

Islamic Finance: Integration into the financial Mainstream



Islamic Insurance (Takaful and Retakaful)

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*connectedthinking

PRICEWATERHOUSECOOPERS 

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- What is Takaful and Retakaful?
- Growth of Takaful and Retakaful
- Takaful Models
- Growth Potential in the EU
- Current Market Issues
- Questions



What is Takaful and Retakaful?

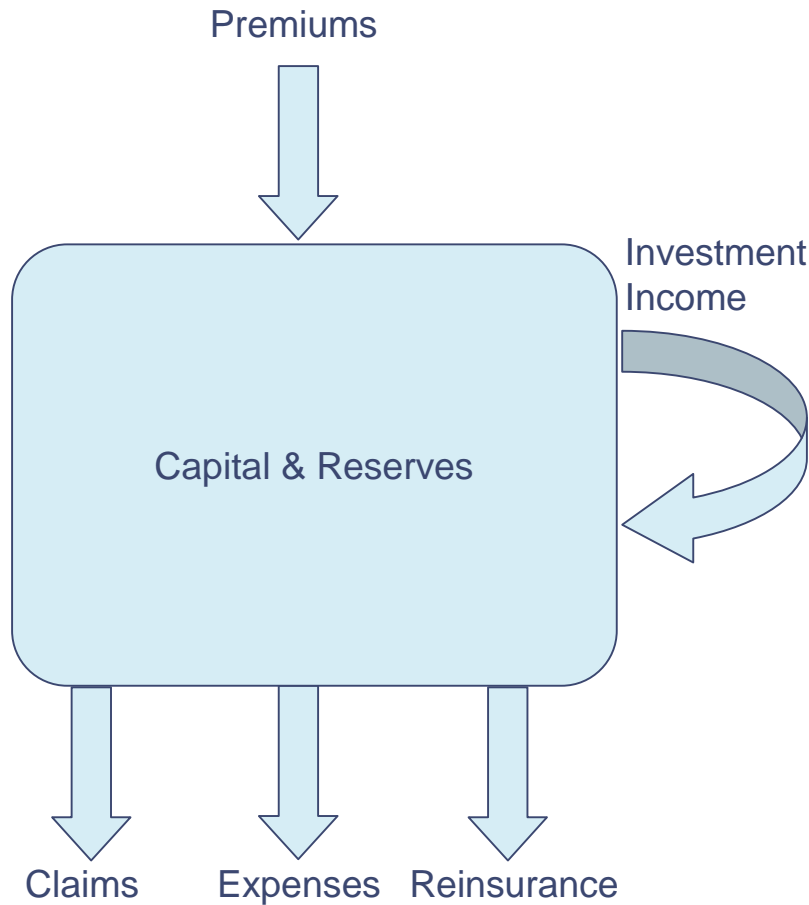
What is Takaful and Retakaful?

