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Presentation on

Takaful

An emerging niche market

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TAKAFUL PAKISTAN LIMITED

Outline of Presentation

- Introduction to Takaful
- Objections to Conventional Insurance
- Difference b/w Conventional Insurance & Takaful
- Takaful Through Time
- Takaful Models
- Takaful Types
- Banca Takaful
- ReTakaful
- Foundations of Takaful in Pakistan
- Takaful Prospects in Pakistan
- Challenges to Takaful
- Takaful Pakistan Limited

Introduction to Takaful

Meaning of Takaful

- Takaful comes from the Arabic root-word 'kafala' — guarantee.
- Takaful means mutual protection and joint guarantee.
- Operationally, takaful refers to participants mutually contributing to a common fund with the purpose of having mutual indemnity in the case of peril or loss.

Reference — Al Quran:

- *“Help (ta’awan) one another in furthering virtue (birr) and Allah consciousness (taqwa) and do not help one another in furthering evil and enmity”. Al Maidah: verse 2 (5:2).*
- Takaful is a form of mutual help (ta’awun) in furthering good/virtue by helping others who are in need / in hardship .

Reference – Hadith:

- *“tie the camel first, then submit (tawakkal) to the will of Allah”*

The hadith implied a strategy to mitigate/reduce risk.

- Takaful provides a strategy of risk mitigation/reduction by virtue of collective risk taking that distributes risks and losses to a large number of participants. This mitigates the otherwise very damaging losses, if borne individually.

Declaration by Shariah scholars rendering conventional insurance un- Islamic

- Fatwa issued in Judicial Conference held in Makkah in Shaban 1398 AH.
- Verdict of Supreme Court of Egypt on Dec. 27, 1926.
- Unanimous resolutions and fatwa by Ulama in the Muslim League Conference in Cairo in 1965.
- Unanimous decision by Muslim Scholars in seminar held in Morocco on May 6, 1972.

Judicial Opinions and Fatwas confirming validity of Takaful

- Fatwa issued by Higher Council of Saudi Arabia in 1397 A.H.
- Fatwa Issued by the Fiqh Council of Muslim World League in 1398 A.H.
- Fatwa issued by the Fiqh Council of the OIC in 1405 A.H. (1985).

Fiqh Academy Resolution 1985

- Islamic Fiqh (science of Shariah) Academy, emanating from the Organization of Islamic Conference, meeting in its Second Session in Jeddah, KSA, from 10 to 16 Rabi-ul-Thani, 1405 A.H. (Dec 1985) issued a Resolution which in summary stated the following:
- The commercial Insurance contract... is prohibited (Haraam) according to the Shariah.
- The alternative **Takaful** contract which conforms to the principles of Islamic dealings **is Halaal**, being the contract of **cooperative insurance**, which is founded on the basis of **charitable donation** and **Shariah compliant dealings**.

Basic Elements of Takaful

- Mutuality and cooperation.
- Takaful contract pertains to *Tabarru'at* as against *mu'awadat* in case of conventional insurance.
- Payments made with the intention of Tabarru (*contribution*)
- Eliminates the elements of Gharrar, Maisir and Riba.
- Wakalah/Modarabah basis of operations.
- Joint Guarantee / Indemnity amongst participants – shared responsibility.
- Constitution of separate “Participants’ Takaful Fund”.
- Constitution of “Shariah Supervisory Board.”
- Investments as per Shariah.

Main drivers of Takaful

- Piety (individual purification)
- Brotherhood (mutual assistance)
- Charity (Tabarru or contribution)
- Mutual Guarantee
- Community well-being as opposed to profit maximization.

Objections to Conventional Insurance

Insurance Defined

■ Definition of an Insurance Contract

- “An **agreement** whereby one party, **the insurer**, in return for a consideration, **the premium**, undertakes to pay to the other party, **the insured**, a sum of money or its equivalent in kind on the happening of a specified event, which is contrary to the insured’s financial interest”

■ Subject-matter of an Insurance Contract

- “... what is it that is insured in a fire policy? Not the bricks and materials used in building the house, but the **financial interest** (i.e. money) of the insured in the subject-matter of insurance ...”
(Lord Justice Brett in *Castellian v. Preston* – 1883)

Objections to Conventional Insurance

- Scholars view the insurance contract as an exchange contract – money is being exchanged for money over time.
- This brings about the problem of *gharrar* (which leads to *maisir*) and in investments aspect, *riba*.
- Elements of:
 - Uncertainty – *Gharrar*
 - Gambling – *Maisir*
 - Interest – *Riba*
 - UW + Investment Profit belongs to the Company
- Note that the Scholars do not object to insurance *per se* but only to certain weaknesses in the insurance contract.

