



World Takaful Report 2010

Managing performance in a recovery

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Key messages

- 1. Resilient Growth**

Takaful has experienced continued growth but penetration remains low in key markets

- 2. Takaful Varies Across Geographies**

Increased dialogue between regulators and Shari'a scholars will help build consistency

- 3. Mixed Financial Performance**

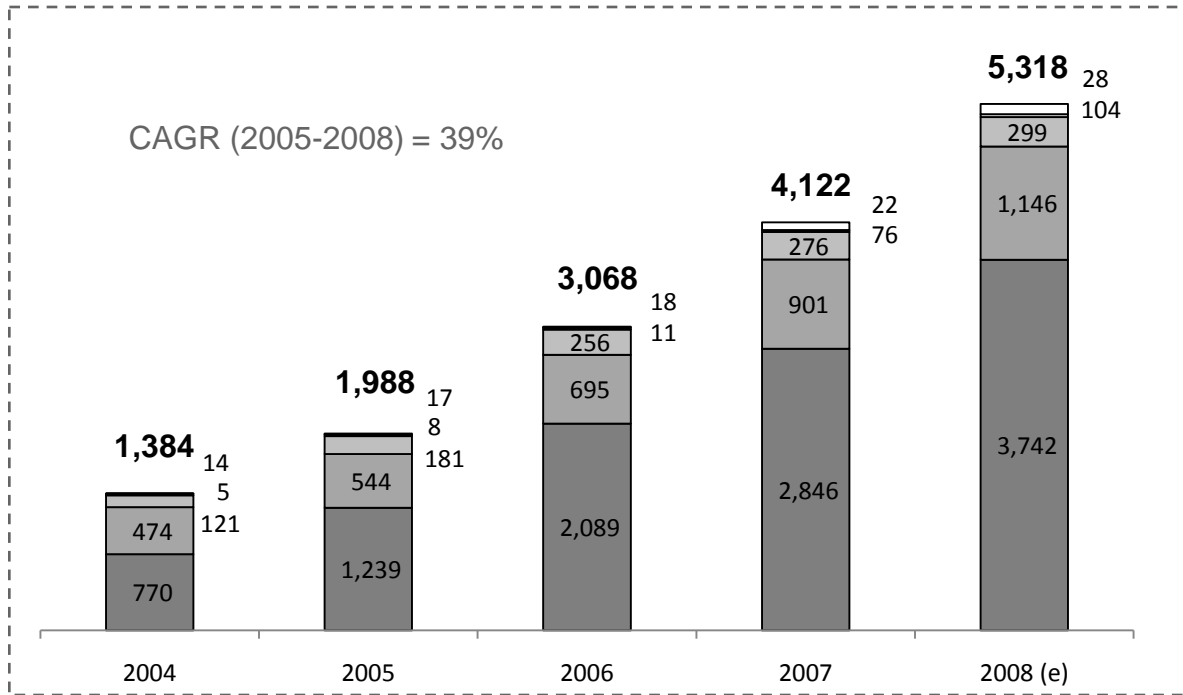
Performance of operators in the GCC and Malaysia varies significantly due to different business and operational strategies

- 4. Challenging Business Environment**

Business risks from last year resonate in 2010 but shifts suggest M&A is likely

Global takaful contributions totalled US\$5.3b in 2008

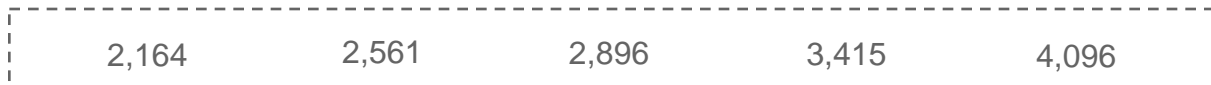
Global Gross Takaful Contributions (US\$m)



CAGR 2005-2008

Levant	18%
Indian Sub-Continent	135%
Africa	18%
South-East Asia	28%
GCC	45%

Iran - Gross Contributions by Year (US\$m)

