



# The Takaful Industry Today Where do we stand? What Next?

The 5<sup>th</sup> World Takaful Conference

12-13 April 2010

Dusit Thani Dubai, UAE



# Introduction

- During our last meeting in April last year the world was struggling its way through the worst economic crisis ever since the great depression of 1929.
- The global economic and financial landscape has indeed undergone seismic changes over the last couple of years.



# Introduction

- Interestingly, the Islamic financial sector (Banks and Takaful companies) although inevitably affected by the crisis demonstrated enough resilience to weather most of the storm and come out relatively unscathed as compared to conventional finance.



# Introduction

- Massive injections of liquidities from central banks and global bailout moves from most governments and supra-governmental bodies such as the world bank and IMF seem to have induced a slow and fragile recovery...



# Introduction

- That is until “Dubai World” announced, late Nov. 2009, a 6-month delay in repaying its debt.
- The announcement rocked the investment world with a particularly strong fallout in the Middle East and in the world of Islamic investing.



# Introduction

- Immediate concern focused on holders of the US\$ 3.5 billion of sukuk due to mature on 14<sup>th</sup> Dec. 2009.
- The sukuk issued by *Dubai World's* real-estate subsidiary “Nakheel” were not backed by the Dubai government.
- This was the first serious after-shock since the global crisis broke out, to test the credibility of Islamic finance...



# Introduction

- In this presentation, we will endeavour to assess the impact of the Crisis (including “World Dubai”) on the Takaful sector in terms of growth and efficiency.



# Takaful is still growing

- One year down the line a reality check clearly shows that, despite less favourable macroeconomics, the Takaful industry continues to grow at a healthy pace and faster than its conventional peers.
- This assertion is valid for both core Takaful markets: South East Asia and Middle East.



# Takaful is still growing

- Despite efforts to systematically compile reliable and consistent statistics about the sector, there is still significant divergence between sources.
- But notwithstanding the various disparities, one can affirm in confidence that Takaful growth is still robust.



# But a little slower...

- As anticipated last year, some downwards corrections were recorded but Double digit growth is still there.
- This is a continuation of the strong trend that has taken shape in recent years...
- and a testimony that there is ample opportunity for growth in a dynamic and underserved market.



# Good Overall Performance in 2009

- Overall, the industry recorded a strong performance in the first 3 quarters with some corrections in the 4<sup>th</sup> quarter 2009.



# In South East Asia

- **Malaysia** continues to be the leader showing a strong performance especially on the family Takaful front where contributions grew by 20% to about US \$ 800 M(US\$ 672 million in 2008) representing 11% market share of Malaysia's total Life business
- Two new licenses for foreign operators are in the process of being granted.



# In South East Asia

- **In Indonesia**, Takaful contributions stood at US\$ 194.1 million as of Sept. 2009. i.e. 2.83% of the total insurance premium.
- Despite a small market share, this segment has attracted several foreign companies (Prudential, Allianz, ManuLife Financial Corp. and AXA)
- Family Takaful accounts for 3.2% of the Life market (against 2.1% in 2008).

# In The GCC

- Takaful industry is “bucking” the trend in the broader economy and continues to grow at a healthy pace.
- The leading Takaful firms in Saudi Arabia, the UAE and Bahrain have performed relatively well, while those in Kuwait have had a somewhat challenging year in 2009.



# Others

- In **Egypt**, two new Takaful companies started their operations as from 1<sup>st</sup> Jan. 2010 (Nile Family Takaful and Nile General Takaful) showing investors' keen interest in the sector.



# Others

- In **Pakistan**, Bancassurance (six full fledged Islamic banks + 12 conventional banks with Islamic windows) seems to be making good inroads as an efficient distribution channel for Takaful products.
- Specific guidelines for Bancassurance were introduced by the Securities and Exchange Commission of Pakistan (SECP) effective 30 April 2010.



# Others

- In **India**, the State Bank of India (SBI) and Life Insurance Corporation (LIC) are looking to launch Shariah compliant products, particularly Takaful (feasibility study under way).



# A remarkable resilience

- Broadly speaking, despite some impact on the short-term performance due to the financial crisis (and mainly on the investment side), the Takaful industry showed a remarkable resilience.
- While there are reasons to remain cautious about growth in the near term, Takaful is expected to grow faster than GDP for the foreseeable future.



# Key Growth Drivers Still There

- The main reason behind this is the fact that key growth drivers are still there:
  - Favourable demographics
  - Increasing affluence
  - Regulation
  - Growth in Islamic finance
  - Latent and inherent demand for Shariah-compliant products



# Favourable Demographics

- Favourable demographics in core Takaful markets in South East Asia and the Middle East:
  - Young and rapidly growing population
  - Significant decline in mortality rates
  - Improvement in average life expectancy.



# Increasing Affluence

- Increasing affluence :
  - An expanding middle class potentially able and willing to insure (in all core Takaful markets).
  - This is true for all core Takaful markets in South East Asia and the Middle East...
  - But more specifically for the GCC...



# Increasing Affluence

- In the GCC the overall income levels of residents more than doubled in the last five years;
- The average per capita GDP is expected to grow at CAGR of 7.4% in 2009-2012 (IMF)



# Regulation

- Takaful **regulation** is gradually being introduced/ enhanced in several markets with expected significant changes in how insurance companies are run particularly in terms of investment strategy, enterprise risk management and governance.



