building value together

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Takaful in Africa

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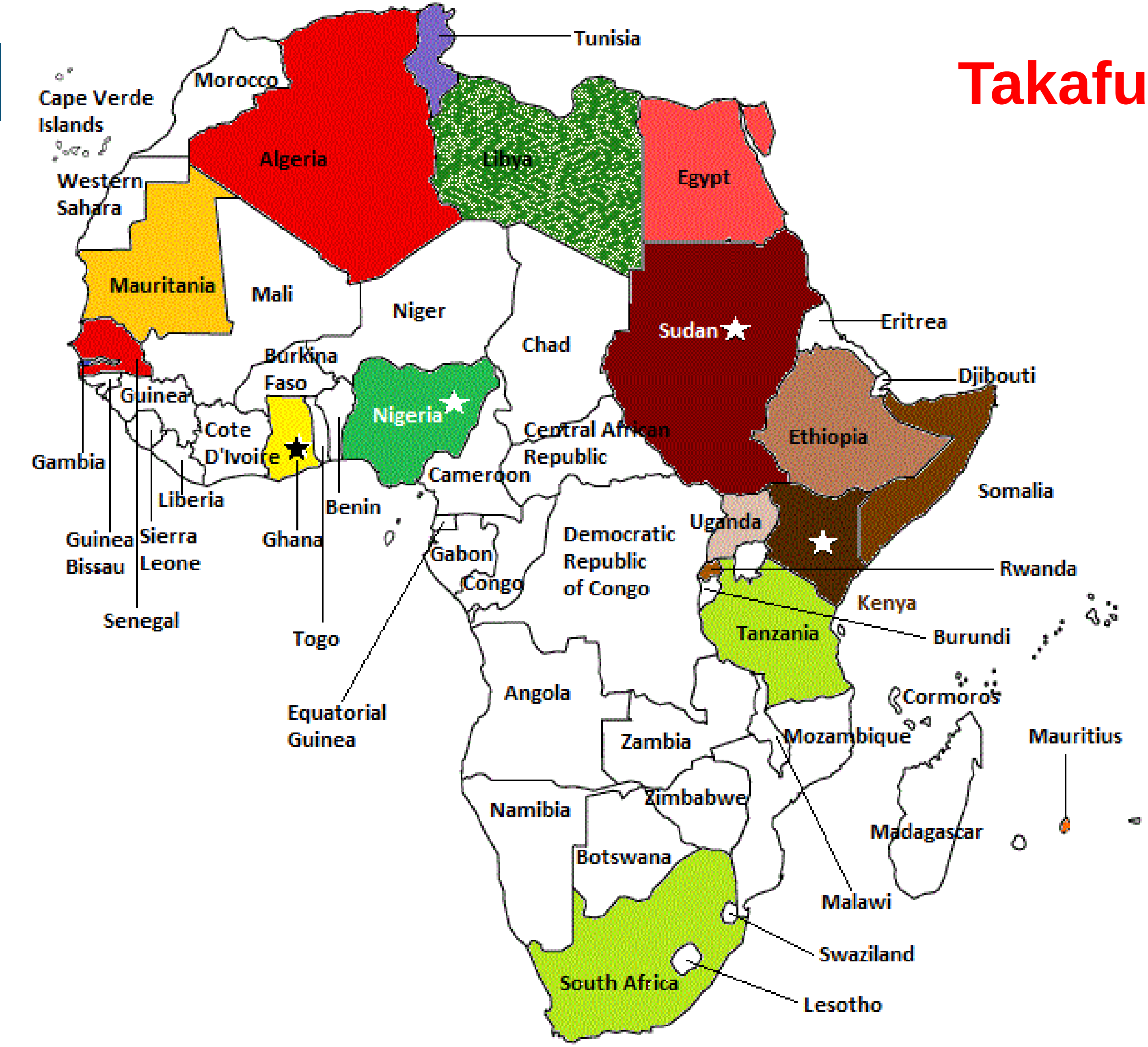
Lome

Takaful in Africa



Extent of religion in insurance

Religious buildings and property can be insured taking into account its special risks, such as Ansvar insurance in Australia (connected to the Anglican church)