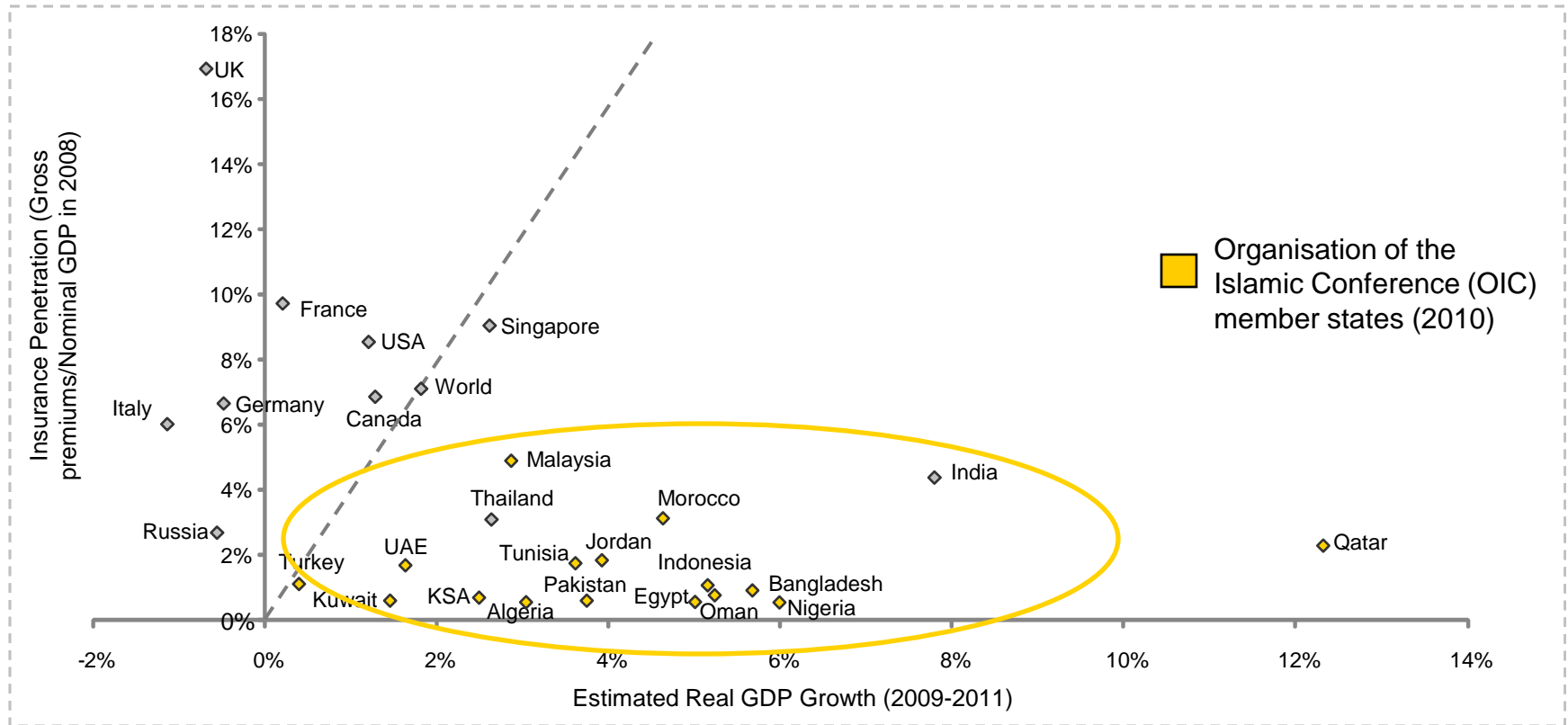


17%

Source: World Islamic Insurance Directory 2010 (Reproduced with permission from Takaful Re Limited), Ernst & Young analysis

Insurance penetration rates remain low across OIC countries

Insurance Penetration and Real GDP Growth for Select Countries



Source: Swiss RE - Sigma No. 3 (2009), Global Insight, Ernst & Young analysis

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Four business models reflect a diversified industry

	Mudaraba	Wakala	Combined	Wakala Waqf
Strengths	<ul style="list-style-type: none"> ▶ Enhanced profitability ▶ Operator is incentivized to achieve strong technical results ▶ Qard Al-Hasan partially limits excessive risk taking 	<ul style="list-style-type: none"> ▶ No sharing in the technical result ▶ Excessive risk taking is fully mitigated as no upside exists 	<ul style="list-style-type: none"> ▶ Two sources of revenues ▶ No sharing in the technical result ▶ Qard Al-Hasan partially limits excessive risk taking 	<ul style="list-style-type: none"> ▶ Two sources of revenues ▶ No sharing in the technical result
Constraints	<ul style="list-style-type: none"> ▶ Shareholders are permitted to share in the technical results ▶ Excessive risk taking only partially mitigated through Qard 	<ul style="list-style-type: none"> ▶ Profitability is reduced as there is no upside from the policyholders' fund. ▶ Direct financial incentives to improve technical results are limited 	<ul style="list-style-type: none"> ▶ Excessive risk taking only partially mitigated through Qard ▶ Direct financial incentives to improve technical results are limited 	<ul style="list-style-type: none"> ▶ No Qard Al-Hasan to address deficits (e.g. during catastrophic events), which may impact long-term sustainability
	<ul style="list-style-type: none"> ▶ Corporate governance for participants ▶ Equitable distribution of surplus over time 			

