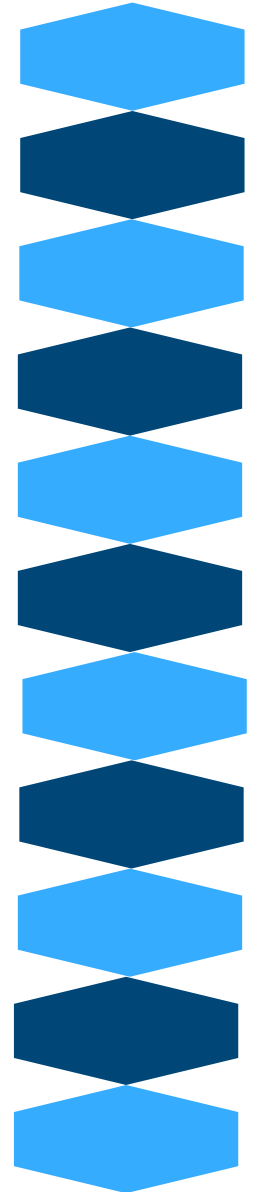


Introduction to Takaful Insurance: Opportunities and Challenges

Dr. Khalid Al-Amri

November 23th 2015, Gulf Actuarial Society
Sultan Qaboos University

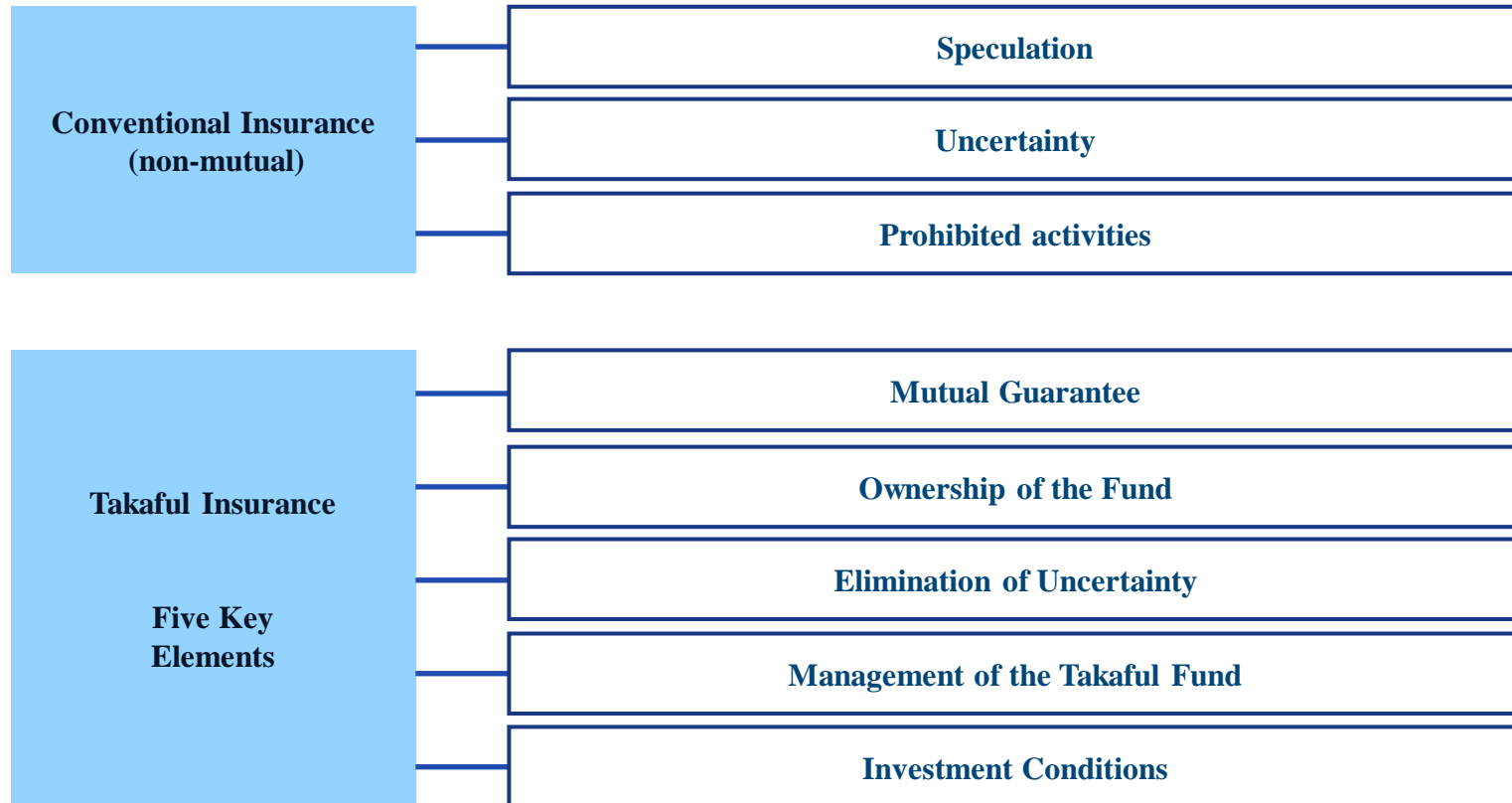


What is Takaful Insurance?

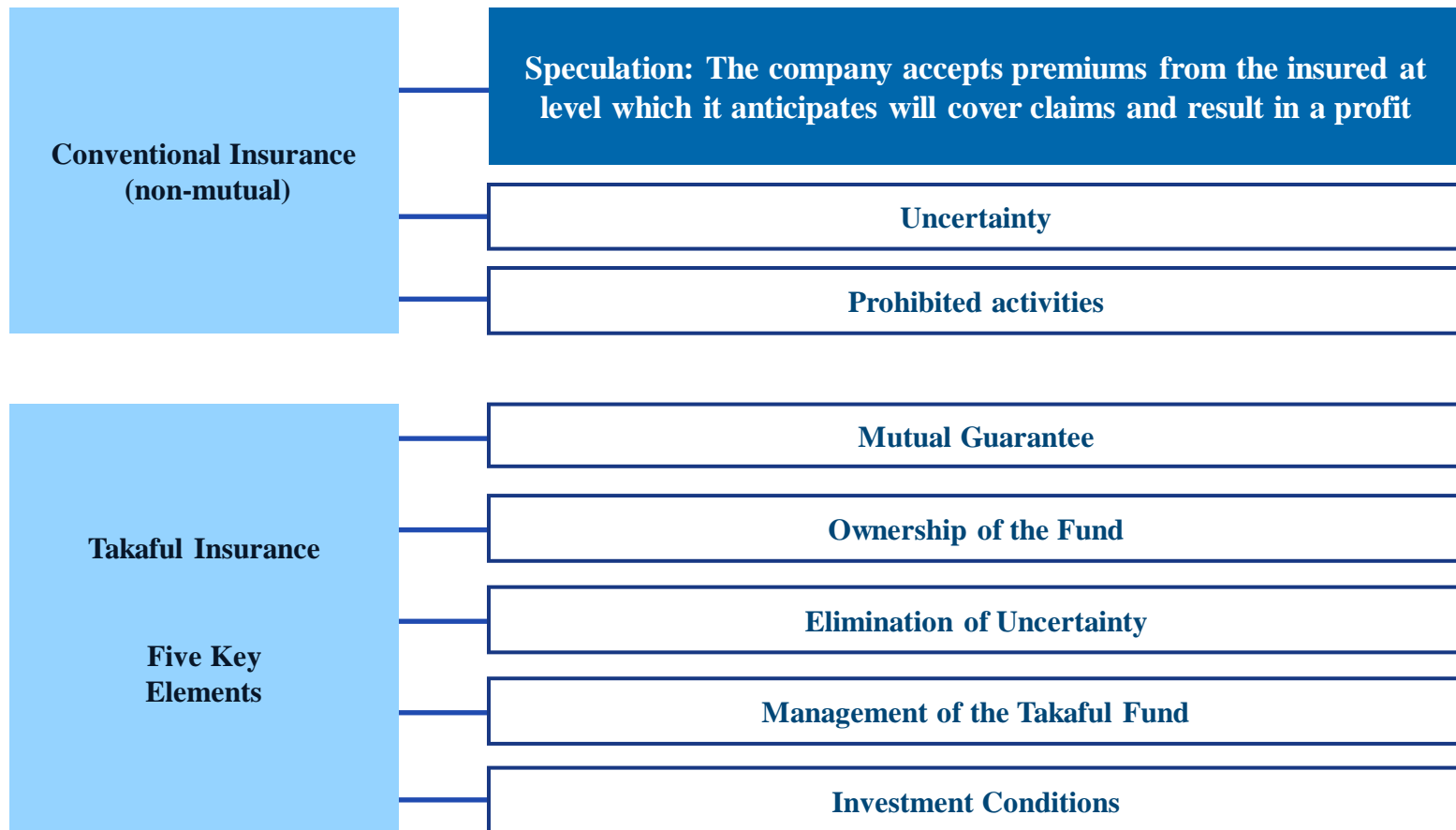
▪ Definition:

- Takaful (Arabic: التكافل) is an Arabic word which means solidarity.
- Takaful is a cooperative insurance mechanism based on the principles of solidarity and reciprocity (Billah, 2007).
- Islamic insurance, where members contribute money into a pooling system in order to guarantee each other against losses or damages.
- The birth of Takaful was due to the prevailing need of the Muslim population for an Islamic alternative to conventional insurance based on *Sharia* principal (Islamic Law).
- Aimed to complement the operation of the Islamic banking system (Saad, 2012). The first Takaful insurance company was set up in Sudan in 1979.
- Religious inclinations, inadequate insurance distribution and lack of education about insurance products are reasons for limited insurance products in emerging markets. (The World Takaful Report, 2012).

