



ASSOCIATION ACTUARIELLE INTERNATIONALE  
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Institute of Actuaries of India



SECTION SANTÉ DE L'AAI  
IAA HEALTH SECTION

# 13<sup>th</sup> Global Conference of Actuaries 2011

## *Emerging Risks... Daring Solutions*

### Takaful : Vision and Values The Road Ahead

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Chief Executive Officer – Prudential BSN Takaful Berhad  
Malaysia

February 20 – 22, 2011

# Agenda

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Market Opportunity

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Understanding Takaful

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# Huge Potential for Islamic Finance

Takaful penetrations are very low compared to insurance

- The global Islamic finance market estimated to be worth \$110 billion
- The assets under management expected to cross \$1 trillion by 2010 (source: Moody's)
- This is about 1 percent of the total assets under management in the banking industry
- Gross Takaful premiums in 2010 are projected to reach US\$ 8.3 billion

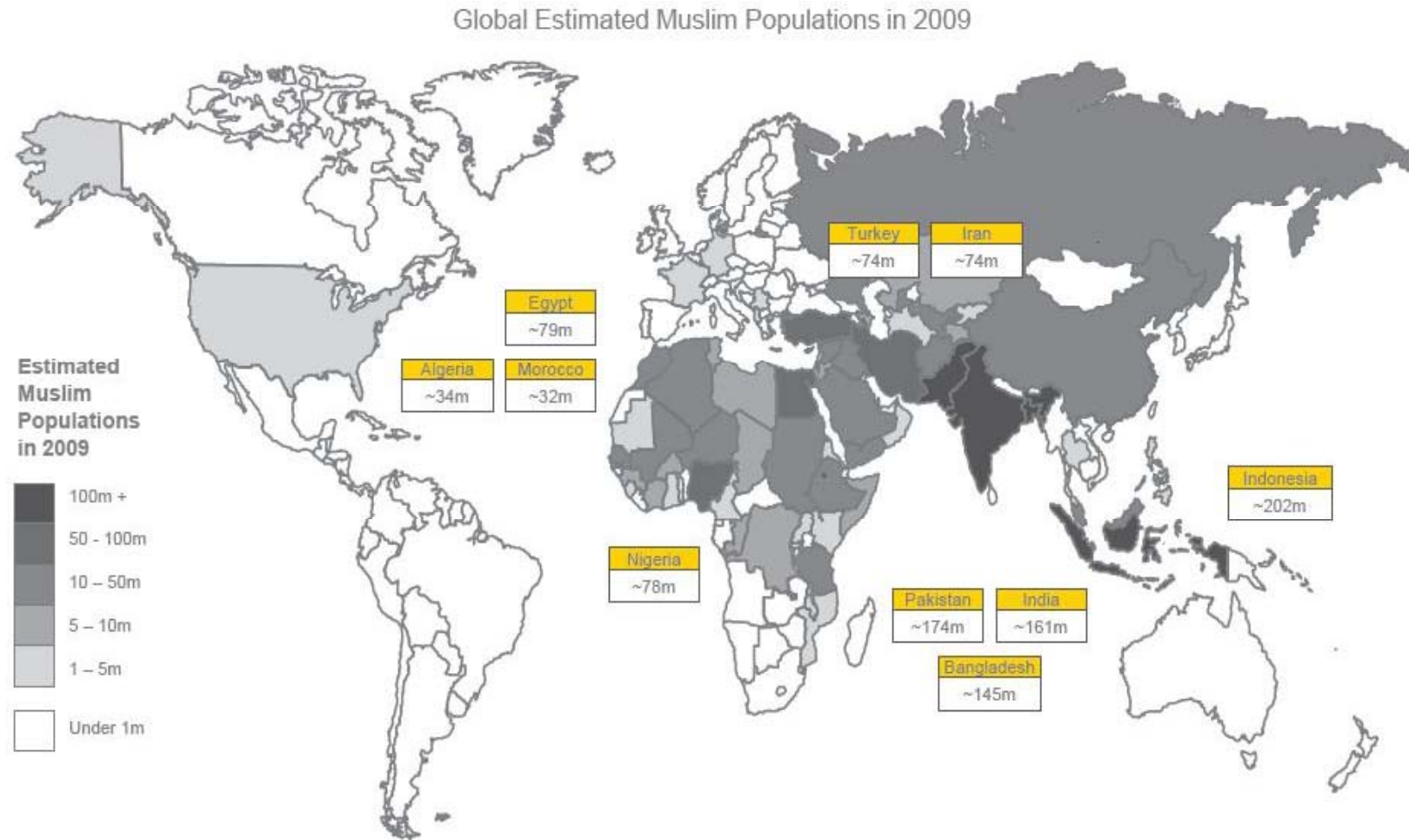
Gross Insurance  
Premiums (2009)  
**US \$ 4.3 trillion**

Gross  
Takaful  
Premiums  
(2010F)  
**US \$ 8.3  
billion**

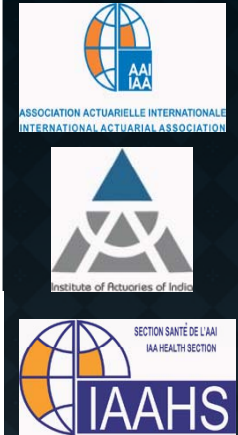
Source: Swiss Re Sigma and Ernst & Young analysis

