



Don't be a Taka-fool

Key challenges faced by the takaful industry

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TOWERS WATSON 

Global takaful market has seen spectacular growth recently...

- ... albeit from a small base
- The global takaful market has grown from under USD2 billion in 2005 to an estimated USD11 – 13 billion in 2012
 - 7-year CAGR ~ 30%!
 - Saudi Arabia – with their mandatory cooperative model – remains the largest single contributor to the above figures, with well over a third of the total contributions (premium)
 - Malaysia took the lead in being the first country to establish a dedicated Takaful Act in 1984, formally separating it from the conventional insurance industry
- This growth has come despite significant challenges



Challenges faces by the takaful industry – past and present

How many takaful providers are there in the U.S.?

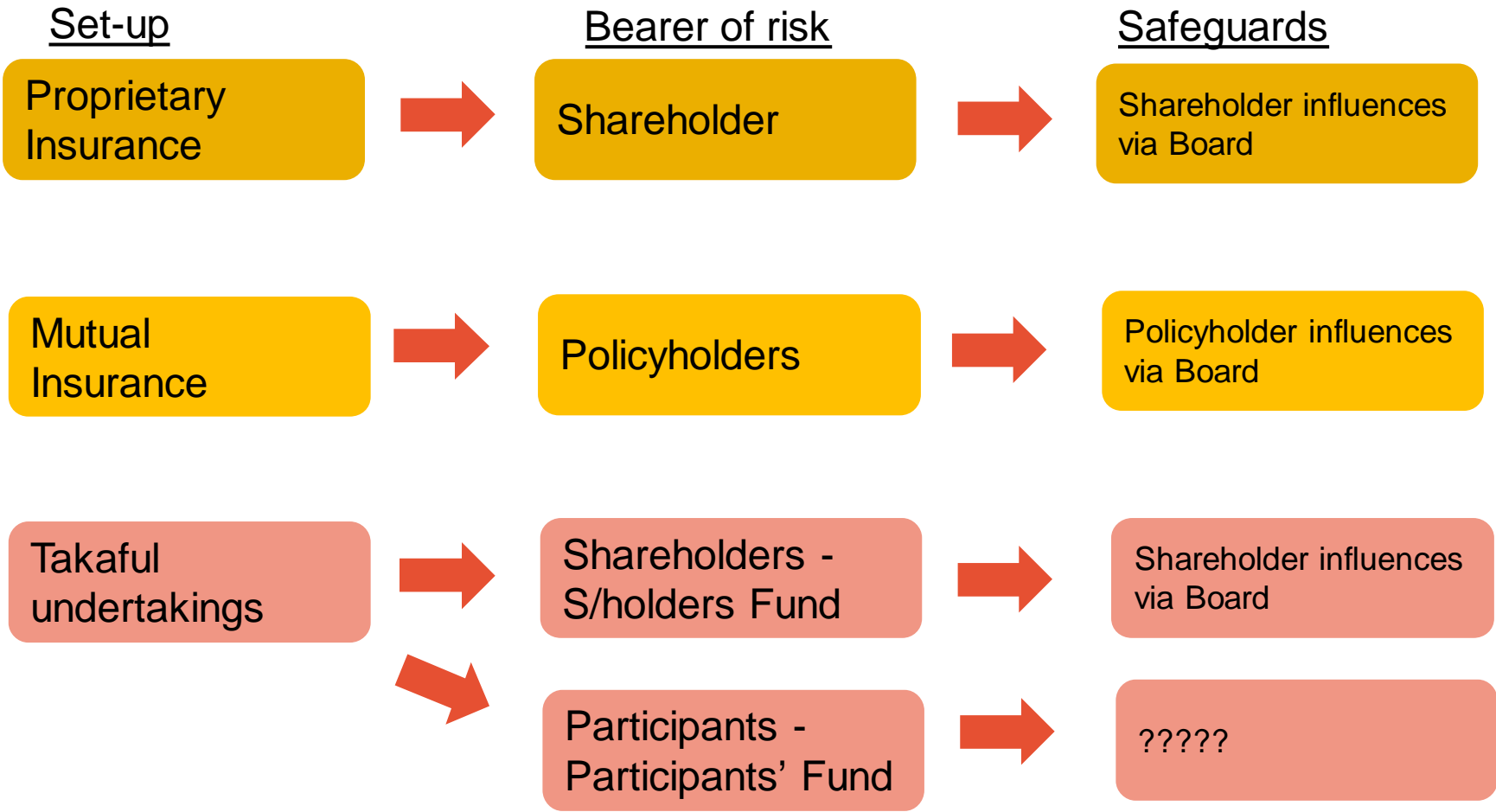
Could you set up a company with separation of shareholders' responsibilities from policyholders'?

Company structure and corporate governance

How would you align the interests of the management, shareholders, and policyholders?