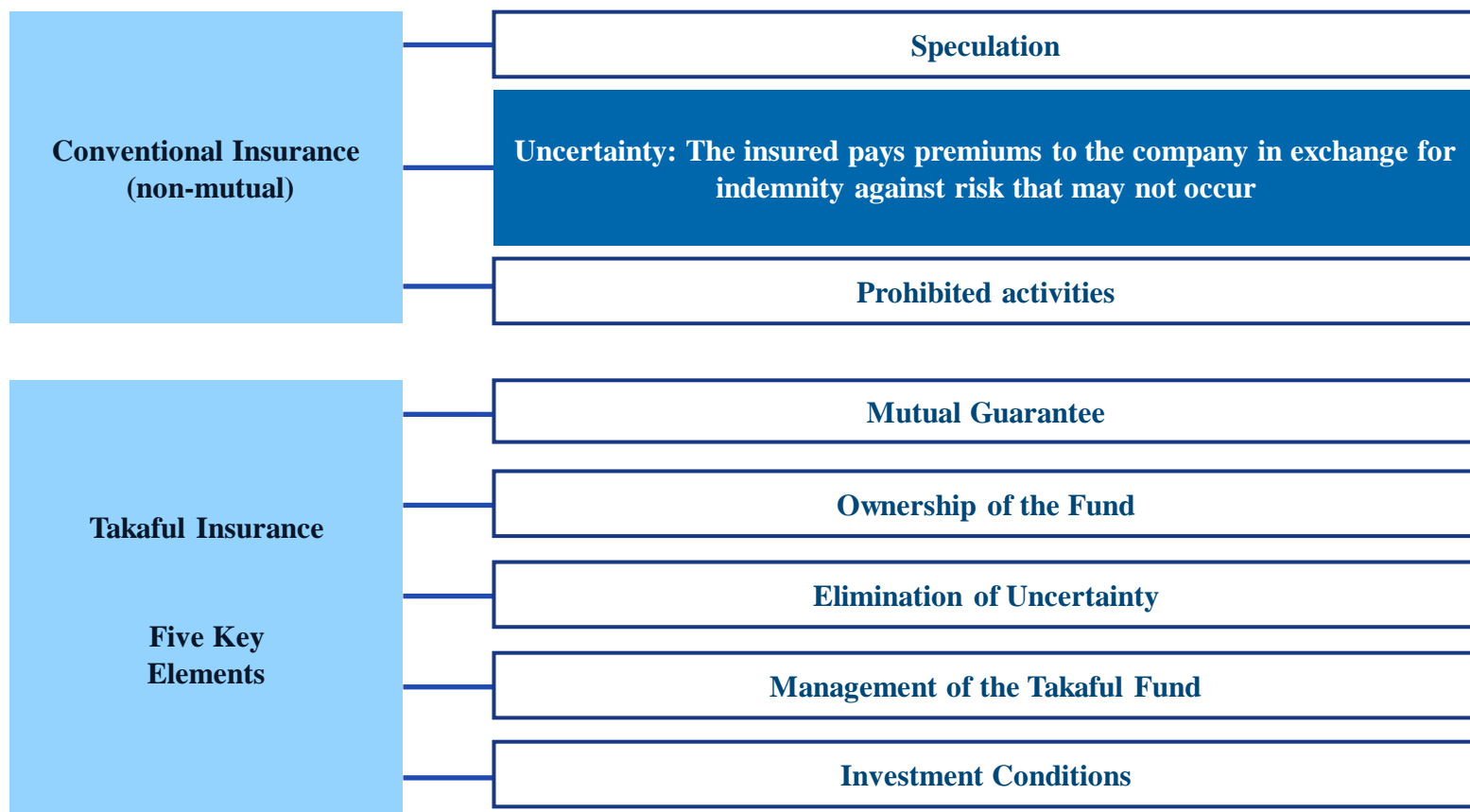
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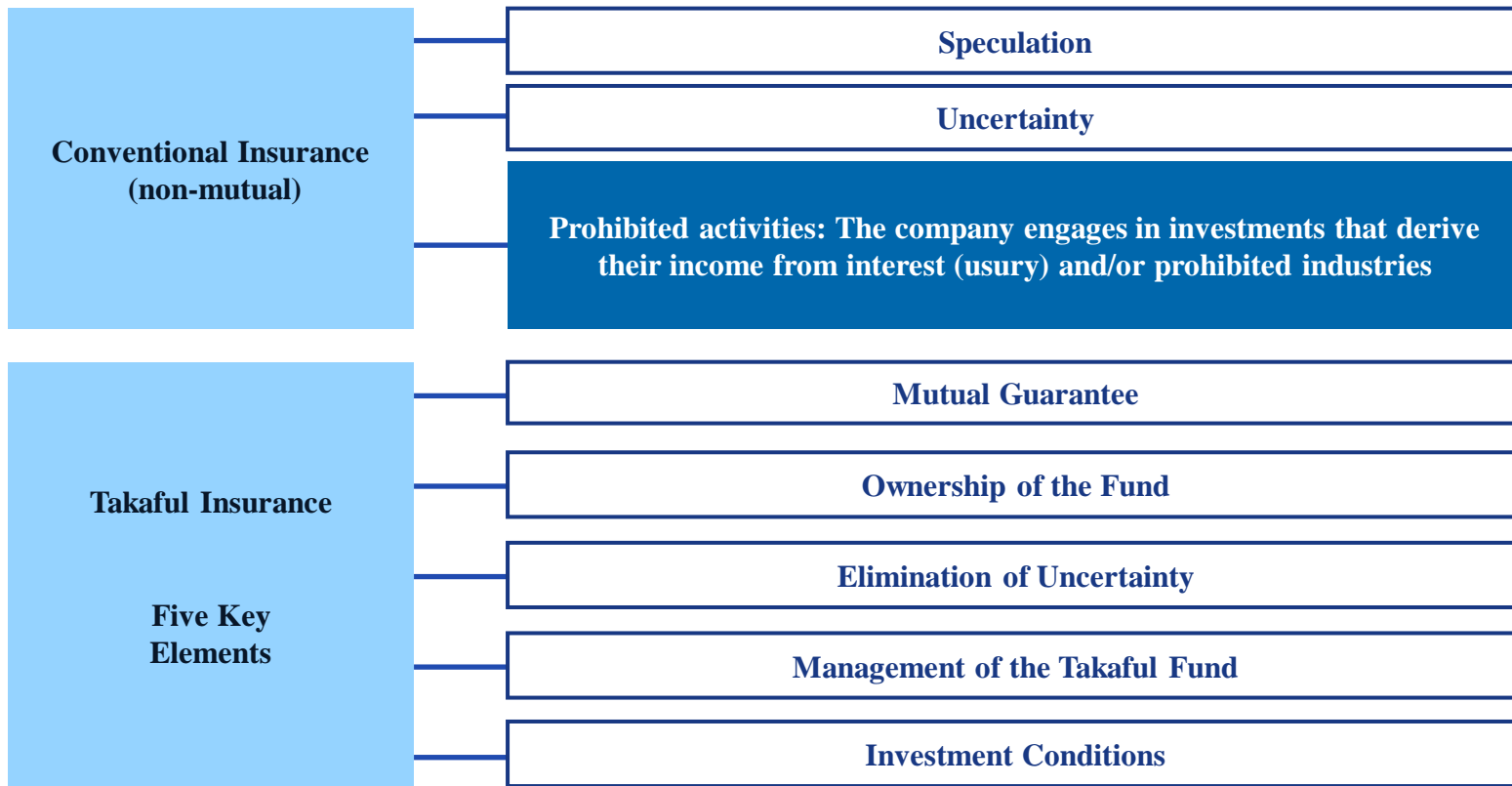
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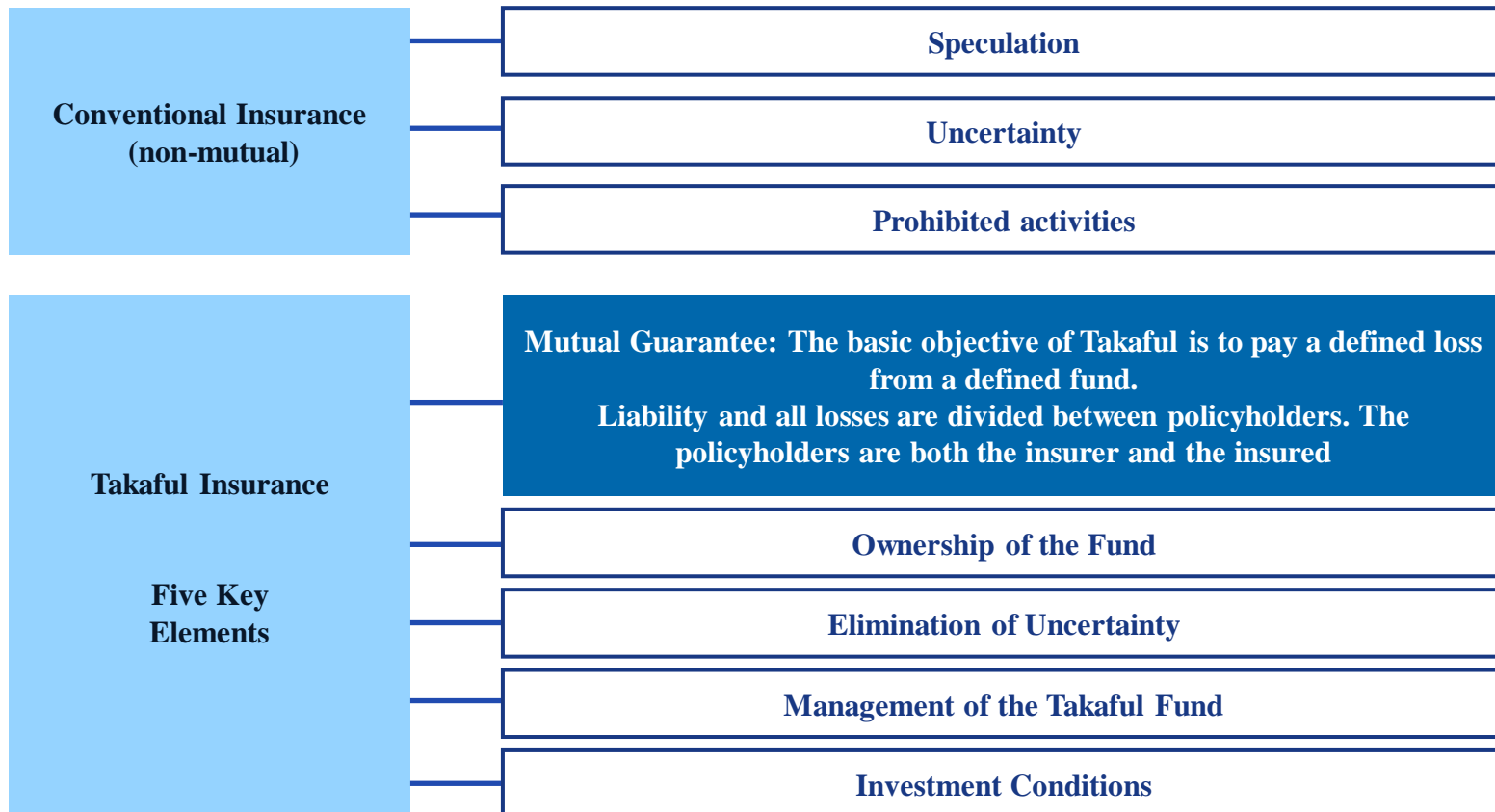