Uncertainty – Gharrar

- Conventional insurance contract is basically a contract of exchange (mu'awadaat) i.e. buying and selling whereby policy (indemnity) is sold as goods, with the premium as the price or consideration.
- The consideration must be certain for exchange contract.
- *Gharrar* in insurance contracts pertains to “deliverability” of subject matter, i.e. uncertainty as to:
 - Whether the insured will get the compensation promised?
 - How much the insured will get?
 - When will the compensation be paid?
- Thus, it involves an element of uncertainty in the subject matter of the insurance sales contract, which renders it void under the Islamic law.

Gambling – Maisir

- “Insurance is a contract upon speculation. Good faith forbids either party from concealing what he privately knows, to draw the other into a bargain, from his ignorance of that fact, and his believing to the contrary” (*Lord Mansfield in Carter v. Boehm – 1766*).
- The insured loses the money paid for the premium when the insured event does not occur.
- The company will be in deficit if claims are higher than premium.

Interest – Riba

- “ Allah has permitted trading and forbidden riba” (Al Baqarah 2 : 275).
- Insurance funds are invested in financial instruments which contain the element of Riba.

Comparing Takaful to Conventional Insurance

Issue	Conventional Insurance	Takaful
Organization Principle	Profit for shareholders	Mutual for participants
Basis	Risk Transfer	Co-operative risk sharing
Value Proposition	Profits maximization	Affordability and spiritual satisfaction
Laws	Secular/Regulations	Sharia plus regulations
Ownership	Shareholders	Participants
Management status	Company Management	Operator
Form of Contract	Contract of Sale	Cooperative, Islamic contracts of Wakala or Mudarbah with Tabar'ru (contributions)
Investments	Interest based	Sharia compliant, Riba-free
Surplus	Shareholders' account	Participants' account