Source: Ernst & Young analysis

Takaful business models - the way forward

Key Strategic Issues

1

Revenue drivers vary significantly

- ▶ Fee structures and profitability vary
- ▶ Resilience of each model is impacted by these revenue streams

2

Shari'a and regulatory requirements vary

- ▶ Takaful regulations are specific to jurisdictions
- ▶ Shari'a framework is yet to be convincingly applied as a business advantage

3

Building customer trust / brand loyalty

- ▶ Governance standards remain limited
- ▶ Policyholders are sole providers of risk capital

Recommendations

A

Review feasibility of operating models

- ▶ Clearly understanding each model and its practical implementation is key

B

Address local leading practices

- ▶ Understanding of Shari'a requirements and regulations is key

C

Strengthen corporate governance

- ▶ Communicate uniqueness of takaful models
- ▶ Position as competitive advantage

Source: Ernst & Young analysis

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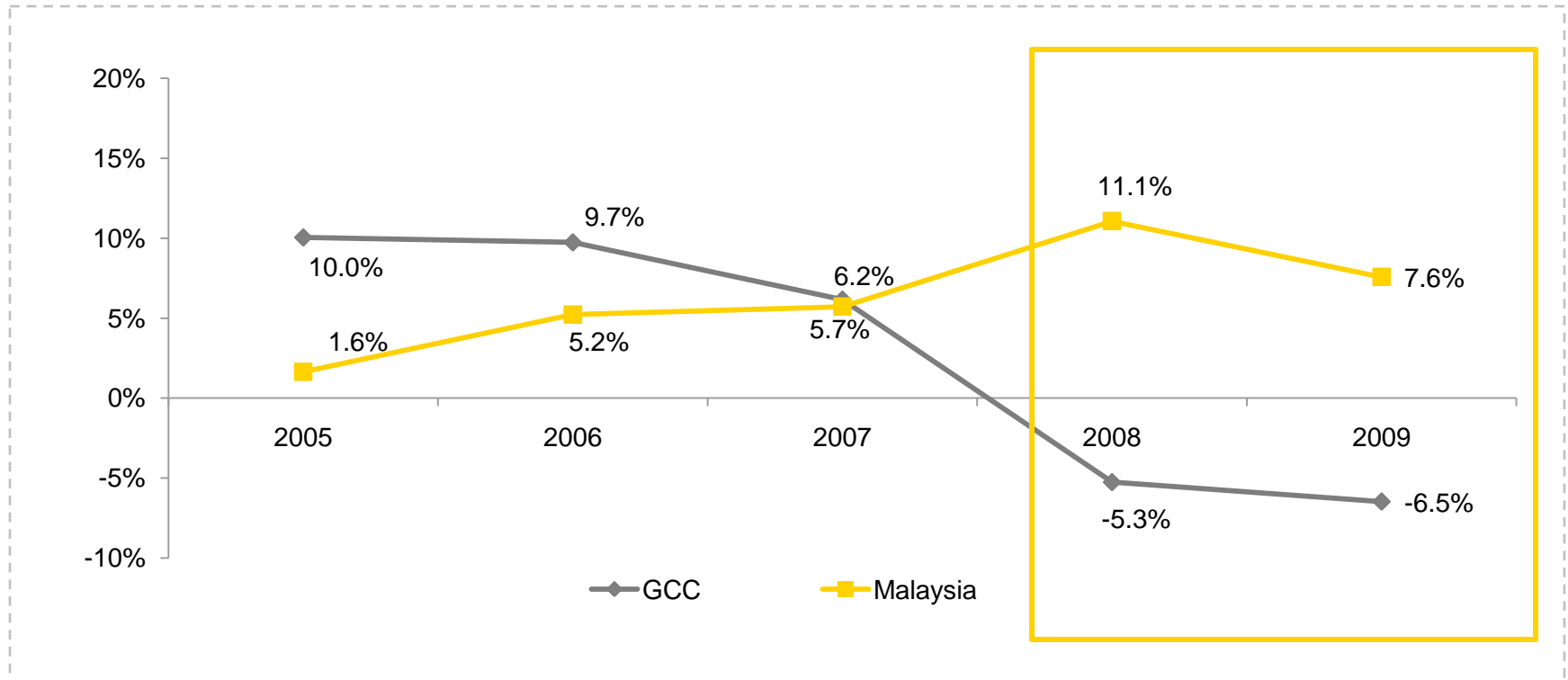
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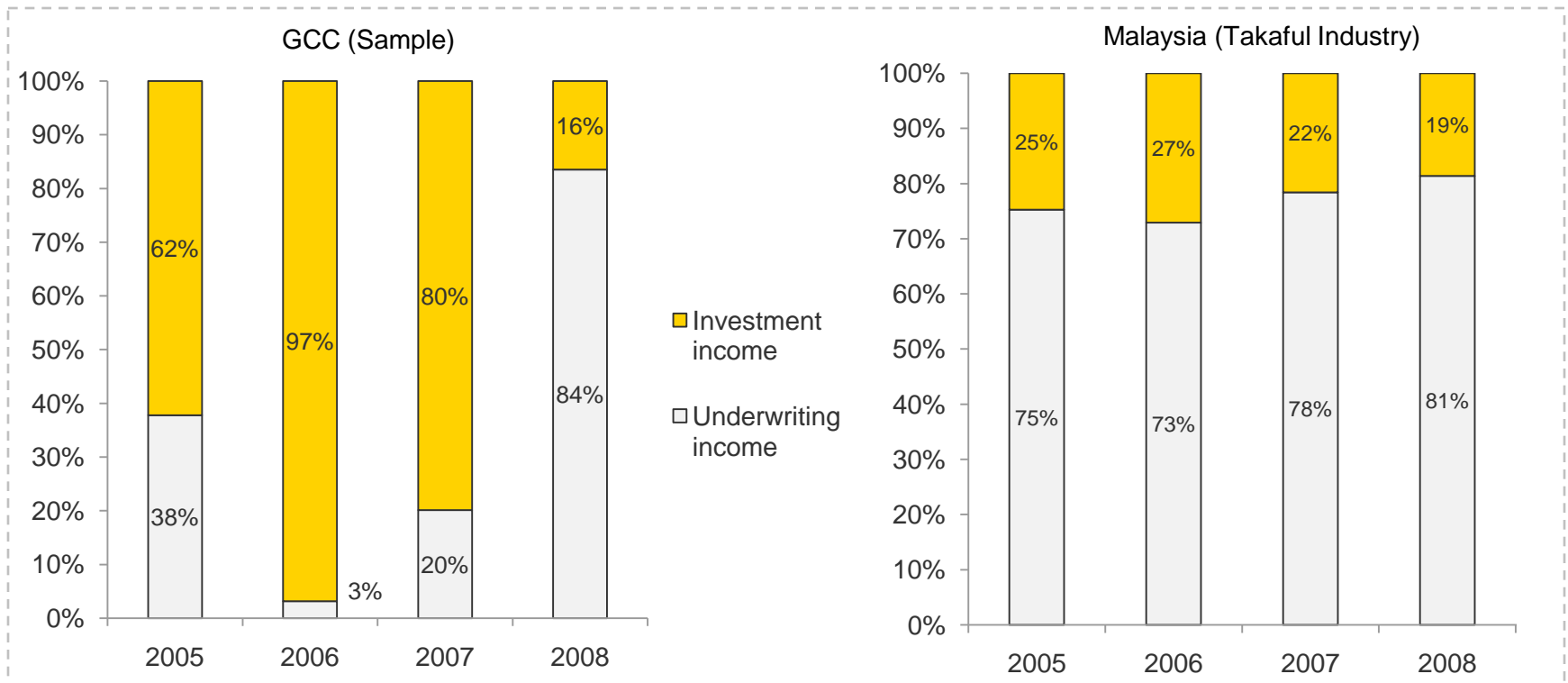
Average RoE for a sample of takaful operators in GCC and Malaysia