Islamic Insurance - Takaful

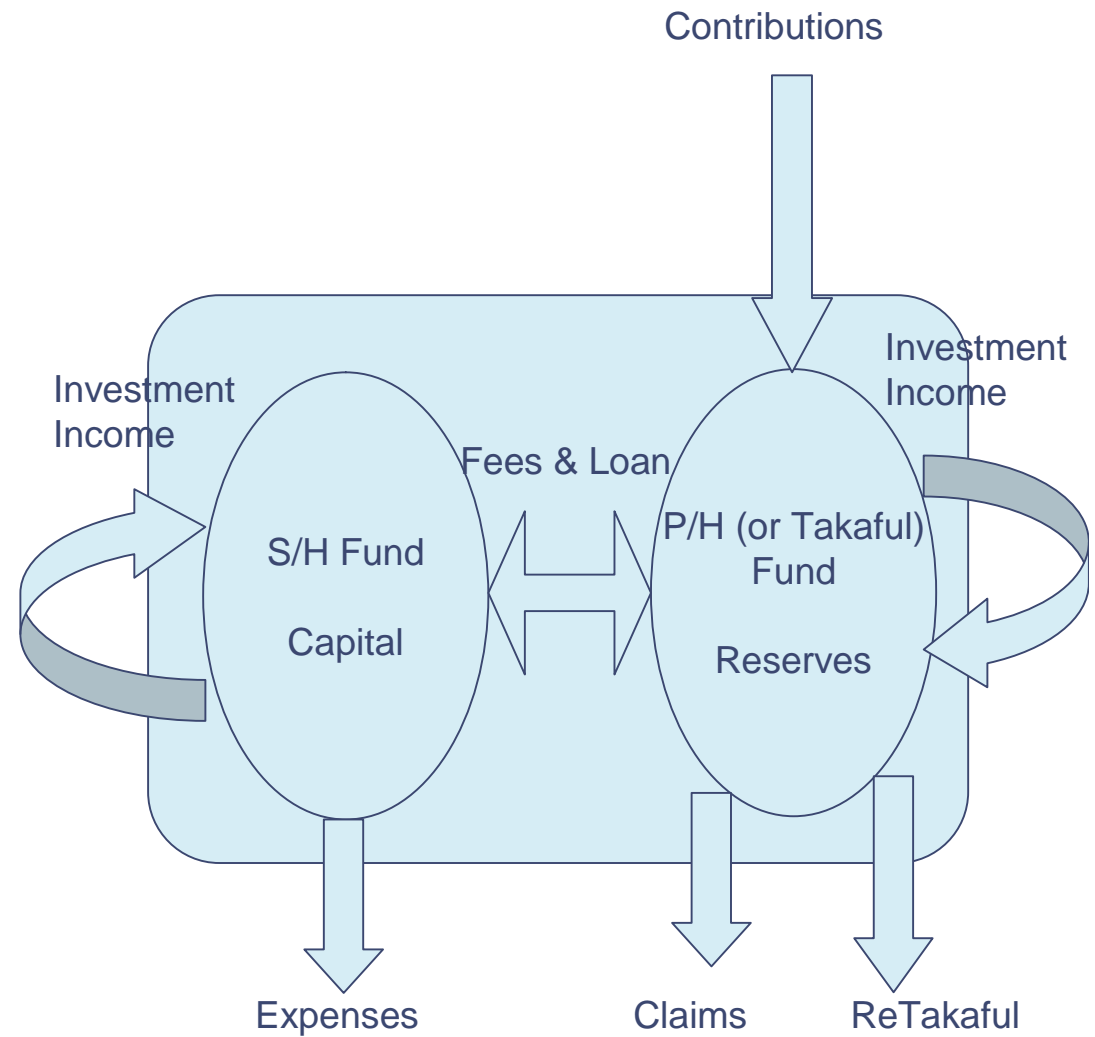
- Guaranteeing each other
- Sharia compliant alternative to conventional insurance
- Can be thought of as a mutual insurer within a shareholder wrapper
- Based on solidarity, co-operation & mutuality
- Products are broadly similar to conventional insurance
- Free of uncertainty ('gharar'), gambling ('maisir') and interest ('riba')

What is Takaful and Retakaful?

Conventional Insurance



Takaful Company



Islamic Finance: Integration into the financial Mainstream

What is Takaful and Retakaful?

Takaful business

- Investments to be Sharia compliant (Sukuk bonds, collective investment schemes etc)
- Price competitive ethical insurance & ethical investments – wider marketing to everyone, not just muslims
- Insurance surplus is distributed back to the policyholders
- Insurance deficit will be financed with Qard Hassan (interest free loan)
- The interest free loan will be paid as soon as surpluses arise



