

# *Reinsuring Takaful Or Re-Takaful*

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# Agenda

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- Takaful Industry
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- The need for Retakaful
- Existing Retakaful operators
- Retakaful Industry – Characteristics
- Takaful Market - Projections
- Challenges for Retakaful industry
- Capacity & Security
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- Conclusions



# Background

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- 1979: Pioneer's phase: Sudan & Saudi Arabia.
- 1985: First Retakaful operator launched.
- 1984 to 2006 witnessed a quick development and the expansion to new territories.
- The recent developments following the oil prices increase and the Islamic finance boom, new Takaful companies started operations in different countries: Kuwait, UAE, and Malaysia.

*The Re-Takaful is the latest achievement.*



# Islamic (\*) / Takaful Industry - Characteristics

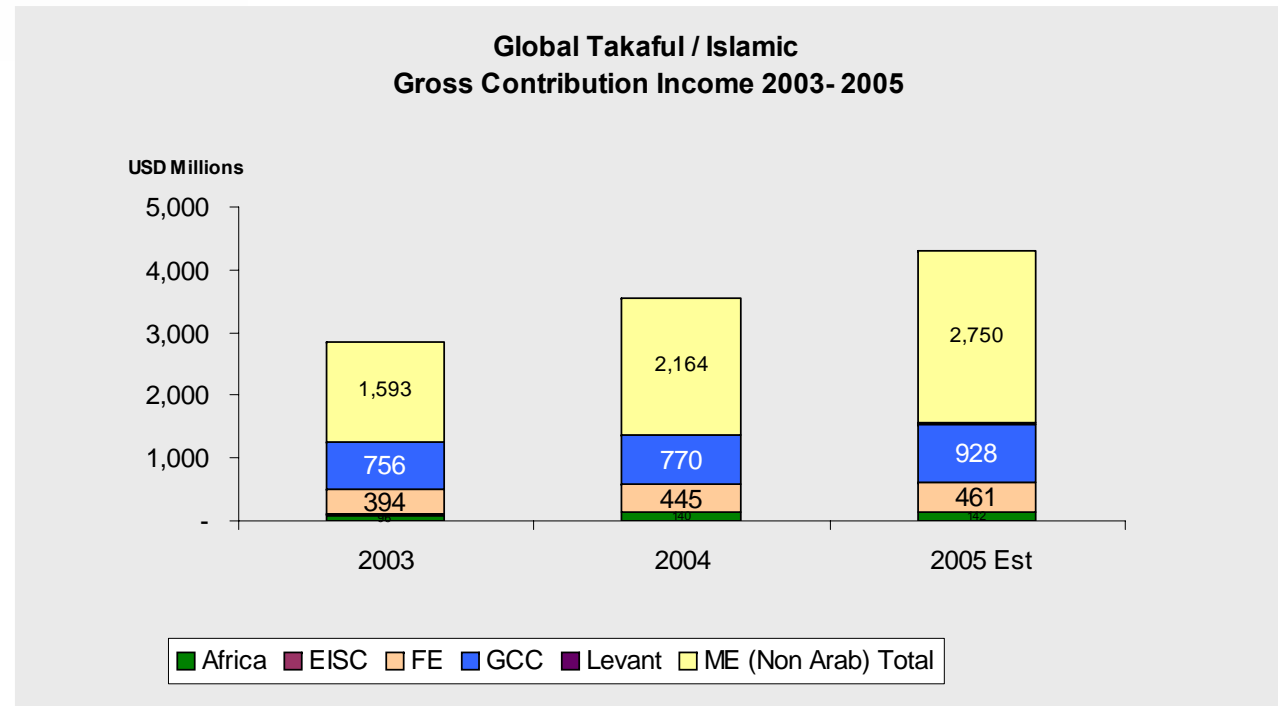
- Takaful contributions : USD 4.3 billion (2005 Estimate)
- Number of companies: 107
- Lack of statistics & information
- Takaful operators are mostly new companies
- Local small size players
- Lack of Market research and R/D
- Lack of expertise & standardization
- Limited investment opportunities
- Rely heavily on Conventional Reinsurance

Islamic  
=  
Takaful  
+  
Cooperative (KSA)  
+  
Iranian Market

***However, number and size of the operators are increasing. And the demand for the Shari'a compliant capacity is expected to grow with the industry.***



# Market Characteristics & Size



The Middle East including GCC was ranked 1<sup>st</sup> region worldwide in terms of Total Takaful contribution Income.



