



Introduction to (Re)Takaful

May 21, 2013

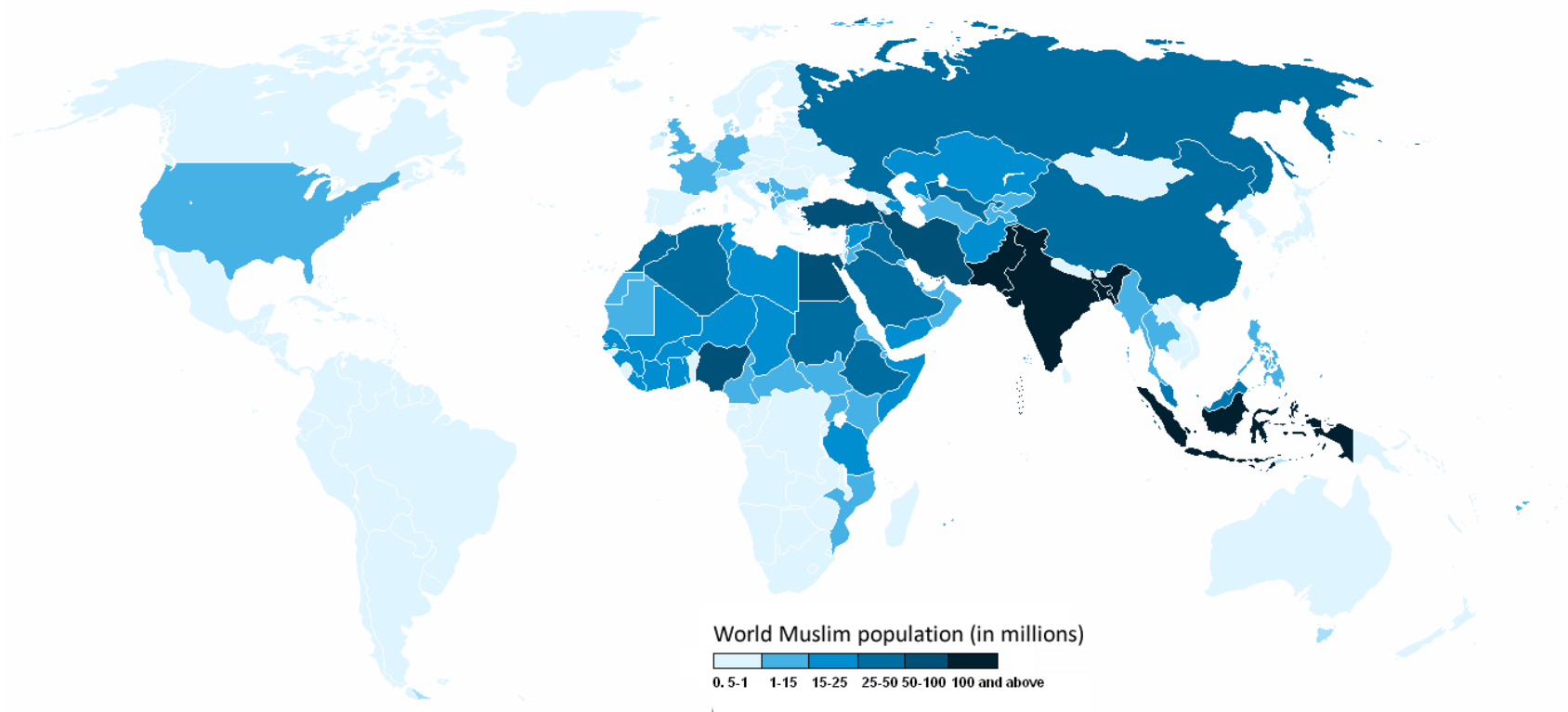
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Introduction to (Re)Takaful

Agenda

- Why should you care?
- Islamic Investment, Some Vocabulary
- What is Islamic (Re)insurance / (Re)Takaful?
- Operation of a Takaful firm
- Implementation Models
 - Fee based
 - Profit sharing
- (Re)Takaful Issues

Why should you care?



Muslims make up 20% of the world population.

Why should you care?

- Over 1.6 billion Muslims (over 3.6 million in US and Canada) who generally do not prefer conventional banking products
- Global Islamic banking assets with commercial banks is estimated to reach \$1.8 trillion in 2013 (\$1.3 trillion in 2011, 17 % growth in last three years)
- Average growth since 2000 is approximately 20% (CAGR)
- London, Hong Kong, France and Middle East are changing their legal and fiscal frameworks to provide level playing fields for Islamic Financial products

Why should you care?

