

HOW TO SELL TAKAFUL?



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Avec un marché en pleine croissance, les pays islamiques ainsi que les grands groupes d'assurance travaillent à la consolidation du développement de la *takaful*. L'assureur Prudential s'est notamment lancé dans des coopérations auprès des banques locales en Arabie Saoudite et en Malaisie afin de distribuer ses produits d'assurance islamique sur une base solide, tout en apportant son savoir-faire.

Takaful, or *Sharia*-compliant insurance, is one of the most dynamic areas of the rapidly expanding market for Islamic financial services. According to a recent report published by Fitch Ratings, total global premium contributions reached \$2.6 bn in 2006, and industry analysts estimate that the annual growth of the market may be as high as 40% in the booming GCC¹ and well into double digits in a number of other regions.

Part of that expansion has inevitably been associated with the powerful economic growth rates that have been posted by all oil-exporting nations in recent years, which has bolstered personal disposable income levels and demand for a range of financial services. But much of the expansion can also be attributed to a growing recognition across the Islamic world that although conventional insurance violates *Sharia* law, *Takaful* – which is based on the Koranic principle of mutual help – does not. That growing recognition has triggered a virtuous cir-

cle, because it has prompted governments in a number of Islamic countries, including Egypt, Saudi Arabia and the UAE, to pass new legislation aimed at promoting an understanding of and a demand for insurance cover. It has also alerted several of the world's largest insurance companies to the potential of the *Takaful* market, which has in turn underpinned further growth in the sector. A spokesman for the Central Bank of Bahrain (CBB) pointed to that trend in March 2007, when the German insurance giant, Allianz, was awarded a licence to locate its global *Takaful* hub in Bahrain. "Public perception of life insurance, in particular, has changed considerably with the introduction of *takaful* and now represents a huge, fairly untapped opportunity," he said. "The entry of a global insurance player, such as Allianz, in the *Takaful* arena also points to the tremendous potential of this line of business."

A significant expansion

The potential is tremendous indeed, and has been recognized by scores of other industry heavyweights. For example, when Prudential of the UK

recently signed a Memorandum of Understanding (MOU) with Bank Aljazira of Saudi Arabia to develop the bank's successful *Takaful* Ta'awuni life insurance business, it put the potential of the Saudi insurance market into vivid perspective. "The Saudi Arabian insurance market is currently relatively small with an estimated £800m [\$1.56bn] in annual gross premiums, and with more than 70 per cent of this being related to motor, medical and property insurance," Prudential advised. "However, with GDP per capita now exceeding £6,700 [\$13.065bn], and life insurance penetration of less than one per cent, there is significant room for growth."

There is equally significant room for expansion elsewhere in the Islamic world. According to data published by Swiss Re, in 2004 life insurance premiums amounted to just 0.28% of GDP in Pakistan and for 3.52% in Malaysia, compared with almost 9% in the UK. But as a number of industry participants have been quick to point out, there is no reason why the sale of well-structured and efficiently managed *Takaful* products should be restricted to Muslim-majority countries or even to Muslim customers. As the renaissance in socially responsible investing (SRI) continues to gather momentum across the world, *Sharia*-compliant products are expected to become increasingly popular among non-Muslim investors and policyholders. In its most recent analysis of the industry, the management consultancy group Oliver Wyman has forecast that

* The FWU Group is a Munich based financial services group founded in 1989 by Dr. Manfred J. Dirrheimer. The FWU Group's core business comprises bancassurance and asset management services. It is a leading international provider of customised white label distribution of Family *Takaful* and unit-linked investment products via internet-based Point-of-Sale and administration systems. FWU Group's subsidiaries include a life insurance company, an asset management company and a commission factoring company. Its international network includes offices in Luxembourg, Dubai and Kuala Lumpur.

1. The Cooperation Council of the Arabs States of the Gulf.

as much as 20% of Takaful revenues could ultimately be generated from non-Muslim customers.