# Muslim Population Centres

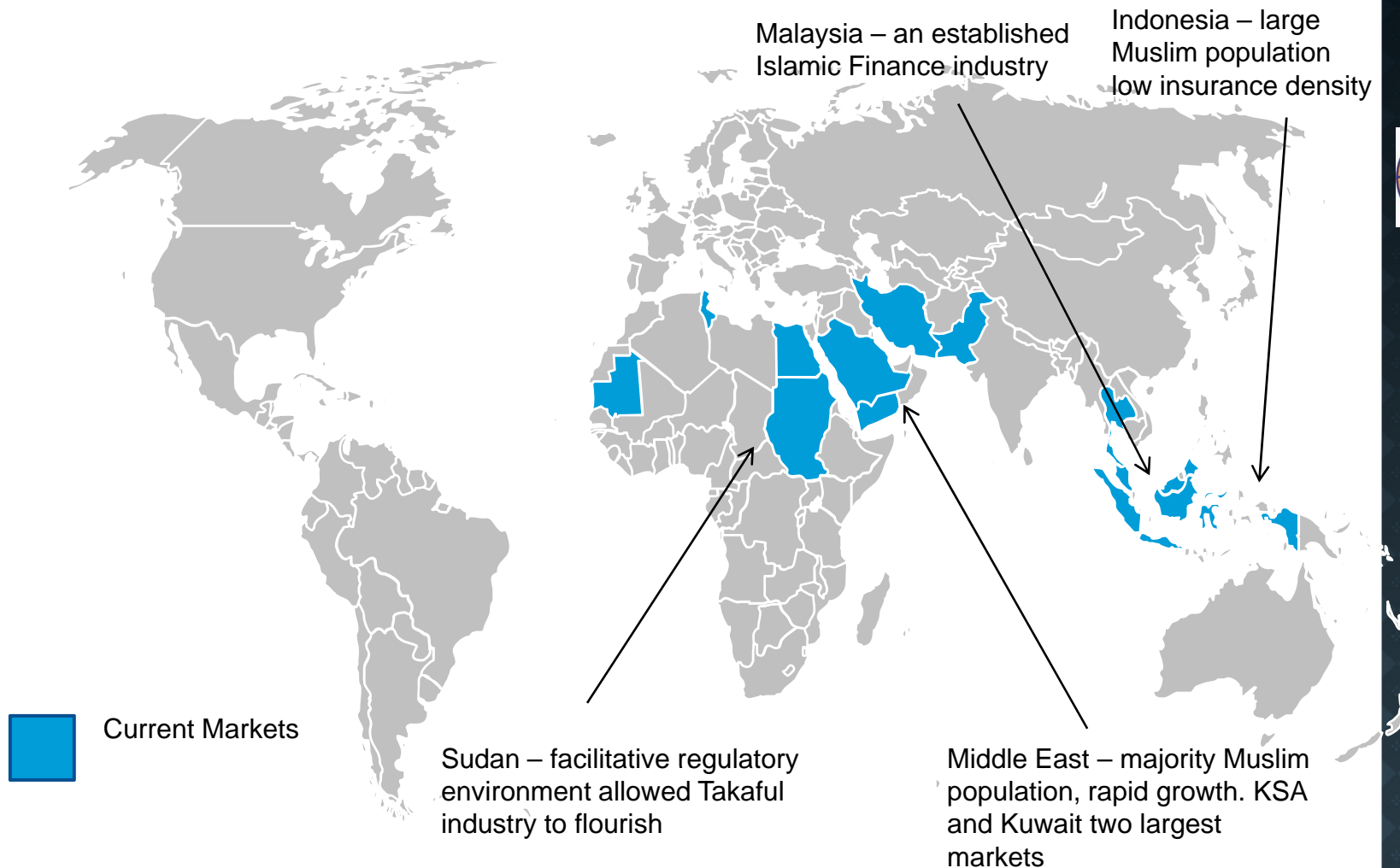
Large Muslim populations centres mainly in fast growing economies (MENA & SE Asia)