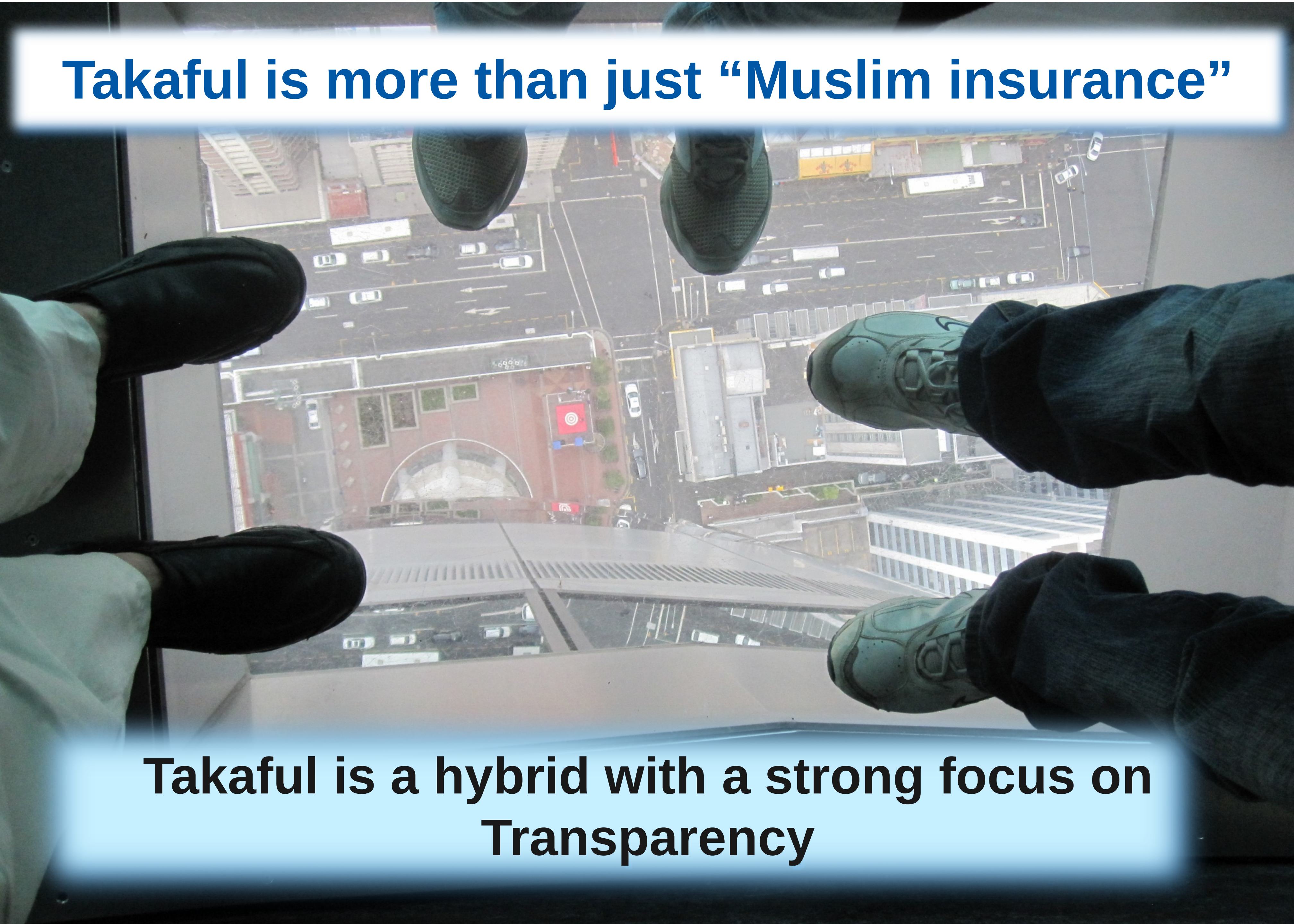
Extent of religion in insurance

People of a specific religion can be insured, such as the Samaritan Ministries in the U.S. with health insurance

