



# Family Takaful

## Case for “Window” operations

# Forms of Family Takaful operations

Dedicated Takaful companies for Family  
Takaful

Window Family Takaful operations by  
conventional life insurers

Composite Takaful companies

## Factors to consider...

Regulators, while introducing any of the above three structures in the regulations of any country, need to consider several factors such as

- Pace at which the regulator intends to promote takaful business
- View point of local Shariah scholars
- Growth of the insurance industry over the last few years
- Interest of new insurance and takaful companies in starting operations
- Insurance penetration rate
- Maturity of the conventional insurance business
- Awareness regarding need and importance of insurance
- Availability of skilled manpower

# Life Insurance industry

14 years since private companies allowed to re-enter

Only 4 companies in operation – no new company since the last 7 years – can we say that life insurance has been a success in the country?

Not many entry barriers – why was this sector not considered attractive by investors – local or foreign

Very low penetration rate – Life Insurance premium as % of GDP\*

Pakistan	– 0.28%
Malaysia	– 3.52%
UAE	– 0.28%
Oman	– 0.18%
Bangladesh	– 0.37%
Jordan	– 0.31%
World	– 4.55%

\*Source- Swiss Re Sigma 2/2005

## Family Takaful - possible scenarios in year 2015

Monopolistic market – only one player – successful as no competition; concept of takaful linked to only one company

Oligopoly – 2 to 3 companies – one with most market share; 1-2 foreign groups; limited outreach; not able to create necessary awareness; slow growth of Takaful premium income

Open market – 5 to 10 companies – good distribution of market share; extreme competition to gain share; vibrant market; able to create necessary awareness; good growth of Takaful in terms of premium income

## Arguments against “windows”

Does not allow for proper segregation of takaful business from conventional business – commingling of funds - does not comply with Shariah principles

Dedicated companies have invested in terms of capital and resources – do not want competition so that can get all or a major share of the takaful market – shareholder’s interest

See “windows” as serious competition – “windows” have unfair advantage

“Windows” are not seen as *pure* by the consumer – will not be successful

Political arguments - ?

# Regulations in any market

Aim of new insurance regulations in any market:

Regulate the sector in a better way

Cover any loopholes from previous sets of regulations

Introduce new concepts and their regulation

New regulations should be introduced with a “conscious” aim of promoting the new concept

Regulators have the power (intent?) to pace the growth of any new concept

## Case for Family Takaful “windows”

Growth of Takaful business – primary aim

Compliance with Shariah principles

Compliance with Regulations

Minimum entry barriers

Could the requirement for “dedicated” companies be an entry barrier?

Those against the “window” concept should accept logical arguments which are within the Shariah guidelines – not oppose for the sake of opposing

The solution needs to be according to the needs of the local market rather than comparison with other markets

## Case for Family Takaful “windows”

All agree that Takaful, the “halal” form of business, should be according to Shariah principles, and also comply with regulations

If existing insurance regulations allow for a method to carry out family takaful and also comply with Shariah principles, then why not consider such a method

Takaful has to be segregated from conventional insurance business

Concept of “Statutory Funds” for life insurance companies

# Statutory Funds

Part III of Insurance Ordinance 2000

Section 14 - *Statutory and other funds of life insurance companies*

Section 16 - *Policies to be referable to specific statutory funds*

Section 17 - *Assets, liabilities, revenues and expenses of funds.-*

Section 18 - *Disposition of assets of statutory funds*

Separate Statutory fund for each type of product line

Assets, liabilities, income and expenses for each type of product line need to be segregated

For window family takaful, a separate statutory fund, can handle the aspect of segregation of business

SECP will need to prescribe Takaful as a line of business under section 14 (7)

# Statutory Funds

Direct aspects of the operations - Assets, liabilities, premium income, claims, cash flows - easily maintained for Takaful Business

Direct expenses for Takaful business - identifiable and recorded separately

Indirect expenses – need to be apportioned

Such as “cost” of using the existing infrastructure of the life insurance company

Approved by Appointed Actuary/Shariah Board

# Infrastructure of Family Takaful

## Challenges for Family Takaful operators

### Establishing new infrastructure

Management team – experienced and professional individuals  
CEO, Sales Director, Actuary, Underwriters  
Already a dearth of experienced professionals in the country

