

The Evolving Takaful Model and the Spirit of Takaful - A Meeting of Minds or a Parting of Ways?

MIA / Afkar Consulting

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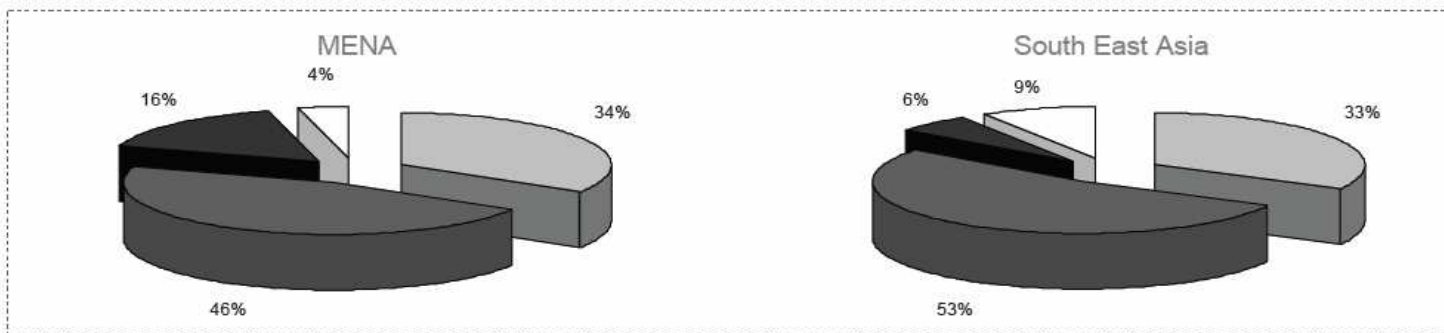
Global Dimensions of the Takaful / Re-Takaful Industry

- Number of Providers – 143 (179 Including Windows)
- Contributions Pool – US\$3.4 Billion
- General / Life Split – Moving Towards Life Takaful
- Growth Potential – Difficult Landscape with Significant Growth Opportunities (US\$7.7 Billion end 2012)
- Re-takaful Provision
- Retro Provision

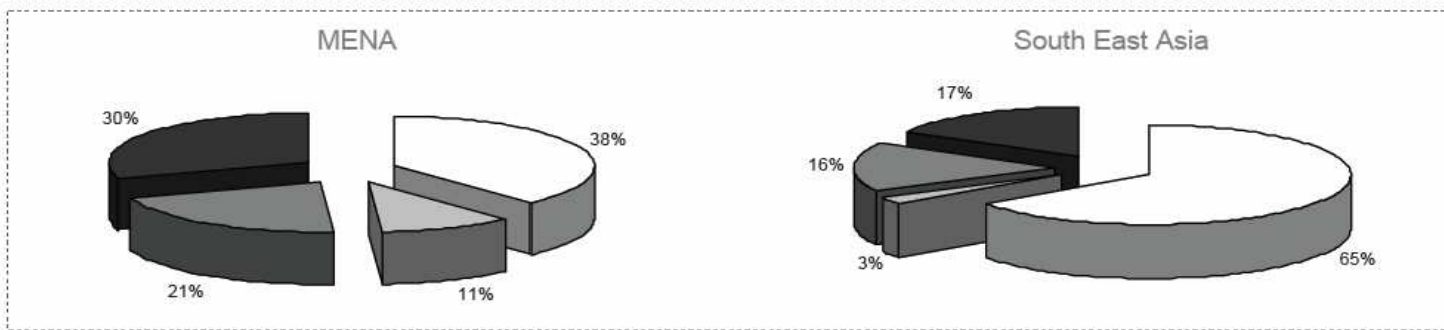


Contributions towards family and medical Takaful have become especially significant

Gross Takaful Contributions by Business as a Percentage of the Total (2006)*



Gross Takaful Contributions by Business as a Percentage of the Total (2007)*



□ Family and Medical □ Marine & Aviation ■ Property & Accident ■ Motor

Source: World Islamic Insurance Directory 2008 and 2009

Note: MENA includes the GCC, Africa and Levant.

The Rationale for Takaful

- Community Based Risk Sharing
- Mutual / Co-Operative in Spirit
- Enhanced Role of Members
- Social Provision
- Examples
 - Co-Operative Societies
 - Friendly Societies
 - Qard al Hashanah “Banks”
- Is this Translated in Present Takaful Provision?

