

Takaful in Europe

THE ROLE OF CORPORATE COMMUNICATIONS & MARKETING



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La *takaful* présente des perspectives de développement prometteuses en Europe, auprès de clients musulmans ou non. Pour que son développement connaisse le même succès que la finance islamique, les professionnels de ce marché encore naissant doivent s'inspirer des meilleures pratiques de l'assurance conventionnelle, mais également communiquer autour des principes fondateurs de la *takaful*, moins connus que ceux de la finance islamique. Pour des musulmans non avertis, le principe même de protection contre le risque pourrait, en effet, être perçu comme une contestation de la volonté de Dieu.

* The Ithmaar banking group consists of: Ithmaar Bank, Shamil Bank, Solidarity (an Islamic insurance company), Faisal Private Bank (Switzerland), Faysal Bank Limited (Pakistan), First Leasing Bank and Ithmaar Development Company. The group's services, including investment, private, retail, and commercial banking, private equity, mergers & acquisition advice, *takaful*, leasing, and real estate development, form a 360 degrees value chain that embraces the entire spectrum of banking and financial services.

Islamic financial services, mainly *Takaful* (Islamic insurance), are being recognized by the world's financial industry for their market-driven initiatives, credibility and strategic growth. There is a greater awareness, from every social class, for the need of insurance as it provides protection to those individuals who need it most.

Today's commercial world is dominated by elements that represent the basics of the economic system. Many of these elements don't comply with the principles of Islamic *Sharia*. Banking and insurance practices are not an exception. Such a trend contravenes with Islamic law and becomes a threat in the eyes of *Sharia* scholars across the globe. Interest (*Riba*), gambling (*Maisir*), and uncertainty (*Gharar*), signifies these elements that are strictly forbidden by Islam. *Sharia*

scholars, including several industry professionals, opposed the validity of financial transactions, including insurance, because of the availability of the elements of *Riba*, *Maisir* and *Gharar* in their practices.

Regardless of the different views about the acceptance or rejection of insurance, it is still a controversial subject amongst practitioners and many *Sharia* scholars due to the involvement of the elements of *Riba*, *Maisir* and *Garar*. On the other hand, *Takaful*, or the alternative to insurance, doesn't involve these elements and is based on the concept of shared responsibility, joint indemnity, social solidarity, cooperation and mutual indemnification of losses of individuals, possessions and businesses.

In addition to *Riba*, *Maisir* and *Garar*; several factors influenced the development of Islamic Insurance as an

alternative to conventional insurance. To be more specific, there are several misconceptions about the concept of compensation or mutual indemnification. In other words, Muslims living outside Islamic countries, whether they accept or reject the philosophy of insurance, believe that risk protection is against total dependence upon God's will. From this angle, corporate communications and marketing's role is to tackle this issue by further addressing the understanding of insurance or *Takaful* as a philosophy of financial cooperation that has no effect on the Will of God. In addition, the role goes beyond that by encouraging individuals or businesses to take precautions and then fully trust and depend upon God.

To take advantage of this positive climate, *Takaful* providers need to approach the market in the most pro-

professional manner. They need to communicate the true meaning of *Takaful*, by delivering a common message which is that “individuals and businesses need to plan for and manage their financial destinies utilizing methods that don’t contradict with the teachings of Islam”.

Offering innovative products with competitive prices is not the only success factor. Companies should always remember the fact that “financial products, especially insurance, are sold and not bought”. This means that companies have to connect with their target market through offering “what really matters”, and that goes far beyond an insurance or *Takaful* solution.

TAKAFUL IN EUROPE

Financial planning is a virtuous habit that any member of society should have. The modern way of life has turned us into consumer-driven nations, wanting to get rid of money as if we are plagued by the fact that money exists in our wallets. This has caused many of us to fall into financial problems, which hinder our flexibility, and so we end up making difficult financial decisions, due to the lack of saving or lack of funds, hindering our future plans and goals. However, cultural and religious obligations played a major role in holding back the idea behind the importance of individual financial planning, mainly in Europe, due to the lack of products and plans that satisfy the principles of Islamic *Sharia*.

Several factors prove how far Islamic financial services have come in a short span of time in Europe. For instance, strategic alliances between internationally recognized financial institutions to manufacture and distribute *Takaful* products in Europe are a sign of the potential growth of this unique Islamic system of insurance and assurance.

Conferences taking place worldwide, and mainly in Europe, reiterate the growing importance of Islamic financial services and hence *Takaful* in the Western world. Switzerland, the heart of Europe’s private banking sector, hosted the International Islamic

Financial Forum to discuss the future of this industry and help in creating a bridge between the East and the West. In a milestone event for the Islamic banking world, the Swiss Federal Banking Commission recently awarded Faisal Private Bank, member of the Ithmaar banking Group, a full banking license, making it the first private Islamic bank in Switzerland. Moreover, London, the capital of financial services in Europe, hosted the International *Takaful* Summit, which attracted more than 300 practitioners, under the patronage of the Mayor of the City of London, Lord Alderman John Sturtard. Such interest also signals that Europe has grasped the fact that Islamic banking and *Takaful* has become increasingly important to Europe’s growing Muslim and non-Muslim population, especially those seeking principled financial services.