# Regulation

- This should reinforce investors' and consumers' confidence in the sector and therefore stimulate growth.



# Regulation

- Markets benefitting from a specific Takaful law are: Malaysia, Indonesia, Pakistan, Saudi Arabia and Bahrain.
- But more recently, Bangladesh is following suit.



# Regulation

- In Malaysia, a transition to a risk-based capital regime is proposed.
- Although a preliminary framework is already in place,
- A consultative paper is to be issued to key stakeholders in the Takaful industry.



# Regulation

- In Indonesia, new accounting and solvency guidelines for Takaful operators are being introduced, imposing clear segregation of Takaful and Shareholders' funds.
- Details are still being finalised as to standards likely to be implemented by the end of April 2010.



# Regulation

- Regulation plays also a major role in as a growth driver through the introduction and implementation of mandatory insurances.
- in the GCC, especially, mandatory Motor TPL and health insurance will continue to underpin growth in demand for general Takaful .



# Islamic Finance

- Growth in Islamic Finance and in the number of institutions promoting Shariah compliant products has and will continue to boost takaful growth, resulting in greater availability takaful products.



# Latent and Inherent Demand

- A greater desire to consume Shariah compliant products is clearly perceived in all core Takaful markets
- The greater availability of organised savings solutions, financing and mortgage products create a natural demand for family Takaful.



# Family Takaful to Grow More in GCC

- Family Takaful currently under-represented in all GCC countries is likely to grow at a relatively faster pace than general Takaful.
- With all the fundamentals in place, Takaful is poised to continue its growth with the ambition to prove that it is not just a niche product servicing a relatively limited demand but a mainstream risk-management offering.



# The Challenges Ahead

- But all is not rosy... and the challenges ahead already identified in previous years but further highlighted by the global financial crisis have to be addressed in order to fulfil the potential and unlock the real growth opportunities of Takaful.



# Investment Constraints

- One of issues hampering the growth and efficiency of Takaful companies even before the crisis relates to investment with a relatively constrained choice of Shariah compliant assets.
- The Prohibition against investing in conventional bonds has skewed investment portfolios too heavily towards equities.



# Investment Constraints

- This meant an imbalanced asset allocation:
  - Higher risk equity investments
  - Real estate holdings lacking liquidity
  - Murabaha money market type funds
- Takaful players are therefore highly exposed to asset risk.



# Investment Constraints

- This is very much at odds with norms and practices in more developed and regulated insurance markets.
- Conventional insurers have more diverse choice including bonds, placements with conventional banks, money market and index funds, private equities.



# Investment Constraints

- But there is definitely a growing tendency to play it safe.
- Increasingly, products are based on conservative asset allocation aiming at 80% exposure to money market instruments and fixed income securities and just 20% to equities.



# Sukuks: an Opportunity?

- Sukuk seem to fill the gap in the investment mix of many Islamic insurers.
- Despite the “Dubai World” sukuk setback, there is a robust demand for recently issued sukuks.
- With the expected expansion in sukuk issuance in 2010 better opportunities for investment diversification seem to emerge.



# Investment Profiles to Improve

- Investment profiles are expected to change significantly over the coming years due to more sophisticated regulation with capital requirements based on both insurance counterpart and asset risk exposure.



# Efficiency Expected to Improve

- Another aspect which was further highlighted by the crisis is the need to improve efficiency and technical results in order to be competitive vis-a-vis conventional insurance.
- The Takaful industry is largely fragmented (small number of large players and large number of small players and start-ups)



# Bancassurance?

- Another way to improve efficiency would be to capitalise on existing and future synergies with banks.
- Many regional and international banks offer Shariah compliant insurance products by partnering with local Takaful operators (Maybank-Etiqa, ING-Public Bank, CIMB-Aviva to mention but a few).



# Bancassurance?

- White-labelling is widely used by banks to distribute Takaful/ Insurance products and seems to be a good proposition for both partners (Banks and Takaful operators).



# Human Resources Expertise

- Another pressing risk for the Takaful industry is Human Resource availability and expertise.
- The development of local talent and the expansion of the human resources pool are expected to be high on the agenda of top Takaful executives.



# Better Governance and Transparency

- The crisis highlighted many shortcomings in terms of governance and transparency on a global scale.
- Good governance and transparency standards are becoming a key requirement worldwide (from clients, investors, regulators and rating agencies alike)



# Better Governance and Transparency

- Enterprise risk management is no longer just a buzz word but an inherent part of sound corporate governance practices .
- The Takaful industry is expected to rise up to the challenge being the advocate of an ethical product.



# Takaful in the West

- Despite the setback experienced in 2009 by “**Principle Insurance**” (the first Shariah-compliant independent Takaful company authorised by the FSA in 2008), the UK remains one of the biggest untapped western markets for Takaful together with Germany and France.



# Takaful in the West

- All three countries have large Muslim populations which are potential consumers of Shariah-compliant products.
- In France, efforts are being made by the regulators to encourage the emergence of Shariah-compliant products and attract investment in this segment. Sukuks are expected to be issued...Takaful could well follow suit...



# Conclusion

- In conclusion, sound fundamentals and genuine growth drivers are there for the Takaful industry to unleash its potential
- The challenges highlighted in this presentation are part of the coming of age of the Takaful industry...



# Conclusion

- Necessary growing pains... which if addressed adequately will pave the way to even more growth...sustainable growth!

