



COMCEC
Coordination Office
Ankara, Turkey



Presented by:

Dr. Yusuf Dinç



IMPROVING THE TAKAFUL SECTOR IN ISLAMIC COUNTRIES

Session 1: Overview of Takaful Sector in the World and OIC

17th October, 2019

This report has been commissioned by the COMCEC Coordination Office to İstanbul Sabahattin Zaim University. The report was prepared by an academic team that coordinated by Assoc. Prof. Dr. Yusuf Dinç. The academic team includes Dr. Adam (Ruslan Nagayev), Assoc. Prof. Dr. Mustafa Omar Mohammed, Assoc. Prof. Dr. Umar A. Oseni, Dr. Mohamed Cherif Al Amri, Assoc. Prof. Dr. Buerhan Saiti, Prof. Dr. Rusni Hassan, Dr. Abdelkader Chachi and Rashed Jahangir.



Objectives of the Study

1

- To assess the theoretical and legal natures of Takaful, including the interpretation of various schools of thought, the comparison of conventional insurance with Takaful;

2

- To conduct the detailed analysis on the current size and trends, structures, modes, and instruments of Takaful;

3

- To review the operational aspects of Takaful business, analyze the types of Takaful structures, and evaluate the structural, regulatory and technical challenges facing Takaful sector;

4

- To perform country-level analysis of the selected countries on Takaful market; and

5

- To provide the policy recommendations on Improving the Takaful Sector in the Islamic Countries.

