

## 1. TAKAFUL

The word takaful comes from the Arabic root word *Kafala*, meaning "guarantee". Takaful therefore is the practice whereby individuals in the community jointly guarantee themselves against loss or damage. For example, individuals can make charitable donations to a common fund from which they may each draw in the event that they suffer loss to their houses or livelihoods. It was first established in the early Islamic era with the purpose of promoting mutual solidarity and co-operation among the Muslim community. In Takaful the elements of *riba* (interest), *maisir* (gambling), *gharar* (uncertainty) are removed from the operations.

## 2. TAKAFUL MODELS

Takaful products are based on two main business models:

1. The Mudaraba model: This model is essentially a basis for sharing profit and loss between the takaful operator and the policy holders. The takaful operator manages the operation in return for a share of the surplus on underwriting and a share of profit from investment.
2. The Wakala Model: Wakala model is a contract of agency. The takaful operator in this case acts as an agent (Wakeel) for participants and manages the takaful/retakaful fund in return for a defined fee. This model is used more in the Middle East region.

## 3. STATISTICS

The very first Takaful Company was established in 1979 in Sudan- the Islamic Insurance Company of Sudan.

### COUNTRIES DOING TAKAFUL

Presently, Takaful business is being carried out in over 25 countries of the world:

Bahamas	Luxembourg	Sri Lanka
Bahrain	Malaysia	Sudan
Bangladesh	Mauritania	Switzerland
Brunei	Pakistan	Tunisia
Egypt	Qatar	United Arab Emirates
Ghana	Russia	Yemen.
Indonesia	Saudi Arabia	
Japan	Senegal	
Jordan	Singapore	
Kuwait	South Africa	

## NUMBER OF TAKAFUL OPERATORS

The number of Takaful operators worldwide is now estimated at 84 whereas the number of ReTakaful companies now exceeds 5. In addition, certain world-renowned reinsurers have now set up separate ReTakaful pools in order to meet the growing need of this emerging niche market. These include SwissRe, Tokyo Marine, HannoverRe, etc.

## PREMIUM

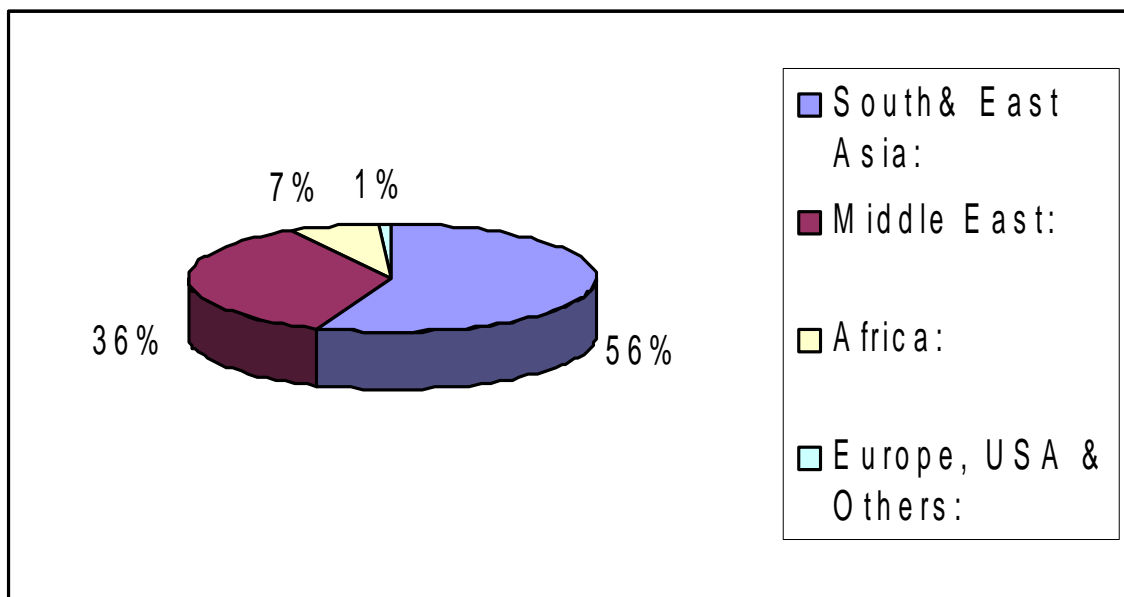
Takaful is one of the fastest growing segments in insurance (at around 20% Pa. on average) World Takaful contributions are conservatively estimated at around US\$ 3billions.