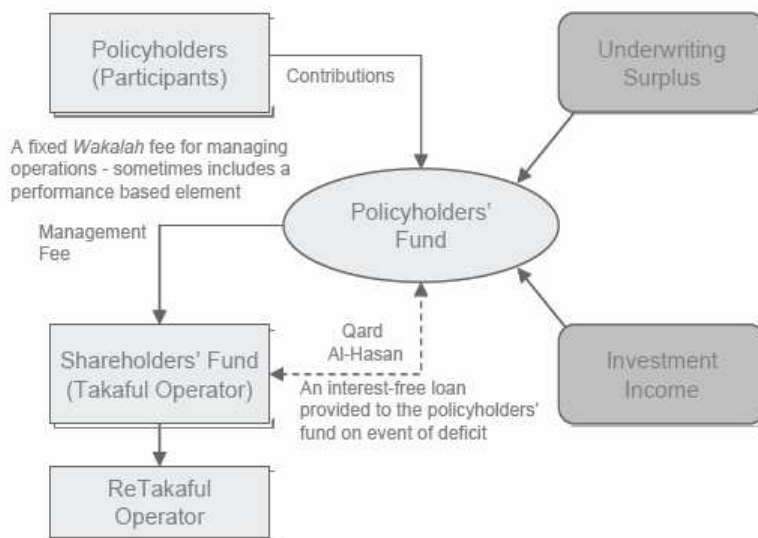
The Evolving Takaful Model

- Mudarabah
- Wakala
- Waqf
- Hybrids
 - Mudarabah for Asset Management
 - Wakala for Takaful Provision
- Implications
 - Mutual / Co-Operative?
 - Hybrid?

The Takaful industry currently employs three different models to execute its business with the combined model becoming the most dominant

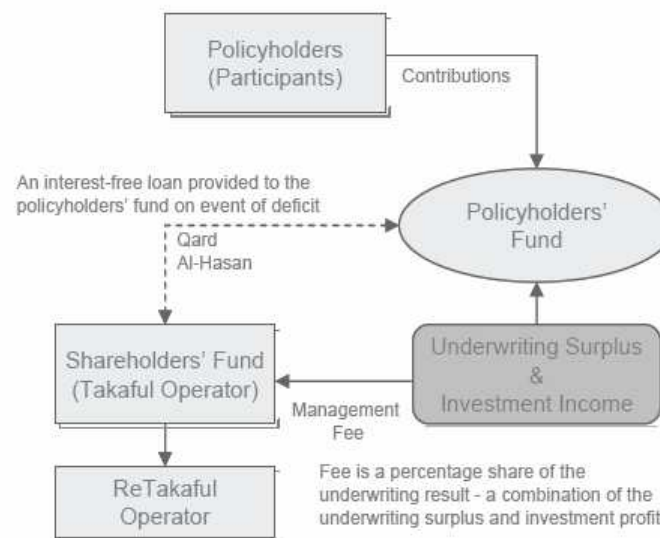
1 Wakala Model

A principal-agent arrangement is used between the policyholders and the Takaful operator for both underwriting and investment activities.



2 Mudaraba Model

A principal-manager agreement is used between the policyholders (*Rab al Mal* - capital providers) and the Takaful operator (*Mudarib* - entrepreneur) for both underwriting and investment activities.



3 Combined Model

The combined model utilises both contracts. The *Wakala* contract is used for underwriting activities, while the *Mudaraba* contract is used for investment activities. This model is recommended by certain financial services regulators (including the Central Bank of Bahrain).

Note: Critics of the *Mudaraba* model argue that, in the cooperative framework, the underwriting surplus is not considered a profit and the Takaful operator does not therefore have any right to it. Furthermore, the *Mudaraba* contract entitles the Takaful operator to a share in the underwriting surplus, but not to a share in any deficit.

Emerging Issues

- Risk Management
- Corporate Governance
- Asset Management
- Transparency
- Industry Status on these Issues

Risk Management

- Actuarial Risk
- Underwriting Risk
- Asset Investment Risk
- Shari'ah Risk
- Regulatory / Reputational Risk

Corporate Governance

- Hybrid Nature of Takaful Provision
- Shareholder / Members' Interests
- Conflicts of Interest
- Regulators & Ombudsman
- Examples From Global Insurance Industry
- Demutualization
- Orphan Asset Distribution

Asset Management

- Limitations of Asset Classes
- Augmenting Available Asset Classes
- Need for Pooling
- Enabling of Specialist Takaful Asset Managers
- Implications for Risk Management & Returns

Transparency

- Reporting Standards
- Safeguarding Members' Interests
- Clear Policy Documentation
- Education on Sharing of Underwriting Surplus
- Benchmarking against best practice in Industry

Industry Status on Key Issues

- Risk Management
- Surplus Distribution
- Corporate Governance
- Asset Management
- Transparency

Gaps In Takaful Provision

- No Focus on the Poor and Disadvantaged Sections
- Models of Micro Takaful
 - Vital Supplement to Micro Finance
- Methods of Micro Takaful Provision
- Welfare State as a Takaful Provider?
- Adapting the Model to Muslim Societies