- Muslims make up 20% of world population whereas Takaful premiums (contributions) is only 1% of the global insurance premiums
- Saudi Arabia, Malaysia and UAE are the top three Takaful Market
- Gross premiums were \$8.3 billion in 2010
- CAGR (2005-2009) was 29%; 2010 Growth 19%
- Conventional insurance products are not generally purchased by Muslims. Key reasons generally associated are religious inclinations, inadequate insurance distribution and lack of education around insurance products.

Islamic Investment, Some Vocabulary

- Sukuk (Bonds)
- Commodity Murabaha (Sale and Repurchase)
- Ijara (Lease)
- Musharaka (Joint ownership/Partnerships)

Overall, investments cannot be made in “Haram” products/activities

What is Islamic (Re)Insurance / (Re)Takaful?

Why does it exist?

Shariah Law prohibits certain activities and by inference, prohibits one to take part in or use the services of entities that participate in forbidden activities.

Consumption of products that do not comply with Shariah Law forbidden by Islam (Haram)

Prohibitions under Shariah Law occur in conventional insurance products:

- *Payment or receipt of interest (“riba”)*
- *Uncertainty (“gharar”) inclusive of Gambling (“maisir”)*

What is Islamic (Re)Insurance / (Re)Takaful?

- Traditional (re)insurance products conflict with Shariah Law
 - Uncertainty (premium is set in advance)
 - Interest (investment of funds)
 - ...
- (Re)Takaful is a Shariah compliant form of (re)insurance suitable for reinsurance of Takaful companies
- Structure of insurance for both personal and commercial lines

What is Islamic (Re)Insurance / (Re)Takaful?

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

Operation of a Takaful firm

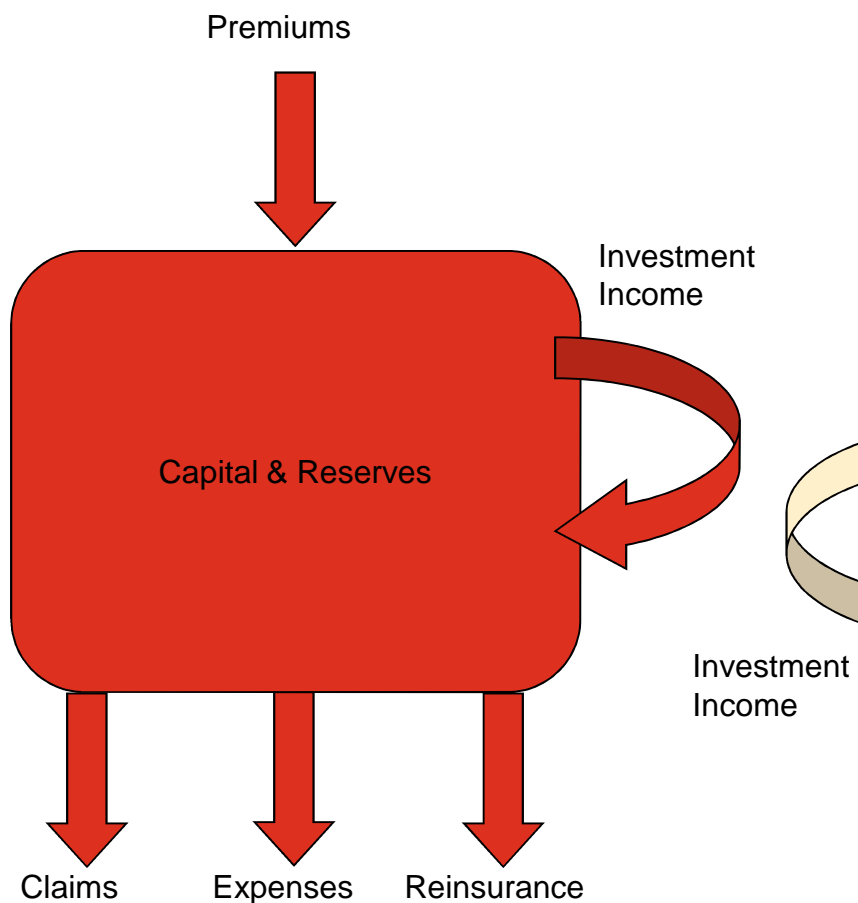
- Pooling of policyholder interests into Takaful funds.
 - Contributors guaranteeing each other
 - Contributors share in any surplus in the fund