Takaful Through Time

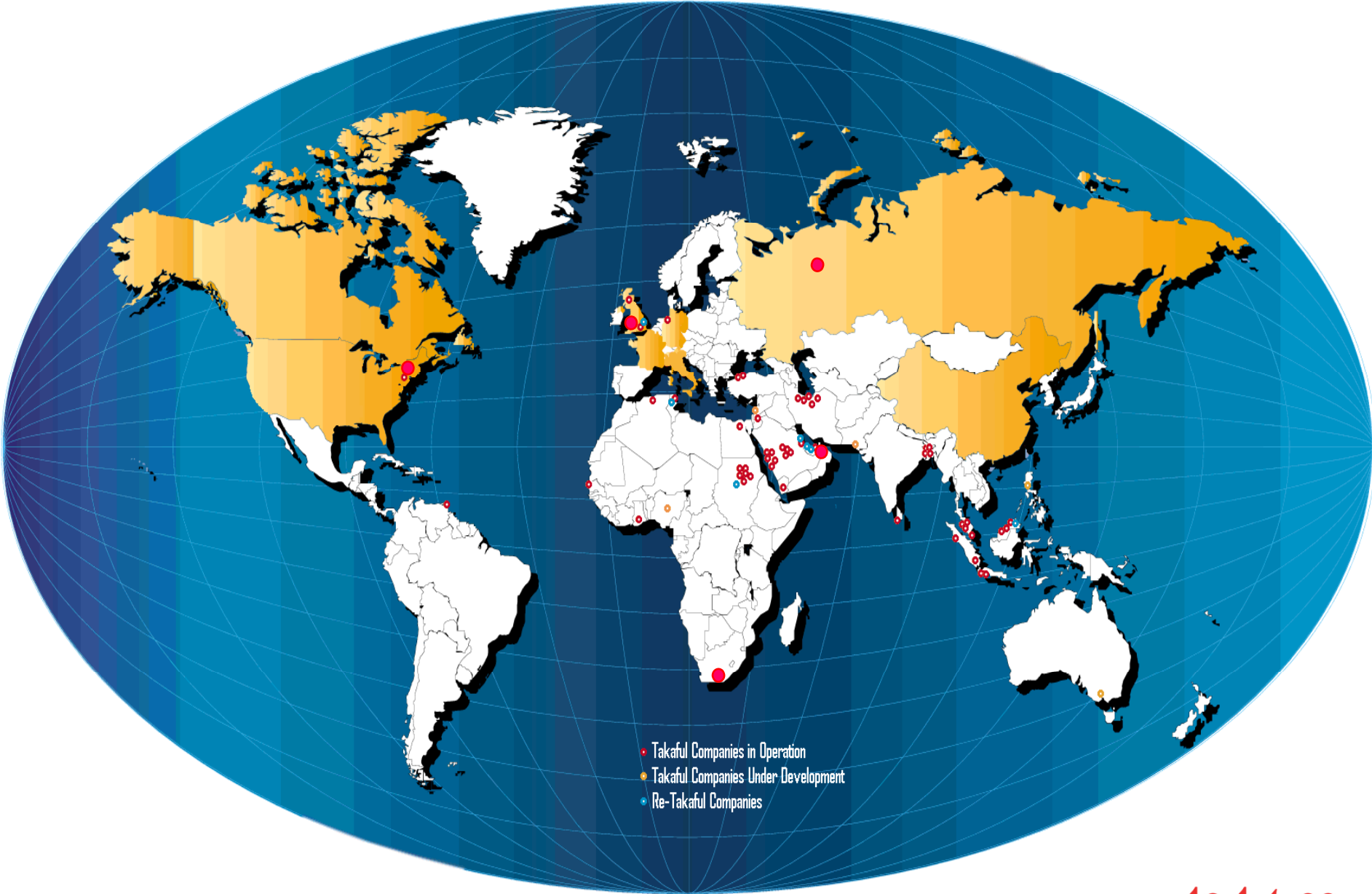
Takaful through Time

- Origins in the First Constitution of Madina.
- It evolved and continued in one form or the other throughout the Abbaside period and even later during the Ottoman empire.
- Serious efforts were made in modern times, in 1970s to come up with an Islamic alternative to the conventional insurance.
- The first Takaful company was set up in Sudan in 1979, almost simultaneously followed by another one set up in Bahrain.

Takaful through Time... (Cont'd.)

- There are now around **150** Takaful companies in over 40 countries.
- The total insurance premium of OIC countries for 2004 was USD 50 Billion; of this, Takaful contribution accounts for 5% (i.e. USD 2.5 Billion). This is expected to increase to USD 15 Billion by 2015.
- Poor Insurance penetration in the Muslim countries (<1% of GDP).
- Average growth rate higher than conventional insurance companies (around 25%).
- Non-Muslims increasingly opting for Takaful products for commercial benefits.