Growth of Takaful and Retakaful

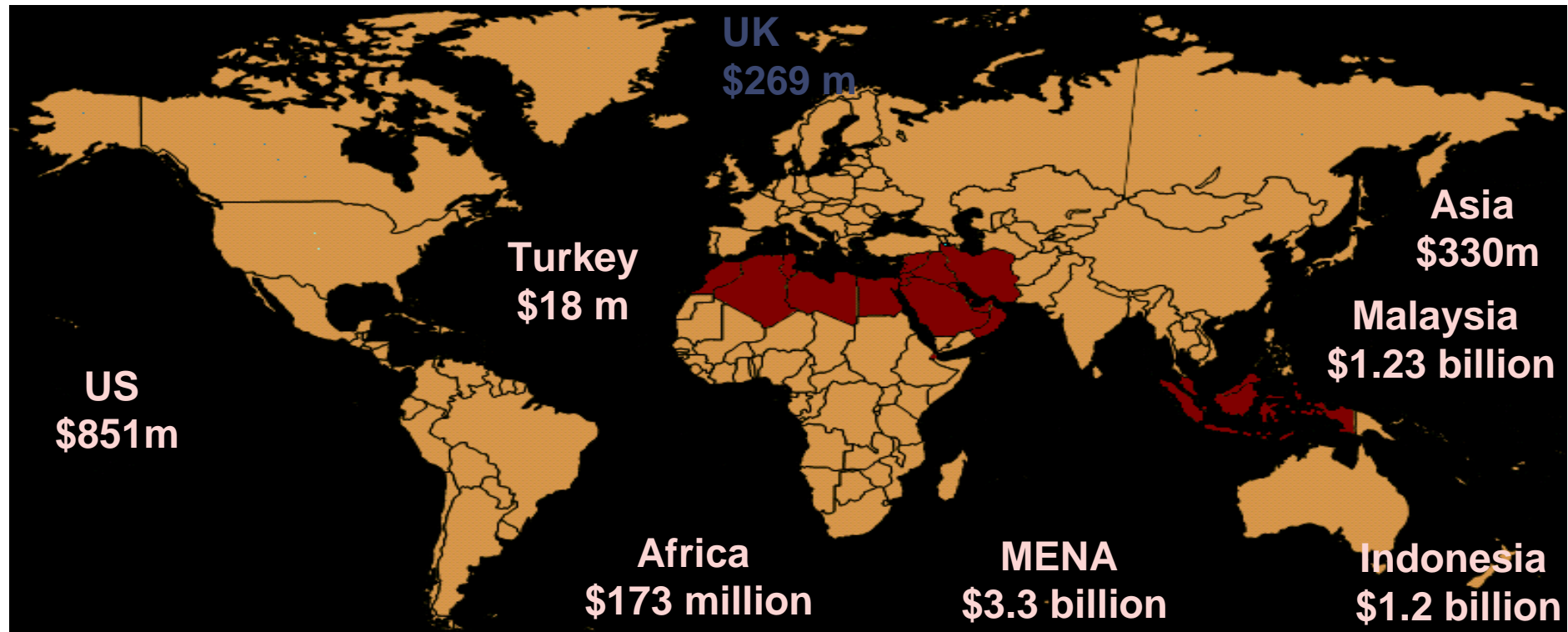
Why now?

- Increase in individual wealth
- Increased awareness of and demand for Sharia' compliant products (including Takaful)
- Relatively low insurance penetration
- Realisation of demand
- Realisation of price competitive Sharia' products
- Muslim demographics

Growth opportunity

- First Takaful company was established in 1979 – the Islamic Insurance Company of Sudan
- Today, there are over 84 Takaful operators worldwide
- “The GCC Takaful market is currently growing at 40% per year” – Standard & Poor’s 2007 report on Takaful
- “Worldwide Takaful premium potential of at least US\$20b annually (currently US\$4b)” – 2007 Oliver Wyman report
- In 2005 Islamic Premium Income was \$395m in Malaysia and \$650m in MENA
- Huge expected expansion in the Takaful industry within the coming 10 years