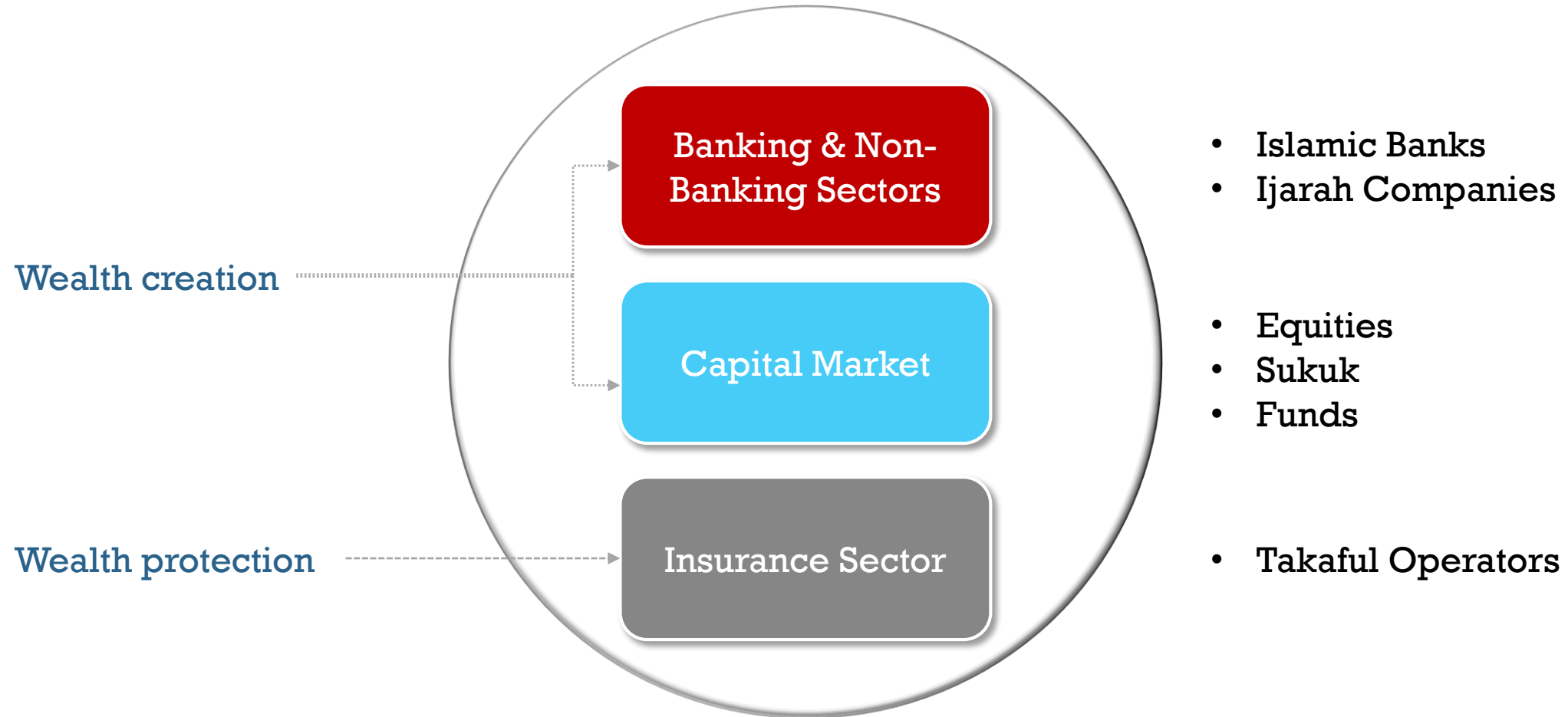


INTRODUCTION

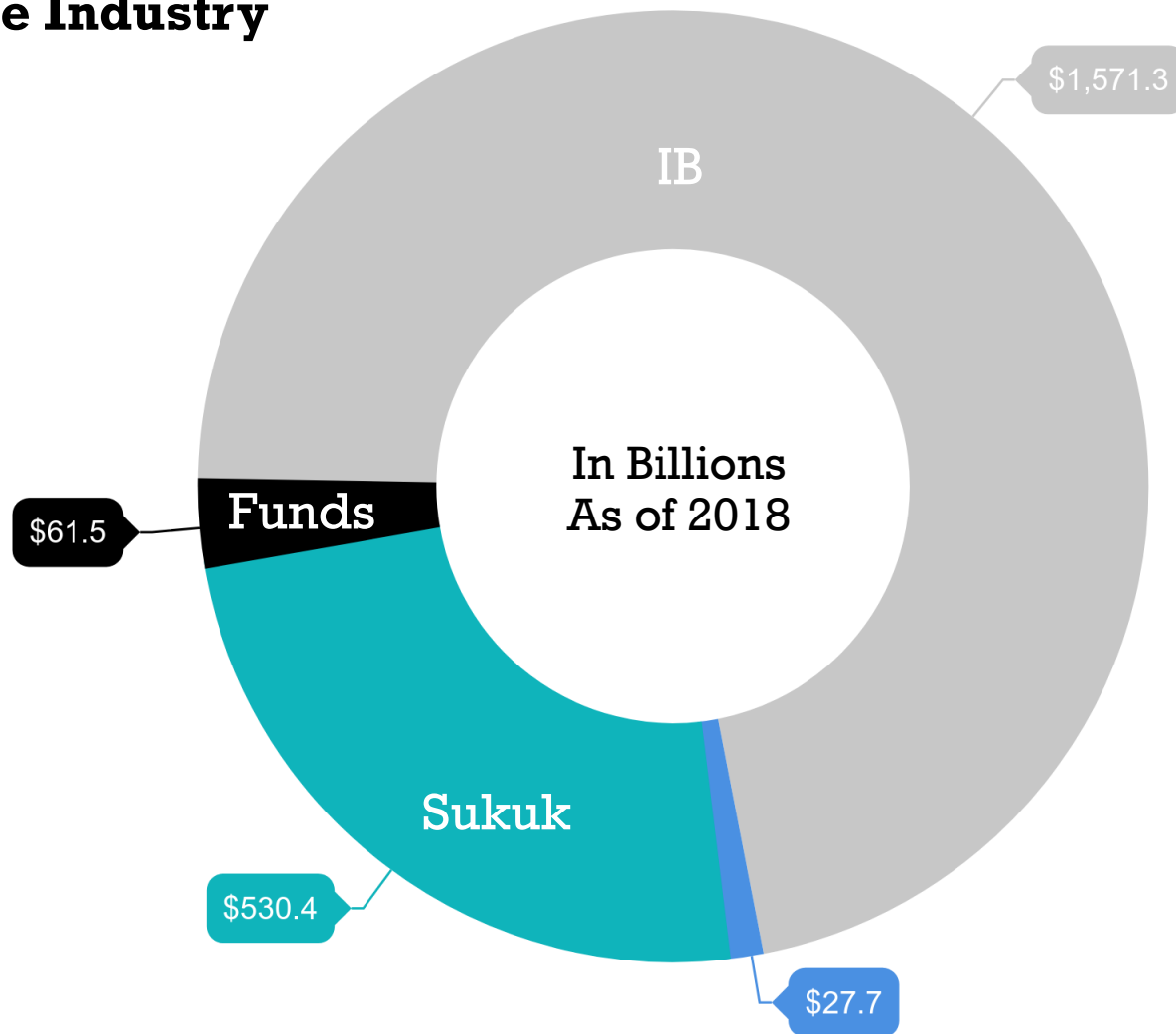
Background Information

17th October, 2019

Financial System



Global Islamic Finance Industry



- Islamic Banking Assets (71.72%)
- Takaful Contributions (1.26%)
- Sukuk Outstanding (24.21%)
- Islamic Fund Assets (2.81%)

Total Assets
\$2.2T

Share of Takaful Industry
1.26%

Definition of Takaful

AAOIFI:

- **Takaful** is “a process of agreement among a **group of persons** to handle the injuries resulting from **specific risks** to which all of them are vulnerable”.

