



The Premier Islamic Bank

Risk Mitigation through Takaful



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Market

	Rs. in billion	Growth
Islamic Banking Assets	118	25%
% of Banking Industry	2.9%	
Islamic Banking Liabilities	83	24%
% of Banking Industry	2.8%	
Total Financing & Investment	72	24%
% of Banking Industry	2.4%	
Modes of Financing		
Murabaha	21	
Ijarah	17.6	
Diminishing Murabaha	6.5	
Salam	2.3	
Nos. of full fledge Islamic Banks	6	
Conventional Banks with Islami branches	12	
Nos. of Branches	150	

Need for Takaful

- o The underlying assets financed by Islamic banking contracts need to be Insured due to legal requirement e.g. Car Ijarah, Shipment of Goods etc.
- o There is a major perception issue when these assets are insured using Conventional Insurance.
- o In addition there is need for Life Insurance (in case of Housing Finance) and deposit protection (for savings & term deposits customers).
- o Takaful is necessary to complete the cycle of Islamic Finance.

Risk Mitigation

Murabaha

- o Murabaha is a particular kind of sale where goods are sold to the customer by disclosing the cost price of the goods.
- o Islamic banks assume asset risk during Agency period till the time goods are sold to the customer.
- o In-Transit risk emerges during shipment of goods either from local or foreign suppliers.
- o Islamic banks have to mitigate the risk by having Marine & in-transit Takaful.

Risk Mitigation

Ijarah

- o Ijarah means “to give out something on rent”. It is analogous to the term ‘leasing’.
- o Islamic banks assume ownership risk, right from the time of the purchase of the asset till the time ownership is transferred to the customer at maturity.
- o Ijarah financing could either be for Corporate customers (Plant & machinery, Equipment, Commercial Vehicles) or Retail customers (Car, Motorcycle).

Risk Mitigation

Ijarah.....

- o SBP regulations requires banks to get comprehensive Insurance for the vehicles/ Machinery financed through leasing.
- o Takaful provides cover against loss due to accidents, theft, fire, natural calamities etc.
- o The service levels, TAT and availability of Takaful in all areas where assets are leased is a challenge for Takaful companies.

Risk Mitigation

Diminishing Musharaka

- o Islamic banks assume ownership of a asset which diminishes over time in favor of customer.
- o Three components
 - ✓ Joint ownership of the Bank and customer
 - ✓ Customer uses the share of the bank and pays rent to the bank.
 - ✓ Redemption of the share of the Bank by the customer

Risk Mitigation

Diminishing Musharaka.....

- o Financing could either be for Corporate customers (Plant & machinery, Equipment, Land & Building) or Retail customers (House Financing).
- o Takaful provides cover against loss due to accidents, fire, earthquake, natural calamities etc.
- o In case of House Financing, Life Takaful is required to cover the risk in event of death or disability of the customer

Risk Mitigation

Deposit Protection

- o Customers make deposit with Islamic banks on the basis of Mudaraba arrangement. Islamic Banks utilize those funds in the financing business and share profit with the depositors.
- o Depositors are at risk of earning lesser profits or loosing investment if the bank incurs loss in the financing business.
- o Islamic banks need Takaful cover to provide safety and protection to small depositors and increase confidence of the depositor in the Islamic banking system.

Way Forward

- o As Islamic Bank grows need for Takaful will increase.
- o In terms of overall product scope, processes & turn around time (TAT) Takaful should be comparable to conventional insurance.
- o Product range and pricing should be in line with the market.
- o Like Islamic Banking Takaful is also a knowledge based industry and hence there is a need to create awareness for market growth.
- o Market needs are wide & diverse and hence Takaful should cater to all the needs.

THANK YOU