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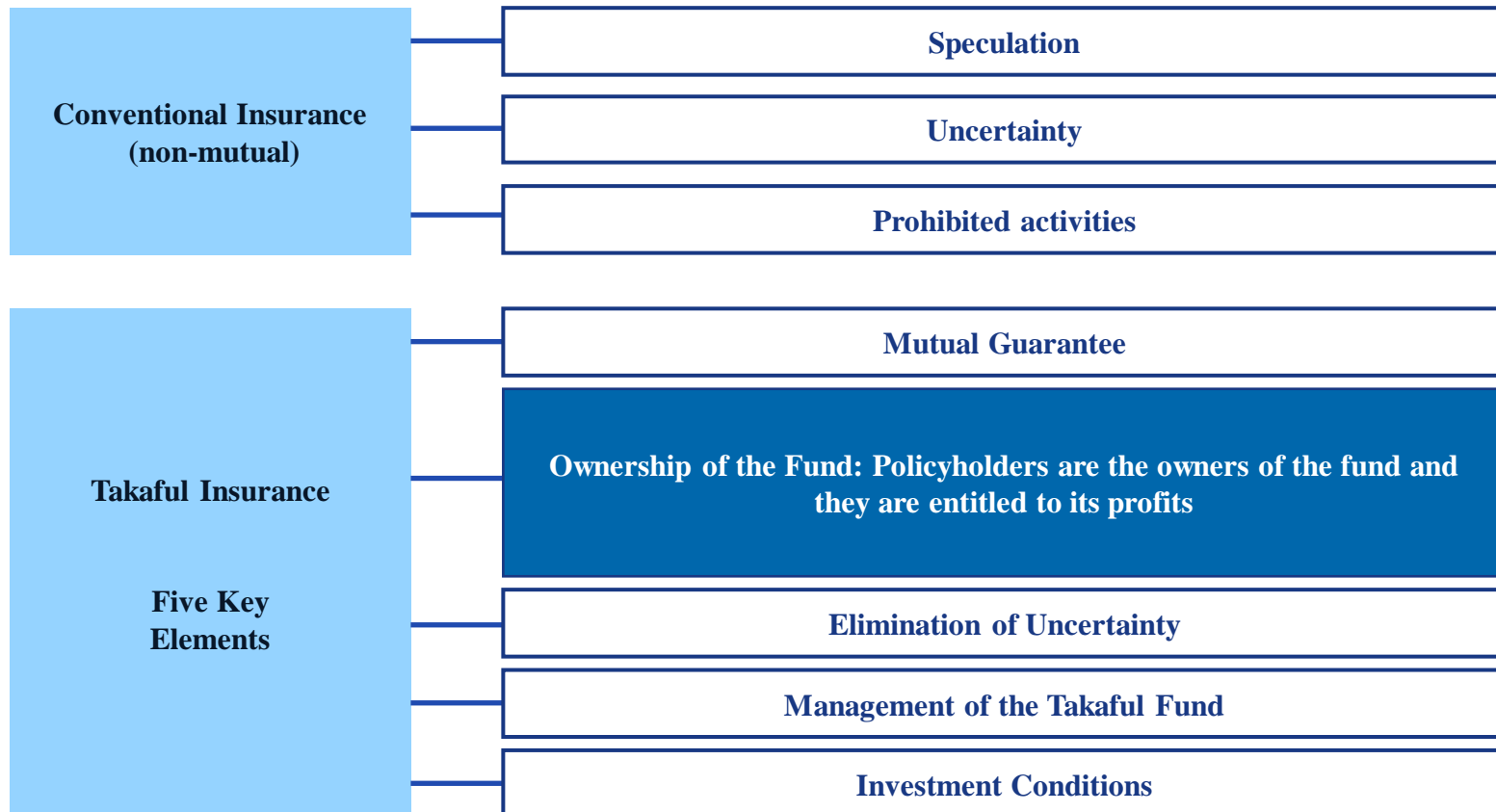
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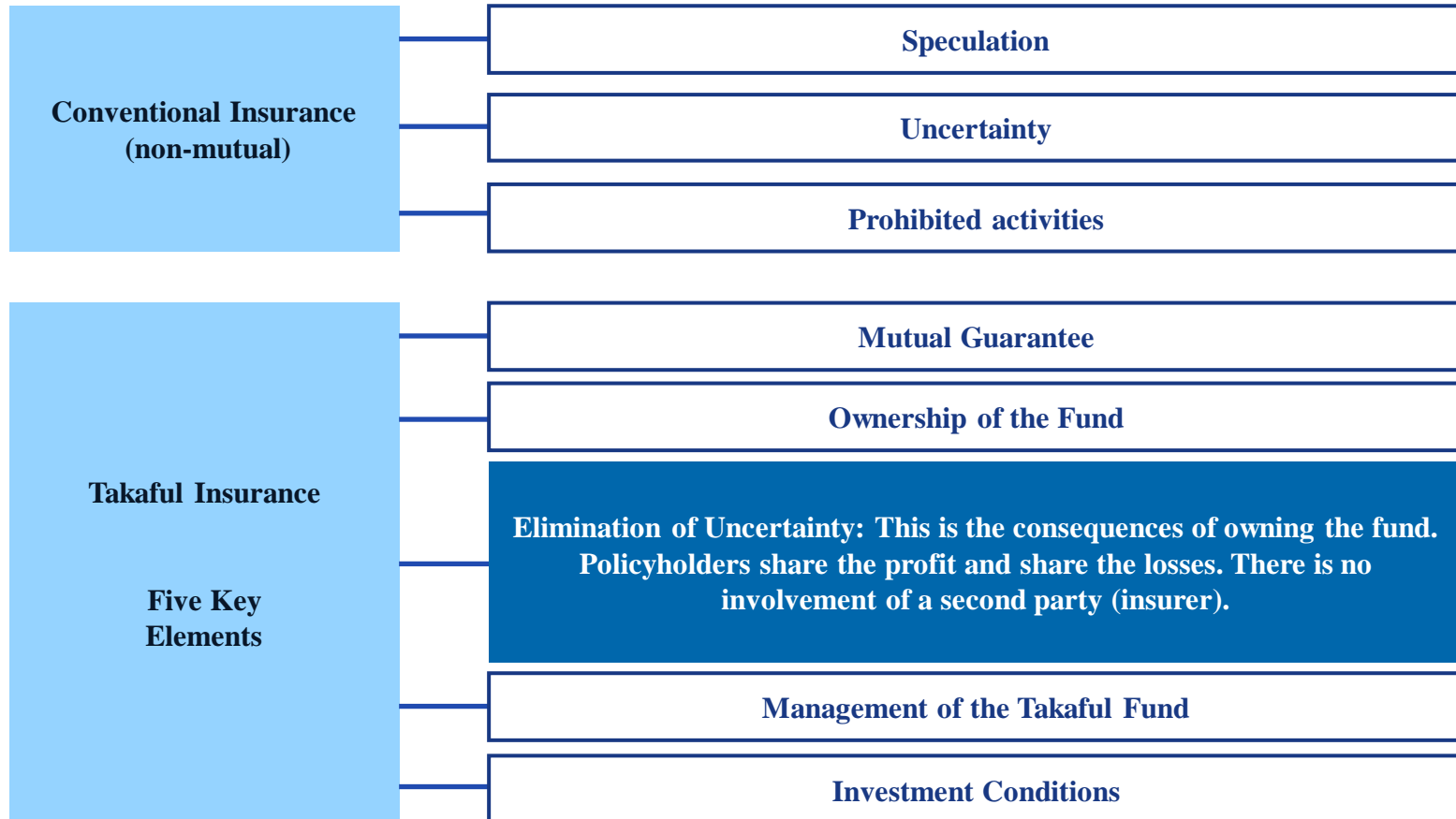