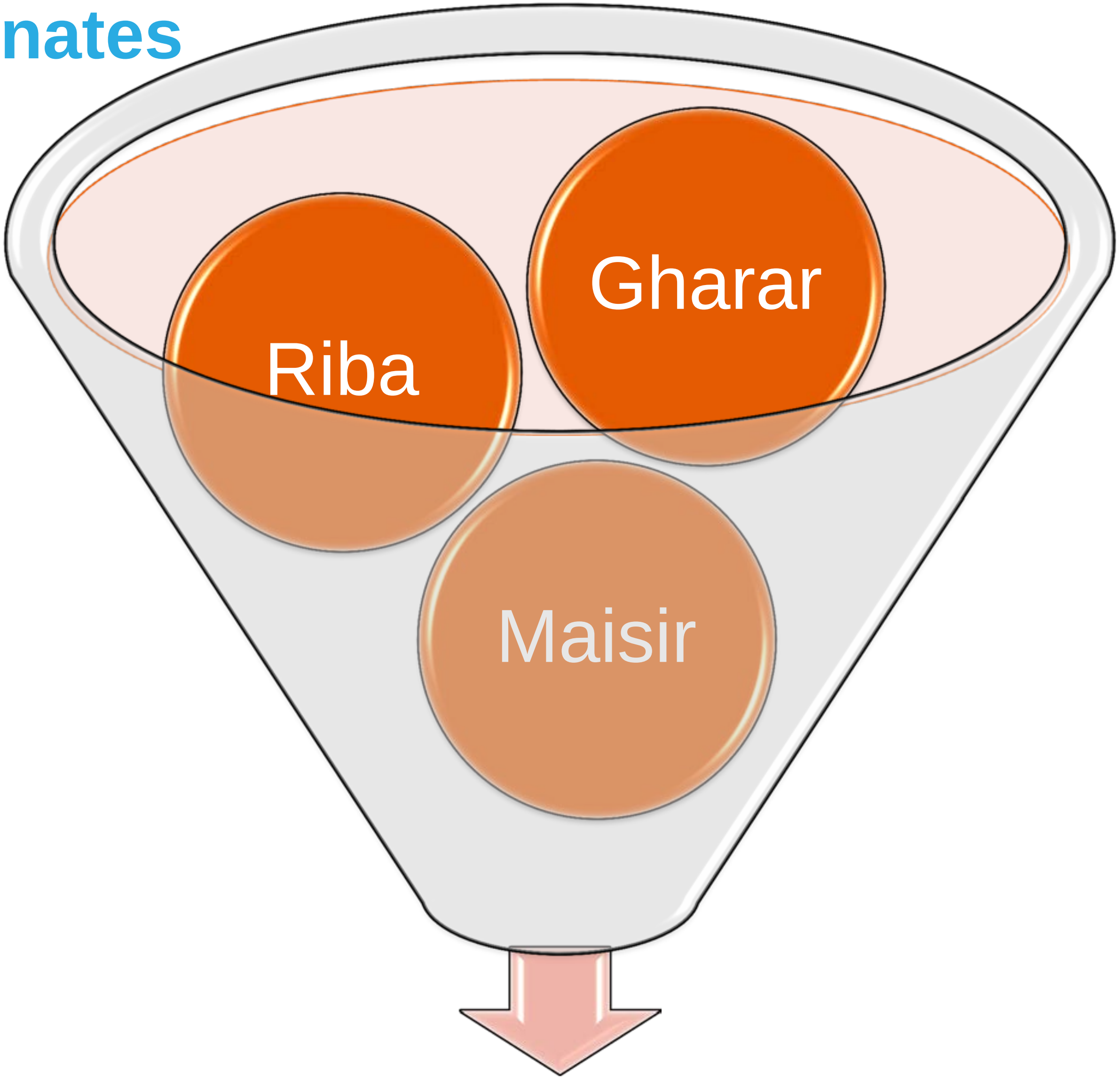
Extent of religion in insurance

Religious values can be ingrained in all aspects of insurance operations, such as with takaful and Christian Super in Australia


Whereas proprietary insurance focus is on profit and guaranteeing benefits and returns, in cooperatives it is on working together for success


Takaful is more than just “Muslim insurance”
Takaful is a hybrid with a strong focus on Transparency

