

Challenges & Opportunities for Re-Takaful

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Existing Takaful & Re-Takaful Market

- More than 100 Takaful Operators worldwide
 - Predominately small local players but some of them already with substantial capitalisation
 - Expertise has further developed and yet global standardisation need to be applied
- Darurah or “necessity principle” has afforded Takaful operators the ability to use conventional “window” solutions, but now
- Established retakaful players are available in the market providing Shariah compliant concepts

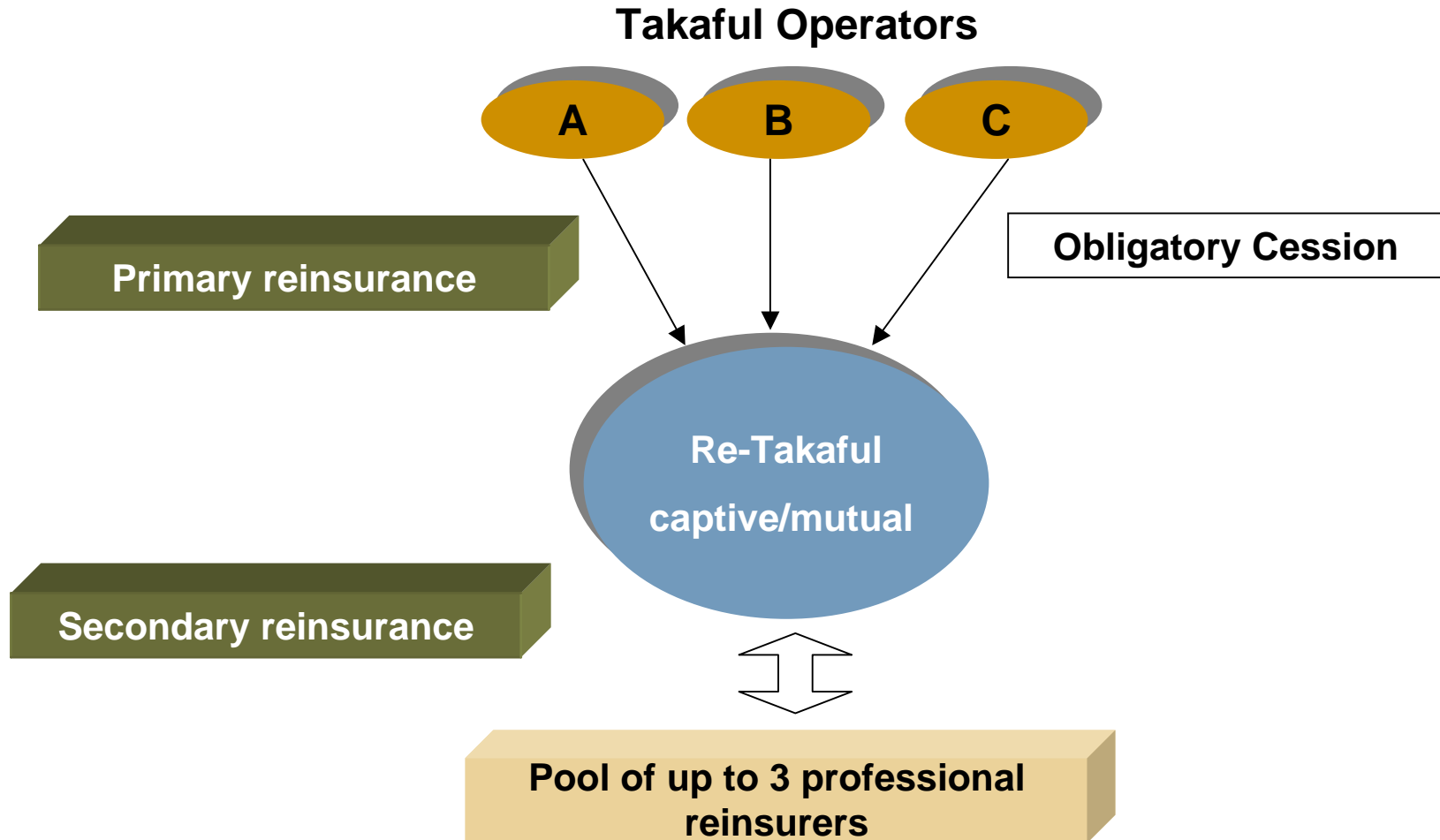
Re-Takaful Current Discussion

- Technical requirement for risk transfer, reduced aggregation, limiting claims volatility and protection of assets
 - Co-insurance and reinsurance between Takaful operators may lead to no real risk transfer outside of the group
- Capacity and capital
 - Lack of a pool of Re-Takaful operators to spread risk
 - Takaful operators seek conventional reinsurance under the “doctrine of necessity”. However, this authorisation from scholars is only a temporary measure
 - Competition is limited
 - Reinsurance contractual terms remain rigid and underdeveloped
- Non proportional reinsurance may lead to a classic spiral where the risk is not dispersed outside of the market
- Re-Takaful operators must not adopt a “follower” strategy
 - Underwriting and pricing expertise still to be developed as well as market expertise

Proposition

- Principle of pooling risks is important due to the currently small domestic Takaful markets
- Establishment of a Re-Takaful captive/mutual
 - Founded on basis of charity and cooperation
 - Risk transfer based on co-operative reinsurance
 - Capitalised by a group of Takaful operators that cede risks to the captive / mutual
- Compliant retrocession capacity
 - cede excessive risk from the captive is provided by professional reinsurance partners / pool.
- Shortage of skilled resources
 - such as underwriters, actuaries and investment fund managers makes pooling of risks more attractive
- Captive outsources insurance management services to 3rd party

Proposed Structure





Proposed Structure

- Re-Takaful operator could be structured on accepted models
- Wakalah model
 - Operator would act as an agent
 - Administer funds on behalf of participants
 - Receive a fee (over-rider) for operating expenses
- Mudharabah – profit sharing model
 - Operator acts as Mudarib (entrepreneur) with participants the capital providers
 - Losses paid by participants with a pre-agreed profit sharing agreement