Operational setup – New Business, Underwriting, Information systems, Actuarial  
Substantial resources needed to setup operations

### Sales Team

Backbone of any insurance, or Takaful company  
Recruitment, training and making individuals into successful sales agents requires considerable investment on the part of an insurer

# Infrastructure of Family Takaful

## Window Family Takaful

### Infrastructure

- Already available

- Needs to be adapted for Takaful business

- Experienced and professional individuals to be involved in Takaful line of business

- Continuity in business operations; less startup time

### Operational setup

- Existing setup to be adjusted for Takaful

- Existing/Dedicated departments to carry out functions for Takaful

### Sales Team

- Insurers already have a sales team and branch setup

- Can use existing sales team or recruit individuals to market Takaful products more effectively; Immediate outreach of products

# Market potential

Has any market survey been done to determine the market potential

Is the market for Family Takaful large enough to justify setting up of dedicated companies – too much effort for not the same level of return

How many new companies will come forward for Family Takaful – can long term growth in Takaful be achieved with only a few players

Worldwide takaful has always started to target a niche market

With time the market appeal expands to a much larger segment of the society

Natural evolution of the takaful market suggests that a better strategy would be to allow window operations to begin with

# Islamic Banking infrastructure

Policy of Islamisation of the financial system in the country - Government has allowed Islamic banking as a separate entity and also as separate “window operations” by conventional banks

Currently only 4 dedicated Islamic banks are operating in the country, while about 7 other banks are offering Islamic products through their Islamic banking window operations

State Bank of Pakistan, it appears, has taken a pragmatic approach towards introduction of Islamic products in the country.

Had it also followed the “dedicated” Islamic banking route, the market outreach for such products would have been much smaller.

## Recommendation of Takaful Task force

Terms of Reference for the four member Takaful Task Force that was set up by the SECP in April 2004 to formulate the final Takaful Rules mentioned

*“To consider whether or not the existing insurance companies, underwriting conventional insurance business should be allowed to run "window operations“”*

Strongly recommended that Family Takaful should be allowed as the Insurance Ordinance 2000 already provides the necessary regulatory mechanism – Statutory Funds – for handling the operations of this line of business.

Recommendations incorporated in the final Takaful Rules – March 2005  
Final rules - September 2005 - dedicated takaful company for Family Takaful business

# Opportunities in the country

Pakistan – 150 million population – 98% Muslim

Should appear to be an attractive market for Takaful products

This notion may not be true – Niche market does exist

Small segment which does not buy insurance due to religious reasons

- Lack of awareness

- Acceptability and understanding of the idea

- Product value

- Insurer penetration in all parts of the country

Takaful operators need to work hard to make a market for themselves

# Capital Requirements for Family Takaful

Increase in Paid up capital for life insurance companies to Rs. 500 million by end of 2010

For Family Takaful, this requirement of phased increase in capital should apply over a longer period – important to allow companies to start up at the existing level of Rs. 150 million

The increase in capital for Family Takaful should be done over a longer period, say 10 years

Necessary to give time to new players to

- Set up operations

- Create a firm base of business

- Have a role to play in creating awareness about Takaful

- Have reasonable business volumes to give returns to shareholders

Higher capital requirements can be an entry barrier

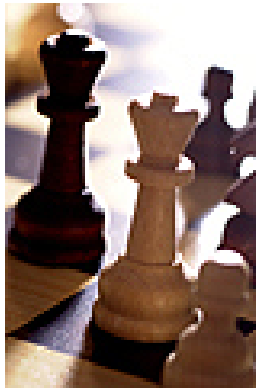
# Key challenges for takaful operators

Create awareness amongst general public

Skilled staff, management style, capitalization

Creative products - provide better value -  
select the right model

Penetrate through the niche market and  
increase outreach of products



Select appropriate distribution channels – need to  
understand the concepts

Identify Shariah compliant investment avenues from the  
limited options available

Retakaful options

Create credibility among public that all aspects of  
operation are Shariah compliant



Thank you!