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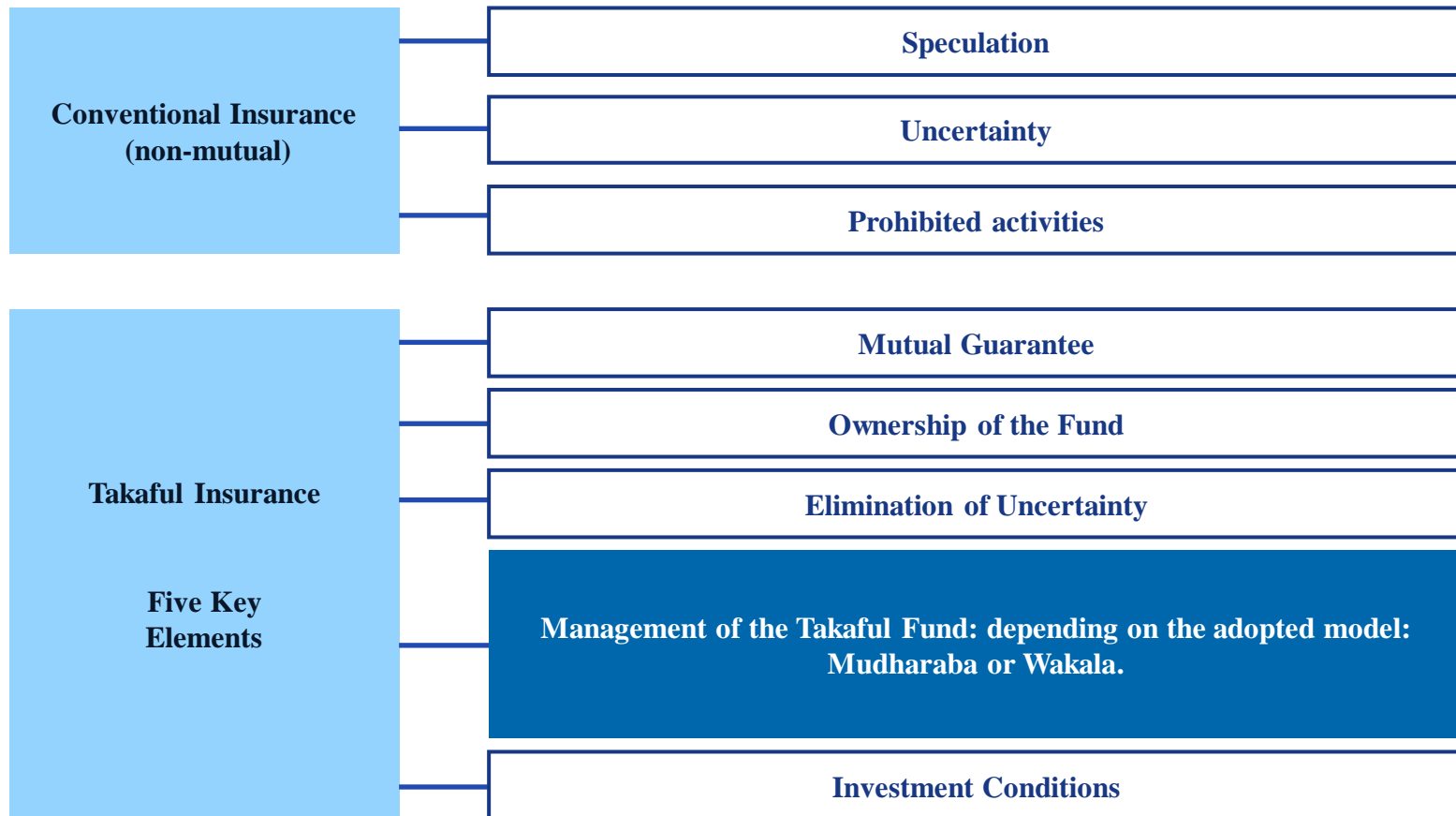