The total assets worldwide of the Islamic finance sector are continually growing at an estimated annual rate of 15%. In terms of the insurance and re-insurance sector, HSBC has predicted that the *Takaful* market will be worth an estimated US\$ 15 billion in the year 2015 - a five-fold increase on its current size.

Industry professionals can predict that a significant portion of this increase in the *Takaful* market will be generated in the Western world, mainly the European markets. The effects of globalization mean the world is becoming smaller and, as industry experts, we are all in effect citizens of a “global village”. This has in turn affected the mindsets, opinions and attitudes of people all over the world and in particular the West; Europeans no longer perceive *Takaful* to be the exclusive domain of Muslims and have opened themselves up to new ways of thinking about insuring themselves and their families utilizing principled tools.

Recent research by the European Islamic Investment Bank showed that between 70 to 80 per cent of *Sukuks*¹ are believed to be held by non-Muslim investors, a statistic that reflects the fact that European inves-

tors now understand the opportunities and returns that can be gained from investing in the Islamic banking and *Takaful* sector.

“*Takaful*, or the alternative to insurance, is based on the concept of shared responsibility, joint indemnity, social solidarity, cooperation and mutual indemnification of losses of individuals, possessions and businesses.”

This is an exciting time for the *Takaful* market in Europe. To take advantage of this positive climate, financial services providers, mainly *Takaful* companies, need to approach the market in the most professional manner, and create consumer confidence through the genuineness of their products and services. Educating the public about the concept, products, and benefits of this unique Islamic financial system will allow it to rise to the challenge of global competition, by unleashing the creativity and entrepreneurial flair of financial services manufacturers who share and believe in the Islamic financial system in general, and *Takaful* in particular.

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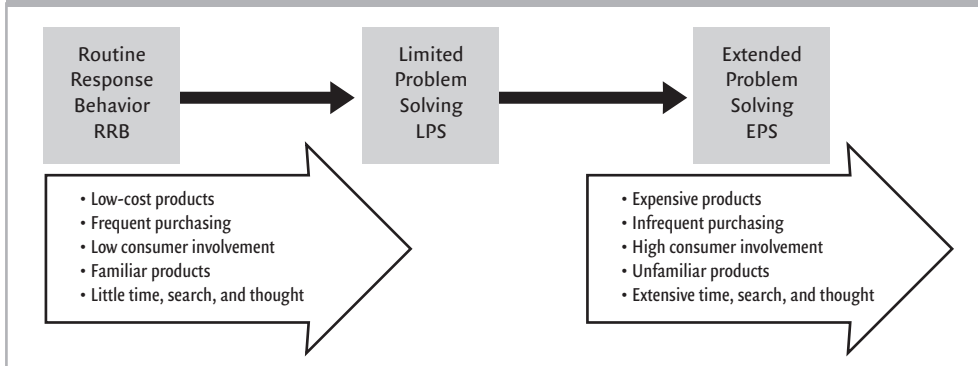
Behavioural Models

The growth of corporate communications and marketing for financial products and services has presented a new challenge to most business organisations, especially those offering *Sharia*-compliant products. The challenge is not only to how to catch up with the rapid pace of the marketing evolution, but more importantly, how to strategically use it to communicate within a competitive and dynamic financial services environment, where all have equal opportunities.

Corporate communications and marketing represent means that ena-

1. Islamic bonds

1. Takaful Customer Decision Making Types



ble financial services organizations to stand out of the crowd and compete on a global network through sharing distinctive advantages.

In fact, there are remarkably fewer publications on the effective and efficient use of marketing and its influence on sales within the conventional and Islamic financial services industry.

Before applying any communication tool, Takaful providers need to consider the following behavioural models to further understand the

needs and wants of their target market; and hence knowing the impact of their offerings on them. They need to capitalize on the abundant opportunities of their offerings and gain substantial competitive advantage by creating a positive customer attitude. In other words, they need to adopt a coherent marketing management approach that is built on researching and understanding customer needs and expectations to broaden and deepen customer bases and maintain them.

On the other hand, it is crucial to identify the involvement process as it is one of the most relevant influences in the buying behaviour. It refers to the degree of interest while searching for a product or service. Consumers interested in Takaful products, especially family Takaful, are highly involved as they are found to search for more information (external and internal) through different criterion before they make any decision. They act to minimize the risks and to maximize the benefits obtained from purchase and use.

After studying the type of Takaful customers decision making and their level of involvement, it is important to understand the nature of their buying behaviour. The latter involves identifying and understanding the needs and motivations of existing clients and potential customers, as well as how they go about making buying decisions.

In fact, recent economic, social and technological trends had an impact on customers for the demand of financial services products. Such trends indicate the importance of getting to know the consumer and understanding what influences purchasing decisions. In order to understand what purchase motivations Takaful customers require, marketers within financial institutions have to identify the relation between their products and the needs within the targeted groups, especially focusing on the buying behaviour, involvement level, and type of decision-making.