# Need for Retakaful

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- Retakaful was the “missing link” in the Takaful operation.
- The existing capacities are still not sufficient to meet the demand.
- Technical requirements:
  - To spread & transfer the risks
  - To reduce the claims volatility
  - Assets Protection
- Shari’a Compliance:
  - The “authorization” from Shari'a scholars to deal with the conventional is temporary. In case of the shari’a compliant capacities are not available, then it is permissible to use a conventional reinsurer.
  - The Takaful operators are required to cede to the existing Shari’a compliant capacities.



# Market Characteristics & Size

## Global Takaful Industry - Gross Contribution Income 2003-2005 by Region & Market

Region	Country	GWP in USD m			% Tot		
		2003	2004	2005	2003	2004	2005
Africa	Egypt	2.2	2.5	3.0	0.1%	0.1%	0.1%
	Mauritania	0.2	0.4	0.4	0.0%	0.0%	0.0%
	Senegal	-	6.0	5.9	0.0%	0.2%	0.1%
	Sudan	93.4	130.9	132.6	3.3%	3.7%	3.1%
<b>Africa Total</b>		<b>95.8</b>	<b>139.8</b>	<b>141.9</b>	<b>3.4%</b>	<b>4.0%</b>	<b>3.3%</b>
EISC	Bangladesh	2.2	3.1	3.5	0.1%	0.1%	0.1%
	Pakistan	-	-	0.1	0.0%	0.0%	0.0%
	Srilanka	0.9	2.4	4.2	0.0%	0.1%	0.1%
<b>EISC Total</b>		<b>3.1</b>	<b>5.4</b>	<b>7.8</b>	<b>0.1%</b>	<b>0.2%</b>	<b>0.2%</b>
Far East	Brunei	19.0	22.5	27.0	0.7%	0.6%	0.6%
	Indonesia	38.9	73.5	74.2	1.4%	2.1%	1.7%
	Malaysia	309.4	320.5	330.0	10.8%	9.1%	7.7%
	Singapore	-	-	0.1	0.0%	0.0%	0.0%
	Thailand	27.0	28.7	30.0	0.9%	0.8%	0.7%
<b>FE Total</b>		<b>394.3</b>	<b>445.2</b>	<b>461.2</b>	<b>13.8%</b>	<b>12.6%</b>	<b>10.8%</b>
GCC	Bahrain	11.0	14.5	15.0	0.4%	0.4%	0.3%
	Kuwait	42.6	53.6	82.9	1.5%	1.5%	1.4%
	Qatar	16.7	24.7	33.6	0.6%	0.7%	0.7%
	Saudi Arabia	669.4	646.8	755.6	23.4%	17.9%	17.6%
	UAE	16.5	30.6	41.5	0.6%	0.9%	1.0%
<b>GCC Total</b>		<b>756.2</b>	<b>770.2</b>	<b>928.6</b>	<b>26.5%</b>	<b>21.4%</b>	<b>21.1%</b>
Levant	Jordan	11.6	12.9	14.5	0.4%	0.4%	0.3%
	Lebanon	-	-	4.0	0.0%	0.0%	0.1%
	Yemen	0.6	0.8	1.0	0.0%	0.0%	0.0%
<b>Levant Total</b>		<b>12.2</b>	<b>13.7</b>	<b>19.5</b>	<b>0.4%</b>	<b>0.4%</b>	<b>0.5%</b>
ME (Non Arab)	Iran	1,592.9	2,163.8	2,750.0	55.8%	61.4%	64.2%
<b>ME (Non Arab) Total</b>		<b>1,592.9</b>	<b>2,163.8</b>	<b>2,750.0</b>	<b>55.8%</b>	<b>61.4%</b>	<b>64.2%</b>
<b>Grand Total</b>		<b>2,854.5</b>	<b>3,538.1</b>	<b>4,309.1</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

# Existing Retakaful operators

	<b>BEST Re</b>	<b>ARIL</b>	<b>TAKAFUL Re</b>
<b>Incorporation</b>	1985	May 1997	Dec 2005
<b>Capital (\$ million)</b>	100	14.1	125
<b>Rating</b>	BBB+	NR	BBB stable
<b>Shareholders</b>	Salama UAE	Syarikat Takaful Malaysia Takaful IBB Berhad Insurans Islam Taib	Arig, I.D.B, Emirates Industrial Bank, Dubai Investments, Dubai Islamic Bank, Withaq Kuwait , Qatar Islamic Ins., Safat Ins. Kuwait
<b>GPW (Takaful) (\$ Million)</b>	10 - 12 (2005 Estimate)	15.37 (2004)	15.1 (2006)
<b>Takaful Model</b>	-	Mudharaba Profit sharing	Wakala policyholder's Mudharaba for investment
<b>Business Model</b>	Conventional / Takaful Mix	Takaful Co's	Takaful Co's only Outsourcing agreement with Arig