GLOBAL PRESENCE OF TAKAFUL

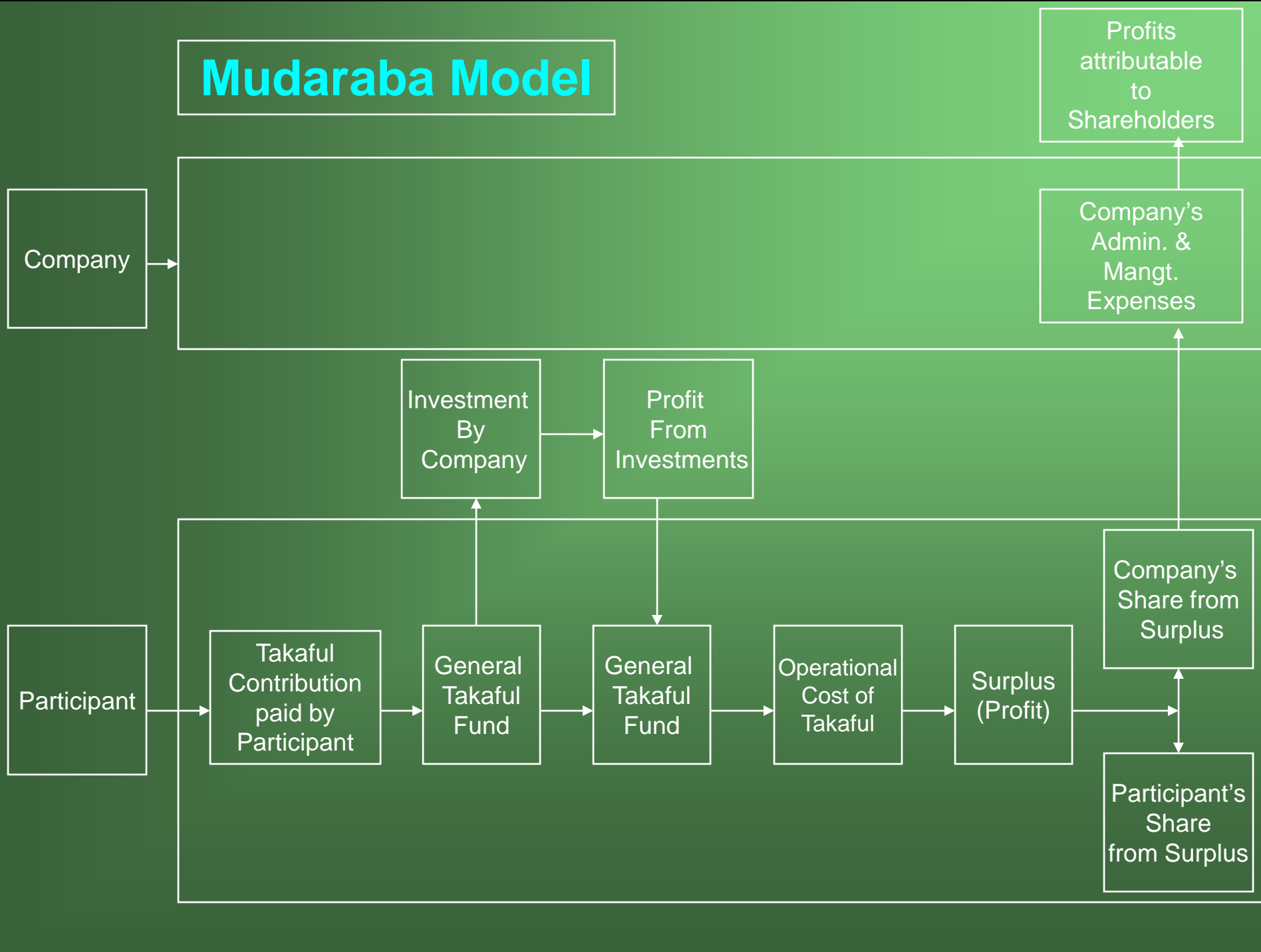


Takaful Models

Mudaraba Model

- The surplus is shared between the participants with a takaful operator. The sharing of such profit (surplus) may be in a ratio 5:5 , 6:4 etc. as mutually agreed between the contracting parties. Generally, these risk sharing arrangements allow the takaful operator to share in the underwriting results from operations as well as the favourable performance returns on invested premiums.