Issues in Re- Takaful

- Availability of Re-Takaful
- Risk Sharing Nature of Re-Takaful
- Analogy with Climate Change
- Can it be Shari'ah Sealed?
- Implications
- Shari'ah Considerations

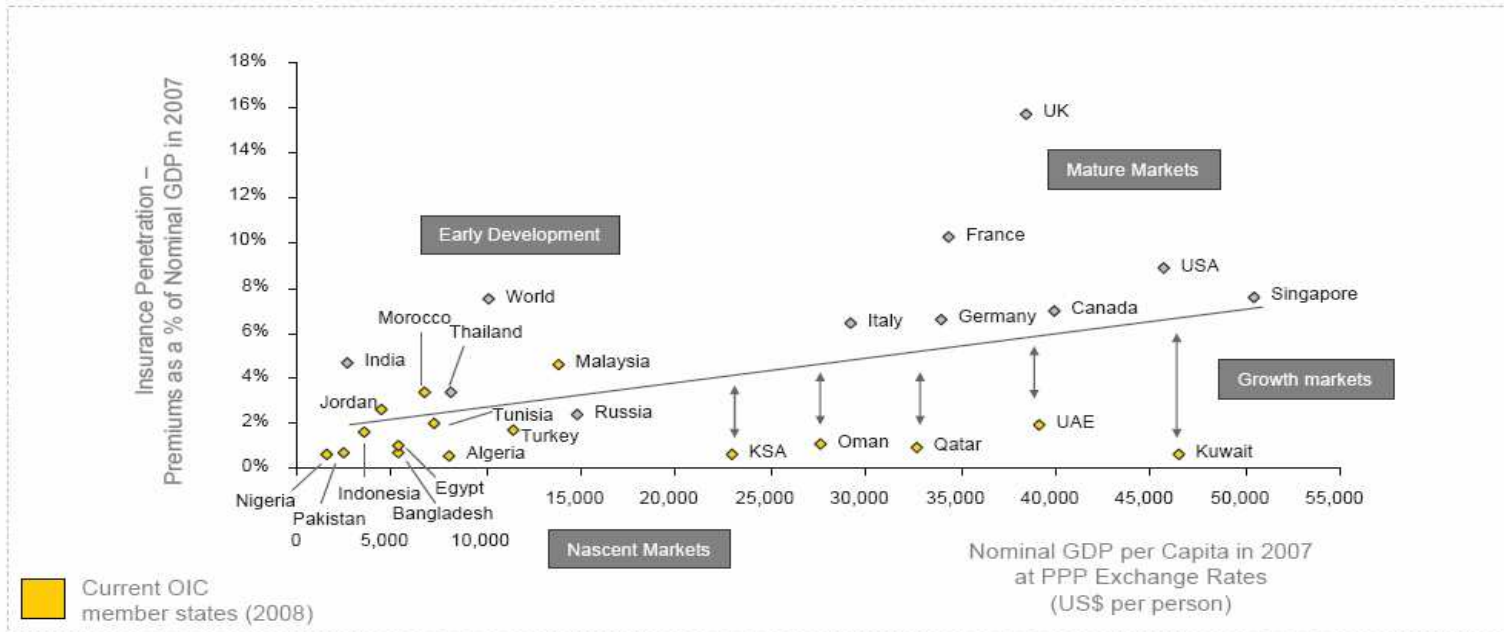
Opportunities

- Potential Market Size
- Investment Linked Takaful
- Savings & Pensions Provision
- Cohesion & Stability of Societies
- Community Ownership of Society's Goals and Development
- Enabling role of the Shari'ah



With insurance penetration levels in Muslim countries at their current levels, there is considerable latent demand for Takaful

Insurance Penetration and GDP per Capita for Select Countries (2007)



Source: Swiss RE - Sigma No. 3 (2008), Global Insight, Ernst & Young analysis

YOUR ROUTE TO THE LATEST DEVELOPMENTS IN THE TAKAFUL INDUSTRY

Takaful Masterclass
30th June '09 (am)

**Cass Business School
Takaful Lecture & Reception**
30th June '09 (pm)

Takaful Summit - Day 1
1st July '09 (am)

Takaful Awards
1st July '09 (pm)

Takaful Summit - Day 2
2nd July '09 (am)

House of Lords Dinner
2nd July '09 (pm)

**THE INTERNATIONAL
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Jumeirah Carlton Tower, London
30th June - 2nd July

www.takafulsummit.com



Contact:

M Iqbal Asaria
Afkar Consulting Ltd
0208 861 2012
mia@afkar.com