Source: Ernst and Young World Takaful Report 2010



# Current Takaful industry : Concentrated in MENA and SE Asia



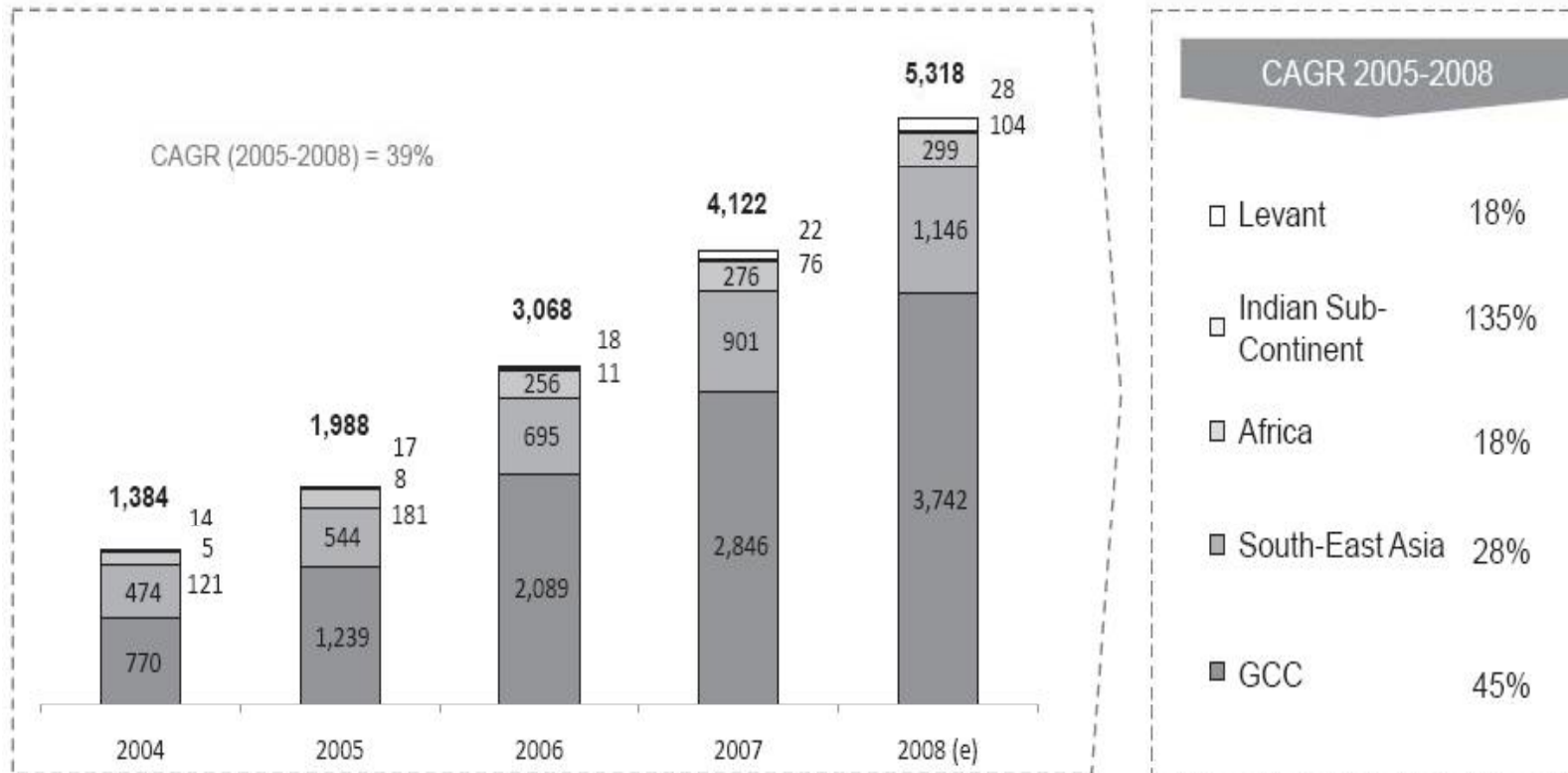
Source: Ernst and Young World Takaful Report 2010



# Global Takaful Contributions

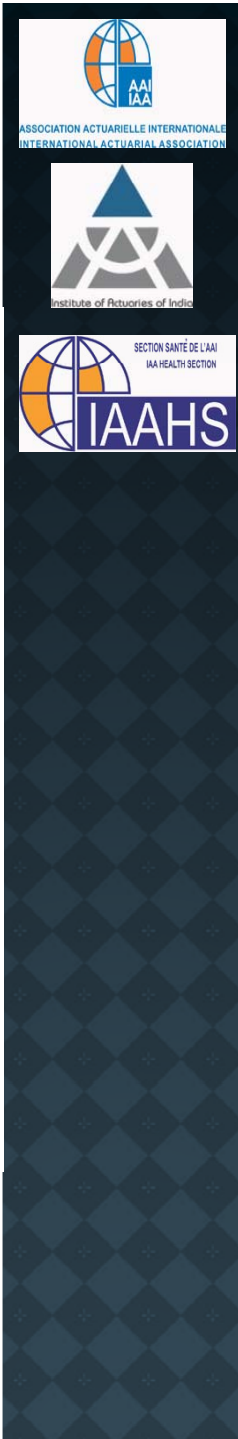
Global gross takaful contributions US\$ 5.3 billion in 2008

Global Gross Takaful Contributions (US\$m)



- World Takaful market is expected to reach US\$8.3b by 2010.

Source: Ernst and Young World Takaful Report 2010



# Market Opportunity in Malaysia

Demographic and income trends are rapidly increasing demand for Takaful products

- Muslim Malays are the principal market
- Today, it is large and underprotected
  - Penetration less than 1%
- Young and a high birth rate
- Increasingly affluent
- Target market is expected to grow by 15% to be over US\$4 billion in the next 10 years

Takaful Vs Insurance Penetration rate (as % GDP)\*

Country	Takaful	Insurance
Malaysia	0.40%	4.22%
Indonesia	0.04%	1.35%
Thailand	0.01%	3.34%
Singapore	n/a	5.8%
Hong Kong	n/a	9.2%
UK	n/a	15.7%

\* Source: Ernst and Young World Takaful Report 2010





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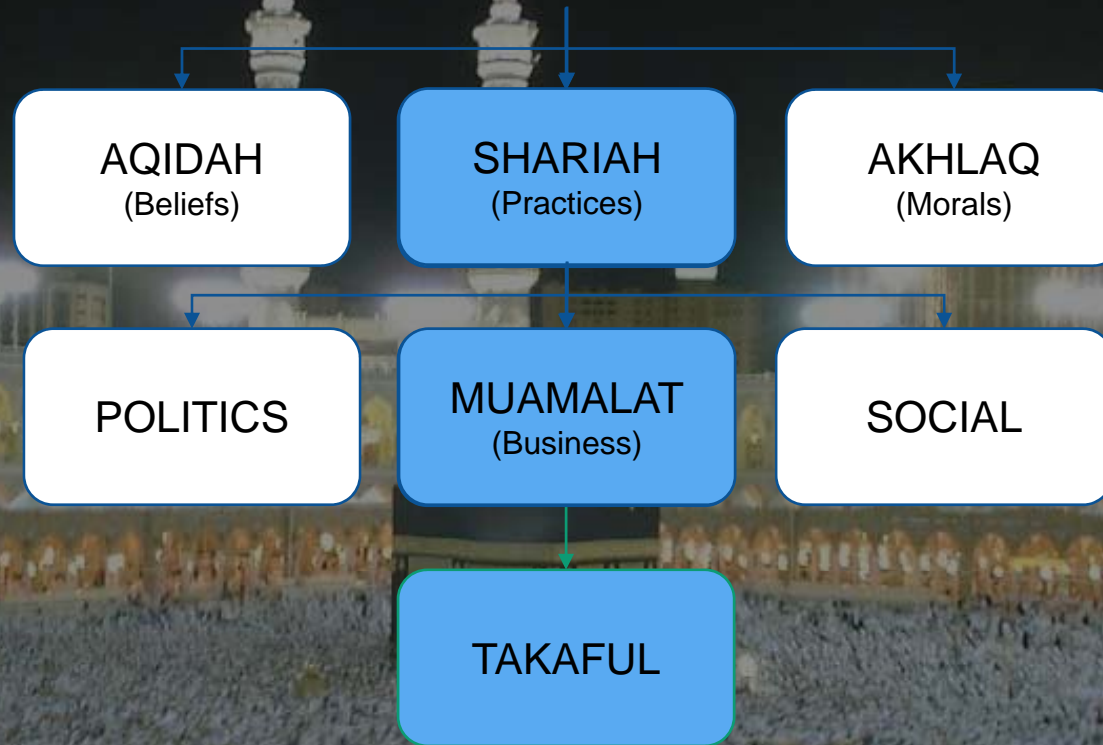
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# Understanding Takaful