- Wakalah/Mudharabah combination
 - Wakalah for insurance activities and Mudharaba for investment
- Waqf
 - shareholders make a donation to establish fund, eg Pakistan



Proposed Structure

- Interests of Takaful and Re-Takaful operators aligned
 - Income of Re-Takaful is fully transparent
- Contracts between Takaful and Re-Takaful operators likely to be based on Wakalah model
- Investment operations likely to be based on Mudharabah model
- Interest free loan (Quard Hassan) to cover deficits to be repaid by future surplus
- Distribution of surplus should be made once adequate free reserves
- Choice of adopted model such as Wakalah, Mudharabah or Waqf has an impact on regional acceptance, domicile location for Re-Takaful operator



Advantages of Proposed Structure

- Compliance
 - Ceding risk to the Re-Takaful captive/mutual ensures that a higher proportion of reinsurance passes into the compliant market
- Pooling of reinsurance
 - Improved operating margins and increase in capacity of Takaful operators
 - Lead to lower expense ratios for Takaful operators
 - Protect Takaful operator from insolvency
 - Build a close continuing business interest in common between the Takaful and Re-Takaful operators because they are both at risk
- Increase in level of expertise within Takaful market
 - Represents intermediate solution that can evolve into a Re-Takaful operator that accepts third party risks
 - Using an outsource partner for insurance management helps impart knowledge, deal with expertise/resource shortages and adopt market best practise on good corporate governance & compliance

Advantages of Proposed Structure

- Professional reinsurer pool can assist direct writers with underwriting expertise
- High execution risk through lack of track record and unproven ability is mitigated by arrangements with professional reinsurers
- Opportunity to achieve insurer credit rating enhanced by well capitalised intermediate solution/entity with robust corporate governance framework
- National government initiatives encouraging joint ventures and foreign equity participation may help facilitate secondary reinsurance arrangements

Advantages of Re-Takaful Captive

MAJOR ATTRIBUTES	
1. Compliance with Shari'ah law & consistency throughout the Takaful and Re-Takaful market	✓
2. Capacity to write more direct business by Takaful operators	✓
3. Increase in Re-Takaful capacity	✓
4. Increased leverage of secondary reinsurance	✓
5. Increase in knowledge, expertise and resource	✓

Thank you very much for your attention

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