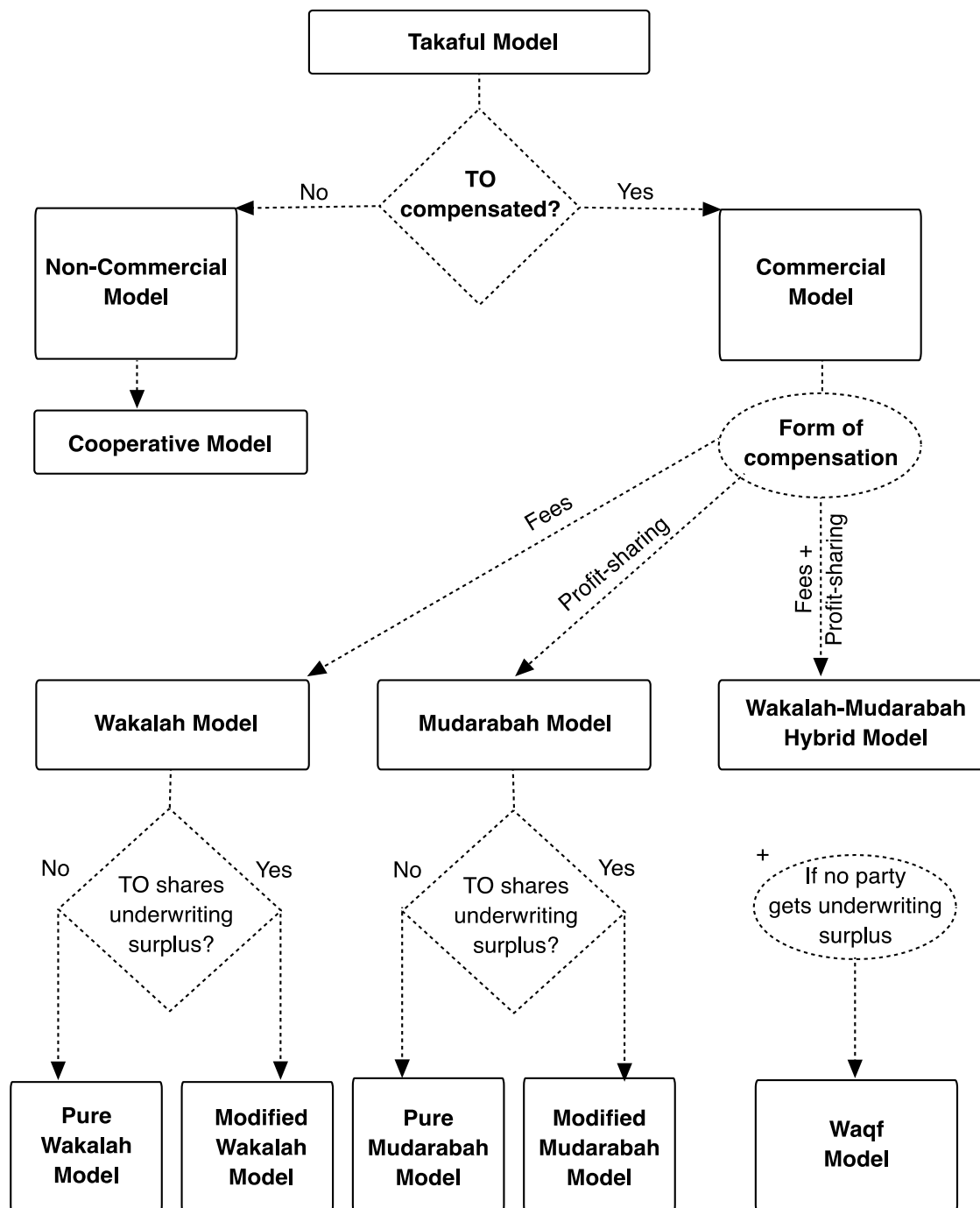


IFSB:

- **Takaful** is "a **mutual guarantee** in return for the commitment to **donate** an amount in the form of a specified contribution to the participants' risk fund, whereby a group of participants agree among themselves to **support one another jointly** for the losses arising from specified risks”.

BNM:

- **Takaful** is “an arrangement based on **mutual assistance** under which Takaful participants agree to contribute to a **common fund** providing for **mutual financial benefits** payable to the Takaful participants or their beneficiaries on the occurrence of pre-agreed events” .



TAKAFUL BUSINESS MODELS:

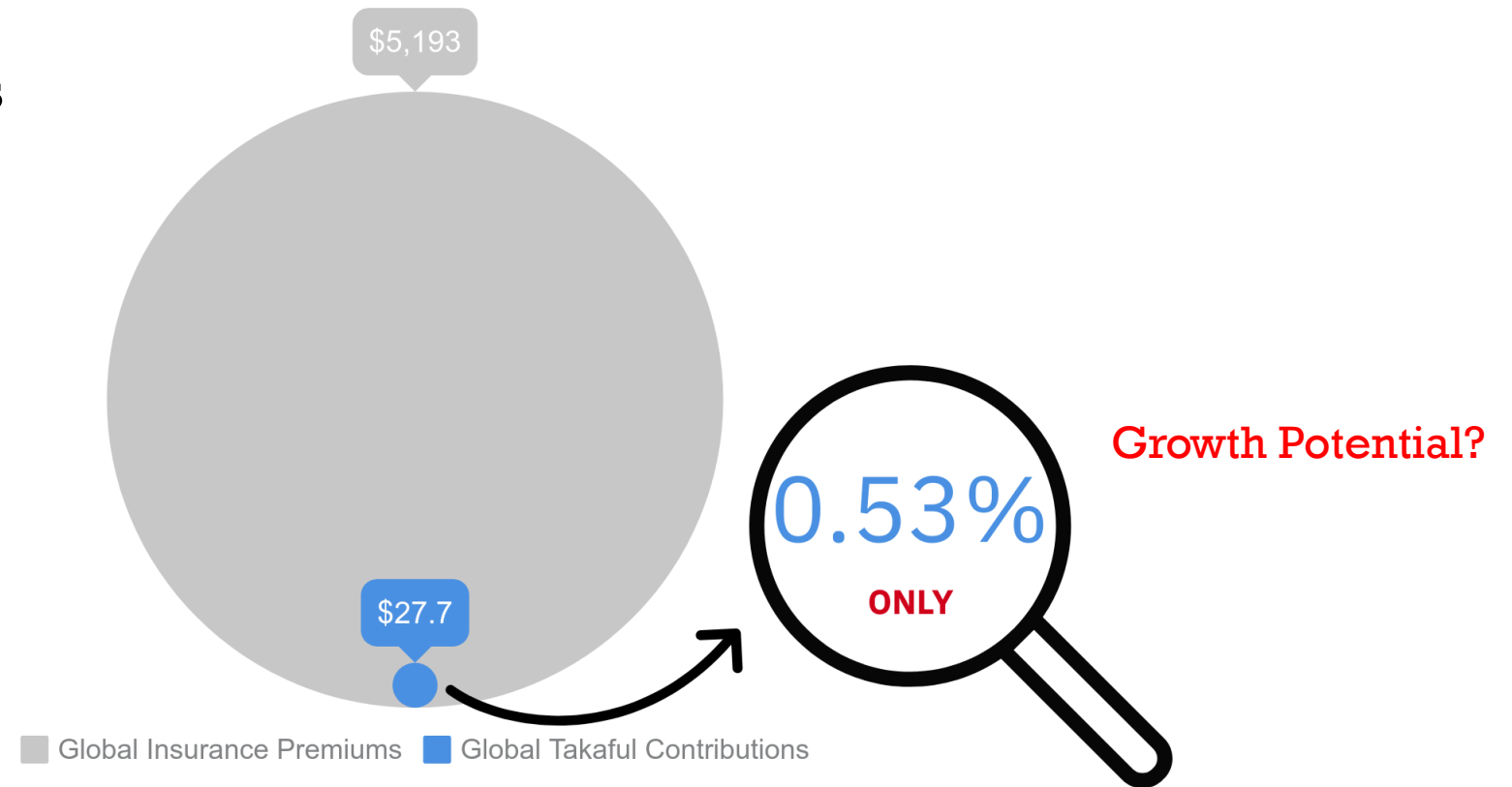
The models define the following aspects:

- Relationship between the Participants and TO,
- Rights and obligations of the Participants and TO,
- Who pays the expenses incurred during the contract period?
- How is surplus distributed between the parties? and
- Who is liable for the losses arising from the Takaful business?