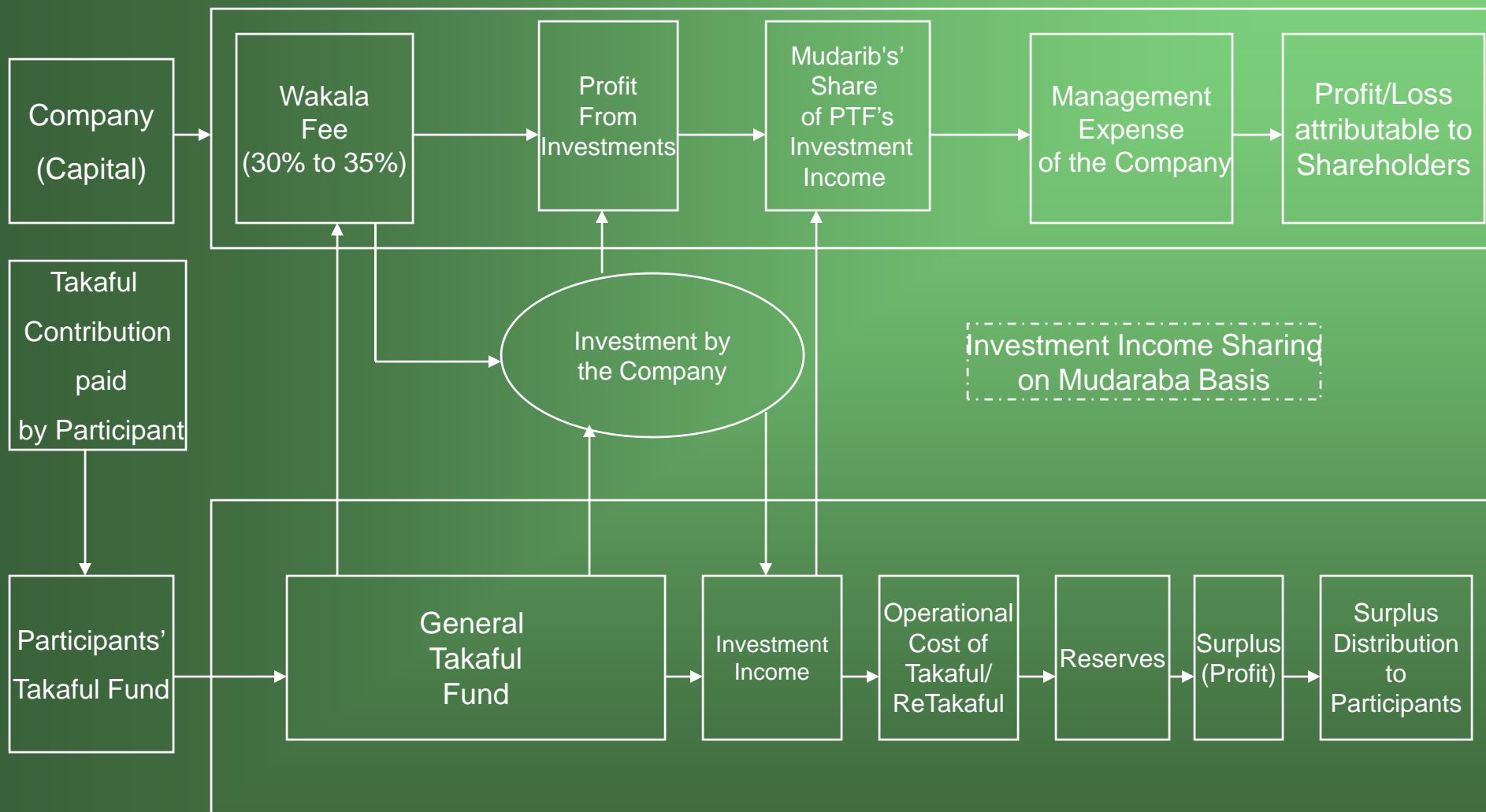
Mudaraba Model



Wakala Model

- Cooperative risk sharing occurs among participants where a takaful operator earns a fee for services (as a Wakeel or Agent) and does not participate or share in any underwriting results as these belong to participants as surplus or deficit. Under the Al- Wakala model, the operator may also charge a fund management fee and performance incentive fee.