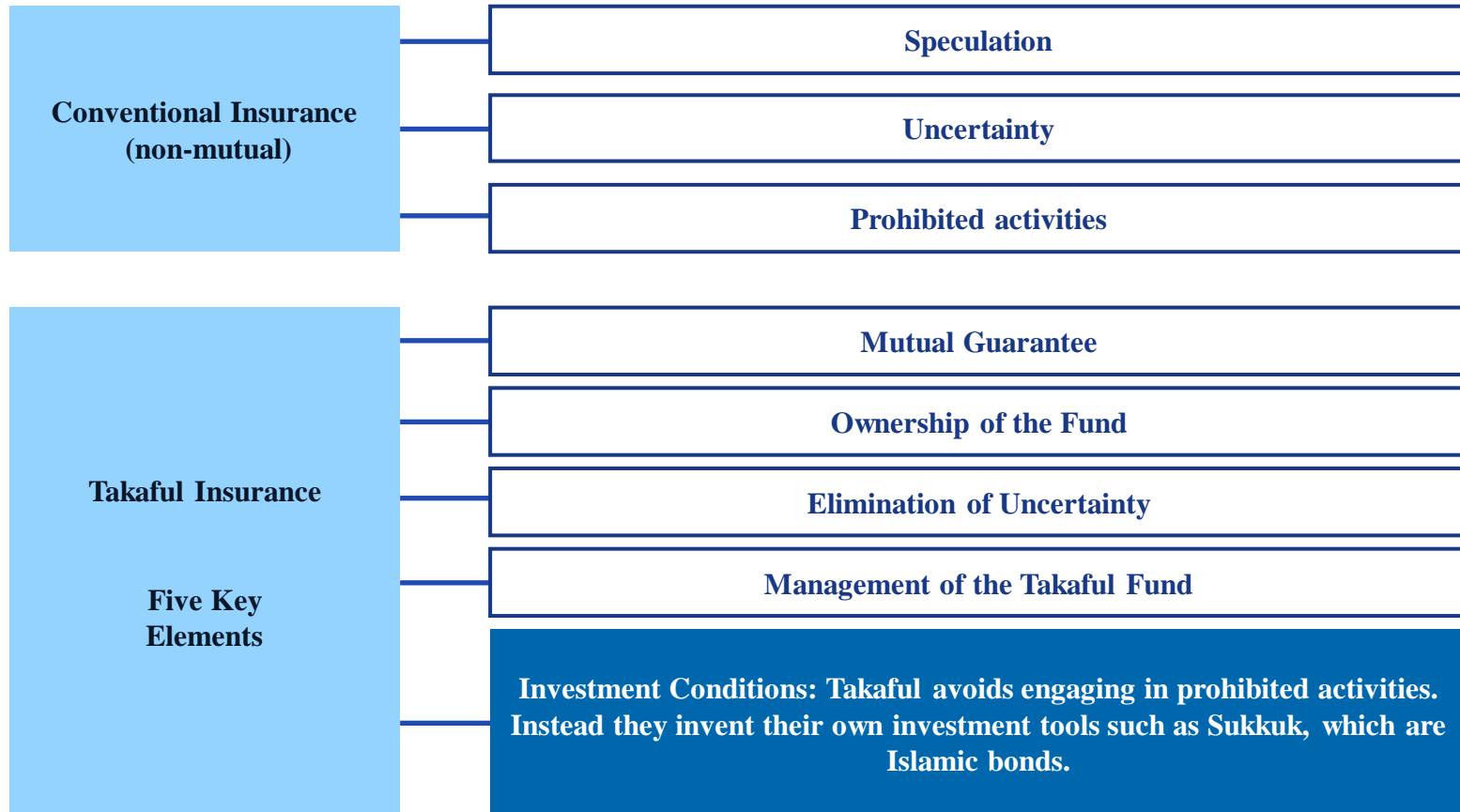
Introduction to Takaful



Introduction to Takaful



Introduction to Takaful

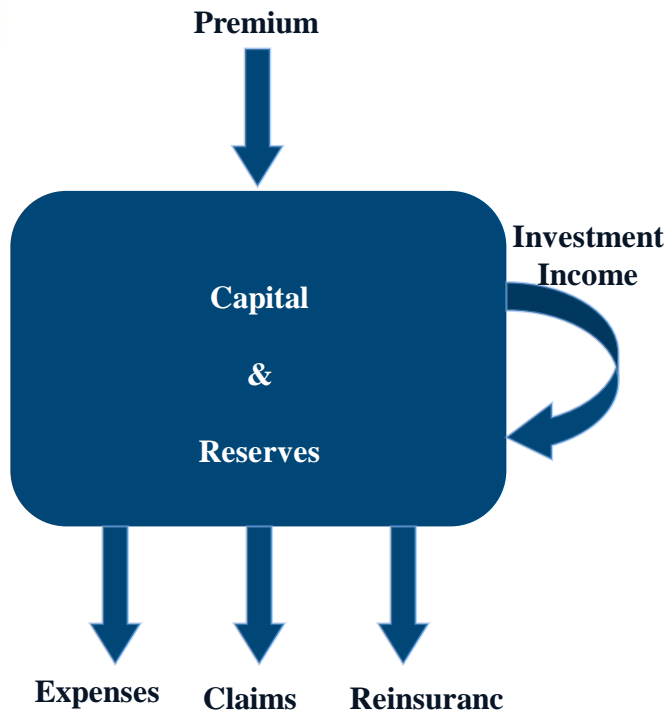


Sukuk

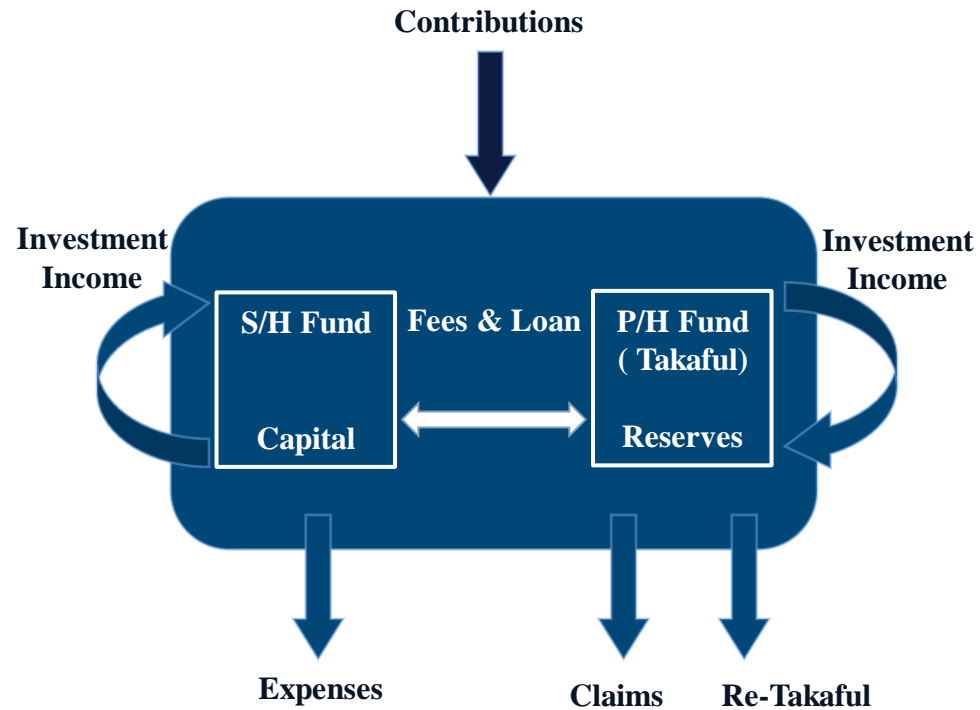
- **Sukuk refers to the Islamic equivalent of bonds. Sukuk structures replicate the cash flows of conventional bonds.**
- **Sukuk constitute partial ownership in a debt, asset, project, business, or investment.**
- **A key technique to achieve capital protection without amounting to a loan is a binding promise to repurchase certain assets, by the issuer.**
- **In the meantime a rent is being paid, which is often benchmarked to an interest rate like LIBOR (which is disliked by Sharia Scholars).**
- **\$1.34 trillion of assets are being managed according to Islamic investment principles (Global Islamic Finance Report 2012 Global Islamic Finance Report).**
- **listed on exchanges, such as Luxembourg Stock Exchange and London Stock Exchange.**