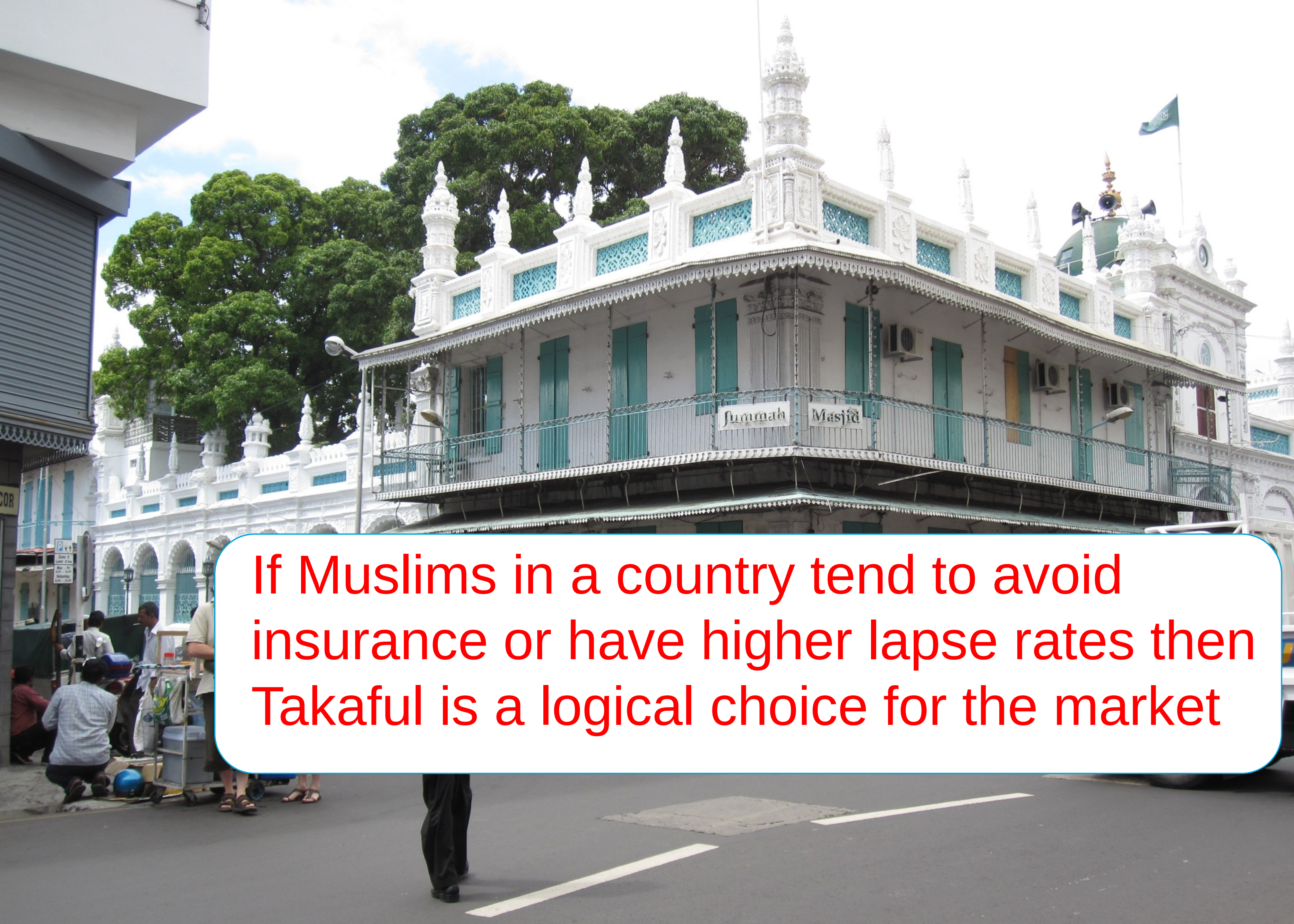
Takaful eliminates



Forbidden Activities

Takaful is managing risks

Receive fees for work performed



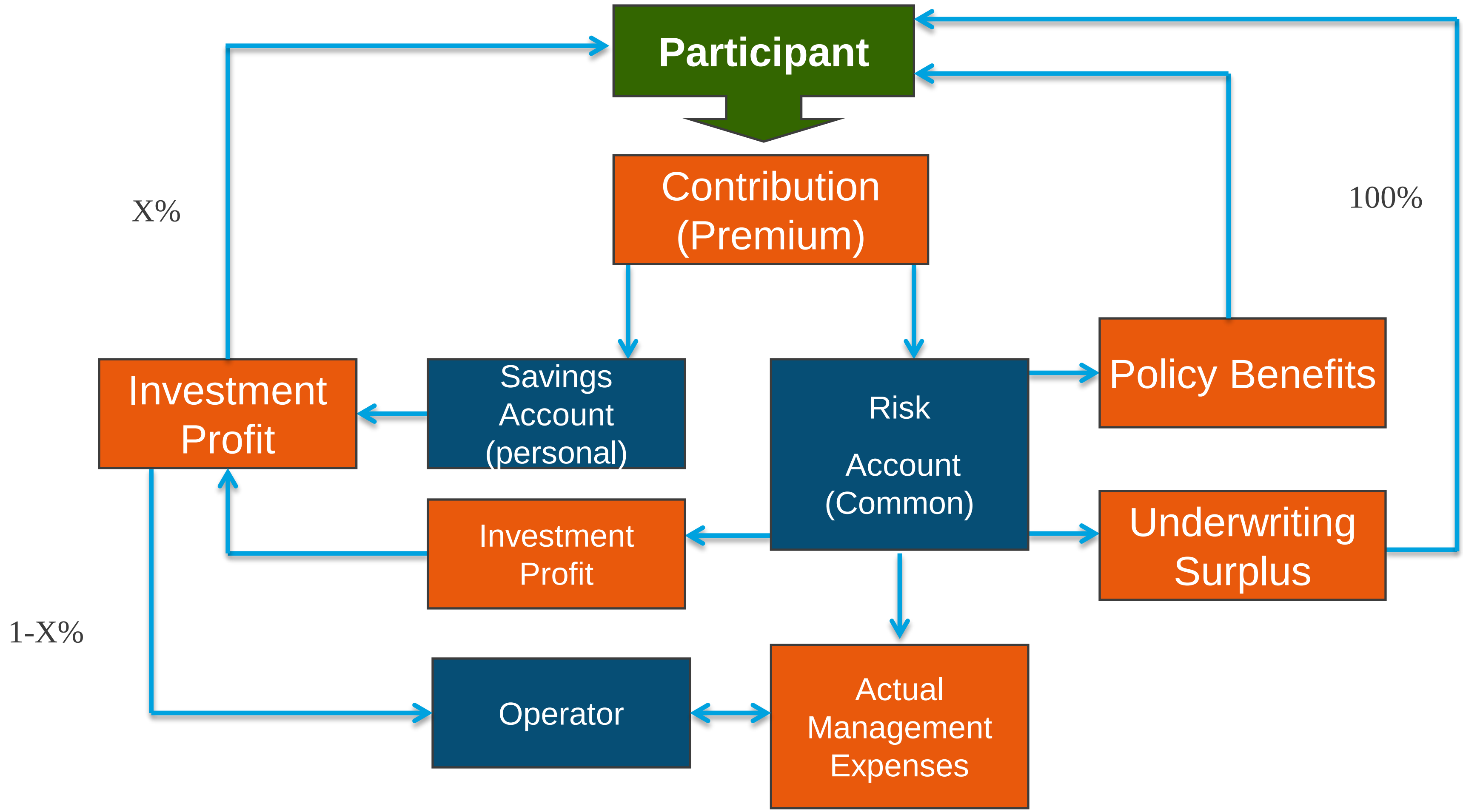
If Muslims in a country tend to avoid insurance or have higher lapse rates then Takaful is a logical choice for the market