## Islamic Way of Life



The word Takaful is derived from the Arabic root word *kafala* which means to *guarantee, protect, or care*.

# Takaful vs Insurance

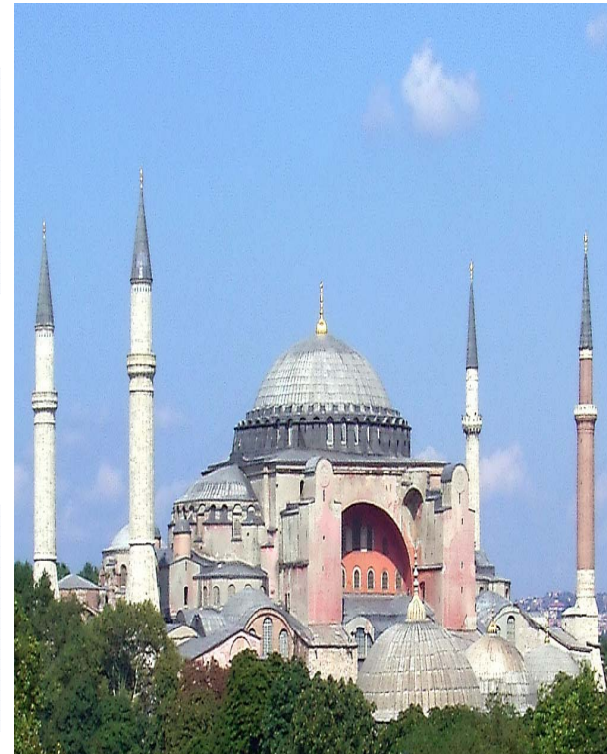
Insurance as a concept of protection is noble and accepted in Islam. However it must comply with Shariah through:-

## Elimination of Prohibited Features

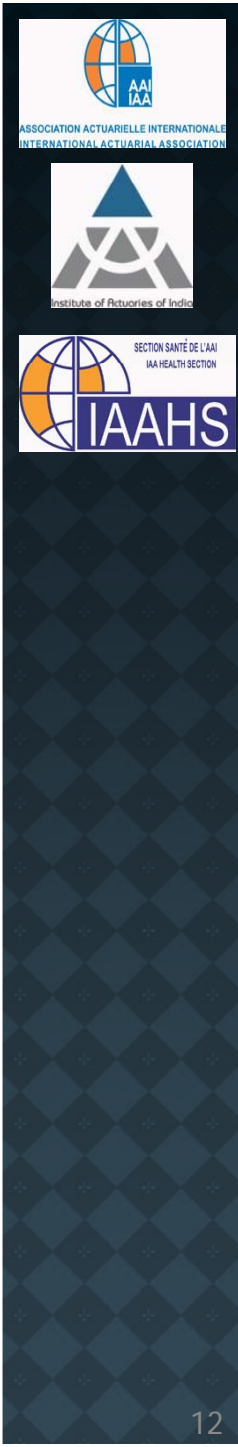
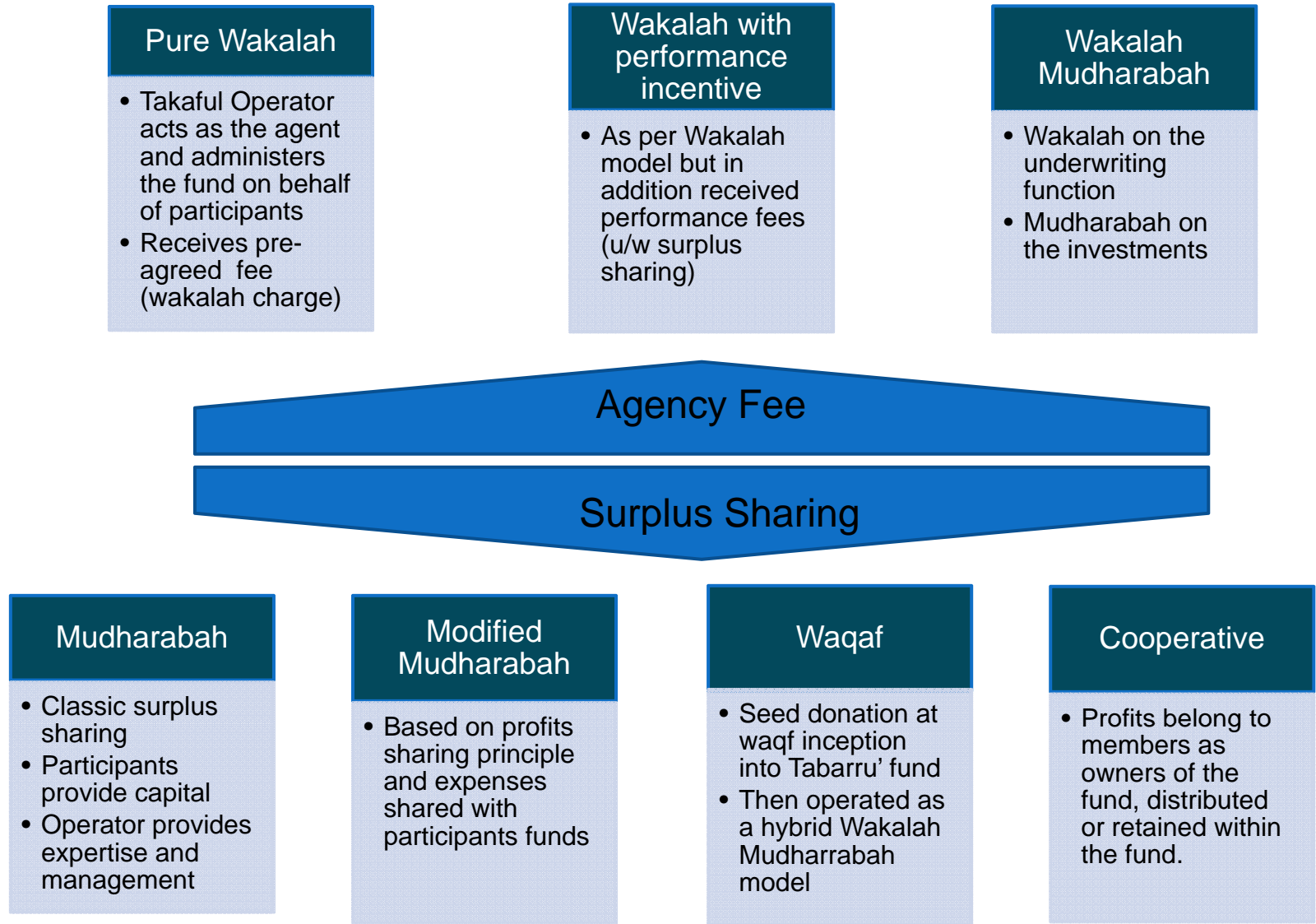
- Gharar (Uncertainty)
- Riba (Interest)
- Maisir (Gambling)