Takaful has not historically been a 20% RoE industry

Source: Company Annual Reports, Ernst & Young analysis

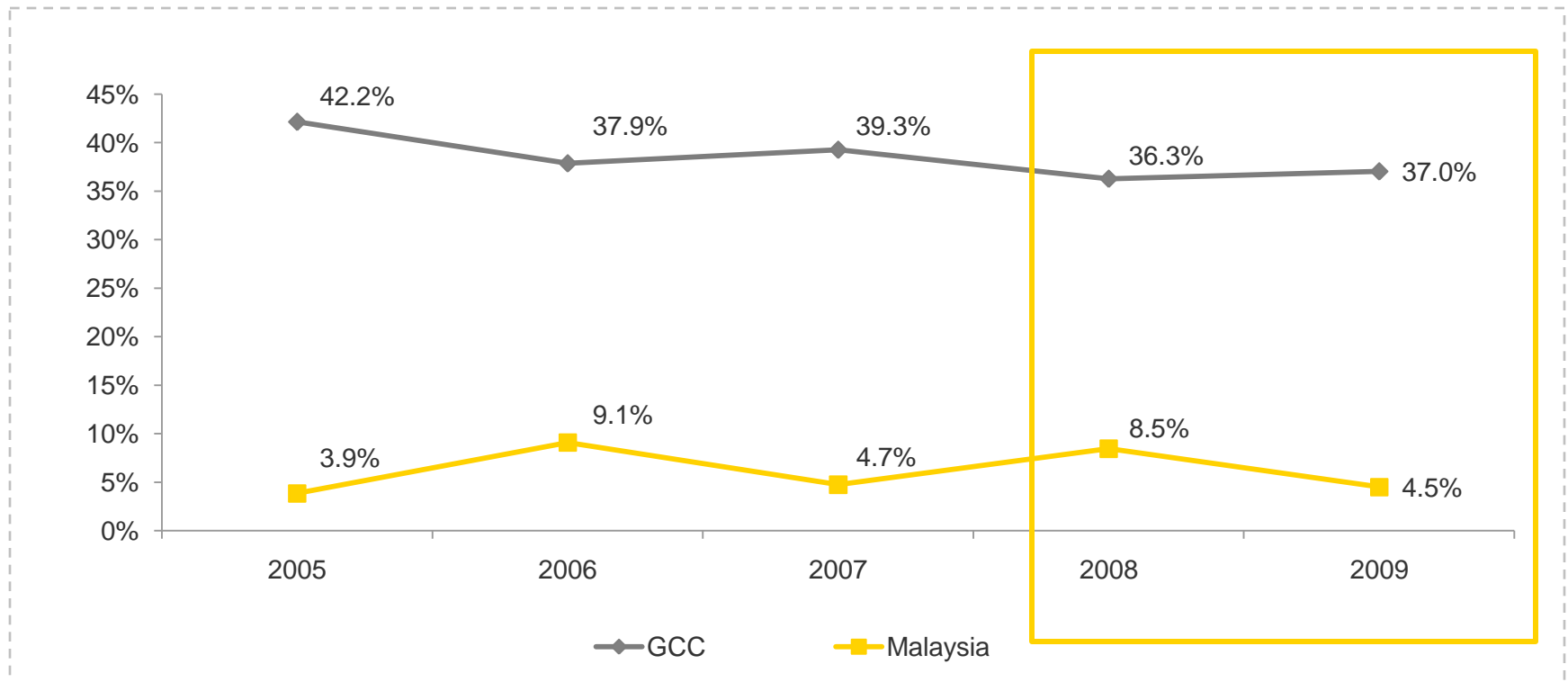
Net income breakup for takaful operators in the GCC and Malaysia



The regional Takaful industry's income is **not** derived from underwriting

Source: Company Annual Reports, CBB Insurance Market Review (Bahrain), Financial Stability and Payments Systems Report (Malaysia), Ernst & Young Analysis

