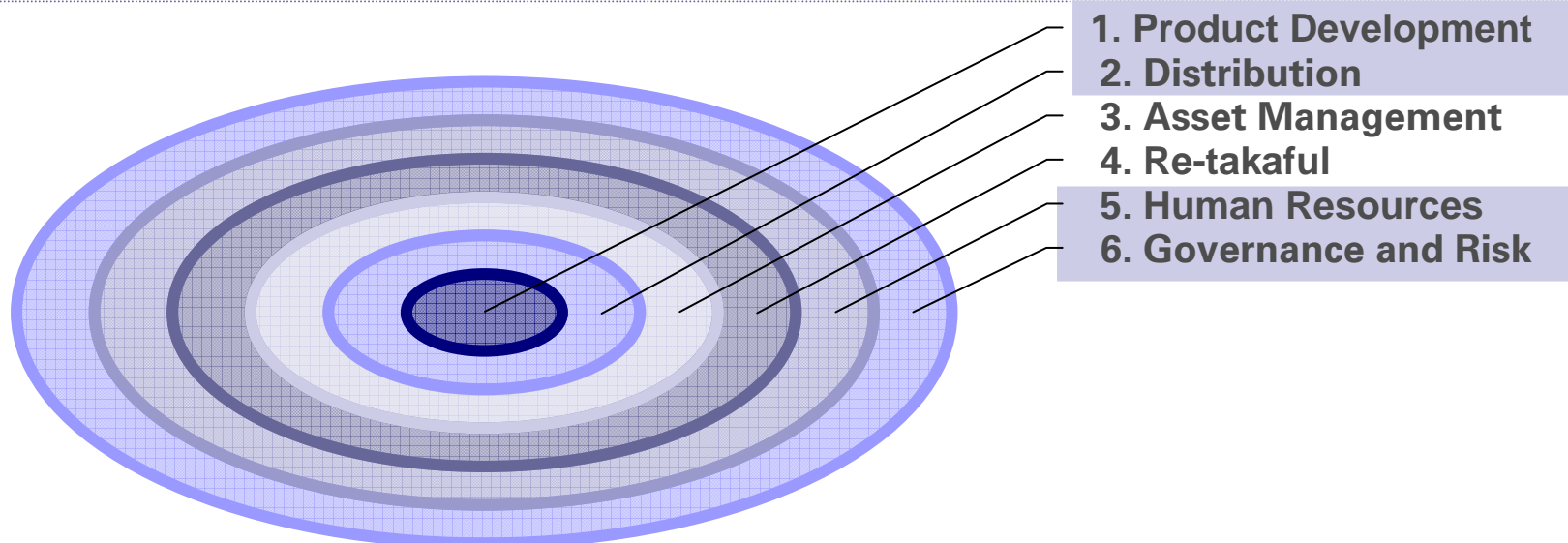
- ▶▶ Fulfil customers lifecycle financial planning and investment needs
- ▶▶ Opportunity to bundle banca with financing products and generate annuity fee income
- ▶▶ One stop Wealth Management offerings and enhance customer relationship

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Bancatakaful Challenges



Operational Factors

- Training in product & sales
- Sales incentives

Sector Factors

- Product development and innovation
- Deployment of IT delivery systems and customer convenience

Macro –Factors

- Flexible Commission structures for distribution partners
- Multiple modes for transacting business

Bancatakaful Challenges

Product Development

Takaful Insurers need to overcome conceptualisation and implementation challenges



CONSTANT EVALUATION

LAUNCH DECISION

CONCEPT SELECTION



Bancatakaful Challenges

Distribution

Banks can add significant value across several other elements along the value chain



Role of the Bank and of the Takaful Operator need to be clearly defined

To capture the full potential of the bancatakaful model, Takaful operators need to adapt along several functional dimensions



Bancatakaful Challenges

Human resources

⇒ **Attracting Talent**

⇒ **Academy,
Certification**

⇒ **Sales Incentives**



⇒ **Reward structure**

⇒ **Distance e-learning**

⇒ **Importing industry
experts**

Bancatakaful Challenges

Governance and Risk



- **Lack of due diligence on the capabilities of distribution partners**
- **Business models do not factor in the appropriate rewards and compensation that are in line with the roles and responsibilities between the takaful operators and bank distribution partners**
- **Stringent and rigid takaful regulations in selected markets**
- **Lack of independent audit committees and fiduciary oversight**