“Hybrid” structure of Takaful puts it in a unique situation

Hybrid – combination of proprietary and mutual insurance





Considerations in the location of capital

Let's look at 2 different scenarios

**Scenario 1 –
Capital
resources
@99.5% met
entirely by the
participants**

- Participants effectively “guaranteeing” each other, consistent with the concept of takaful
- Low incidence of Qard (loan from shareholders)
- But upfront contribution may be more costly

**Scenario 2 –
Capital
resources
@99.5% met
by takaful
operator**

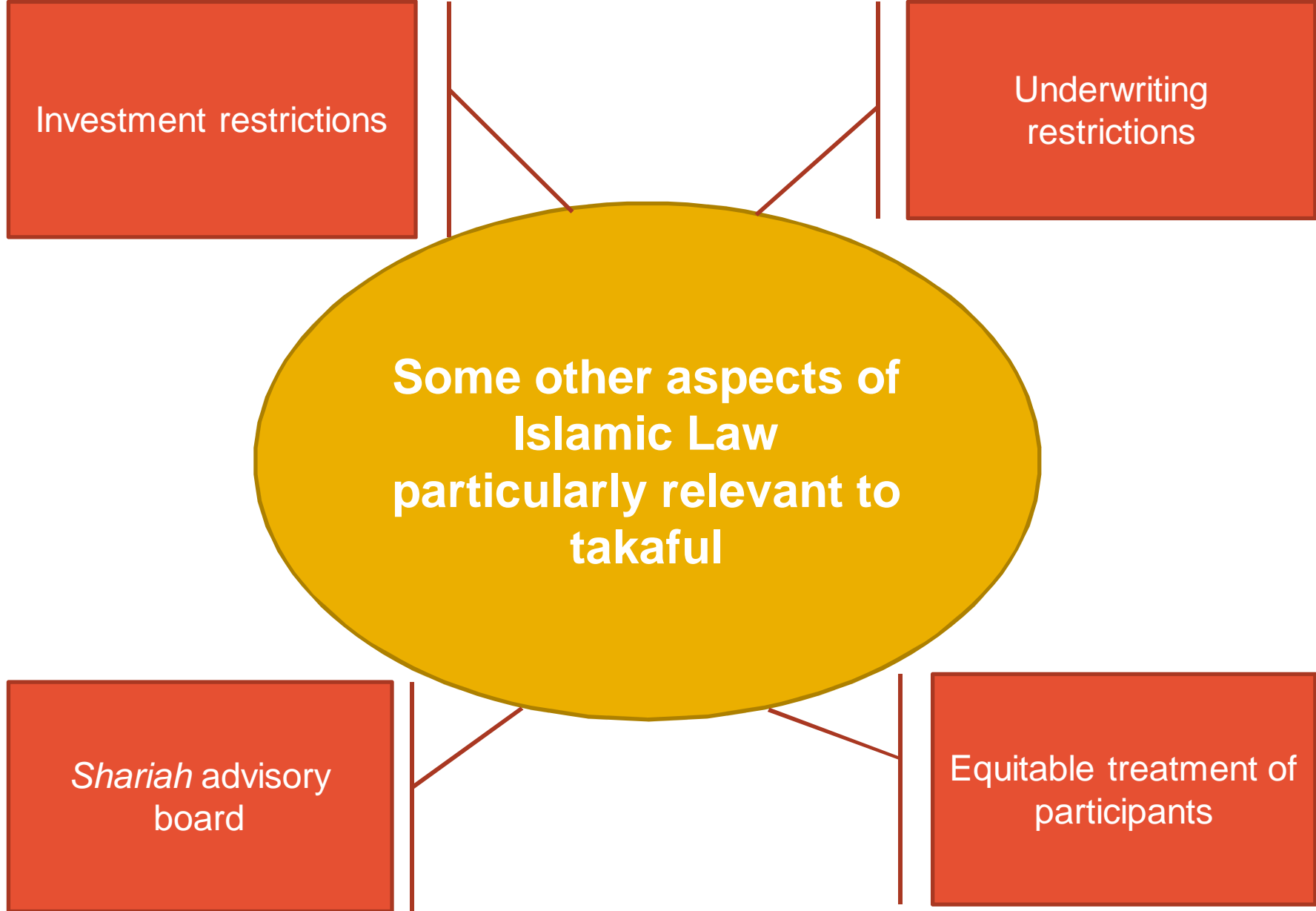
- Upfront contribution may be cheaper
- But high likelihood of Qard
- Is this consistent with takaful operator's own philosophy?