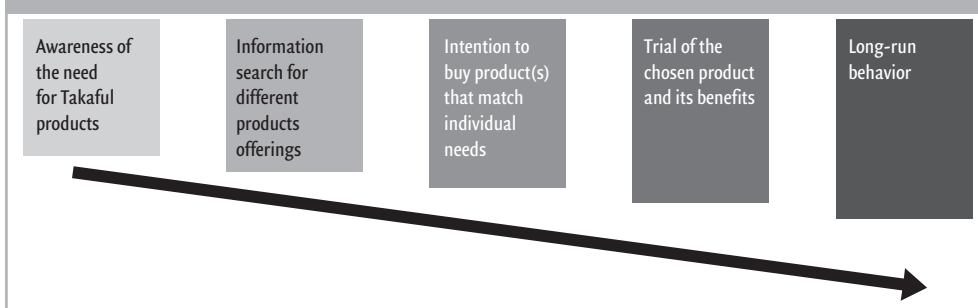
Analysis of the business environment

Takaful providers should understand the market and environment they operate in. Identifying internal and external factors of competition facilitates the building of a solid bridge between the overall business scope and marketing direction, from one side; and the market and target group from the other side.

In addition to understanding the buying behaviour of your target market, it is crucial to know and analyse other elements within your business environment:

1. External analysis: Takaful providers should gather information about the

2. Takaful Customer Involvement Process



3. Takaful Customer Buying Process



external environment before choosing any communication or marketing direction and that includes knowing the industry, market, customer and competition.

2. Internal analysis: Takaful providers should identify assets, competences and capabilities; analyze them; and finally match them with the results of the external analysis aiming to reduce the risks of choosing a wrong communication or marketing direction.

Marketing Communications

Marketing communications represent the means of designing and distributing information about different Takaful offerings, in addition to its role in managing brands. With the development of marketing communications management, the financial services industry is entering into an era of direct information where Takaful providers are creating messages and utilizing mediums to attract customers and reinforce concept and product education.

Marketing communications play the connection role between individuals, groups or other organisations with the aim of facilitating exchange. At a basic level, marketing communications can inform and make potential customers aware of takaful offerings. It also may attempt to persuade current and potential customers of the desirability of entering into an exchange relationship. Furthermore, communications can remind them of a need or a benefit and reinforce them to enter into a similar exchange. Finally, marketing communications can act as a differentiator, particularly in the financial services industry, where there is little to separate between competing offerings.

The objectives of marketing communications, within Islamic financial services, should be derived from understanding the overall context of the core business. In other words, the following three areas represent the objectives that Takaful providers should identify:

1. Issues related to the target group and Takaful products offered
2. Issues related to market share, sales volume, profitability and revenue

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3. Issues related to the image, reputation, and preferences of the Takaful provider.

Rethinking Marketing Management

The fast developments of corporate communications and marketing have attracted a growing interest in the financial services industry especially Islamic insurance and assurance, Takaful. The fact of such interest was mainly based on the fundamental changes affecting the way of doing business and setting new standards for financial services applications especially when promoting products. Banks and insurance companies, which offer products that comply with Islamic Sharia, are rushing on to developing innovative and competitive financial solutions, building strategic alliances, segmenting and reaching customers based on their individual needs across the world, interactively and on demand.

Appropriate decisions based on marketing rational offer unique research opportunities when evaluating the base structure and design of Takaful products compared to other financial products. Effective and efficient corporate communications and marketing applications, within a specific market, facilitate a communication flow with customers and provide a large database about the needs and expectations of clients; this, in turn, builds a solid infrastructure for further development.

Marketing conventional financial services offers, in a way or another, a working example to marketing Islamic financial services, including Takaful products, where customers represent active participants in an interactive exercise of multiple feedbacks. The result of such offers is a significant dynamic potential for growth, deve-

lopment and virtual revolution of the Takaful industry.

The impact of corporate communications and marketing on the Takaful industry is immense and will soon be remarkable; where the only constant is its phenomenal growth, development, adoption, and acceptance.

An exciting time for Islamic financial Services

As mentioned earlier, it is really an exciting time for Islamic financial services, mainly insurance, in Europe. Corporate communications and marketing, in today's era, is regarded as one of the fast growing influential factor in the development of the European finance industry.

Major European players have undergone a period of rapid change during the last decade, especial with the expansion, growth and competition taking place over a wider financial market caused by globalization. To address such a dynamic industry, communications have evolved and experienced fast moving developments that match the recent economic, social and technological trends. This has encouraged financial institutions to manufacture their offerings based on “getting to know the customer and understanding what influences his/her decisions”.

As marketing insurance products offers a successful working example, Takaful providers should adopt the methodology in hand and work on designing a philosophy of communication that facilitates the creation of an active and interactive environment.

The future of Takaful is bright and we will witness the dawn of a new era in financial services across the globe. ■