## Appointment of a Shariah Committee

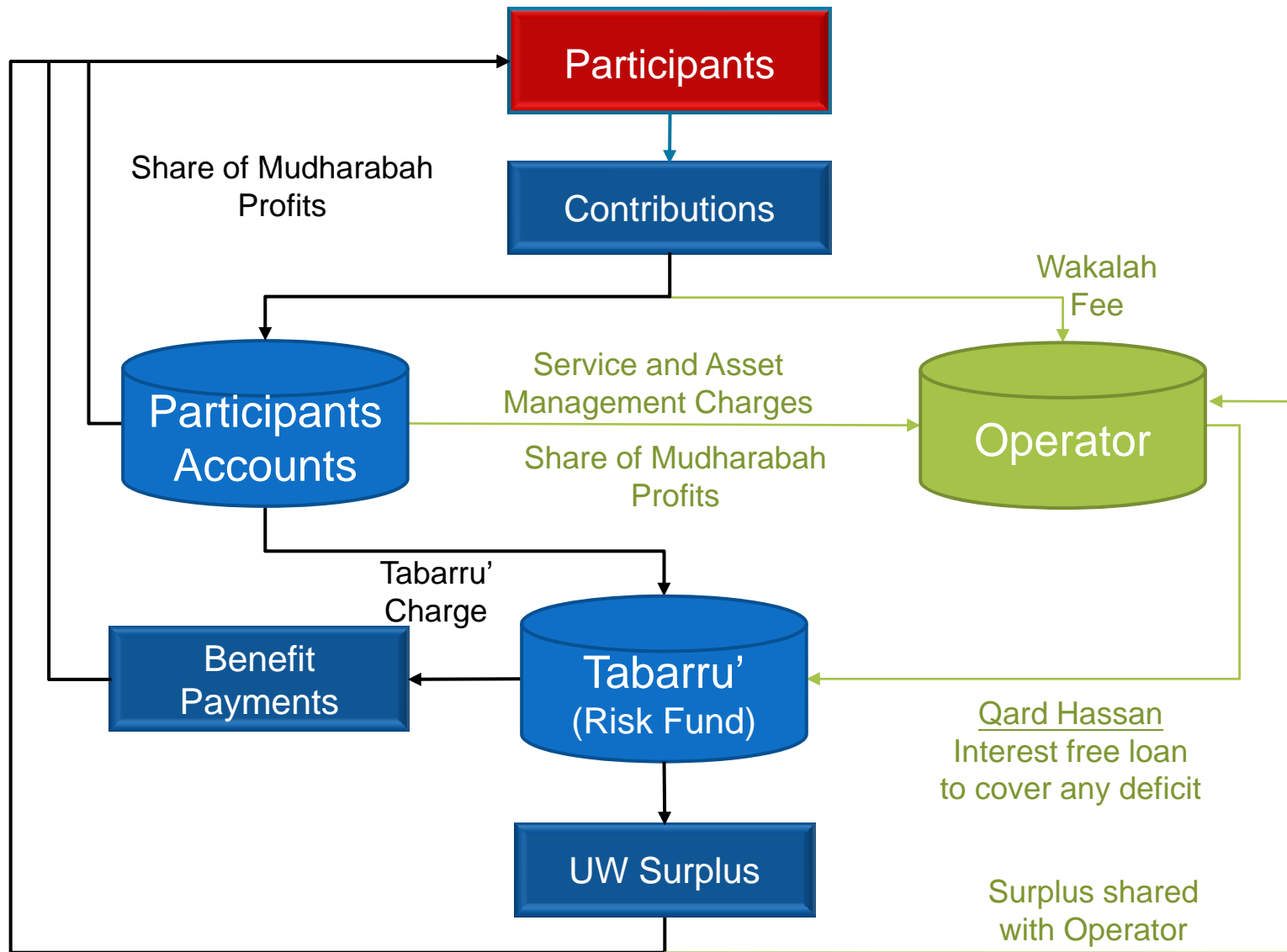
- Consists of Islamic scholars
- Ensures all aspects of business comply with Shariah