Discussion Points with Models

- **Are the interests of participants and the operator aligned?**
- **Does it have Islamic acceptability?**
- **Will it provide a competitive product?**
- **Will it give enough returns to the operator?**

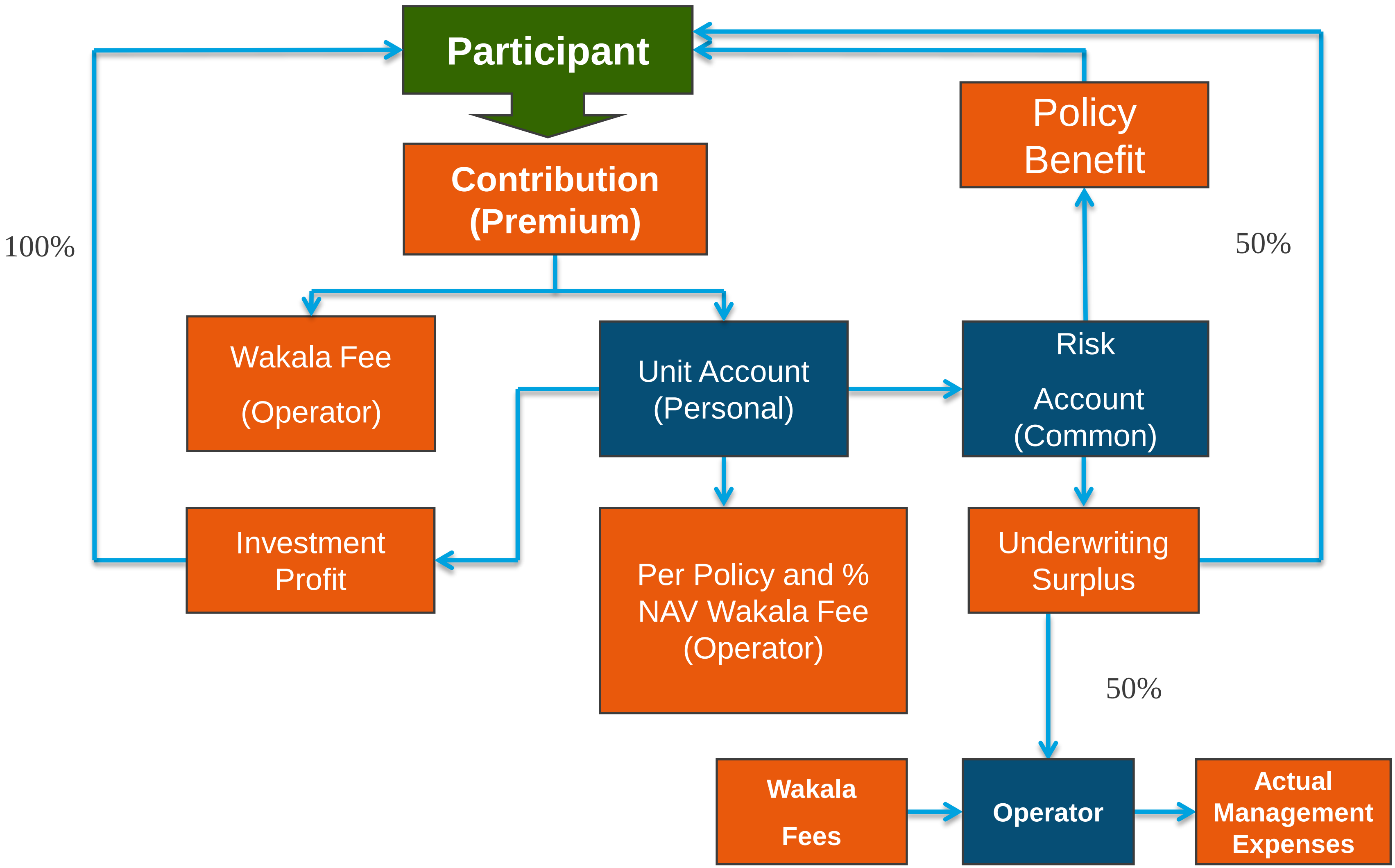
Models Currently in Use

Mudharaba – Sudan Version



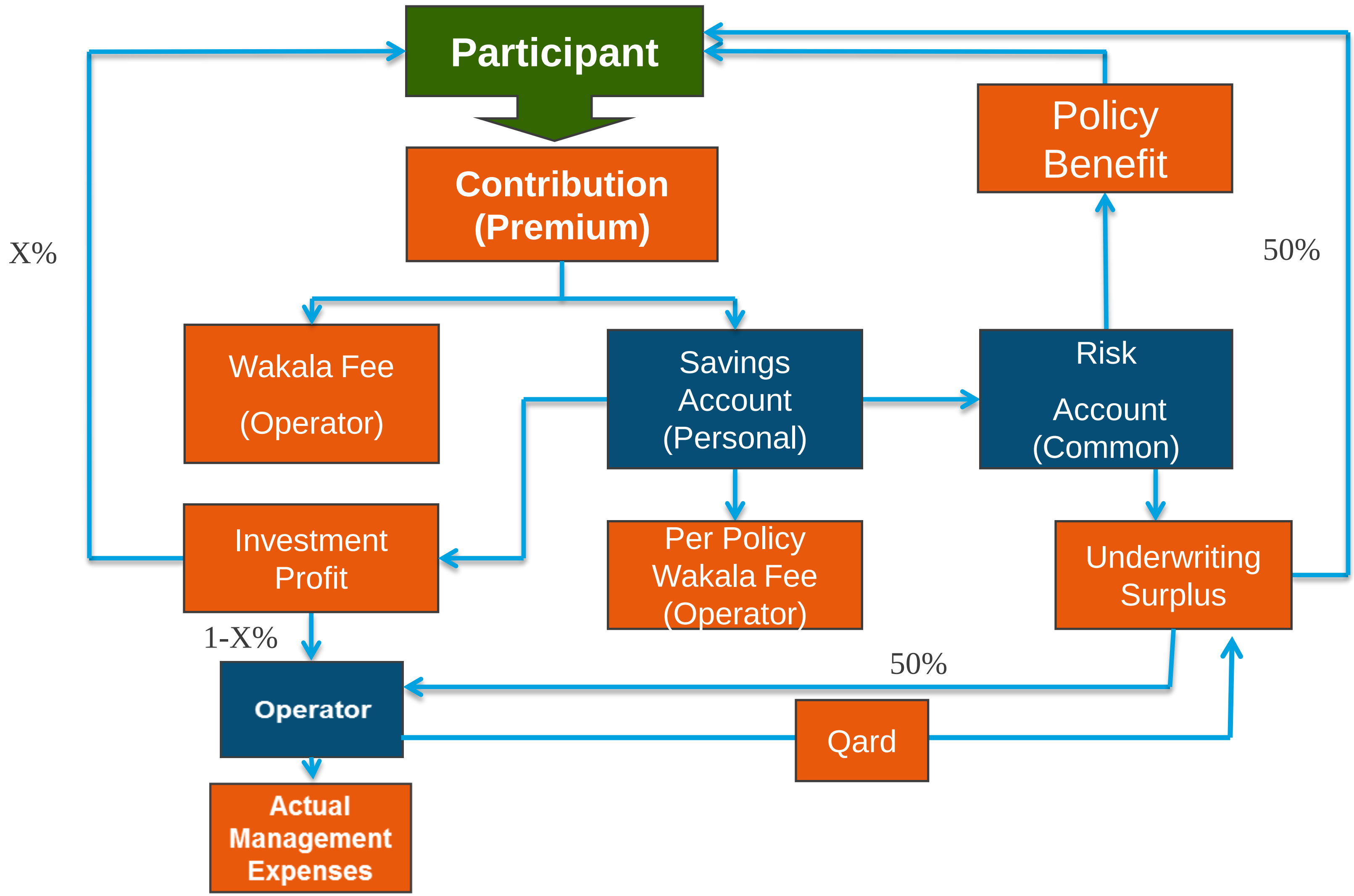
Unit Linked standard Malaysian model

Wakala – Drip with incentive compensation



Non-Linked standard Malaysian model

Wakala With Mudharaba – Drip with incentive compensation



With no Takaful regulations a notional operators fund and risk fund can be designed within the non-par insurance fund. This is not ideal and limits product innovation.

