

TAKAFUL

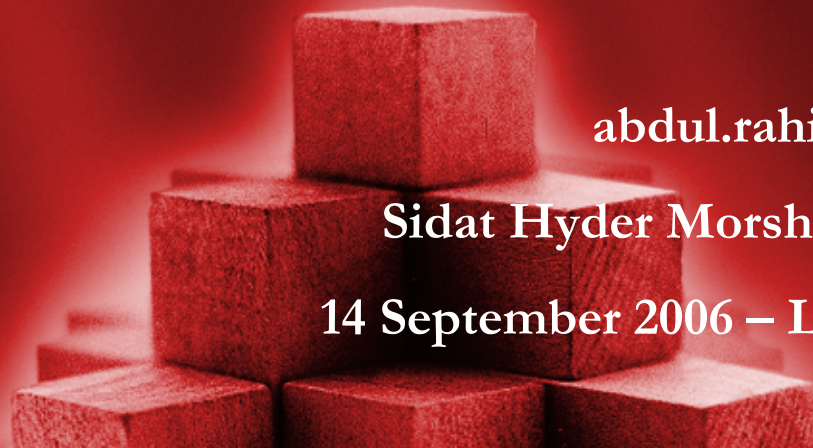
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ROLE OF REGULATOR

- Promote the development of the Insurance Industry
- Provide a Level playing field to all industry participants
- Encourage formation of local and foreign capital
- Protect consumers from any malpractices
- Ensure compliance with all the regulations
- Establish and Protect the image of the Industry as provider of a basic social need with quality services and social acceptance to encourage penetration.

TAKAFUL RULES 2005

- Takaful Rules have tried to address the above objectives keeping in view the specific needs of our country.
 - Wakala model for Risk Management and Wakala/Mudaraba for Investment – local Shariah acceptance.
 - Windows not allowed to encourage pure takaful companies and also create credibility by having independent operations – promote consumers and industry and capital formation.
 - Composite companies not allowed – same as conventional.
 - Same capital requirement as for conventional – not lower.

TAKAFUL RULES 2005

- SECP has agreed to deposit requirement with SBP being in the form of deposit with Islamic bank with lien to SBP – provide a level playing field.
- Allow to use conventional reinsurance companies, if retakaful is not available – if Shariah permits – practical approach given the availability of retakaful at that point.
- Three members Shariah Board is required - protect consumers.
- Full Disclosure requirements – protect consumers.
- Windows initially permitted for life but later removed. Task force also suggested that 5% of business should be in Rural areas – only applying to takaful operators ?? Incentives
- One change may be appropriate: All expenses like marketing and operational expenses will be born by the SH Fund. Clause 10(3) excludes commissions whereas 16(2) requires all management and marketing expenses to be charged to SH Fund. 16(2) is the correct approach as otherwise there could be a lot of manipulation and consumer would not know which company is charging how much wakala fees in total.

WINDOW OPERATIONS

- Conventional industry is pressing the regulators to allow window operations. SECP/GOP may need to consider the following as well in arriving at any decision:
 - **CHANGING THE RULES** after the fact based on political and other pressures.
 - What message are we giving to local and international investors. Promises can be broken at any time.
 - Why **NO NEW LIFE COMPANY** in last many years.
 - **4 to 6 sponsors** have made commitments in last 12 months to set-up takaful including existing.
 - Malaysia as well as Middle East **DO NOT ALLOW** conventional companies to write takaful business. Malaysia highly successful by keeping it separate and developed a full parallel industry with 8 companies and more to follow.
 - 19 Muslim countries have takaful but understand **none has windows**.

WINDOW OPERATIONS

- If SECP had allowed windows the current interest by international as well as local groups in setting up separate company's may disappear and Pakistan would lose the opportunity to create a **FULL TAKAFUL INDUSTRY AS MAYALSIA HAS BEEN ABLE TO DO.**
- Can damage the **takaful systems credibility** and project a negative perception (which is already low due to malpractices) and lose trust in takaful system unless seen to be different in all respects. This affects penetration rates and expansion of the industry.
- Why Insurance Industry not able to increase penetration rapidly all these years. Many reasons but one reason is religious mindset.
- Conventional view point is, it is small niche market. Why not leave it and let it grow and if it develops they can decide to enter as per the **RULES** which have been defined instead of discouraging it to develop which is not even in their interest.

WINDOW OPERATIONS

- **Level Playing Field** is important not to discourage development:
 - Windows would have no additional capital requirement. If they are so concerned about just setting aside separate capital (profit on shareholders capital), what would this do to the dedicated players who would have to also have the whole infra-structure.
 - Conventional players have infra-structure in place which would reduce their cost structure even if they were to set-up subsidiary by sharing services. **So the only barrier for them is just setting aside additional capital which means enhancing the capital base of the Insurance industry which is aligned with SECP's objectives.**
 - Dedicated players have come with the commitment. Else everyone should set-up a conventional company only and have all products. **Why apply to have a takaful license at all.**
 - How does it sound if we are to say that a Takaful company can have **window operations for conventional** (Haram) products?
 - Group life within a window again creates a pricing advantage for windows.
- Ultimately allowing windows is a back door approach to saying takaful company's are **NOT** required in the Islamic Republic of Pakistan with 98% Muslim population.