# Summary of Various Takaful Models



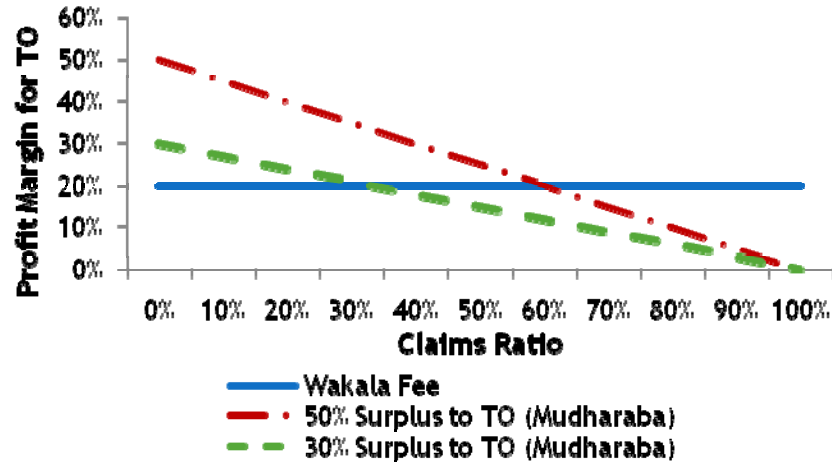
# Wakalah Mudharabah Model in Operation



# Profit Margin for TO

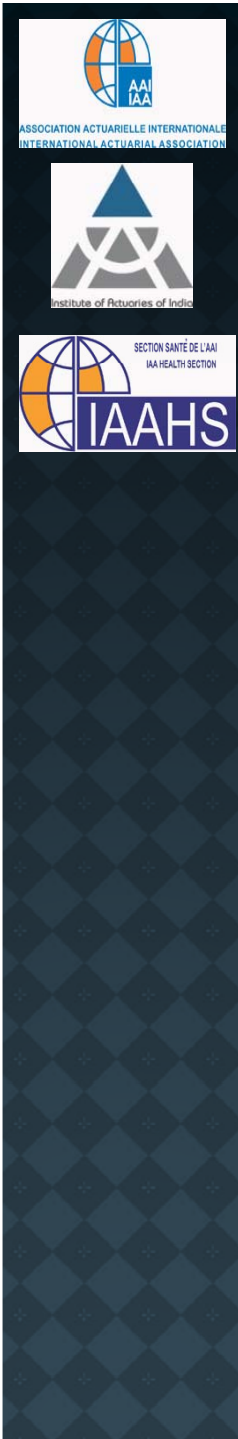
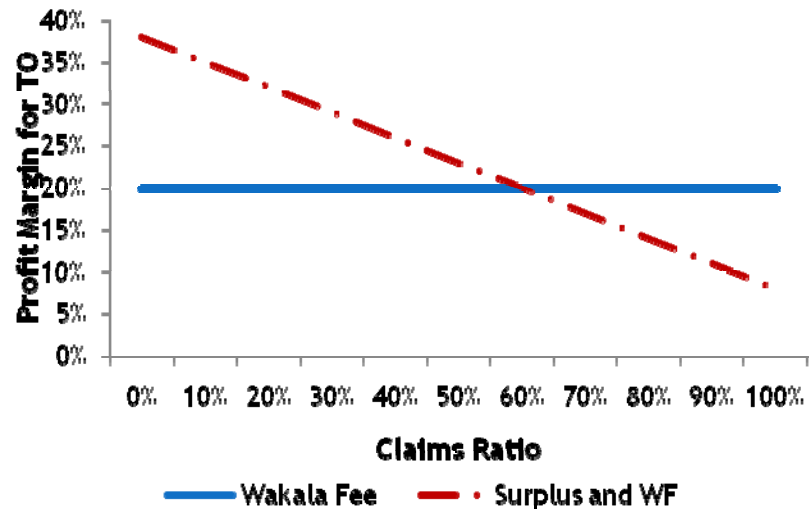
## Traditional Wakala and Mudharaba Model

- Limited upside potential for the TO
- Harms competitiveness as there is minimal incentive to perform