BUSINESS MODELS PRACTICES:

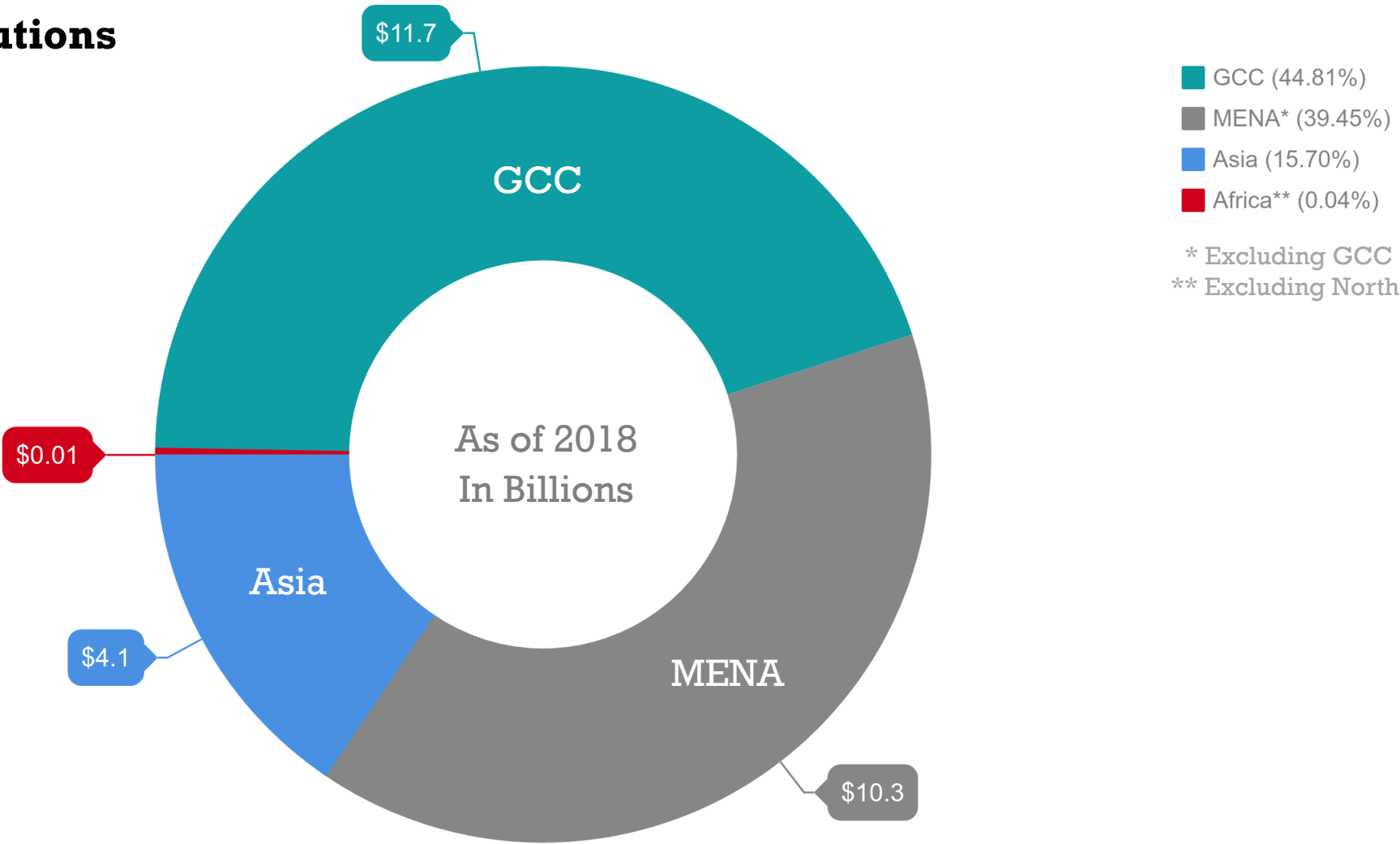
- **Wakalah model:** Bahrain, Malaysia
- **Mudarabah model:** Brunei
- **Hybrid model:** Turkey
- **Waqf model:** Pakistan, South Africa
- **Cooperative model:** Saudi Arabia, Sudan