WINDOW OPERATIONS

- Muslims wish to buy Takaful BUT provided it is also competitive. One cannot ignore price sensitivity because of religious endorsement. These businesses are price sensitive and they cannot afford to pay higher costs for “faith”.
- Dedicated Takaful operators may simply fail because of pricing difference as would not be able to compete and the conventional industry would prevail and have all the profits that they are concerned that the takaful company’s wish to make.
- Creating awareness and promoting the concept as a matter of survival for the company would mean adequate capital and reason to promote. It should not be simply “**blocking the market**” to make dedicated players entry impossible.
- If investors roll back because of a change in decision – some may win and make more profits but the **concept may be lost forever**.

Window Operations



- On going concern is only for dedicated players – would therefore **make the effort to make the concept a success**. For conventional players its just **creating a barrier for entry** of dedicated players so the market remains in conventional hands.
- Will remain side business for conventional players and therefore not succeed. The salesman would have both in his arsenal so he would try selling conventional. If someone has a religious objection he can take out and offer a “Halal” product from the other pocket. Creates confusion about the takaful system.
- It has to be bread and butter to make it successful with commitment to promote it on its own.
- SECP Rules have not defined **“Fit and Proper”** for takaful to mean the sponsors / management should themselves be Shariah compliant. So everyone with Insurance professional expertise is **most welcome to profit if they see the market**.

Window Operations



- Professionals need to encourage the regulator to live with it rather than pressure to go back on decisions taken (for whatever reason).
- Malaysians – coming out of Islamic banking windows. **Never allowed window takaful.** Do we wish to learn anything from them as they have been quiet successful.
- Research should be carried out of other countries experiences by **SECP to see why it has worked.**
- Market for takaful is not simply Muslims. Others also buy the product as they see its attractive features. In Pakistan therefore its **not just those who consider conventional to be Haram** but also others who would have more “comfort” which **is likely to improve insurance penetration rate.**

Window Bank Shariah views

- Shariah Scholars view point – Shariah Board plays an important role and is able to influence BOD when it is in a dedicated player. **Its not been very effective in a window operation.**
- Competition within branches for business – conventional overrules.
- People **joined and left windows** because of lack of commitment on part of the windows.
- Separately headed with right individuals with commitment matters to make it successful.
- Consumers get confused. Already seen in window banks where same person dealing in both products.
- Just to **protect business interest to stay with them.** Not ongoing survival and hence effort and commitment to make it successful is not there.

IFSB individual comments – Islamic Banks

Global trend

- Predominantly, most jurisdictions do not allow such windows, and the Islamic banks are on a stand-alone.

Financial reporting

- **Standardisation of Islamic banking reporting can only be made with a critical mass of full-fledged Islamic banking institutions.**

IFSB individual comments – Islamic Banks

Marketing

- By **setting up subsidiary**, promotion of **Islamic products can be conducted with more rigour since bank officers** at the branch level should know well enough the **salient features of Islamic banking** products and what is expected of them in the business.
- It happens to me personally, that a **staff of one window** institution in Malaysia tried to promote to me Islamic mortgage and at the same time, I have to open interest-bearing conventional saving account to facilitate instalment payment. I enquired on the Islamic saving account but he said that **he had to encourage one conventional and one Islamic products**.
- Most importantly, the **marketing strategy** is controlled separately by the subsidiary management.

IFSB individual comments – Islamic Banks

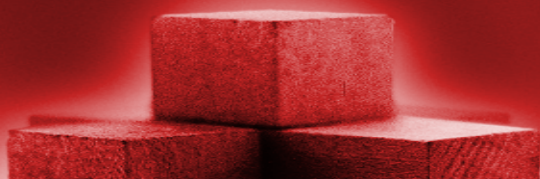
True value of Islamic finance

- **Subsidiary entity can play a significant role in developing new entrepreneurial friendly products not readily found in conventional banks. Often times, the windows is simply concerned to sell Shari`ah compliant products but the subsidiary, if it is promulgated from the top, can stand a chance to perform even better in letter and spirit.**

Opinion



- Let it grow – let players come in the market and implement their plans. Let the **Regulators KEEP ITS PROMISE** to the world at large. At **end of five years** if the sector does not develop than their would be justification for reconsidering. At least the blame would than rest with the takaful players and not on the conventional players to not letting the concept develop. The market would only be bigger if dedicated players are able to take advantage of the potential and it is **NOT KILLED before it grows**.
- Capital requirement for companies is very small anyway, no issue of having a separate company. If separate capital requirement is such an issue for conventional players, **WE COULD HAVE A LOWER CAPITAL REQUIREMENT FOR TAKAFUL COMPANIES TO ENCOURAGE THIS TO DEVELOP STARTING WITH Rs. 150 million and going to Rs. 300 million by 2011**. This would ease the conventional players concerns about return on “additional capital” and hopefully increase there commitment to takaful.



Thank You