IFRS 4

The goal of IFRS 4 phase 1 is consistent financial statements worldwide

IFRS 4

IFRS 4 is for situations with significant risk transfer, such as insurance. Takaful must also comply though our goal is to avoid risk transfer

Operators fund GPV methodology

This is dependent on the model, but we take the present value of outgo minus income:

Outgo	Income
Management Expenses	Wakalah fee in whatever format
Commisions	Mudharabah investment sharing
Taxation / Zakat	Risk fund surplus sharing (*sometimes)

Risk fund GPV methodology

Dependent on the model, but we again take the present value of outgo minus income:

Outgo	Income
Benefit payment	**Tabarru’ drips (*some models)**
Expenses (*some models)	**Gross contributions net of Wakalah fees (*some models)**
Mudharabah investment sharing (*some models)	**Retakaful surplus sharing (*some models)**
Retakaful contribution	
Underwriting surplus sharing (*sometimes)	

Shariah

The Board of Directors appoints the shariah council and is ultimately responsible for operations being halal

Shariah

As the Board of Directors relies on the shariah council, the Board must make the role and procedure of the shariah council clear

ICP7
Suitability of Persons

The significant owners, board members, senior management, auditors and actuaries of an insurer are fit and proper to fulfill their roles. This requires that they possess the appropriate integrity, competency, experience and qualifications

Knowledge of the Shariah?

Shariah

The technical decisions of the Board can be audited through reviewing the annual report. Shariah compliance is not easily audited by the public

Shariah

The interaction between technical and Shariah issues is a key challenge

Methods of Regulating Takaful

Although Takaful might be required to follow conventional insurance regulations perhaps with additional guidelines where needed, in Malaysia it was the separate regulations and strong support of the regulators in Malaysia that made Takaful successful

Ensuring fairness in Takaful

Fairness is a key feature of Takaful and is determined by both the actuary as well as the Shariah (religious) council, as both technical and religious concepts are involved. The regulator as well has a role to play, especially when fairness is needed with conventional insurance.

Allowing Flexibility

Regulators must decide how much flexibility to allow, such as whether to allow conventional insurers to sell Takaful like in Indonesia, allow different models like in Malaysia, or standardize the model like in Bahrain.

ICP2
Supervisory Objectives

The principal objectives of insurance supervision are clearly defined

Islamic Acceptability

ICP10
Internal Control

The supervisory authority requires insurers to have in place internal controls that are adequate for the nature and scale of the business. The oversight and reporting systems allow the board and management to monitor and control the operations

Shariah controls and audits?