Conventional Insurance vs. Takaful

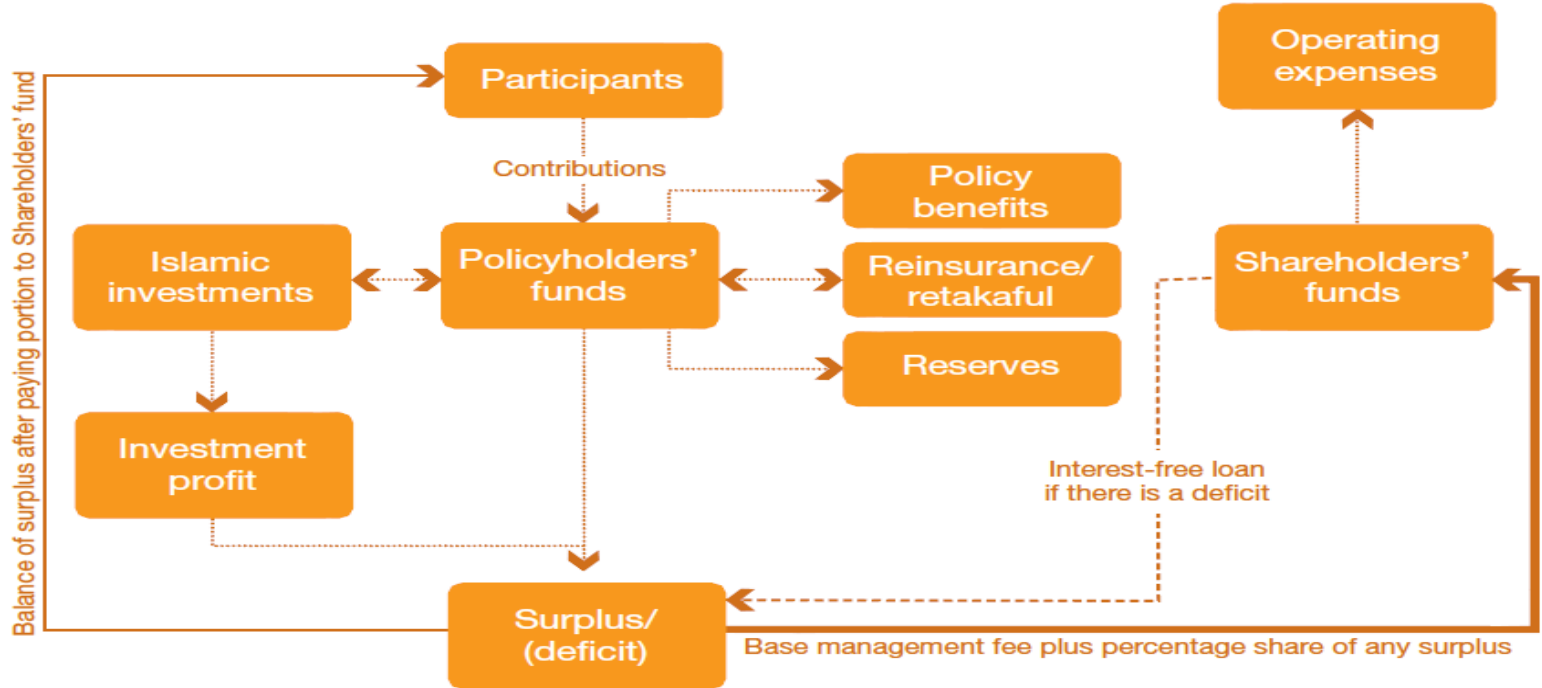
Conventional Insurance



Takaful Insurance



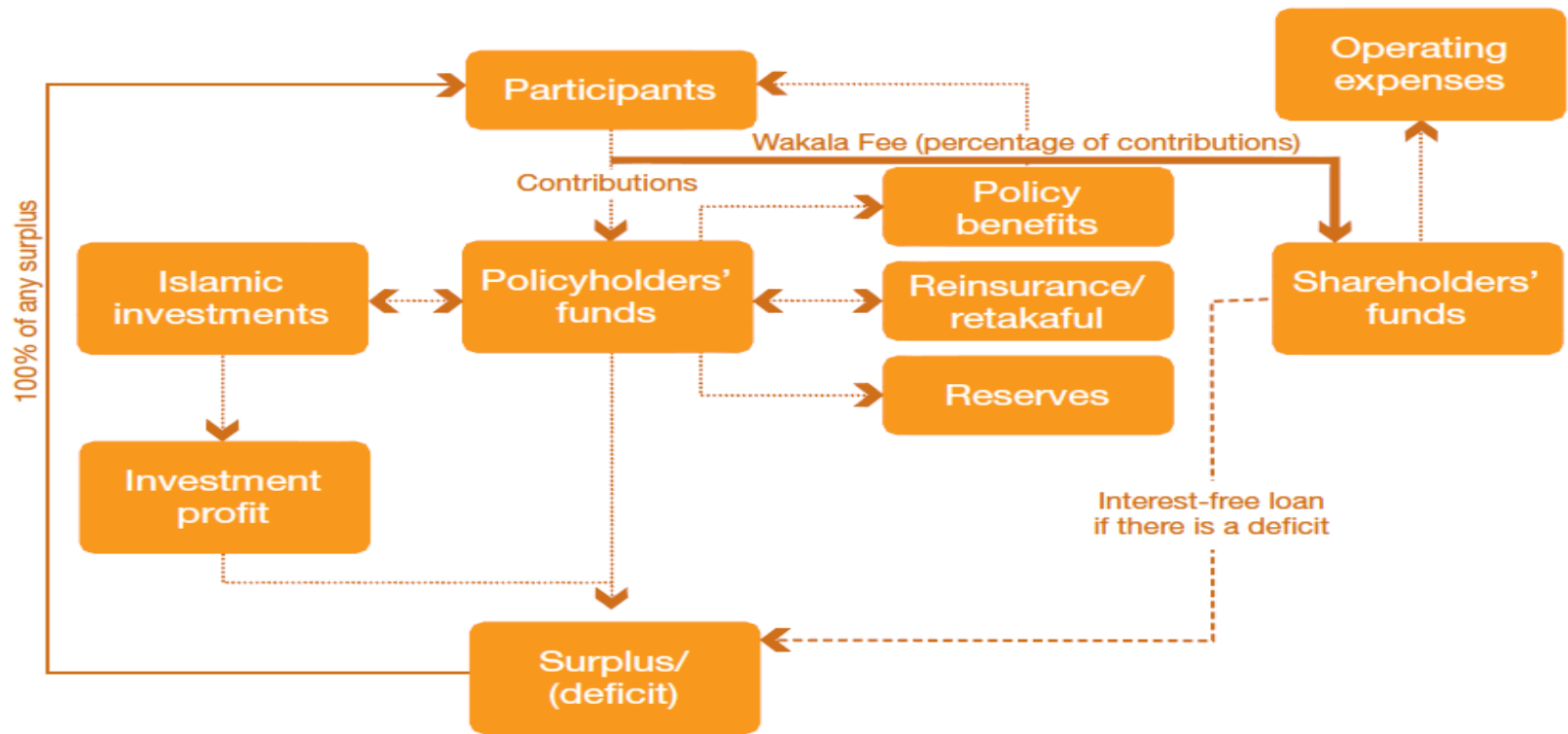
Mudharaba Model (Profit Sharing)



Source: PricewaterhouseCoopers

Interest-free loan is referred to as Qard Al-Hasan

Wakala Model (Fee Base)

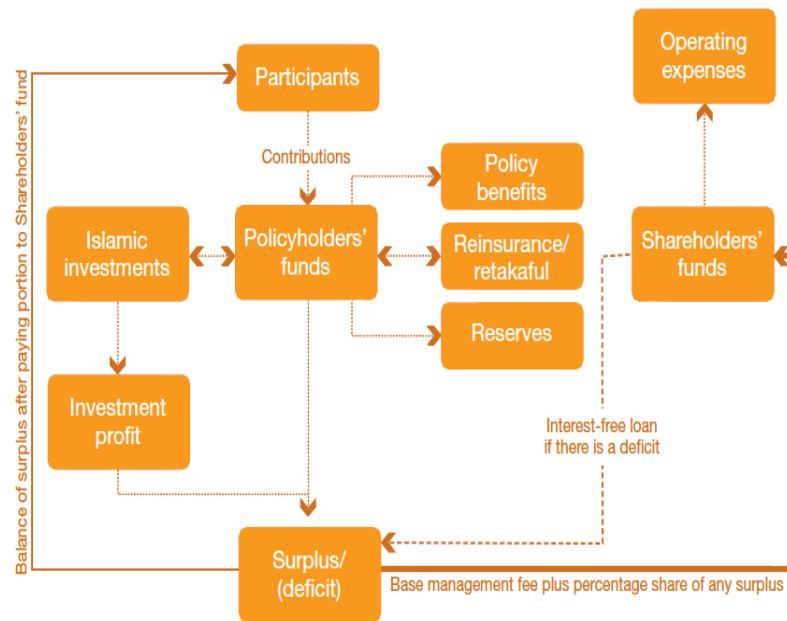


Source: PricewaterhouseCoopers

Interest-free loan is referred to as Qard Al-Hasan

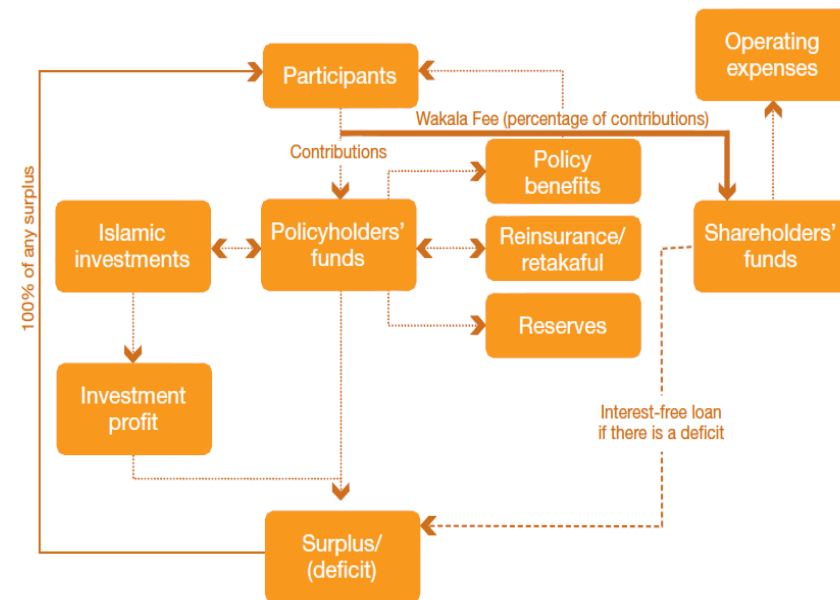
Differences between *Mudharaba* and *Wakala* Models