Worldwide Market Information



■ Premium income over \$1 billion

Source: Swiss Re sigma study 2003, AXCO Global Statistics 2005



Takaful Models

Takaful Models



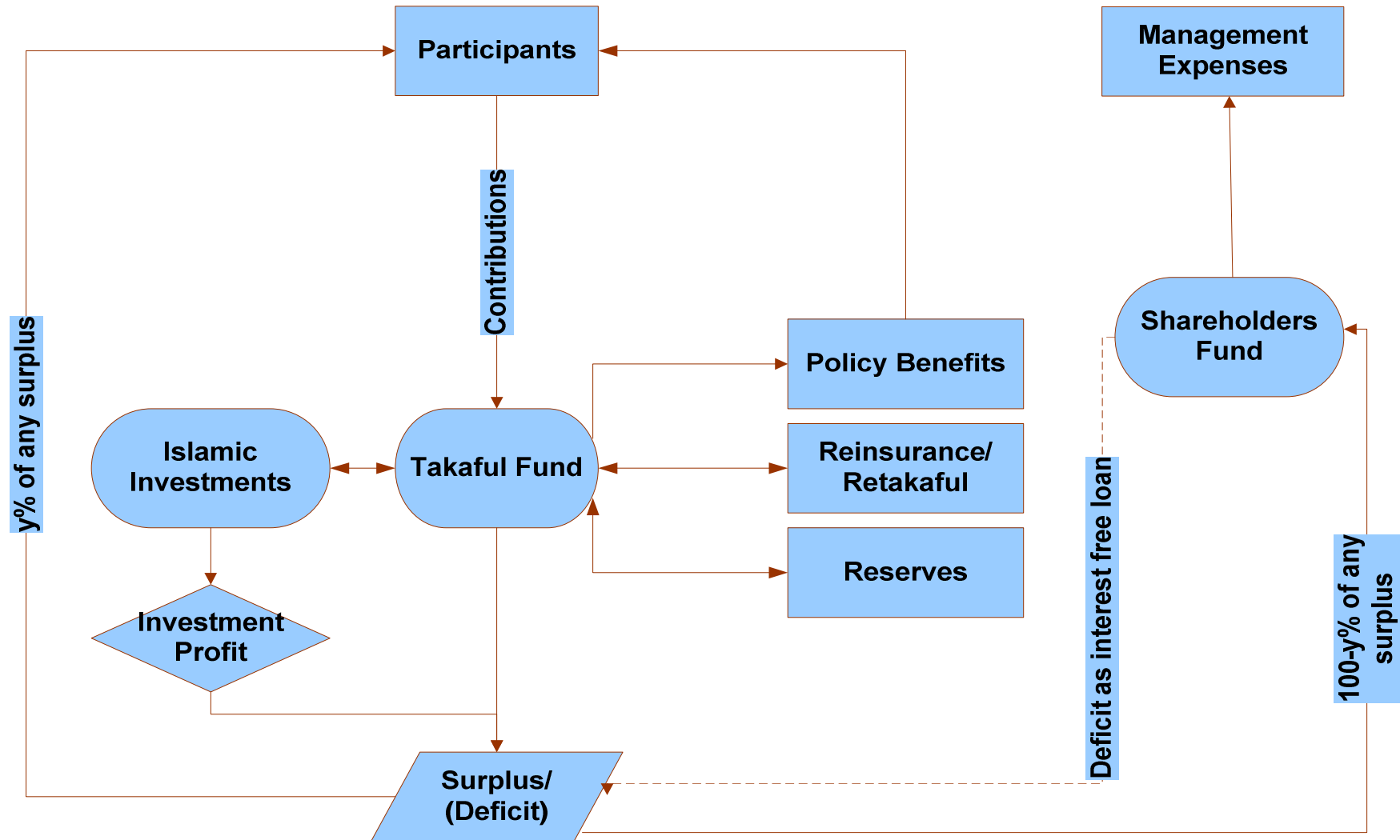
One of the key features of the Takaful Insurance is the fund split between the shareholders (operator) and the policyholders (participants).

There is no unique operating model for Takaful companies, as each country has its preferred model.