## Modified Mudharaba Model

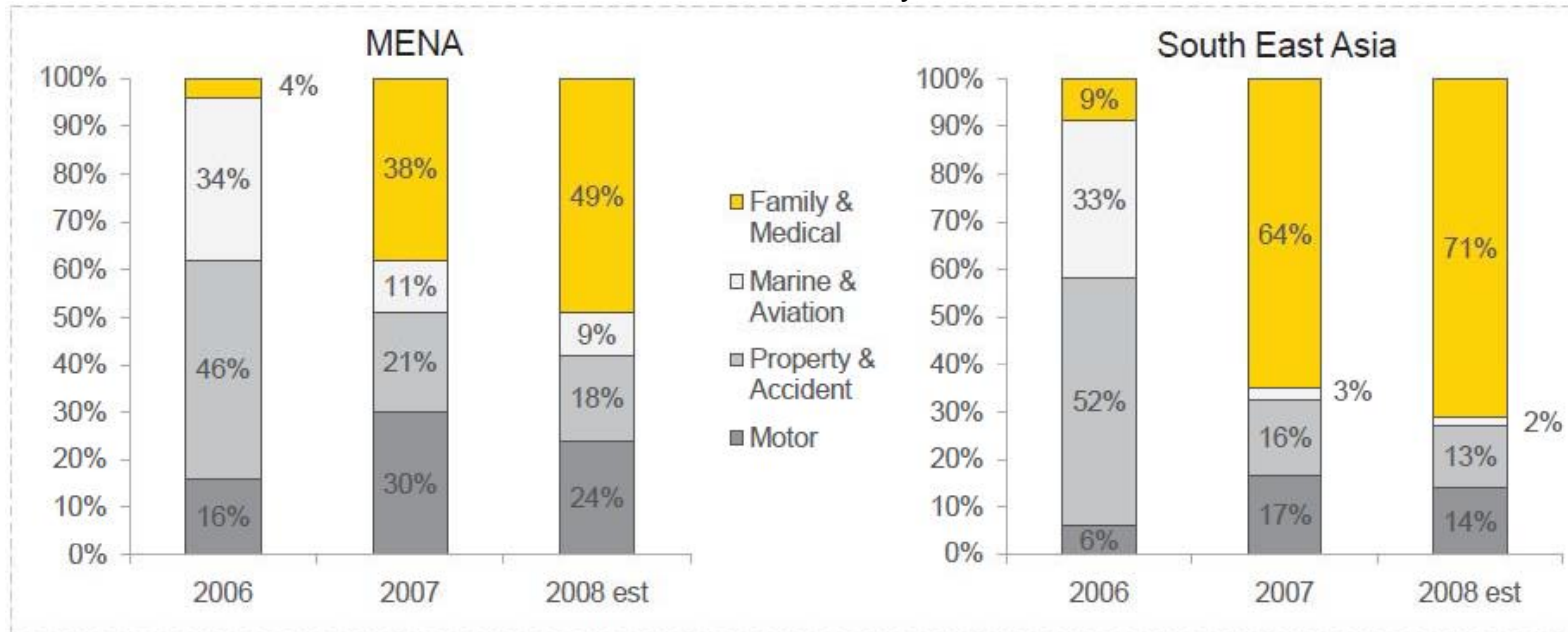
- Overcomes the shortfall of the Pure Wakala model
- Provides flexibility to TO as its parameters can be defined based on market needs
- However, this is disputed amongst scholars due to sharing of underwriting surplus



# Current Takaful Product portfolio

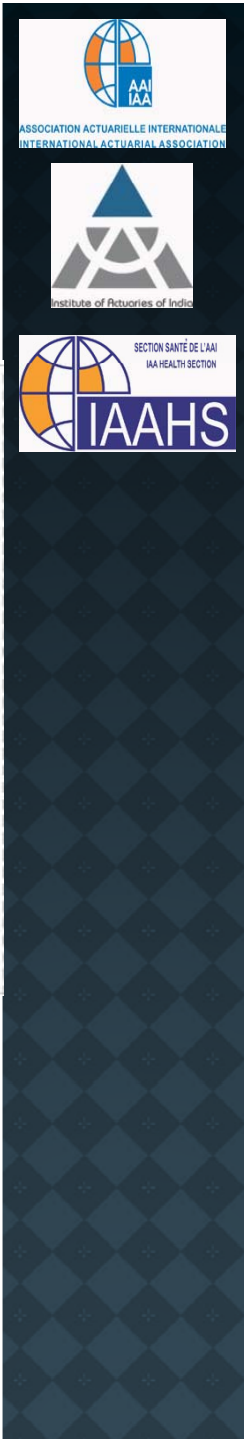
Family and medical takaful continue to grow, with the MENA region following growth trends witnessed in SEA

Takaful Contributions by Business



- Compulsory medical insurance requirements in Saudi Arabia
- Family takaful however remains underpenetrated in MENA
- Family takaful contributed to 73% of net takaful contributions in Malaysia

Source: Ernst and Young World Takaful Report



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# Distribution: What is driving the market forward?

- Low penetration levels
- Governments and regulators will be key drivers
- Diverging distribution models – agency in SE Asia, Banca in GCC
- Shariah understanding needed over and above insurance
- Different Operator models



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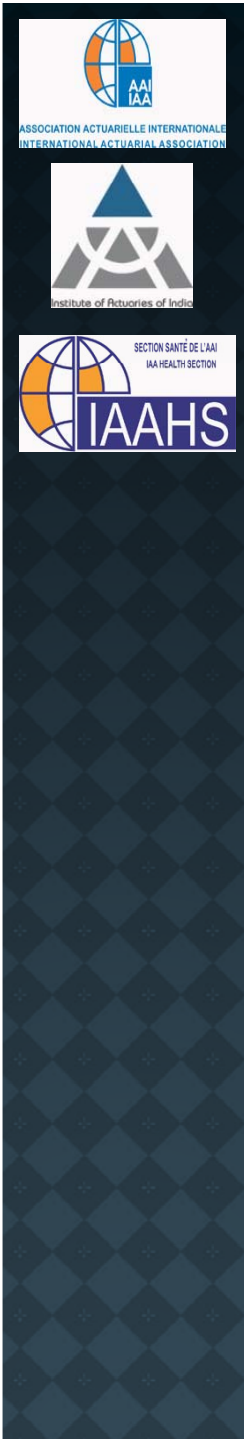
## Business Models: Evolving Takaful models

- There are four key Takaful models currently in use
- Revenue drivers for each differ significantly
- Shariah and regulatory differences both inter and intra markets
- How much does it matter to the consumer ?