Figure 1: Mudharaba model



Source: PricewaterhouseCoopers

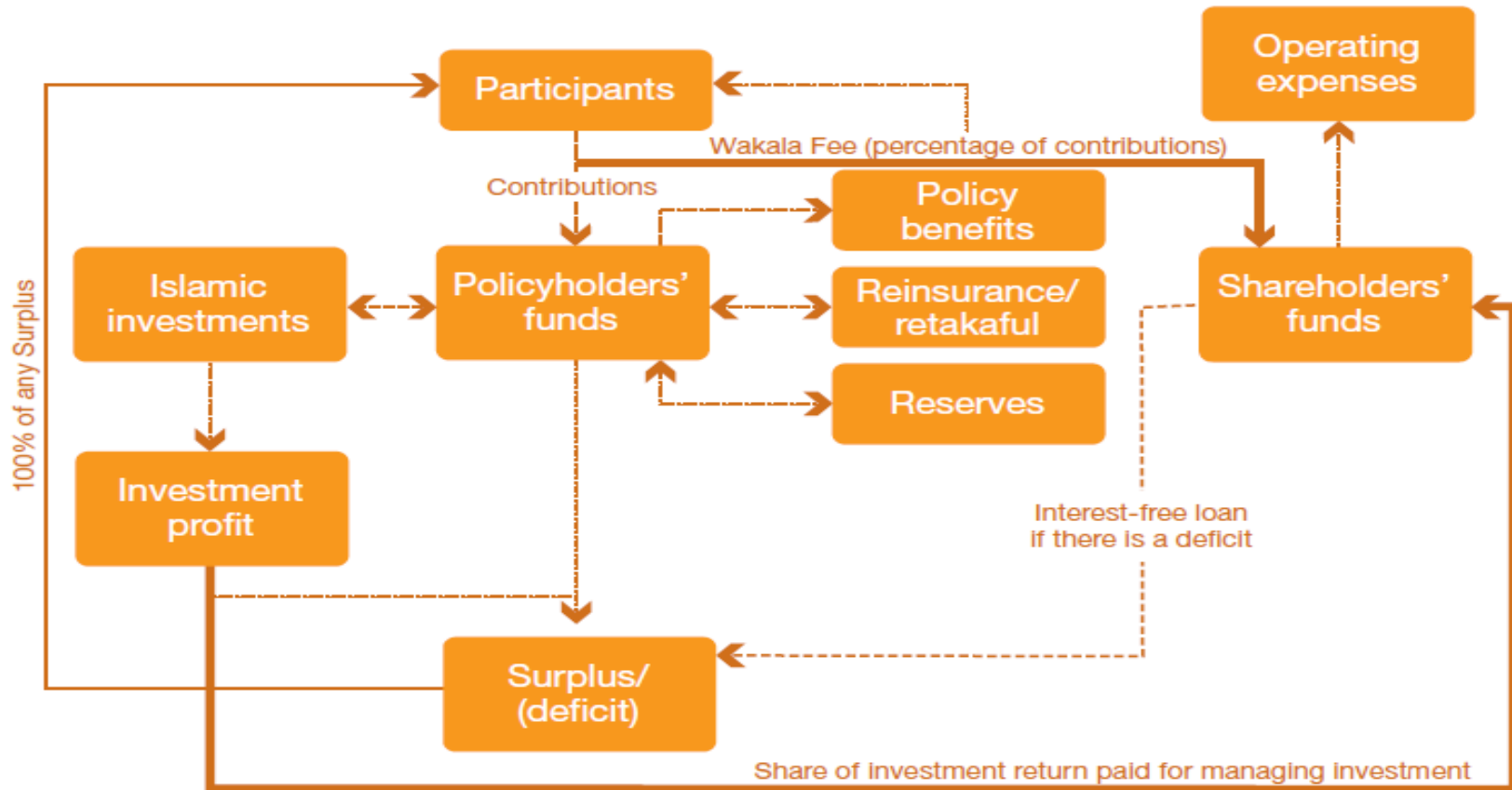
Figure 2: Wakala model



Source: PricewaterhouseCoopers

Interest-free loan is referred to as **Qard Al-Hasan**

Hybrid Model



Source: PricewaterhouseCoopers

Chart 1: Islamic finance assets with commercial banks (US\$b), 2014f

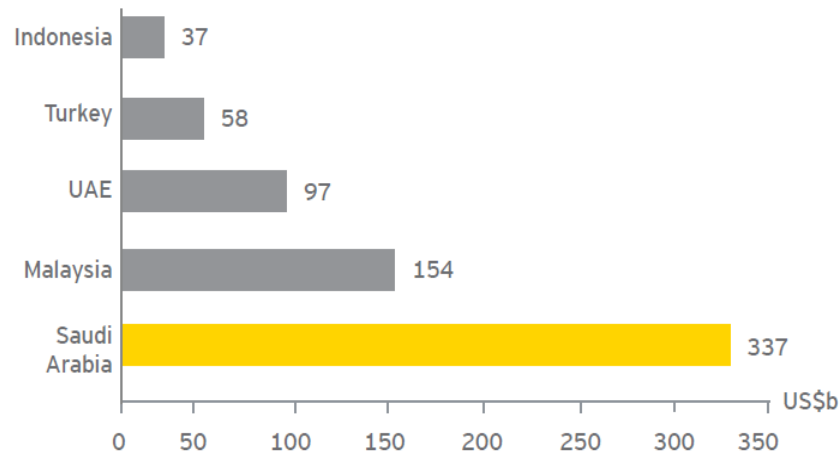
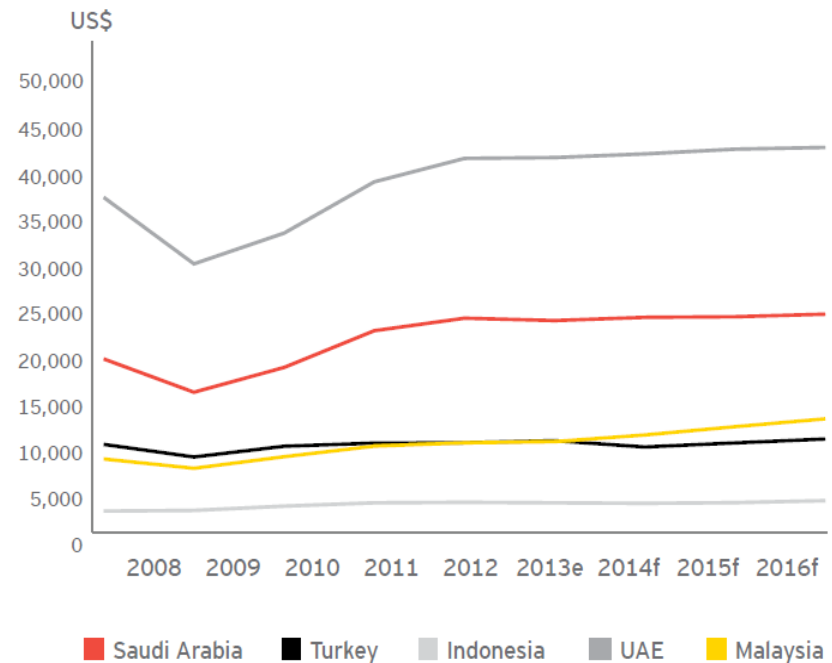
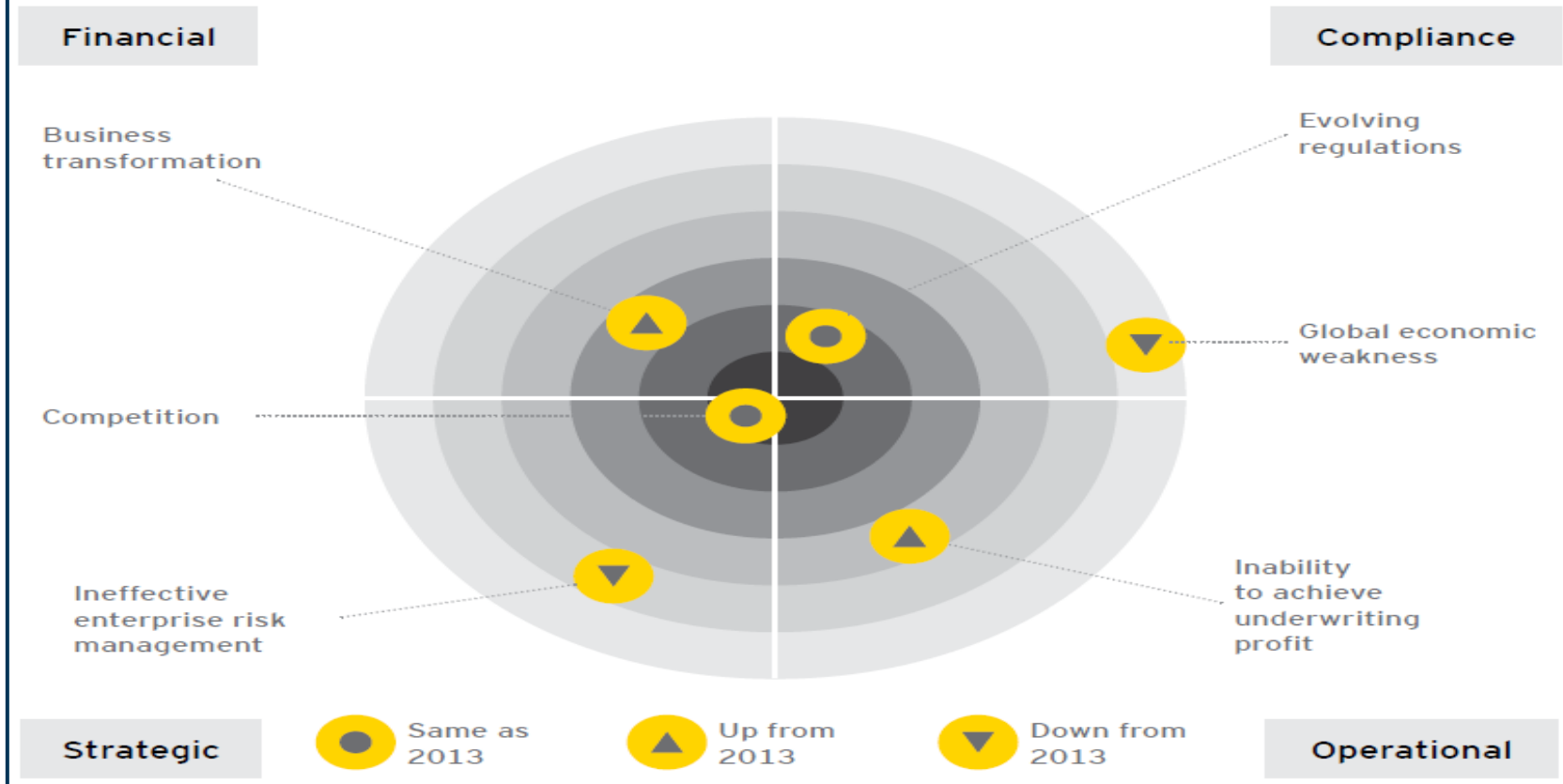


Chart 2: GDP per capita of selected Islamic finance markets (current prices)



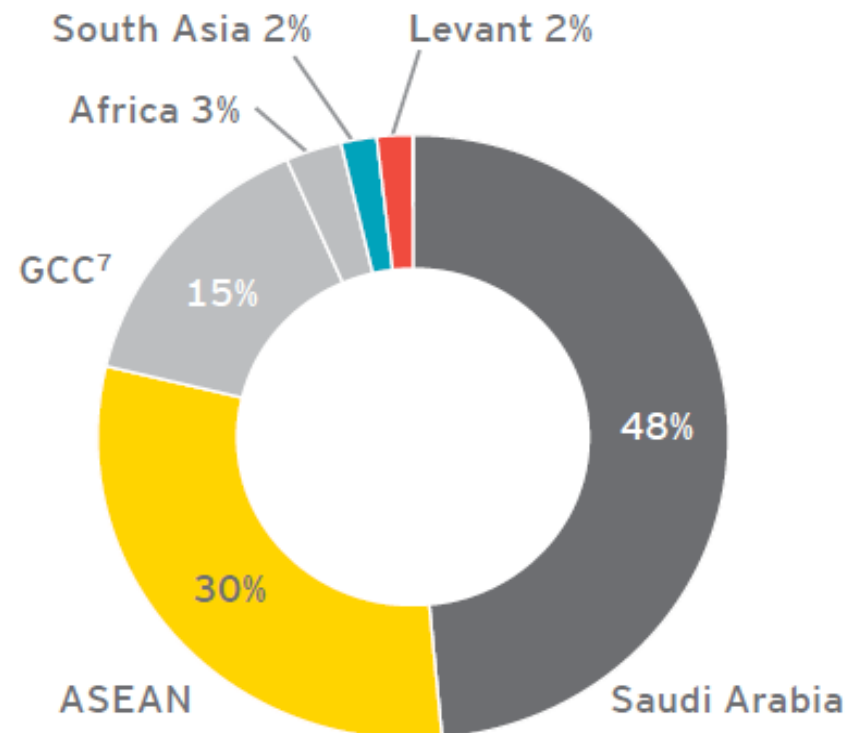
Source: World Islamic Insurance Directory 20114, Ernst & Young analysis