## TAKAFUL -- GEOGRAPHICAL SPREAD

The geographical spread of Takaful companies in the world is stated below.

South& East Asia:	56%
Middle East:	36%
Africa:	7%
Europe, USA & Others:	1%

The main markets of Takaful are in Malaysia, Indonesia, GCC countries, other Arab countries and other Asia Pacific.



#### **4. RETAKAFUL**

Retakaful is reinsurance and Reinsurance is a mechanism by which the direct insurance companies protect their retained business by achieving geographic spread and obtaining protection, above certain threshold values, from larger, specialist reinsurance companies and pools. In brief, reinsurance has been defined as “insurance of the liabilities of the direct insurer”. Reinsurance of Takaful business on Islamic Principles is known as retakaful.

There are currently 5 dedicated ReTakaful operators in the market providing services to primary Takaful:

- Asean Retakaful International (L) Ltd. (Malaysia)
- BEST Re (Tunisia)
- Takaful Re (U.A.E.)
- Sheikhan Reinsurance (Sudan)
- MithakRe (Bahrain)

In addition, certain conventional Reinsurers have also recently started providing coverage by forming separate “ReTakaful pools” for this purpose. These include SwissRe, HannoverRe, LabuanRe, Tokyo Marine, etc. At least two more dedicated ReTakaful operators shall become operational by early next year. One of them is a Lloyd’s syndicate – Creechurch.

#### **5. GROWTH OUTLOOK AND NEW TAKAFUL FRONTIERS**

World Muslim population is estimated at 1.5 billions, of which around 97% are based in Asia and Africa. A two-digit growth for Takaful in the range of 15% to 20% can be reasonably sustained for at least the next 10 years in the existing markets (Far and Middle East).

Markets like Europe, North and Latin America, Central Asia, Australia where large Muslim communities live offer enormous potential.

#### **CHALLENGES AND OBSTACLES TO FUTURE GROWTH**

The array of challenges that confront the primary writers of Takaful cover can be segmented and grouped into three categories:

**Awareness Issue:** - This is the most important impediment as still a significant sector of the population is either unaware of the availability of Takaful products or else is not fully convinced about takaful an alternative to the conventional insurance.

**Internal Factors:** - Internal factors as skilled staff, management style, level of capitalization and relative small retention levels particularly for the new, emerging companies of this nascent industry.

**External Factors-** External factors as regulatory framework, competitive environment, treatment of Takaful vs. conventional insurers, role of governments, maturity level of insurance industry (conditioning/mandates) and non-availability of suitable retakaful program.

## **6. TAKAFUL IN PAKISTAN**

In Pakistan Takaful Rules have been notified in September, 2005 under the Insurance Ordinance 2000. Any company who wishes to conduct takaful business in Pakistan has to comply with the Takaful Rules, 2005 in addition to the Insurance Ordinance, 2000, Insurance Rules, 2002 and SECP (Insurance) Rules, 2002. The Ordinance and the Rules are available at SECP website with link

[http://www.secp.gov.pk/divisions/portal\\_Insurance/listoflaws.htm](http://www.secp.gov.pk/divisions/portal_Insurance/listoflaws.htm)

Presently, there is one takaful operator (Pak-Kuwait Takaful Company), which is doing general takaful business. However, more groups are showing interest in entering the Pakistan Takaful Market including some joint ventures of local and foreign investors.

## **7. FOR MORE INFORMATIONS**

Persons interested to know further about takaful, can contact the following:

- 1) Islamic Financial Services Board at P.O.Box 10591, 50714 Kuala Lumpur, Malaysia [www.ifsb.org](http://www.ifsb.org)
- 2) International Islamic University , Islamabad at International Islamic University, Faisal Mosque Campus, P O Box 1243, Islamabad, Pakistan. [www.iiu.edu.pk](http://www.iiu.edu.pk)
- 3) International Co-operative and Mutual Insurance Federation at PO Box 21, Altrincham, Cheshire, WA 14 4PD, UK. [www.icmif.org](http://www.icmif.org)
- 4) Asian Takaful Group (ATG) at [www.asiantakafulgroup.com](http://www.asiantakafulgroup.com)
- 5) Shoaib Soofi, Director (SECP)-Pakistan [shoaib.soofi@secp.gov.pk](mailto:shoaib.soofi@secp.gov.pk)
- 6) Irum Saba, Junior Executive (SECP) [irum.saba@secp.gov.pk](mailto:irum.saba@secp.gov.pk)