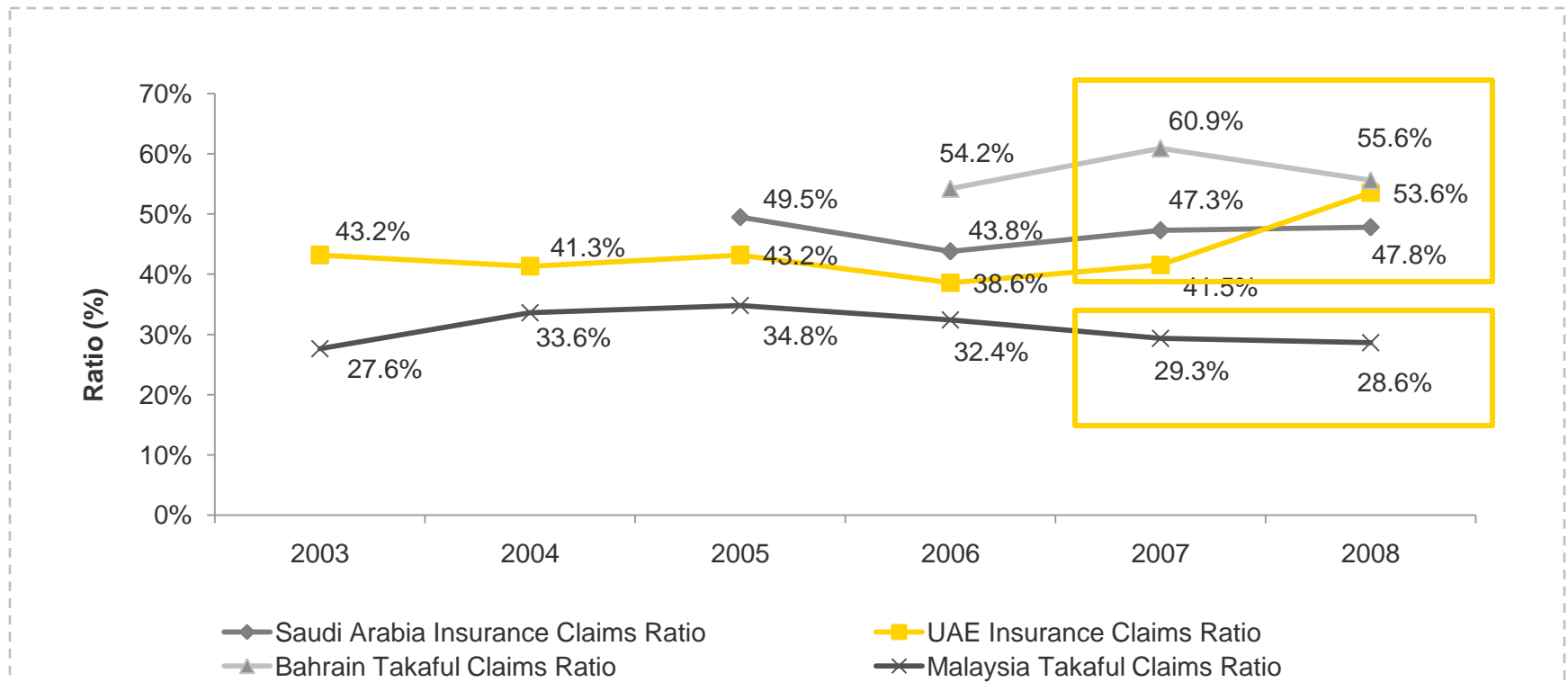
Retakaful ratios for a sample of operators in GCC and Malaysia



The GCC has a steep curve to reach a mature market status

Source: Company Annual Reports, Ernst & Young analysis

Average claims ratio for takaful operators in the GCC and Malaysia



Business mix and claims management needs to improve

Source: CBB Insurance Market Review (Bahrain), Annual Takaful Statistics issued by Bank Negara Malaysia (Malaysia), Annual Insurance Statistics issued by Insurance Authority (UAE), SAMA Insurance Review (Saudi Arabia)

Financial performance - the way forward

Key Strategic Issues

1 Quality of underwritten business

- ▶ Limited access to quality customers
- ▶ Complex risks are a challenge
- ▶ Business mix is sub-optimal

2 Ensuring investment discipline

- ▶ Limited access to Shari'a compliant capital markets
- ▶ High direct exposure to equity markets
- ▶ Ad-hoc approach to portfolio management

3 Efficiency in operation

- ▶ Critical business volume not achieved
- ▶ High combined ratios
- ▶ Service quality remains sub optimal

Recommendations

A Revisit strategy and implementation plan

- ▶ Revisit business mix and build scale
- ▶ Specialize - customer, sectors, business lines
- ▶ Build risk infrastructure and improve retention