Size of Global Takaful vs Conventional Insurance



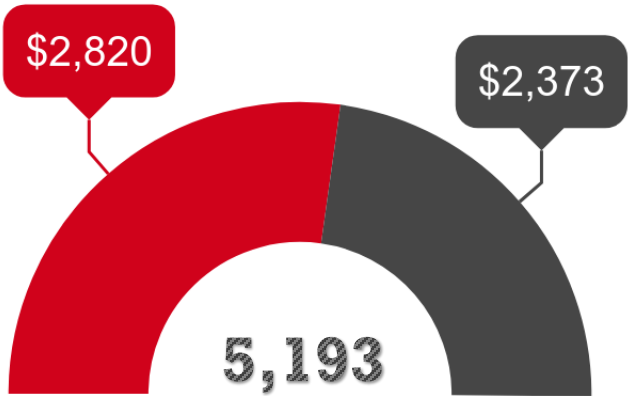
As of 2018
In Billions

Distribution of Takaful Contributions by Region

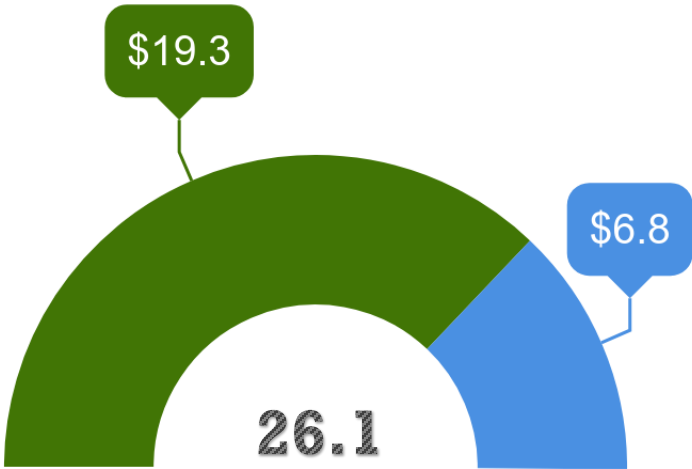


Comparison

Global
Conventional
Insurance



Global
Takaful
Sector



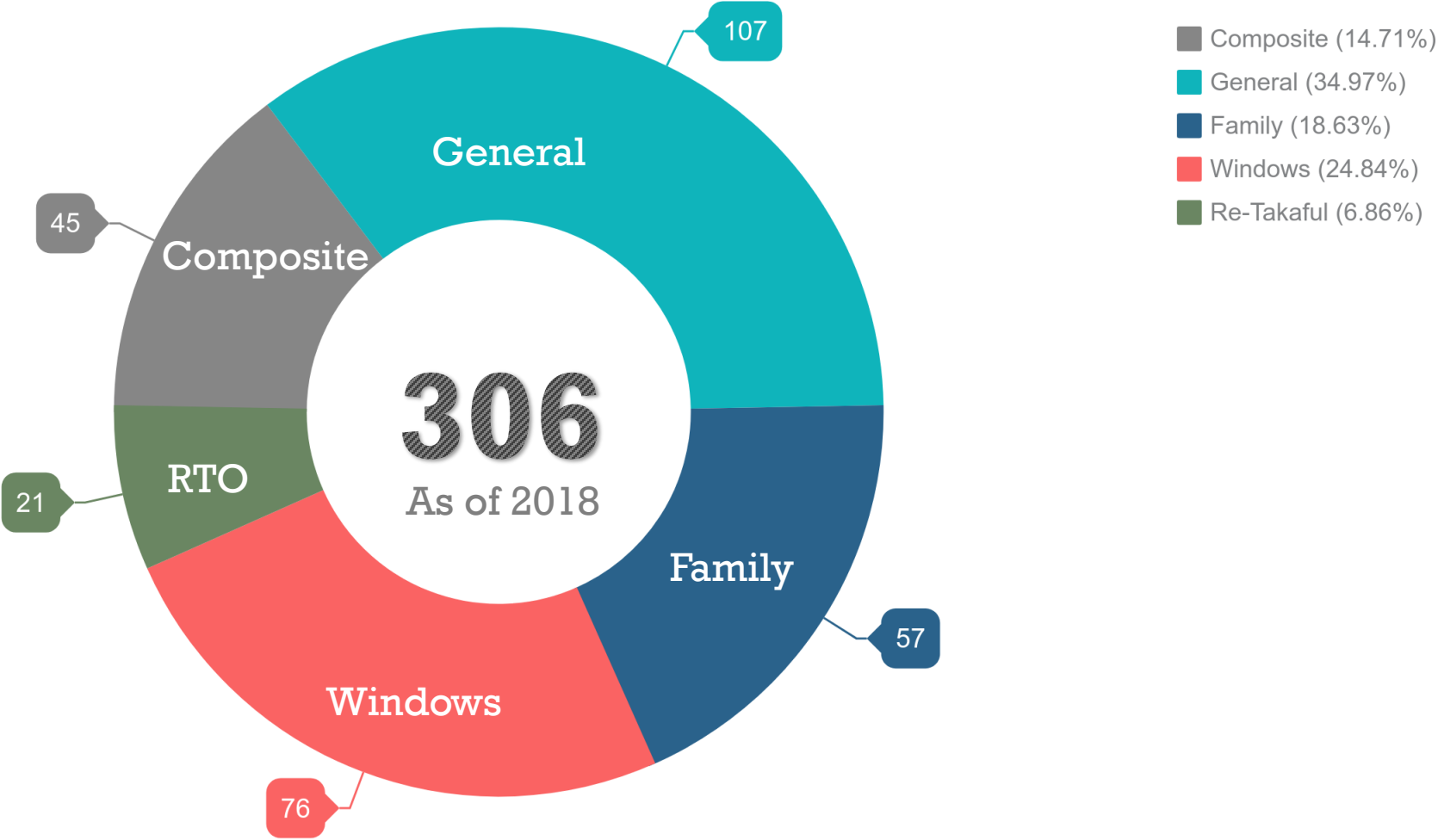
■ Life Premiums (54.30%) ■ Non-Life Premiums (45.70%) ■ General Takaful (73.95%) ■ Family Takaful (26.05%)