Operation of a Takaful firm

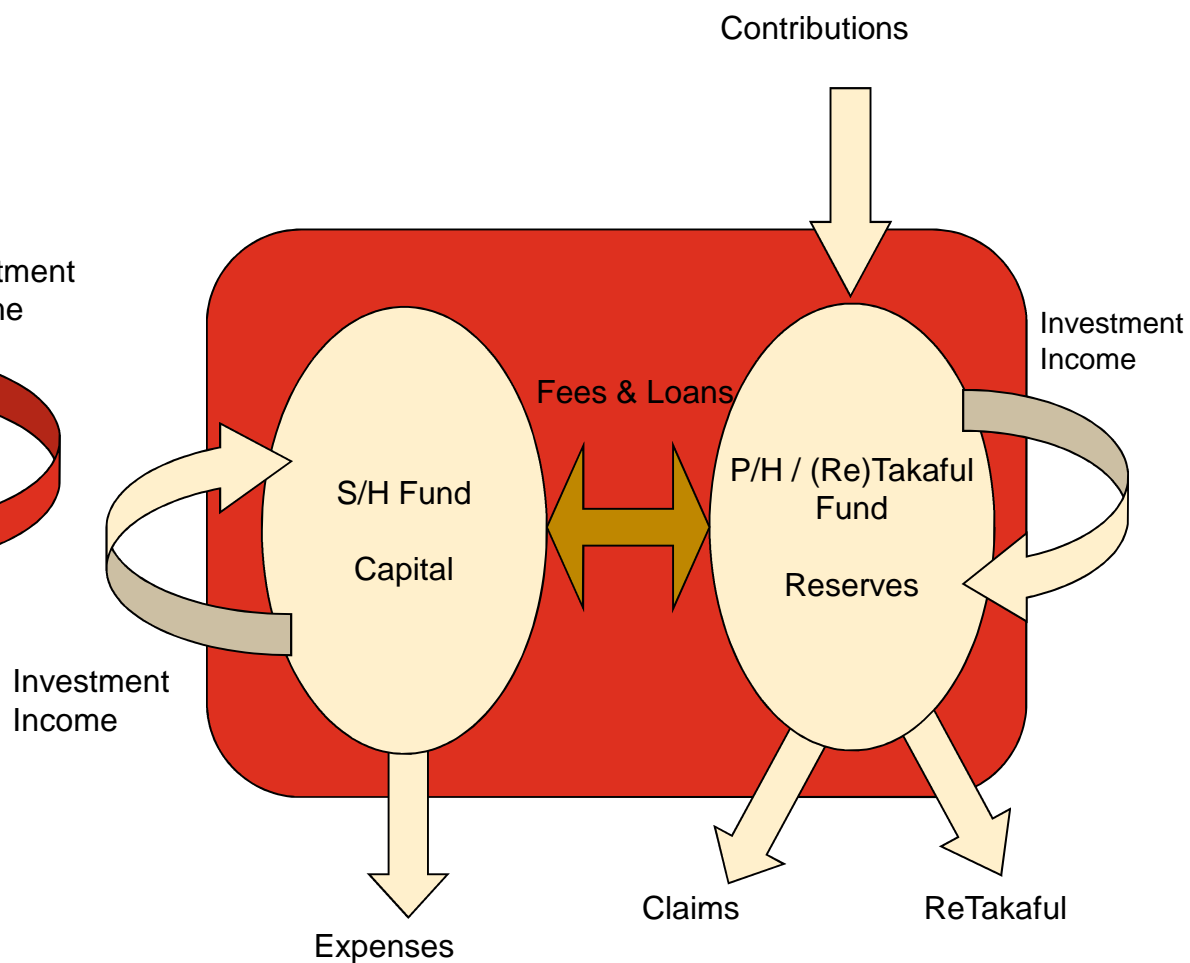
- Segregation of operator from Takaful funds
 - Operator often provides capital for solvency
 - May be required to make free loans to funds
 - Operator remunerated by explicit fees for:
 - running the company on behalf of the policyholders
 - running the policyholders' investments on behalf of the policyholders