# Re-Takaful (\*) Industry Characteristics

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Re-Takaful:  
full fledged  
Islamic operators  
By origin

- Few players
- Small and medium size companies
- Rating
- All or (most) players are adopting a follower strategy
- The Retakaful is still in the beginning of its “learning Curve”



# Projected General Retakaful Income

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(US\$ '000)

Region	2003	2004	2005	2006	2007	2008
Middle East	327,550	425,815	553,560	719,627	935,516	1,216,170
S.E. Asia	39,997	51,989	67,586	87,862	114,220	148,486
North Africa	5,126	6,664	8,663	11,262	14,640	19,032



# Challenges for the Retakaful industry

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Takaful operators must differentiate their offer from the conventional by:

- Takaful Market and demand knowledge:
  - Better market size knowledge
  - Better demand & potential segments knowledge
  
- Meeting the demand:
  - Assistance to direct ceding companies:
    - Products design
    - Information Technology
  - Target Segments for development:
    - Family Takaful & Personal lines
    - Industrial risks



## Capacity & Security

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- The existing Retakaful capacities are not sufficient to meet the Direct Takaful operator's needs
- Two reinsurer's have a "BBB" rating
- The challenges for the Retakaful operators:
  - Pricing risks & Treaties
  - Need for Expertise
  - Leading Business
  - Increasing Capacities
  - Adequate Rating
  - Corporate Governance & Compliance



# Takaful Re - Profile

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- Takaful Re is dedicated to offer Shari'a compliant Retakaful services to the growing Takaful market. Takaful Re is promoted by Arig, a leading reinsurer in the region.
- **Shari'a Supervisory Board:**
  - Sheikh Nizam Yaqoobi (Chairman & Exc. Member)
  - Sheikh Dr. Abdulsattar Abou Ghuddah (Member)
  - Sheikh Dr. Ahmed Abdul Aziz Al Haddad (Member)
- **Capital:**

Authorized	: USD 500 million
Paid up	: USD 125 million
Arig's share	: 54 %
Islamic Development Bank:	10 %
- **Rating:** BBB stable (Standard & Poor's)

*Takaful Re will benefit from Arig's expertise, strong financials, large capacity and ability to lead the market.*



## Takaful Re – Business Model

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- Takaful Re is providing a complete range of competitive Retakaful services and products which will strengthen its position within the Takaful / Islamic Insurance Market.
- The company will consistently ensure that the products and services offered are Shari' a compliant.
- All contracts will be based on Wakala model for a pre-agreed fee (20%).
- All investment operations will be governed by the principles of Al-Mudaraba



## Takaful Re – Business Model

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- The Retakaful fund will be managed by experts within an interest-free and / or Shari'a compliant equity investment scheme.
- Takaful Re will serve it's clients with the spirit and principles of integrity and transparency in compliance with Shari'a rules and principles.
- The management will act as trustees with a well defined corporate governance framework in order to safeguard the interests of customers and stakeholders.



# The Takaful Model

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- The Retakaful operator provides only a service – All underwriting risks borne by participants.
- Key sources of income for the Retakaful operator:
  - Management fees (for managing the Retakaful pool)
  - Investment income on shareholders' equity
  - Profit sharing on investment of participant funds
- Retakaful operator does take a financing risk – will need to provide Qard Al Hassan (interest free loan) to cover deficits in the Retakaful pool; will be repaid from future surpluses.



# The Takaful Model

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- Takaful Re is managing a Retakaful pool for a fee. The fees is based on:
  - Wakala contract for providing management services for the Retakaful pool
  - Mudaraba contract for providing investment management services
- Contributions received from participating Takaful companies will be accumulated separately and used for paying claims
- **Net surplus** (after charging wakala fees and mudaraba fees for investment management) will be distributed to participants



# Takaful Re - Value Proposition

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Takaful Re possesses the required expertise within the Reinsurance business,

- Takaful Re has a combination of business principles, infrastructure and financial expertise, information systems, investment strengths and most importantly the professional human resource of Arig.
- Fully equipped to service Takaful and Islamic insurance companies.
- Financial strength and excellent customer service.
- Leadership position, innovation, integrity, transparency and solidarity concept within its operations and business.



# Conclusion

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The Retakaful operators must meet the following requirements:

- Adequate capital base and rating
- Adequate capacity & leading role,
- Assistance to ceding companies
- Add value
- Corporate governance & compliance
- Explore the new markets opportunities

***Takaful is not a “label”; It’s a commitment. Without commitment, there is no credibility & no future for the Takaful industry.***



***Thank You***

[www.takaful-re.ae](http://www.takaful-re.ae)