B Sustainable investment management

- ▶ Manage portfolio via specialist intermediaries
- ▶ Actively lobby for deepening local Islamic capital markets

C Lower cost of operation

- ▶ Target economies of scale and scope
- ▶ Improve loss ratios - business mix and claims
- ▶ Shared service arrangements

Source: Ernst & Young analysis

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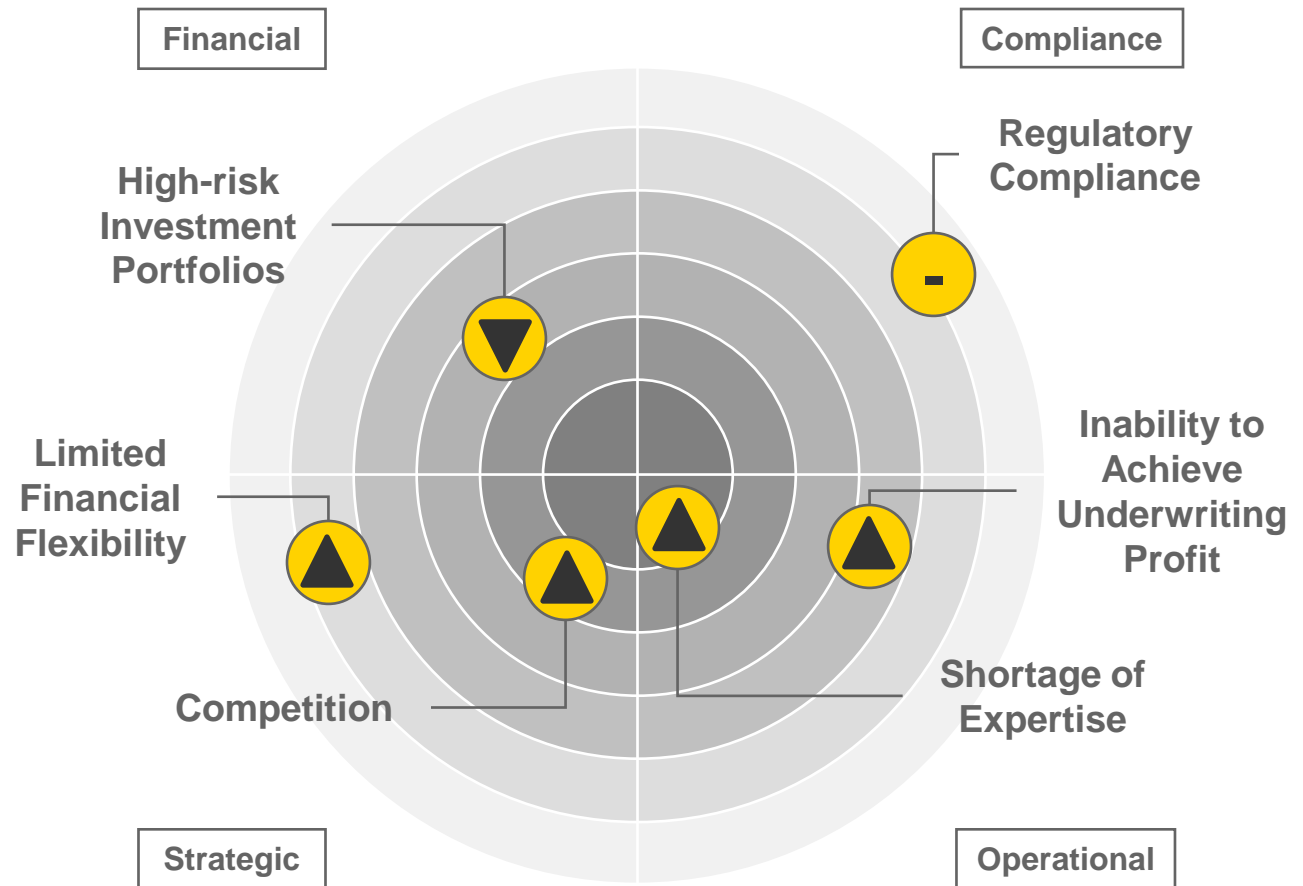
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Business risks from last year resonate in 2010 but shifts suggest M&A is likely

Takaful business risks in 2010 reflect improved market conditions and potential for M&A