ICP25
Consumer Protection

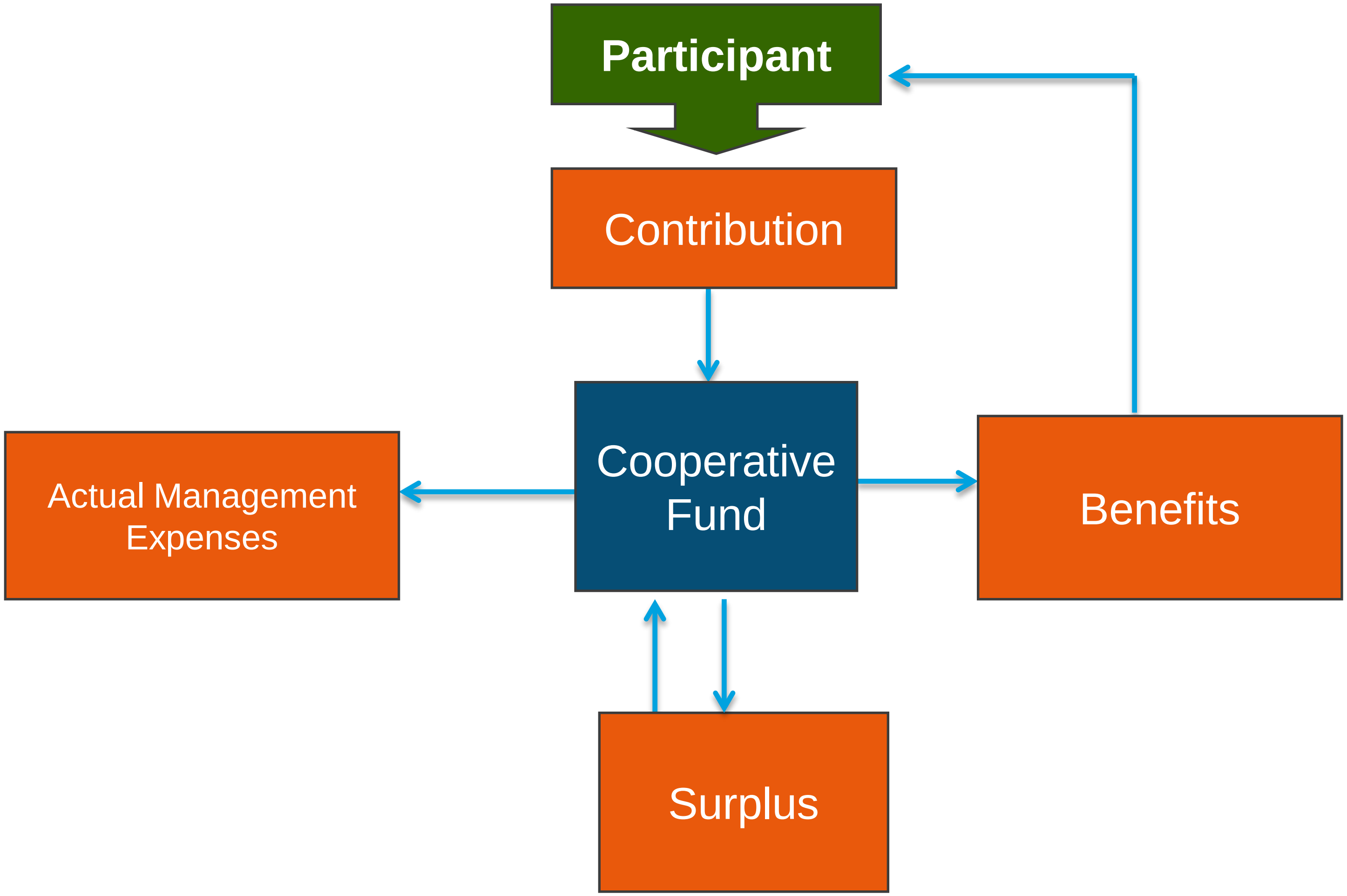
The supervisory authority sets minimum requirements for business and intermediaries in dealing with consumers in its jurisdiction, including foreign insurers selling products on a cross border basis. The requirements include provision of timely, complete and relevant information to consumers both before a contract is entered into through to the point at which all obligations under a contract have been fulfilled

Are the participants aware of the risks they are taking?

Formula versus principle based solvency margins

Worldwide, regulations are moving from simple formula based solvency margins to principle based, such as Solvency II. For Takaful, regulators need to determine not only what the risks are but also whose risks they are.

Pure Cooperative Model



In microinsurance it is critical to find an affordable distribution system and gain brand awareness

Model Structure

By having cooperatives operating in the target market set up pure cooperative takaful pools instant credibility can be achieved

Regulatory costs

If these pools are not considered insurance per say or are under special rules regulatory costs can be minimized

Mosques are a natural means of sales and collections for a pure takaful pool

Added benefits

Surplus can be used to fund local community programs as well as other benefits such as sponsoring children of participants schooling

Umrah can be organized at a discount, encouraging solidarity within the takaful pool

Flexible premiums

Products can be designed with a small savings component which would provide a buffer to allow for flexibility in premium payments

There are huge unknowns involved in some products; passing these risks onto individual consumers is not the answer

High Risk Pools

If we only manage risks then riskier products can be developed

Hassan Scott Odierno, FSA

- Hassan Scott Odierno has been a partner with Actuarial Partners Consulting in Malaysia and involved in Takaful since 1996. His specialties are in life and Takaful consulting.

- He is the appointed actuary for both Takaful Operators as well as conventional insurers, extending from Malaysia to Mauritius and Kenya to Hong Kong. He has been involved in assisting companies set up Takaful operations from feasibility studies to product and model development and business projections in countries such as Malaysia, Indonesia, Saudi Arabia and Bahrain for both local companies as well as multinationals. He has also been involved in merger & acquisition exercises for insurers in countries such as Malaysia, Taiwan, Thailand, Singapore and Bahrain.

- He is a co-author of the World Bank book *Takaful and Mutual Insurance,* co-author of the book *Essential Guide to Takaful* and a contributing author to the book *Health Insurance in Asia* and frequently writes articles and gives presentations on Takaful. He is also the external advisor to two universities in Malaysia to their risk management and actuarial science programs.

Questions

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