Impact on contribution depends on where capital resources are needed

Assumptions	
Cost of risk at best estimate	60
Cost of risk at 99.5% sufficiency level	100
Expenses	10
Return on capital required by shareholder	10%

Rate – Scenario 1: Capital within participants' fund	
Tabarru'	100
Expenses	10
ROC by shareholders	?
Total	110

Rate – Scenario 2: Capital provided by takaful operator	
Tabarru'	60
Expenses	10
ROC by shareholders	4 = 10%*40
Total	74



Differences in interpretation of religious tenets

Company
structure/
corporate
governance

Underwriting/
investment/ other
restrictions

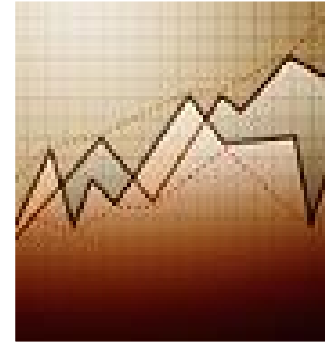
Risk & capital
management

... and then there are the usual suspects

- Intense competition
- Growth vs. profitability
- Market pricing vs. risk pricing
- Return on capital considerations
- Operational (in)efficiencies
- ...



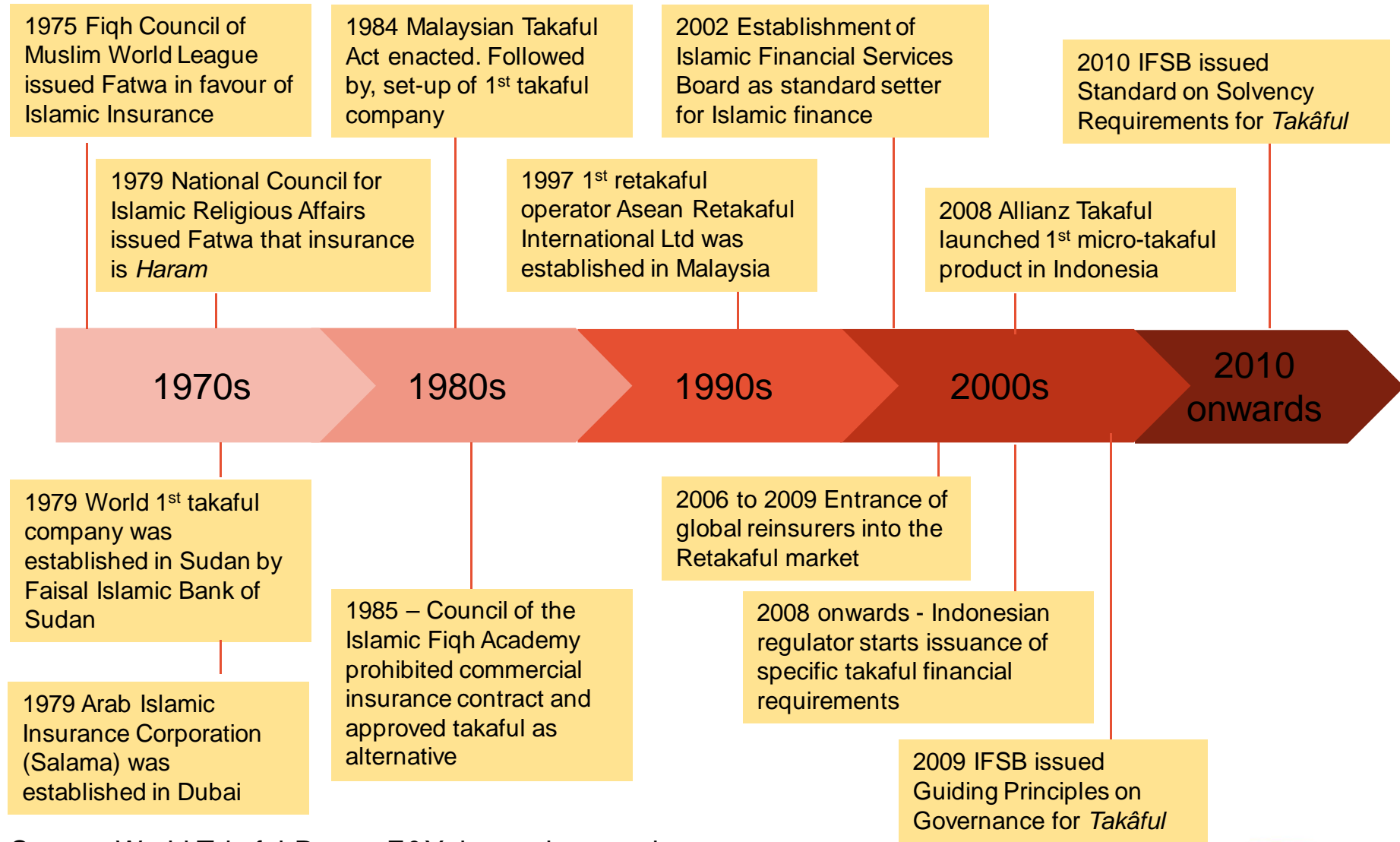
The takaful industry is still very young –
actuaries have a major role to play



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Appendix: Significant Takaful Developments Globally



Source: World Takaful Report E&Y; internal research