

The need for Retakaful & existing capacity

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Agenda

- Introduction
- The need for Retakaful
- Existing Retakaful
- Capacity & demand
- Challenges for Retakaful
- Conclusions



Introduction

Three main questions:

- Is the existing Retakaful financially sound and reliable?
- Are they having enough capacity?
- Is the “darura” still the rule?



The need for Retakaful

- Technical requirement to spread the risk and avoid the insolvency risk,
- Takaful companies cannot survive within Retakaful and/or reinsurance,
- Is Retakaful a risk transfer or risk sharing?
 - Takaful & Retakaful are risk sharing operations even if formally the operation appears as a risk transfer; however:
 - Takaful & Retakaful is liable for all the claims occurred and falling under the contract,
 - In case of deficit, Takaful or Retakaful can only:
 - Ask the shareholders for “qard al hassan”,
 - and/or adjust the pricing for the new or renewed contracts;



Shari'a requirement

- Takaful are obliged to comply with all shari'a requirements including the Retakaful;
- Retakaful is completing the Takaful operation chain;
- Using conventional when unnecessary is harmful for the credibility of Takaful;
- Is “darura” still the rule?
 - **9 Retakaul: 5 “A” rated**

Global Takaful / Islamic Gross Contribution Income by region 2004 - 2006

Million USD

	2004	2005	2006 Est
• Africa	120.8	180.9	214.5
• Far East	474.3	552.4	687.8
• GCC	770.2	928.6	1,069.9
• Levant	13.7	19.5	23.6
• Middle East (Non Arab)	2,163.8	2,750.0	3,685.0
• East Indian Sub- Continent	5.4	7.8	11.2
• Grand Total	3,542.8	4,431.4	5,692.0

Existing operational Retakaful

(up to April 2008)

	ARIL	BEST Re	Takaful Re	Hanover Re	Labuan Re Takaful	MNRB Takaful
Incorporation	1997	1985	Dec 2005	2006	Company - 1992 Retakaful Division - 2007	Dec 2006
Capital (\$ million)	Authorized : USD 50 Paid-up : USD14.1	100	125 Paid up 500 Authorized	55 paid up 135 Authorized	150 - Issued & Paid Up 50 - allotted but not called	(US 31m)
Rating	Not Rated	BBB+ (S&P) A- (AM Best)	BBB stable (S&P) stable	A stable (S&P)	AM Best A- Fitch IFS A-(stable)	Nil yet Parent company A-

Existing Retakaful(*)

(up to April 2008)

	ARIL	BEST Re	Takaful Re	Hanover Re	Labuan Re	MNRB Takaful
GPW (Takaful) (\$ Million)	10.876 (2005/06)	10 - 12 (2005 Estimate)	20.3 (2007)	15 (2007)	11.0 (2007 Estimate)	Start operation Aug 1 st 07
Takaful Model	Mudharaba	-	Wakala policyholder's Mudharaba for investment	Wakala/ Mudharaba	Wakalah for both retakaful and investment (Window)	Wakalah, optional mudharabah/w akalah on investment
Business Model	Takaful / Conventional Mix	Conventional / Takaful Mix	Takaful Co's only Outsourcing agreement with Arig	Retakaful only	Conventional + Takaful	Takaful Cos only for treaty. Allowed fac on halal risk from conventional

Available capacities

(up to April 2008)

Million USD

	ARIL	BEST Re	Takaful Re	Hanover Re	Labuan Re	MNRB Takaful
<u>Property / Eng.</u> · Proportional · N. Proportional	2 3	2 2	5 5	30 / Prg	3 1	3
<u>Marine</u> · Proportional · N. Proportional	2 3		2 4	30 / Prg	1.5 1.5	3 3
Family Takaful	0.1		1/Life	1/Life		1.66 to 3.33
<u>Fac capacity</u> · Property · Marine	12 PML 12	6	20 PML 4	30 PML	3	3

Sample for requested capacities

Mio USD

Cedant	Property	Engineering	Accident	Marine	N.M XL	Marine XL	Motor XL
Africa							
Sudan	30	12,5	9		0.5	10	
Middle East							
KSA 1	122	122		26			13
KSA2	60	60	10	8			4
Kuwait	11,2	11,2	1,5	1,5			1,5
UAE 1	34	34	2,5	8,5			2,5
UAE 2	17,75	17,75	20,5	2,4	4		
Far East							
Company 1	30	9	7	5			
Company 2	39	16,8	2,4	16,2	9		
Company 3	73,80	29,7	9	15,7	7,5		6



Capacity vs. demand

- **Treaties: few big players are asking for huge capacities:**
 - USD 45 million (ACR, A Fajer, Saudi Re not included)
 - Only 2 companies needs capacity exceeding USD 45 million
- **Facultatives:**
 - Property & Engineering: Available capacity 74 million, which can accommodate all the small and medium size Fac business
 - Marine: USD 58 million
- ***The need for conventional capacity will remain for large risks or special lines; as Retakaful/ Reinsurance are global activities by nature***



Challenges for Takaful

- The challenges for the full fledged Retakaful are similar to the those facing Takaful industry, however, Retakaful must:
 - Provide the needed capacity for the development of the industry,
 - To move from the follower position to lead the companies programs;
 - To be able to price all lines of business
 - To have a dual strategy:
 - For personal lines: to develop Family Takaful offer,
 - For industrial risks, to have the expertise, the tools & the pricing models,
 - Retrotakaful: Till now the “darura” still the rule (with limitations XOL only)
 - to complete the chain: 2 options;
 - Lloyd syndicate;
 - And/or Retakaful pool



Retakaful strategy for Personal lines

- **Family Takaful:**
 - Assistance in designing and helping the direct Takaful to meet the demand and differentiate,
- **Medical:**
 - Benefit from the existing boom in the GCC countries
 - For Group Medical: packaging & pricing
 - For individuals: to anticipate the demand and offer acceptable cost
- **Distribution channels:**
 - Bancassurance: promising distribution channel for Islamic banks and the key for the development
 - Cross border operations



Conclusion

- Retakaful is no more the “missing link” in the Takaful operation i.e. we have now 9 Retakaful and the global players windows;
- The available Retakaful treaty capacity exceeds the needs for almost 90% of the existing Takaful operators can absorb almost all the programs;
- Shari 'a Compliance:
 - The Takaful operators are required to cede to the existing Shari’a compliant capacities.
- “Darura” cannot no longer invokes as a rule.
- The obligation to cede to Retakaful will be implemented; Takaful will continue relaying on conventional for specialty lines and large risks and for retrocession.

Thank you...



Supporting You is part of our Takaful principles