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Bancatakaful strategy

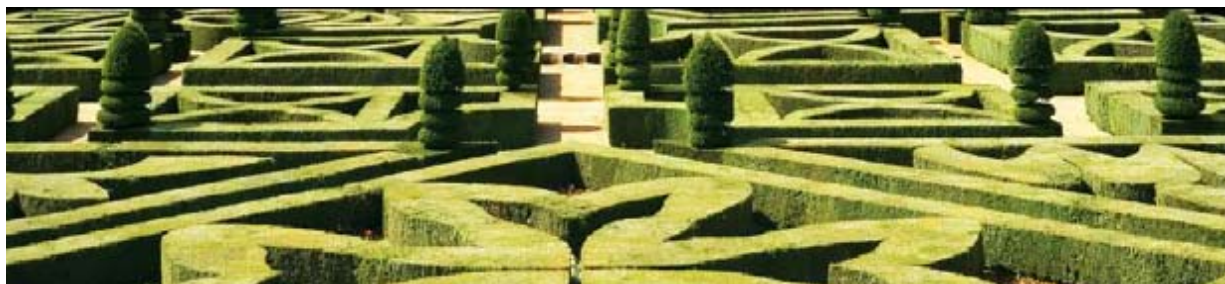
- Implement diagnostic and reporting tools (MIS report)
- Soft incentives to reward individual performance
- Simplicity and transparency are key
- Coaching and monitoring



- Marketing kit and FAQs
- Automate customer communication & incentivise annual reviews
- Access to state of-the-art point-of-sale systems to augment customer leads and referrals

Bancatakaful Performance Management & Product Mix

- **Implement detailed Key Performance Indicators (KPI)**
 - **Adapt KPI to varying experience of personal bankers, advisors and banca sales professionals**
 - **Tracking sales results against objectives**
- **Balanced product sales mix for bonus reward recognition**
 - **Higher reward weighting for regular bancatakaful business**
 - **Balanced scorecard and rewards aligned with a sustainable and quality portfolio**





Bancatakaful: bridging the gap with other WM offerings

- ❑ **Establish a product development infrastructure to balance standardisation and innovation**
- ❑ **Increase customer awareness and education**
- ❑ **Shaping market development**
- ❑ **Catalysing product development with special incentives**

Achieve critical mass to meet customer demand:

- ❑ **Call Centers to increase service level**
- ❑ **Promotion and awareness campaigns**
- ❑ **Streamlining operational processes**
- ❑ **Creation of standard hands-on documentation**
- ❑ **Customising products to target different customer segments**

The Critical Success Factors





Conclusion

- **The Takaful market has been slow to develop, slower than many people expected**
- **The potential is large but supply side weaknesses have to be overcome**
- **It is up to the industry participants to create demand by focusing on:**
 - **Product development**
 - **Backend capabilities**
 - **Distribution reach**
 - **Branding and Marketing**
- **Much needs to be done but the first signs of improvements can be witnessed**



Contact details

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Mr Jaffer is a Partner, Head of International Business Development for “white label” bancatakaful and Sharia compliant investments within the FWU Group. From June 1998 until June 1999, he was Senior VP within the International Mutual Funds Group of Scudder, responsible for international product development. From January 1989 until May 1998, he was VP with Citibank London with the Financial Institutions Group responsible for structured products including alternative investments until 1996, then joined Citibank’s Alternative Investment Strategies (AIS) Group as Director and was also a member of Citi’s Hedge Funds Policy and Strategy Committee.

Mr Jaffer is currently a Regional Advisory Council Member (EMEA) of the Alternative Investment Management Association (AIMA), was a Council member of AIMA for the period 2001 to September 2008 and past Chairman for the period 1997 to 2000. He has written extensively on alternative investments and has edited several Euromoney publications on hedge funds, multi-manager strategies, 4 Islamic books on retail banking, asset management, insurance (takaful), wealth management and a recent CPI publication on investing in the GCC markets.

He is also a member of ALFI’s Asset Management Advisory Committee, Middle East working group and of their Hedge Fund Committee. He is also a member of MIFC's Strategic Focus Group (SFG). MIFC is the “Malaysia International Islamic Finance Centre”.