Chart 3: Global takaful business risks



Source: World Islamic Insurance Directory 20114, Ernst & Young analysis

Chart 5: Share of global gross takaful contribution by region, 2014f



Source: World Islamic Insurance Directory 20114, Ernst & Young analysis

GCC takaful contributions

Chart 6: GCC gross takaful contributions by country, 2009-14f

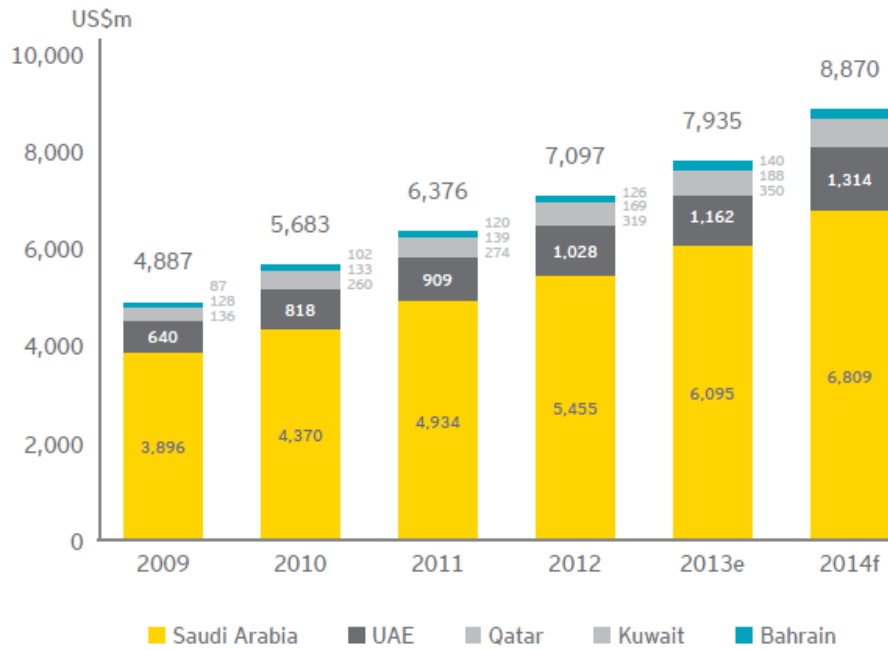
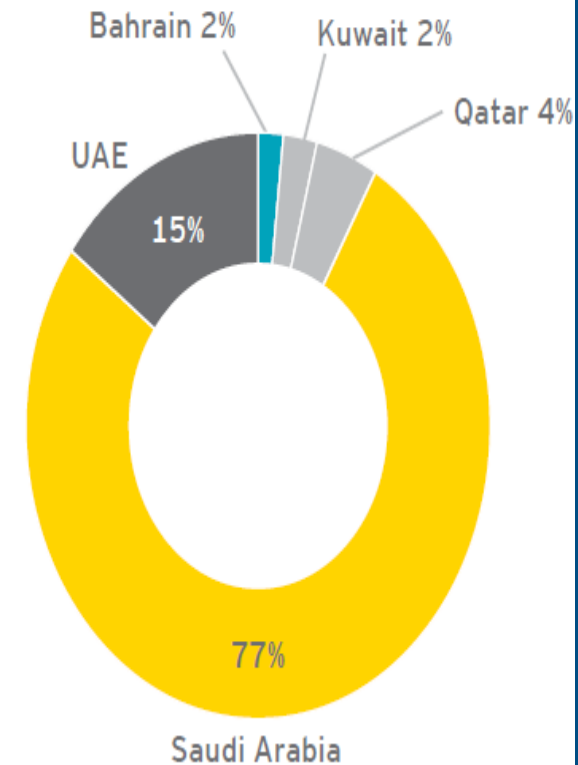


Chart 7: Share of GCC gross takaful contributions by country, 2014f



Source: World Islamic Insurance Directory 20114, Ernst & Young analysis

ASEAN takaful contributions

Chart 8: ASEAN gross takaful contributions by country, 2009-14f

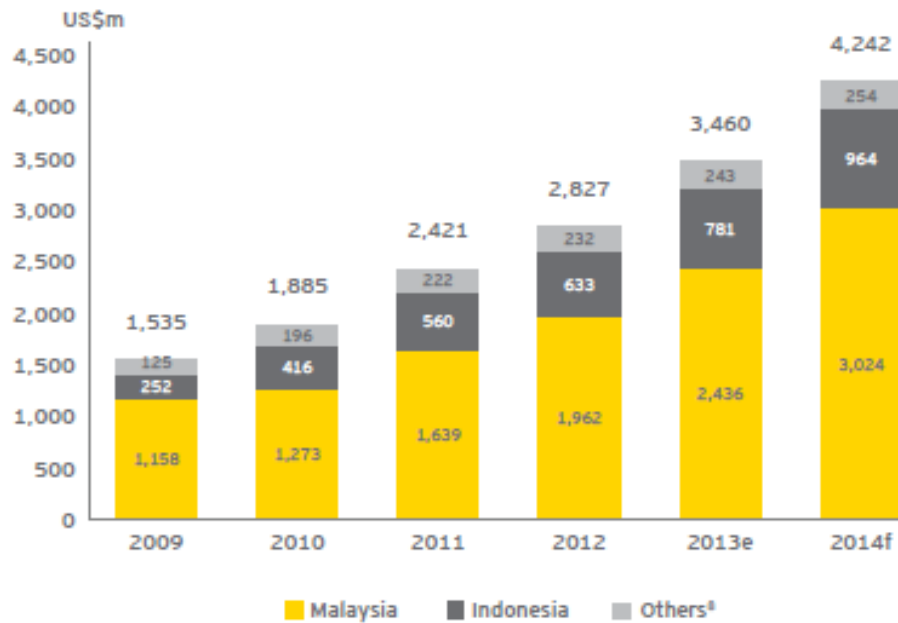
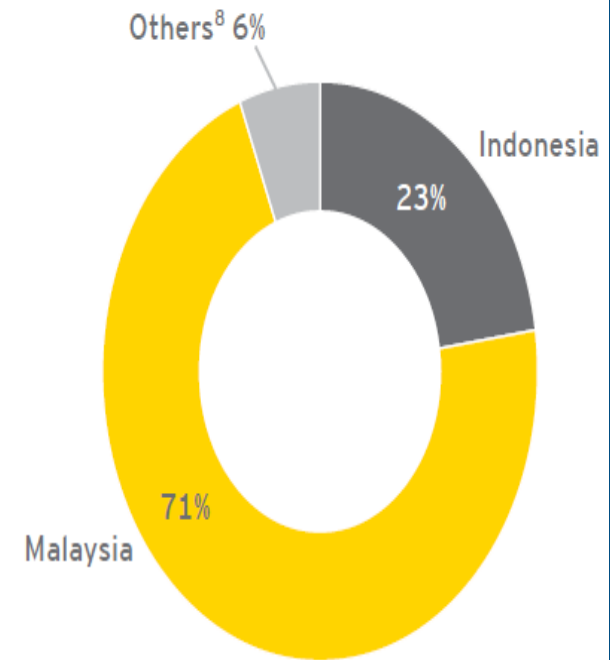


Chart 9: Share of ASEAN gross takaful contributions by country, 2014f



Source: World Islamic Insurance Directory 20114, Ernst & Young analysis

Challenges in Takaful Industry

Raising customer awareness and education

Expanding product innovation

Finding a 'AAA rated' international reinsurance company willing to accept a Retakaful

Creative product design and marketing

Offering attractive investment choices

Global Opportunities

1

Untapped expansion potential for Islamic banking, investment and insurance products into the US, Europe and Asia.

- Primary markets within Europe that have a sizeable Muslim population include France and Germany.
- In Asia, China, India and Indonesia also offer opportunities.

2

Creative product design, customer convenience and attractive packaging are the key to gaining a competitive advantage across General, Life, Health and Pensions businesses.

- Islamic centers of product excellence include Malaysia, Bahrain and the UAE, but Indonesia, Saudi Arabia and Pakistan are fast evolving and building their product expertise in this important business segment.

3

The Takaful industry need to cater to the growing needs of both Muslim and non-Muslim customers around the world.

The image features a white background with decorative blue elements. In the top-left corner, there are overlapping geometric shapes in two shades of blue: a darker blue triangle and a lighter blue trapezoid. A solid dark blue horizontal bar spans across the middle of the page, containing the text "Thank You" in a white, bold, serif font.

Thank You