Wakala Model

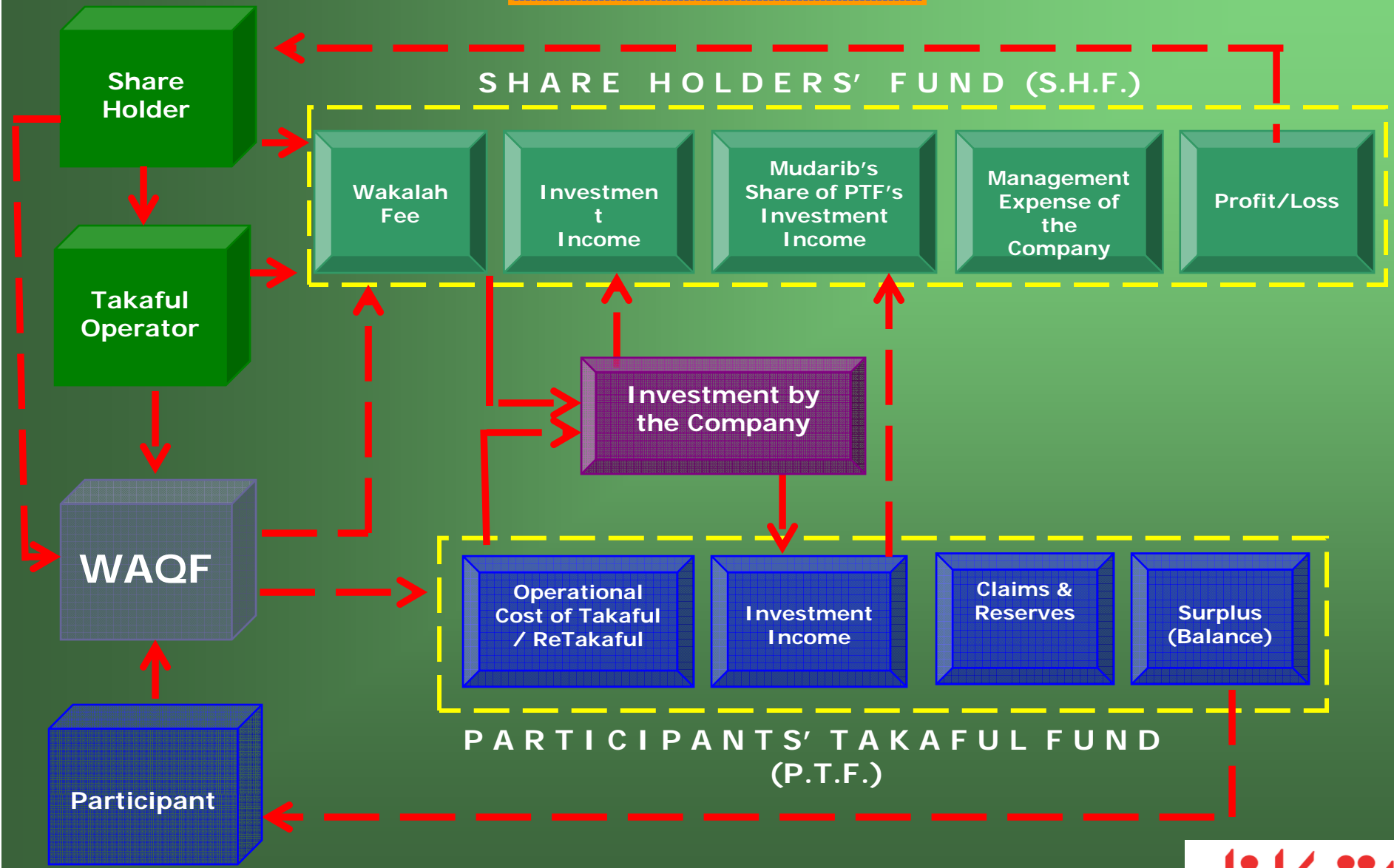


Wakala - Waqf Model

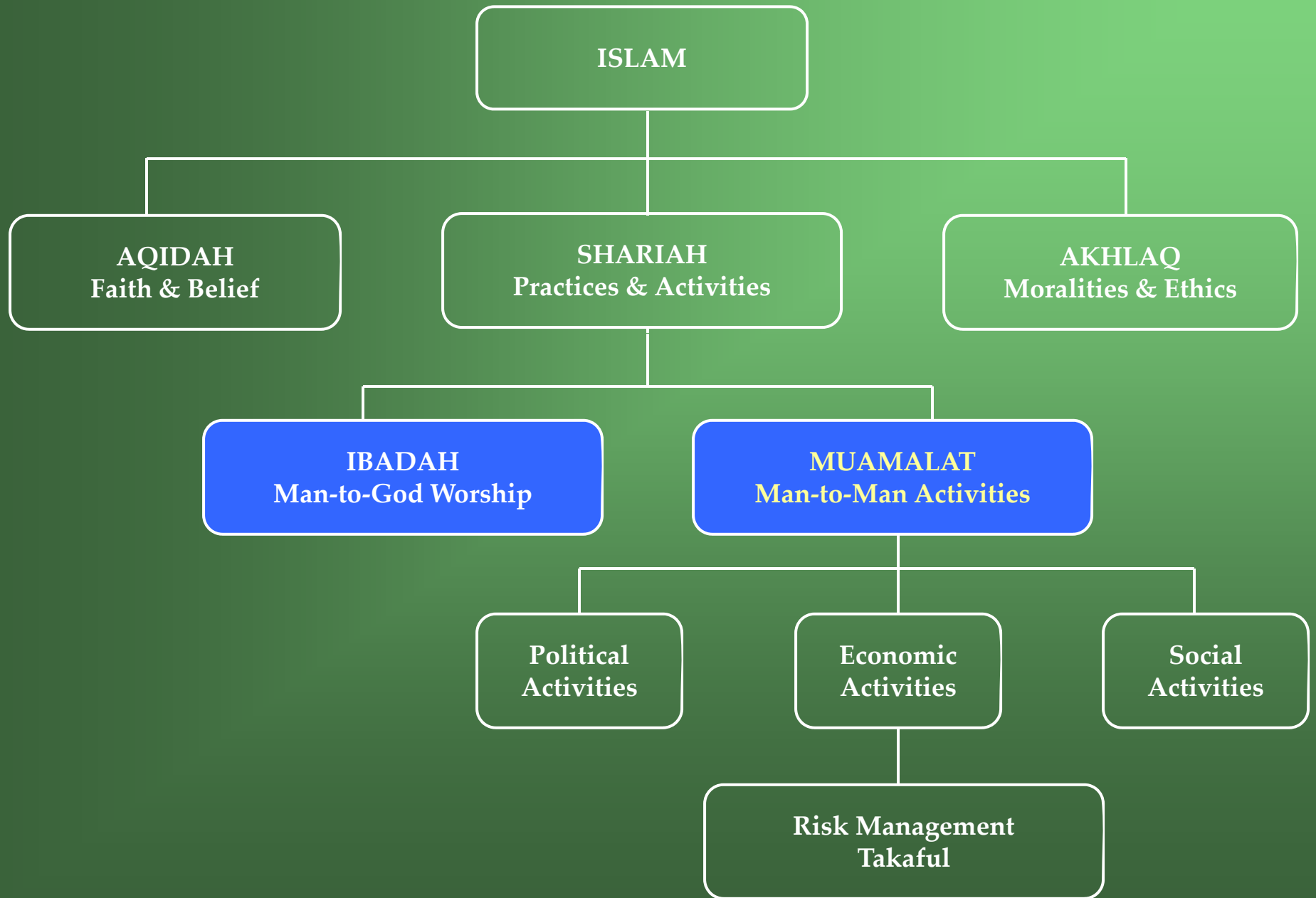
It is a WAKALAH model with a separate legal entity of WAQF in-between.