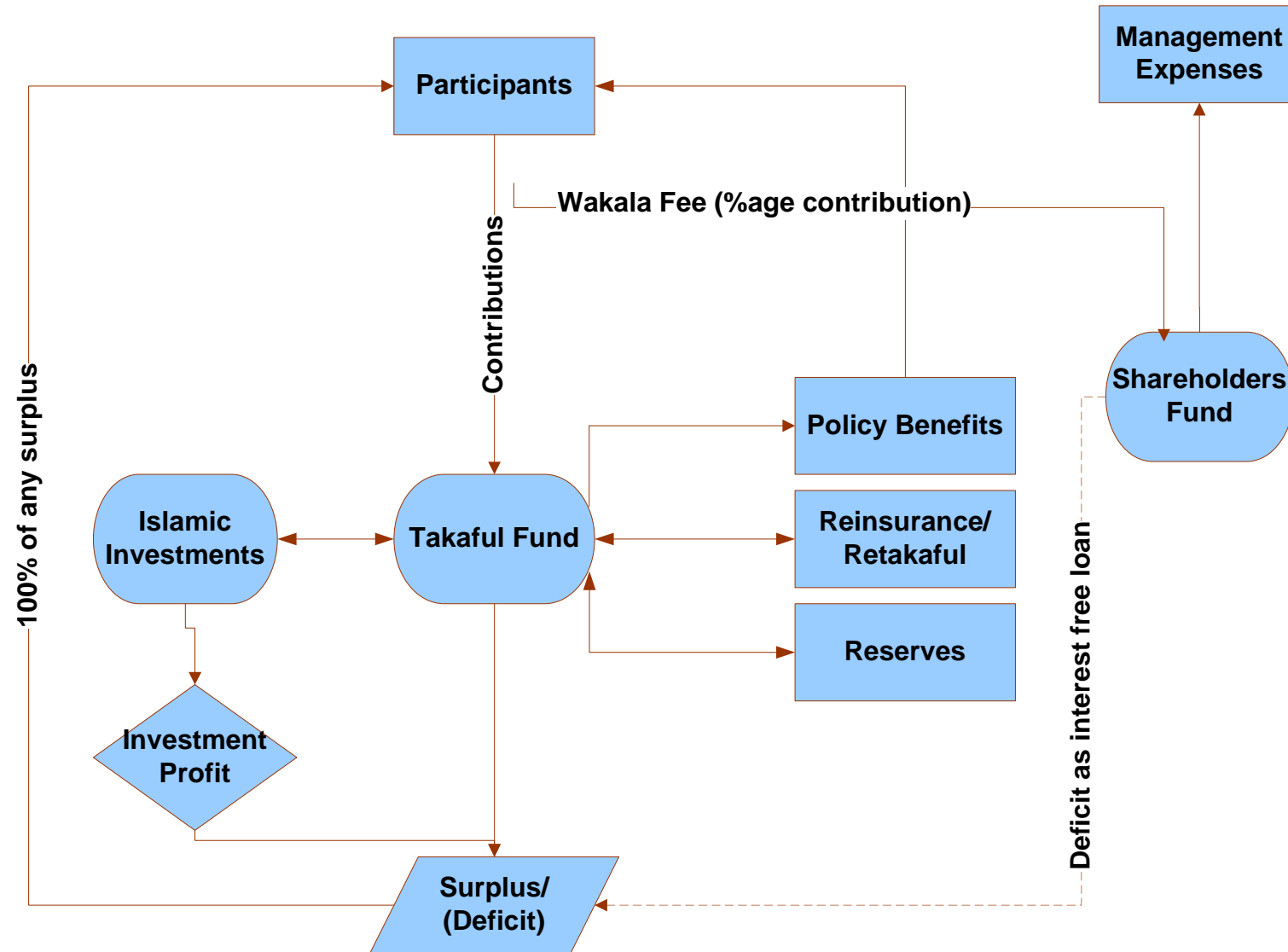
The widely used models are:

- Mudaraba Model
- Wakala Model
- Hybrid Model

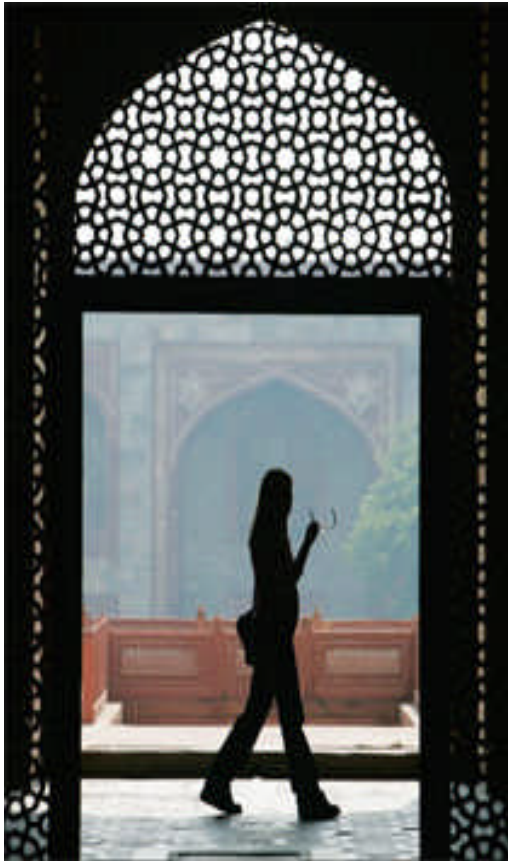
Mudaraba Model



Wakala Model



Hybrid Model



- Mix between the Wakala and Mudaraba model
- Generally used in the GCC

Wakala Waqf Model

- Used in Pakistan and South Africa
- In the Waqf model, the Takaful fund is replaced by a charitable trust fund i.e. the Waqf fund.
- Under the Waqf model, part of the capital of the Shareholders Fund is donated to create the Waqf fund.
- In all other respects, the Waqf model works as the Hybrid model



Growth Potential in the EU

UK

- Principle Insurance Ltd, Britain's first Takaful company, has received FSA authorisation to meet the needs of the country's estimated 2m Muslims
- Regulation governed by FSMA and FSA authorisation required but UK regulators indicate no objections to Sharia compliant products
 - HSBC Amanah
 - Takaful (UK) Ltd – distributes mainly family Takaful products in the UK provided by Takaful S.A.
 - Creechurch - SALAMA Islamic Arab Insurance Company sponsored Takaful syndicate at Lloyd's
- FSA solvency rules encourage a spread of investments, but Islamic Investment market is quite small

UK

- Takaful operators must comply with the ICOB rules including:
 - Observe proper standards of market conduct
 - Treat customers fairly
- Capital adequacy issues including:
 - Solvency margins
 - Admissibility of assets
- Disclosure requirements:
 - Regular reports
 - Co-operative and open in dealings with the FSA

Europe

- Estimated population of £20m muslims – not including potential of Turkey
- Wider ethical characteristics could be marketed potentially to 728m total population
- Potential hub and spoke model through passporting
- Impact of Solvency II and IFRS Phase II
- Tax

Muslim demography across Europe

	Total Population	Muslim Population	Origins of Muslims	Total Insurance Penetration*
UK	58.8m	1.6m (2.8%)	Somalia Pakistan Bangladesh	16.5%
France	62.3m	5m (8%)	Algeria Morocco Tunisia	11%
Germany	82.5m	3m (3.6%)	Turkey Bosnia Kosovo	6.7%

* Insurance penetration: premiums in % of GDP in 2006, Swiss RE



Current Market Issues

Issues

- Size of Muslim population in the EU and the lack of awareness amongst them
- Marketing to Non-Muslims
- Sharia compliance introduces a second “tier” of regulation
- Other regulatory and accounting challenges
- Investment compliance
- Credit rating and ERM
- Lack of skilled resource

Questions?



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Did you know?

PwC has over 700 actuaries all over the world who advise clients on both Takaful and conventional insurance business?

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