# Products portfolio and pricing

- Should Takaful Operators provide products similar to insurance or differentiate ?
- Given different profit drivers what does this mean for profits and price to Takaful Operators
- Given no clear capital framework, how can shareholders RoC and other needs be addressed
- Perception that Takaful is only for Muslims



# Challenges : Solvency Framework

## Capital model does not exist for Takaful players

### Issues to consider

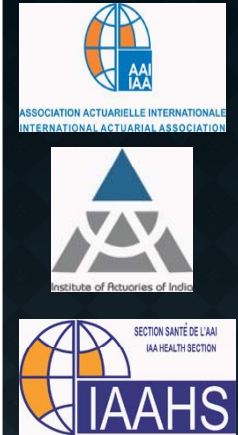
- Equity between TO and participants
- Who should fund the Risk Fund's capital
- How to compensate TO on CoC for Risk Fund

### IFSB Solvency Model (exposure draft)

- Segregation of capital for Risk and Operator Fund
- Capital in Risk fund can be financed through "earmarked facility"

### Customised Solvency Framework for TOs

- Fund ownership is different compared to insurance



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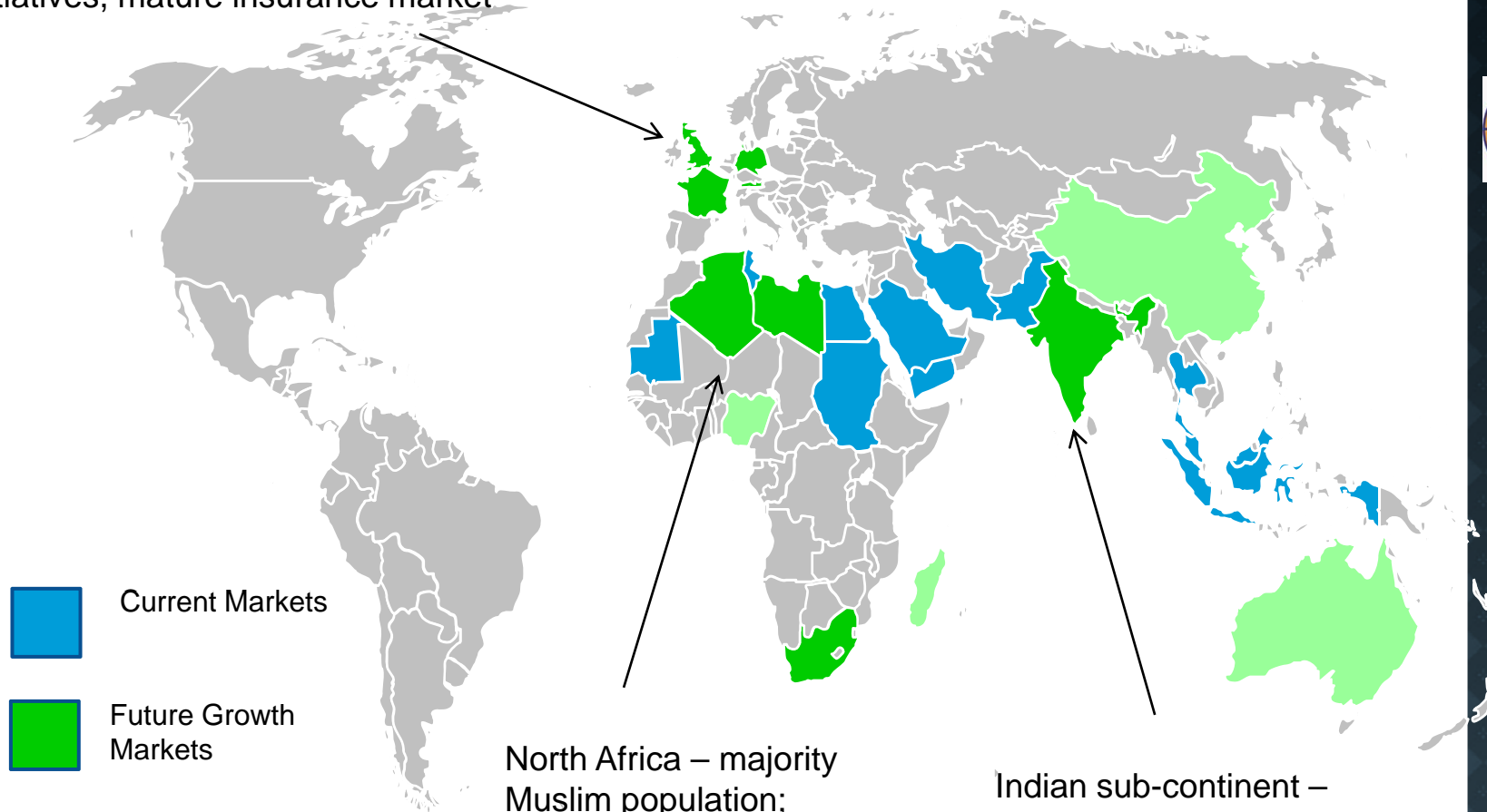
# Takaful Industry in 2020

- Gross World Takaful Contributions : 36 billion USD (Avg. growth of 15%)
- Malaysia Takaful contributions at 4 billion USD
- Many MNCs selling Takaful globally
- Standardised Takaful models intra countries
- Agency in Asia and Banca in MENA the key distribution channels
- Expansion to India, Africa and Western Europe and other non Muslim majority countries



# Expansion of Takaful industry beyond its home markets

Europe— Facilitative regulatory initiatives, mature insurance market



Source: Ernst and Young World Takaful Report 2010



# Thank You