- The relationship of the participants and the operator is directly with the WAQF fund. The operator is the 'Wakeel' of the fund and the participants pay contribution to the WAQF fund by way of Tabarru.
- The contributions received would also be a part of this fund and the combined amount will be used for investment and the profits earned would again be deposited into the same fund which also eliminates the issue of Gharar.
- Losses to the participant are paid by the company from the same fund.
- Operational expenses that are incurred for providing Takaful services are also met from the same fund.

Wakala-Waqf Model



Models – The beauty of Islam lies
in its
plurality ... !



General Takaful Types

- **General Takaful** – offers all kinds of non-life risk coverage. It is normally divided into following classes:
 - **Property Takaful**
 - **Marine Takaful**
 - **Motor Takaful**
 - **Miscellaneous Takaful**

Types of Family Takaful

- Term Life Takaful
- Whole Life Takaful
- Endowment Takaful
- Universal Takaful
- Marriage Plan
- Education Plan

BANCATAKAFUL

- Background
- Range of Products
 - Savings → Personal Accident, Homeowners' Comprehensive, Credit Cards, etc.
 - Financing, Individuals → Car Ijarah, Housing Musharika, Mortgage Takaful.
 - Financing, SMEs → Trade Credit Takaful, Business, Office, Equipment, Assets.
 - E-Commerce

BANCATAKAFUL (...Cont'd.)

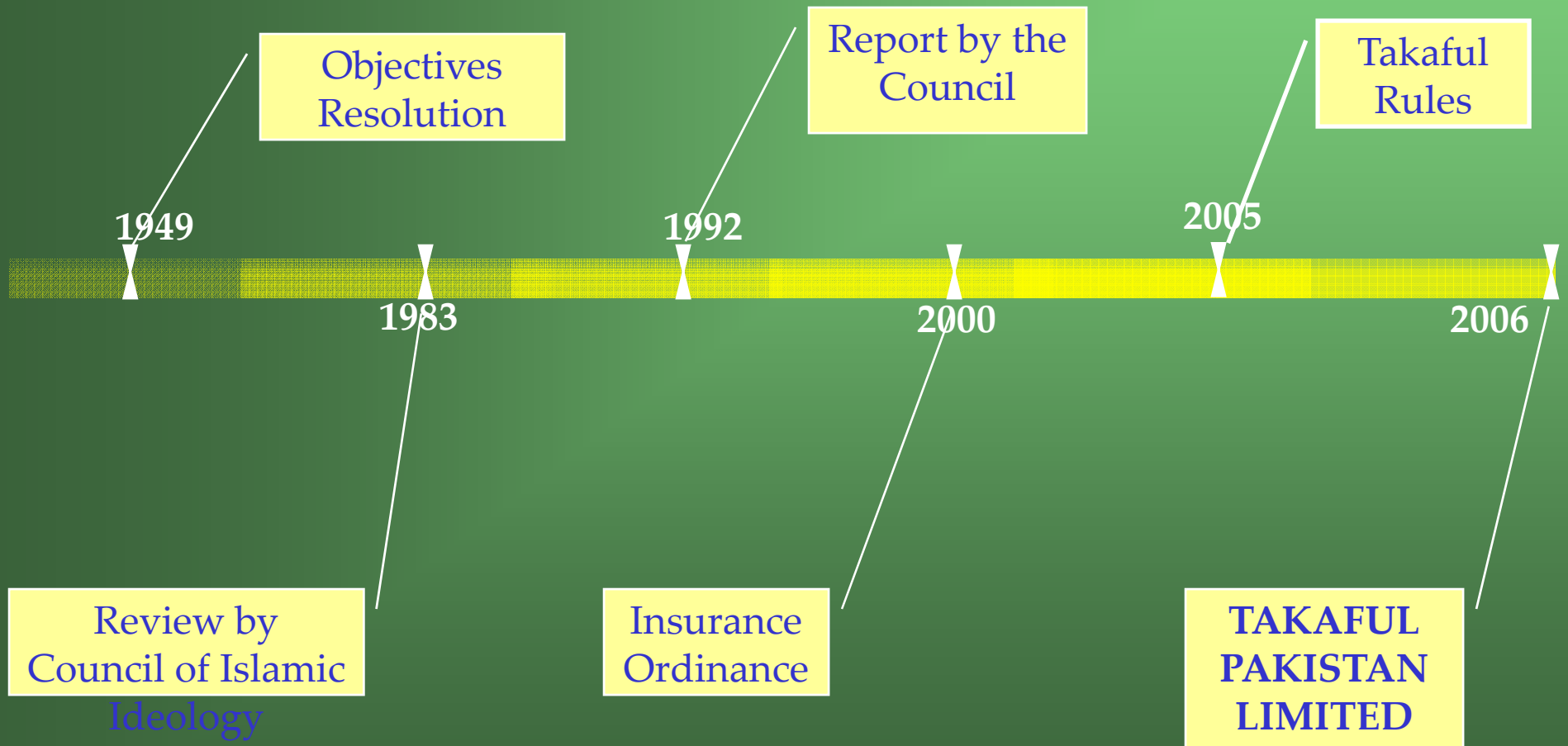
Advantages of BancaTakaful:

- Facilitation Desk / Equipment.
- Fast Turnaround Time.
- One-Stop shop for Clients.
- Concept of Islamic Financial Supermarket.
- Value Added Services.
- Law of Large Numbers.
 - Lower Contribution Rates.
 - Attraction for Depositors.
- Synergy.

ReTakaful

- Currently few ReTakaful companies worldwide offering a relatively small capacity:
 - Sudan (1979) National Reinsurance.
 - Sudan (1983) Sheikhan Takaful Company.
 - Bahamas (1983) Saudi Islamic Takaful and ReTakaful Company.
 - Bahrain/Saudi Arabia (1985) Islamic Insurance and Reinsurance Company.
 - Tunisia (1985) **B.E.S.T. Re**
 - Malaysia (1997) **ASEAN ReTakaful** International.
 - Dubai (2005) **TakafulRe** by ARIG.
 - Lloyds of London to have a ReTakaful Syndicate in 2007.
 - SwissRe has formed a separate ReTakaful Pool
 - MunichRe to form a separate ReTakaful Pool
 - **Provision in Takaful Rules – 2005.**

T I M E L I N E - T A K A F U L I N P A K I S T A N



Takaful Prospects in Pakistan

- 97% Muslim population.
- Demand for insurance increasing with increase in per capita income.
- Personal lines insurance business (leasing, health, Medicare) growing at a higher rate than other conventional classes.
- Islamic banking on sound footing with support of the Govt.

TAKAFUL - TARGET MARKET

- People who do not insure due to religious reasons.
- People who insure and are insensitive to religious reasons.
- People who currently do not insure at all.

Challenges to Takaful

- Skepticism.
- Lack of uniformity in Shariah decisions.
- 'Windows' issue.
- Regulatory issues.
- Capacity constraints due to inadequate ReTakaful.
- Limited Investment avenues.
- H.R. issues.

TAKAFUL PAKISTAN LIMITED

- Takaful Pakistan is a joint venture of prestigious local & foreign institutions, including:
 - House Building Finance Corporation.
 - Emirates Global Islamic Bank.
 - Arif Habib Securities.
 - Sitara Chemicals.
 - Emirates Investment Group (Sharjah).
 - Al-Buhaira National Insurance Co. (U.A.E.)
 - Mal Al-Khaleej (an Al-Rajhi Group company)
- Large initial paid-up Capital.

TAKAFUL PAKISTAN LIMITED ... (Cont'd.)

- Managed by dedicated professionals, committed to the cause.
- ReTakaful arrangements with a consortium of internationally reputed ReTakaful operators.
- Shariah Board comprises of eminent scholars.
- BancaTakaful and MicroTakaful products.
- Crop Takaful.
- We intend to be the trend-setter for excellent Clients' Servicing, Operational bench marks and prudent Underwriting practices.

Conclusion

- Takaful defined.
- Comparison with conventional insurance.
- Takaful Models
- Takaful Types
- BancaTakaful
- ReTakaful
- Takaful Pakistan Limited
- More info? Visit: www.takaful.com.pk

Thankyou for your attention
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