Identifying the potential of takaful is, however, one thing. Harnessing that potential in order to maximize the benefits for providers as well as for policyholders and for society at large is quite another, especially given the relative under-development of retail financial services throughout the Islamic world. One consequence of that

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under-development is that an emphasis on efficient distribution models is likely to be pivotal in determining the winners and losers in the Takaful market going forward. Many of those winners, market analysts believe, will be the products of partnership arrangements between banks and insurance providers (in the form of bancassurance) and specialist investment managers. Leading insurance companies such as Prudential, which has over 21 million customers worldwide, have been in the vanguard of this movement. Prior to the announcement of its joint venture with Bank Aljazira in Saudi Arabia, Prudential emphasised its commitment to the growth of the Takaful market in Malaysia when it launched a joint venture with Bank Simpanan Nasional Bhd (BSN). Set up in 2006, Prudential BSN Takaful Bhd (PBTB) offers “a range of takaful savings, protection and investment products which have been developed with the unique needs of Bumiputra (Muslim Malays), who make up 60% of the population, in mind.” Specifically, PBTB is focusing on the potential for family and general Takaful products, including investment-linked policies, by leveraging BSN’s very extensive branch network of almost 400 branches and customer base of over 7 million customers nationwide.

Licensed from the state

PBTB was the first of a number of new Takaful ventures to have been licensed by the Malaysian Central Bank, and industry liberalization has also helped the development of the market in the Middle East. In Saudi Arabia, for example, at the end of 2006 the Council of Ministers ended the monopoly of the National Company for Co-Operative Insurance (NCCI) when it awarded licences to 13 new insurance companies. A handful of those are joint ventures focusing on the potential of Islamic insurance, such as Al Ahli Takaful, the largest shareholder in which is National Commercial Bank (NCB), which with over one million customers is Saudi Arabia’s largest commercial bank. NCB is the leading financial asset manager in the Arab world, was the first bank in the Kingdom to offer investment funds, and has 260 branches located throughout Saudi Arabia dedicated to Islamic financial services, meaning that its distribution network is unrivalled. Other shareholders in Al Ahli Takaful include the International Finance Corporation (IFC), the FWU Group and the German insurance company, VHV.

Marketing products?

Another striking example of this partnership-based approach is the Meethaq savings scheme launched recently by Abu Dhabi Commercial Bank (ADCB) in a joint arrangement with the Dubai Islamic Insurance and Reinsurance Company and the Germany-based FWU AG. The Meethaq initiative, which offers individuals access to savings plans linked to Sharia-compliant mutual funds, is likely to be an important blueprint for the future evolution in which Takaful products are sold for several reasons. Foremost among these is that it makes Takaful widely accessible to savers throughout the United Arab Emirates (UAE) by putting a strong emphasis on the flexibility of the product, which is offered to all UAE residents aged between 18 and 60. Savers can choose between a number of mutual funds and participate through monthly subscriptions equivalent to as little as AED² 1,000. Contributions, which are deferra-

ble if necessary, can be made on a monthly, quarterly, semi-annual or annual basis, and partial withdrawals are permitted.

One key way in which the Meethaq initiative will serve as an important blueprint for other providers of takaful products is that it has a very clear focus on the delivery of superior investment returns. Marketing products that are religiously acceptable will only represent half the battle for providers of Takaful-linked investments. If those products fail to prove their worth by outperforming local or international benchmarks, they will inevitably fail to attract an extensive customer base, especially in the context of a global bear market where strong returns become increasingly elusive.

As with other joint ventures involving banks such as NCB in Saudi Arabia and BSN in Malaysia, distribution through ADCB’s network of more than 40 local branches is fundamental to the success of the Meethaq product. For banks in a range of other countries with a dense distribution network twinned with a strong local heritage – but not necessarily with any expertise in Islamic finance – an increasingly attractive way of participating in the fast-growing Takaful market has been leverage off their extensive client relationships by white labelling products generated by smaller specialists.

The long term success of the Takaful sector will therefore hinge principally on the distribution capacity of the principal players in the market, which in turn will hinge on the commitment of banks and bancassurance giants – rather than smaller independent agents – to use their very extensive networks to reach a global and highly diversified range of customers. ■

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2. Arab Emirates Dirham.