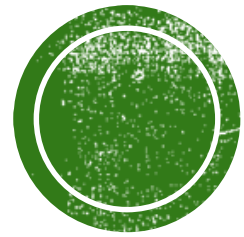
As of 2018

As of 2017

In Billions

**Number of Institutions
offering Takaful
Services Globally**

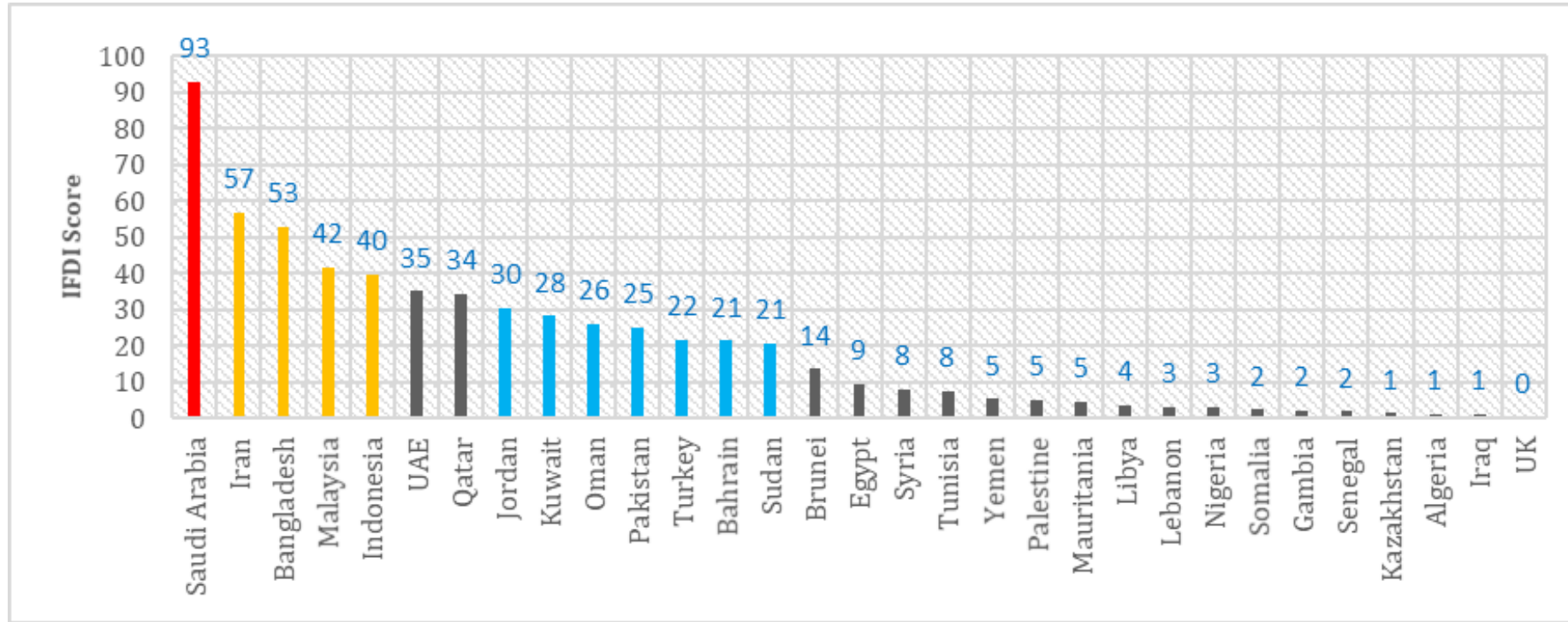




SAMPLE COUNTRIES

Malaysia, Saudi Arabia, Turkey, and the United Kingdom

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COUNTRY SELECTION CRITERIA

1. The level of Takaful Industry development (*by TR's IFDI Score*),
2. The Quality of Institutions (*by Heritage's Economic Freedom Index*).

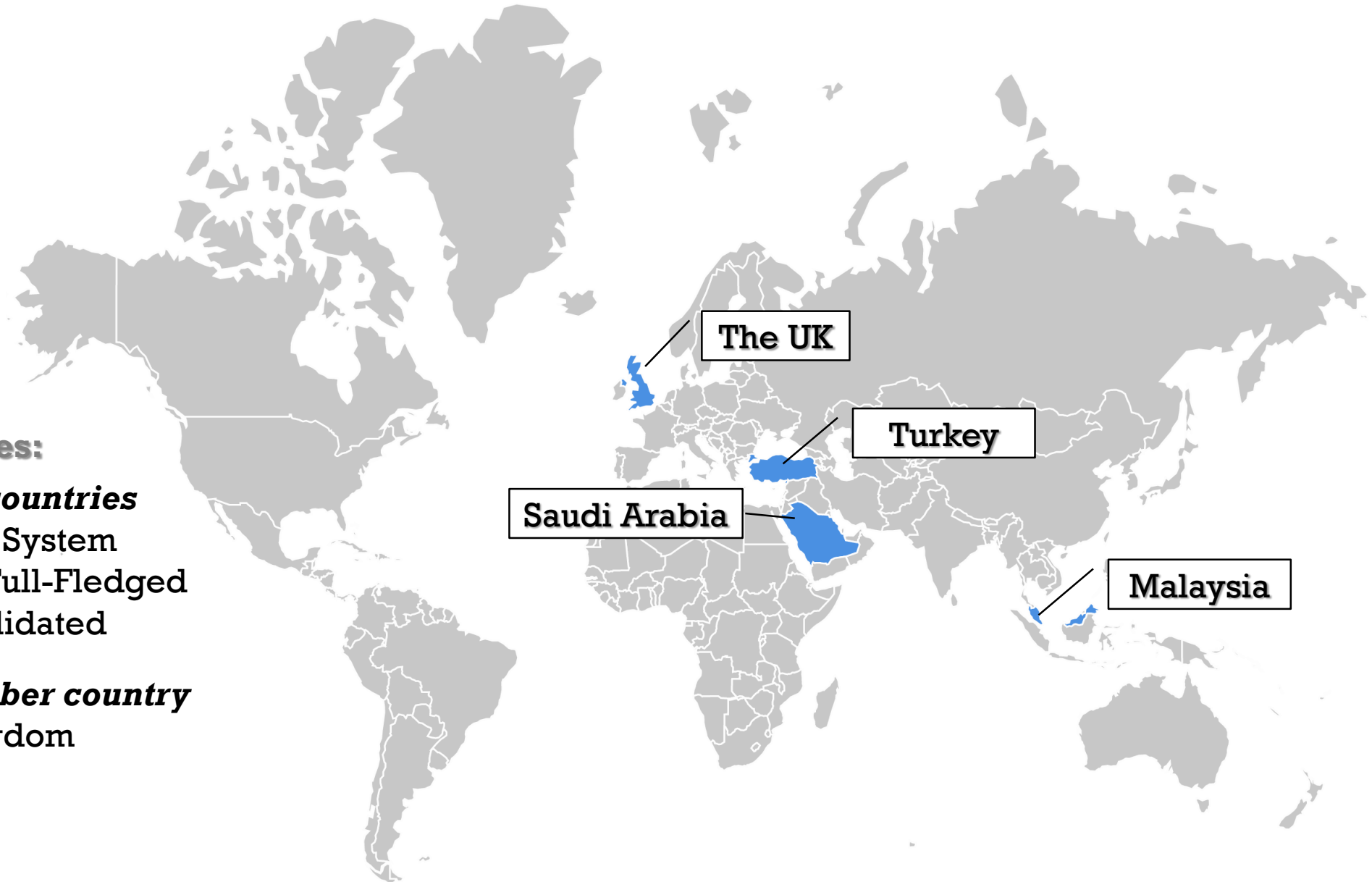
Sample Countries:

