

# **The Challenge of Asset Management for Takaful / Re-Takaful Companies**

Ghazal Zahid Khan & M Iqbal Asaria

The Second International Takaful Summit  
London 15,16 July 2008

# Takaful Companies

- 145 Operators
- Gross Contributions US\$5 billion
- Projected for 2015 US\$10 – 15 billion
- Most Operators Small
- Many Jurisdictions
- Little Collaboration in Asset Management

# Asset Management

- Critical Size
  - Individual Operator Small, with Few Exceptions
  - Little Collaboration in Asset Management
- Many Jurisdictions
  - Cross Border, Regulatory Issues
- Lack of All Asset Classes
  - Implications for Investment Returns
- Dedicated Asset Managers for Takaful Providers

# Asset Management

- Achieving Critical Size
  - Collaboration in Asset Management
  - Global Takaful Group
- Commissioning Dedicated Asset Managers
  - Selling the Takaful Growth Story

# Asset Class Deficit - Illustration

- Implications for Investment Returns
- Lower Return for Higher Risk
- Higher Risk for Same Return

Adobe Reader - [Ghazala Takful Asset Allocation.pdf]

File Edit View Document Tools Window Help

Save a Copy Search Select 109% Help

## Typical Asset Allocation for an Insurance company

<b>Cash</b>	<b>10-15%</b>
<b>Debt securities</b>	<b>75-80%</b>
<b>Equity</b>	<b>10-20%</b>
<b>Alternative assets</b>	<b>&lt; 5%</b>

5

start Islamic Banking - Thu... Microsoft PowerPoint ... CASS CASS Adobe Reader - [Gha... 17:28

Adobe Reader - [Ghazala Takful Asset Allocation.pdf]

File Edit View Document Tools Window Help

Save a Copy Search Select 109% Help

## Asset Allocation for Takaful companies

IDEALLY.....

<b>Cash</b>	<b>10-15%</b>
<b>Debt securities</b>	<b>60-70%</b>
<b>Equity</b>	<b>10-20%</b>
<b>Alternative assets</b>	<b>5-10%</b>

And in Reality .....

<b>Cash</b>	<b>40-45%</b>	↑
<b>Debt securities</b>	<b>10-15%</b>	↓
<b>Equity</b>	<b>25-30%</b>	↑
<b>Alternative assets</b>	<b>10-20%</b>	↑

6

start Islamic Banking - Thu... Microsoft PowerPoint ... CASS CASS Adobe Reader - [Gha... 17:29

Adobe Reader - [Ghazala Takful Asset Allocation.pdf]

File Edit View Document Tools Window Help

Save a Copy Search Select 109% Help

## Asset Allocation for Takaful companies

Cash	40-45%	↑
Debt securities	10-15%	↓
Equity	25-30%	↑
Alternative assets	10-20%	↑

17

start Islamic Banking - Thu... Microsoft PowerPoint ... CASS CASS Adobe Reader - [Gha... 17:46

Adobe Reader - [Ghazala Takful Asset Allocation.pdf]

File Edit View Document Tools Window Help

Save a Copy Search Select 109% Help

## Telling Results of the Markowitz Efficient Frontier

**For an expected return of 8%**

Asset Class	% Allocation Takaful	% Allocation Conventional
Cash and cash equivalents	50.9%	35.9%
Long term debt instruments	15.0%	42.0%
Equity (US and global)	26.1%	16.1%
Alternative Investments	8.0%	6.0%
Total	100.0%	100.0%
Risk (Standard Deviation)	5.2%	4.8%

**For an expected return of 10%**

Asset Class	% Allocation Takaful	% Allocation Conventional
Cash and cash equivalents	25.9%	5.0%
Long term debt instruments	15.0%	53.3%
Equity (US and global)	45.6%	31.6%
Alternative Investments	13.5%	10.0%
Total	100.0%	100.0%
Risk (Standard Deviation)	8.2%	7.4%

19

19 of 21

start Islamic Banking - Thu... Microsoft PowerPoint ... CASS CASS Adobe Reader - [Gha... 17:47

Adobe Reader - [Ghazala Takful Asset Allocation.pdf]

File Edit View Document Tools Window Help

Save a Copy Search Select 109% Help

## Conclusion

- In the absence of an adequate supply of Islamic debt instruments, Takaful companies will inevitably have a very high allocation towards cash and cash equivalents while their conventional counterparts will rely mainly on government or rated corporate investment grade bonds, earning extra basis points for almost the same level of risk.
- The allocation to equity and alternative assets will also have to be greater for Takaful companies in order to make up for the lost return.

20

start Islamic Banking - Thu... Microsoft PowerPoint ... CASS CASS Adobe Reader - [Gha... 17:47

Adobe Reader - [Ghazala Takful Asset Allocation.pdf]

File Edit View Document Tools Window Help

Save a Copy Search Select 109% Help

## Conclusion

- Therefore for the same level of return, the risk of a Takaful company would be higher than its conventional counterpart. Put another way, the return achievable by a Takaful company for a given risk level will be lower than its conventional counterpart.
- Takaful companies will stay at this disadvantage until a viable, deep and liquid Islamic debt market is developed.

21

start Islamic Banking - Thu... Microsoft PowerPoint ... CASS CASS Adobe Reader - [Gha... 17:48

# Approaches to Solutions for the Asset Class Availability

- Liquidity Instruments
- Bond Class – Sukuks
- Equity Funds
- Structured Products
- Property Funds
- Issues of Critical  
Mass

# Concluding Remarks

- Takaful Industry Poised for Growth
- Asset Management Can Become a Major Impediment for Commercial Success
- Address Critical Mass Issues by inter-Industry Collaboration
- Leverage on Emerging Asset Class Availability
- Selling the Takaful Growth Story to Attract Credible Asset Managers to Service the Industry
- Seek to Harmonise Cross-Border Regulatory Issues

Thank You  
&  
Happy Returns!