Operation of a Takaful firm

Conventional (Re)Insurance



(Re)Takaful Company



Operation of a Takaful firm

The Shariah supervisory board

Independent body of specialists in Islamic jurisprudence

- Directs and supervises the Islamic financial institution to ensure compliance with Islamic Shariah principles
- The fatwas and rulings of the Shariah supervisory board are binding on the Islamic financial institution
- Studying and analyzing contracts and agreements concerning the firms' transactions
- No universal view, practice varies

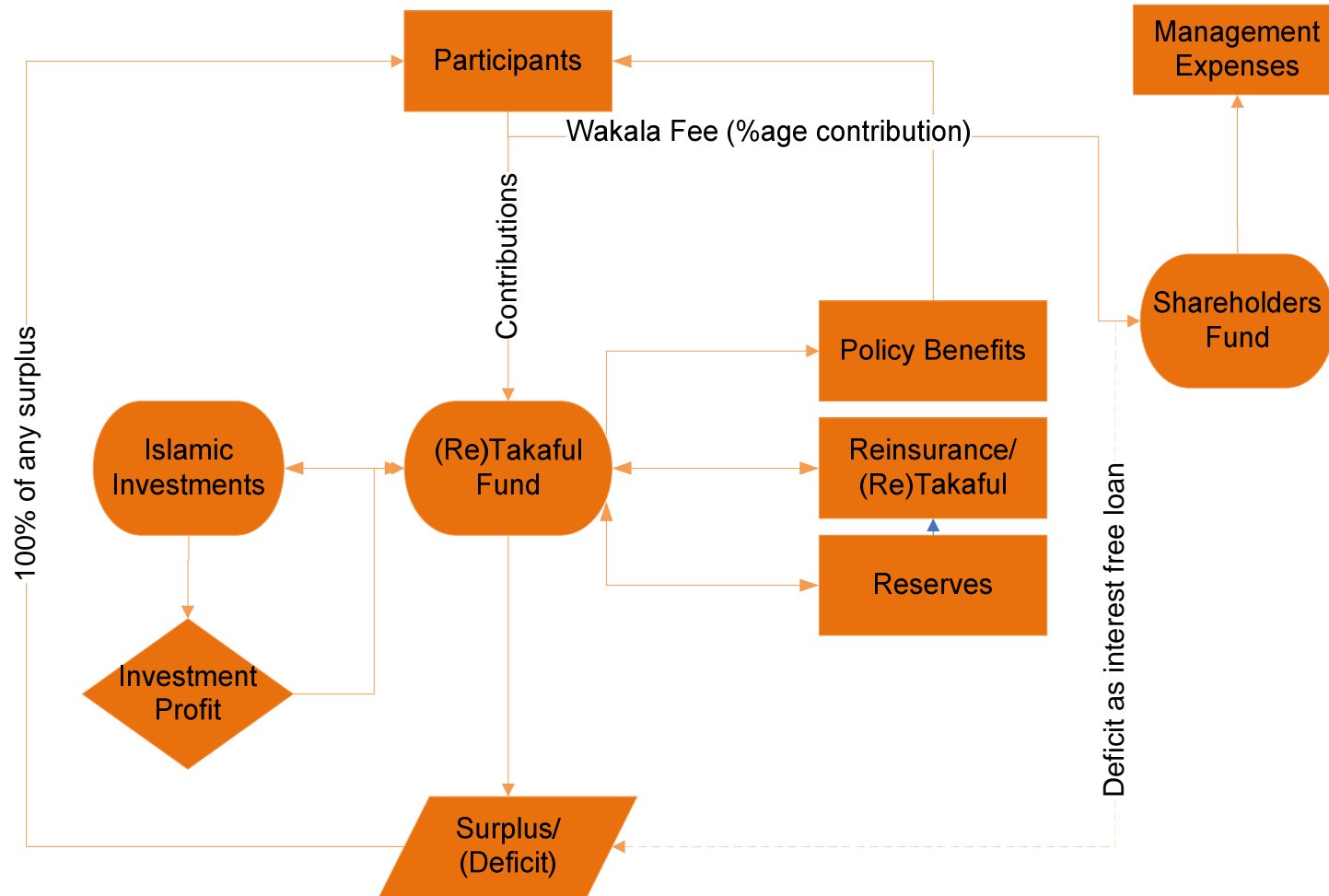
Implementation Models

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

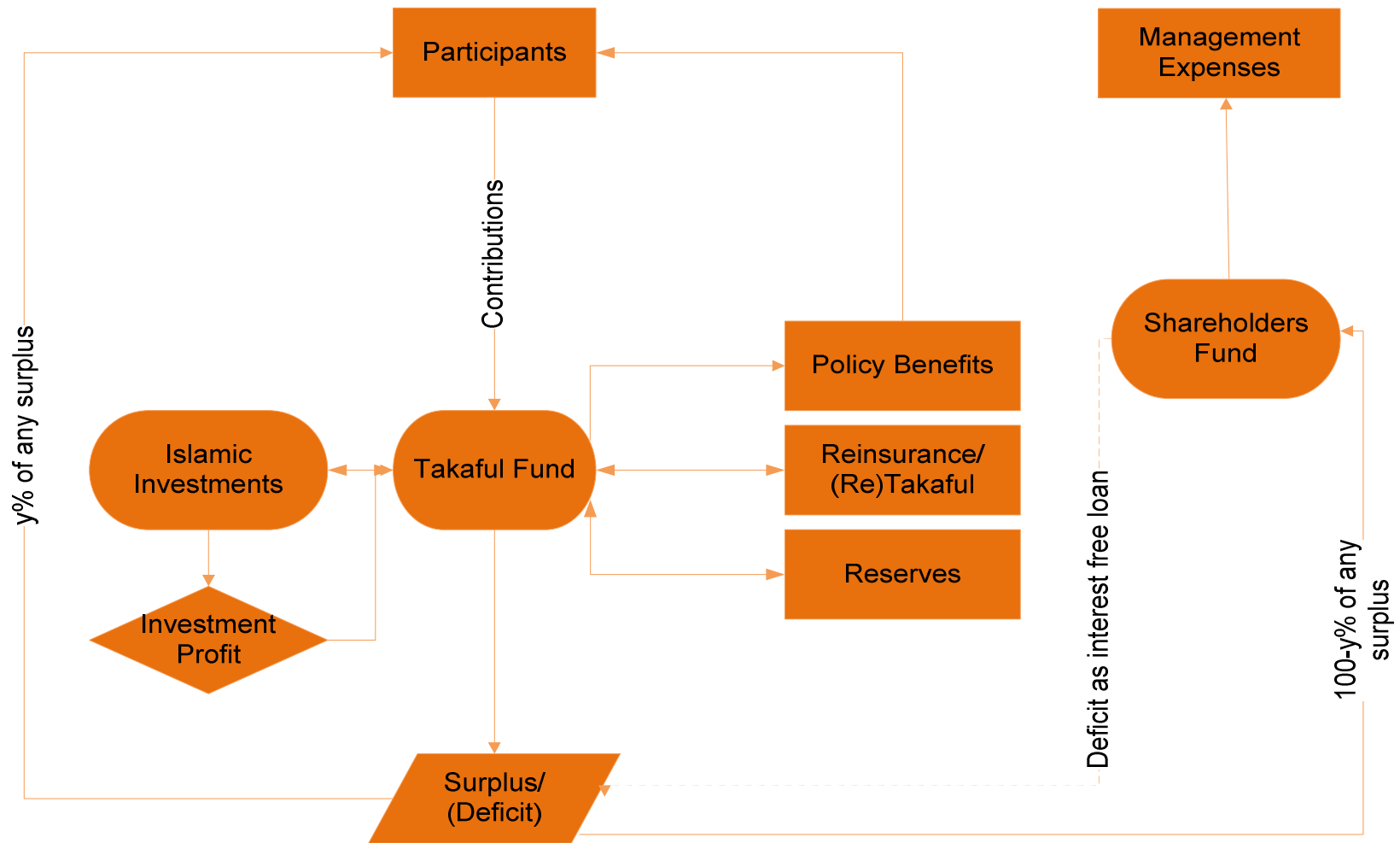
The widely used models are:

- Fees based model (Wakala);
- Profit sharing model (Mudaraba); and
- Combination of the fees and profit sharing (Hybrid).

Fee Based



Profit Sharing



(Re)Takaful Issues

- Accounting Issues – AAOIFI / IFRS
- Lack of skilled staff and economically educated Shariah scholars
- Credit rating and ERM
- Market competition
- (Re)Takaful capacity

Thank you.