Key Business Risks 2009	
1	High-risk Investment Portfolios
2	Shortage of Expertise
3	Competition
4	Global Economic Downturn
5	Enterprise Risk Management
6	Regulatory Compliance
7	Inability to Achieve Underwriting Profit
8	Lack of Rated ReTakaful
9	Limited Financial Flexibility
10	Inability to Tap Pent-up Demand

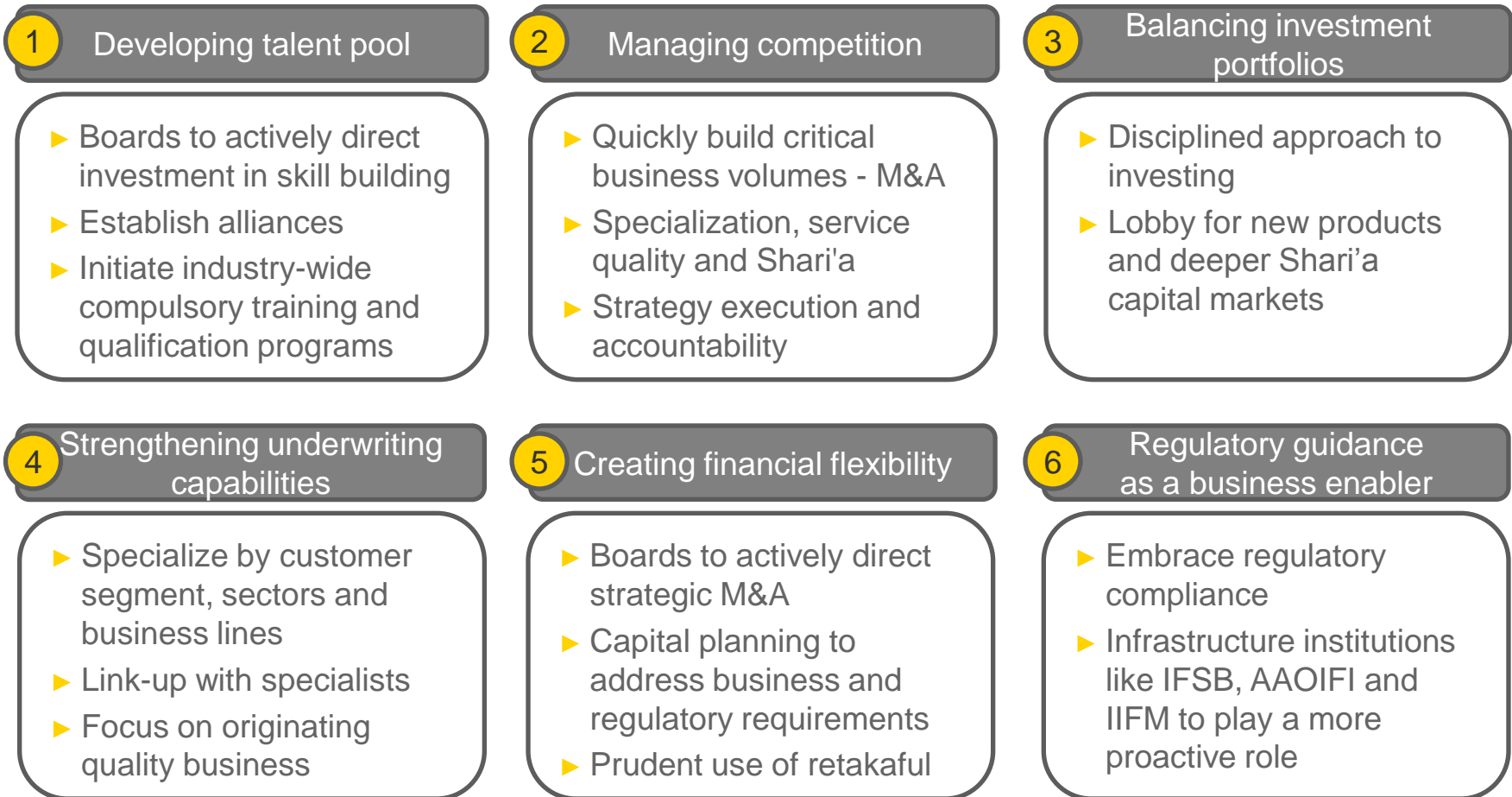
Takaful Global Business Risks 2010



Source: Corporate Interviews, Ernst & Young analysis

Business risks - the way forward

Mitigating Key Strategic Business Risks



Source: Ernst & Young analysis

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Thank you