3 OIC member countries

- *Malaysia*: Dual System
- *Saudi Arabia*: Full-Fledged
- *Turkey*: Consolidated

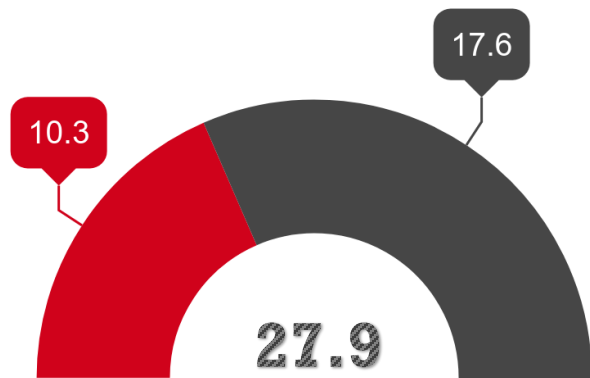
1 Non-OIC member country

- The United Kingdom



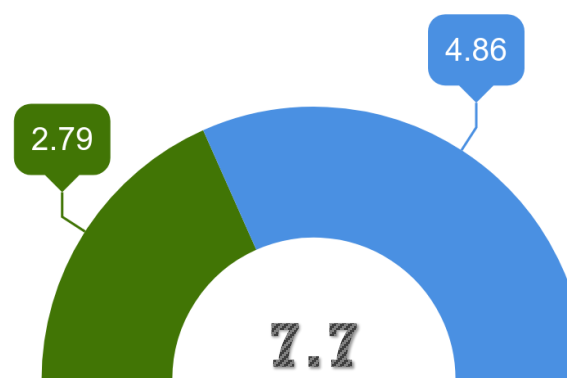
Insurance Sector Malaysia

- Regulatory Body: **BNM**
- **Takaful Players: 19**



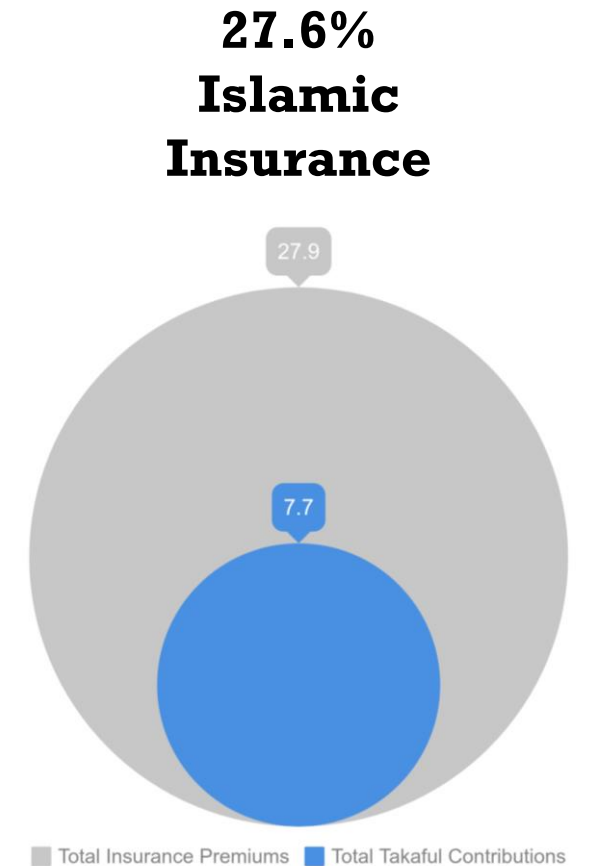
■ New Business Life Premiums (36.92%)
■ Non-life Premiums (63.08%)

Conventional Insurance



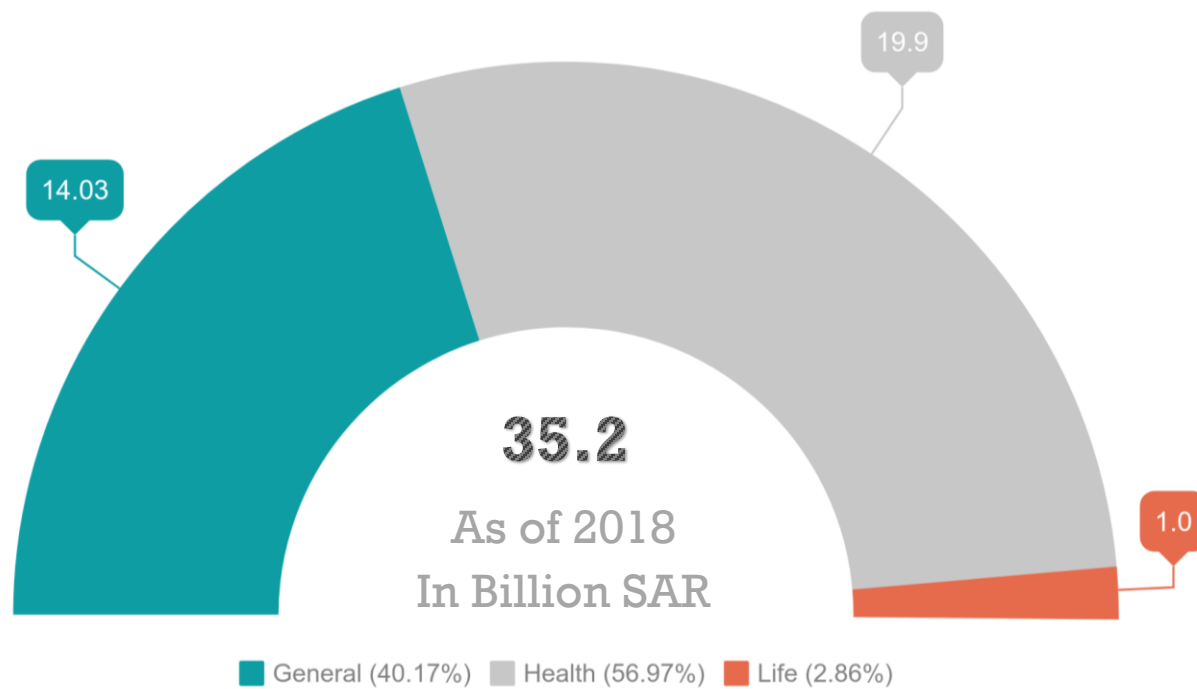
■ General Takaful (36.47%) ■ Family Takaful (63.53%)

Takaful

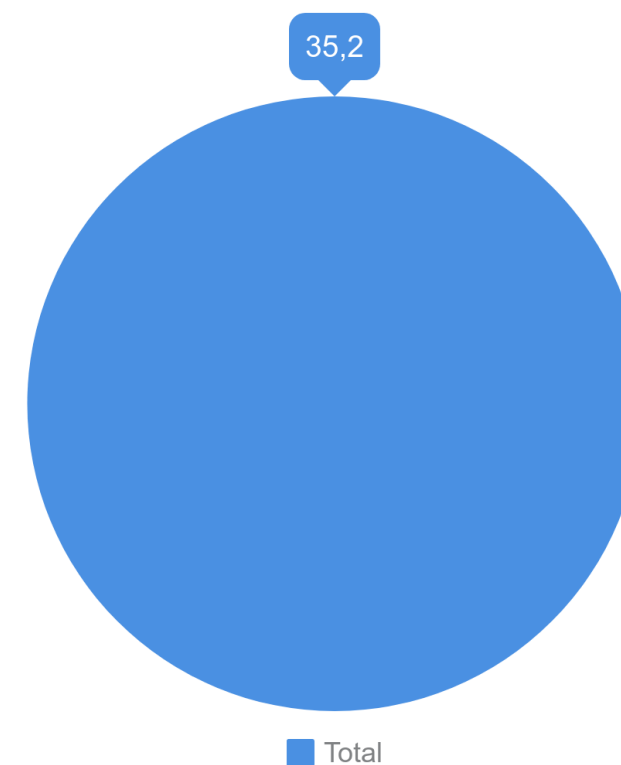


Insurance Sector Saudi Arabia

- Regulatory Body: **SAMA**
- **Takaful Players: 33**



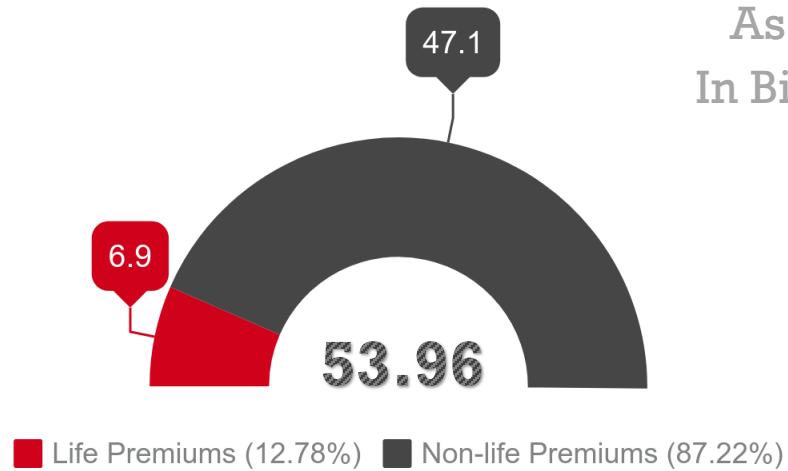
100% Islamic Insurance



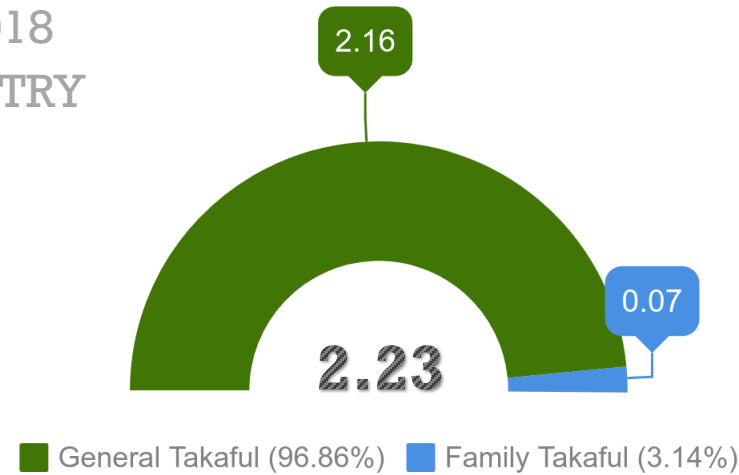
Insurance Sector Turkey

- Regulatory Body: **MTF**
- **Takaful Players: 12**

As of 2018
In Billion TRY

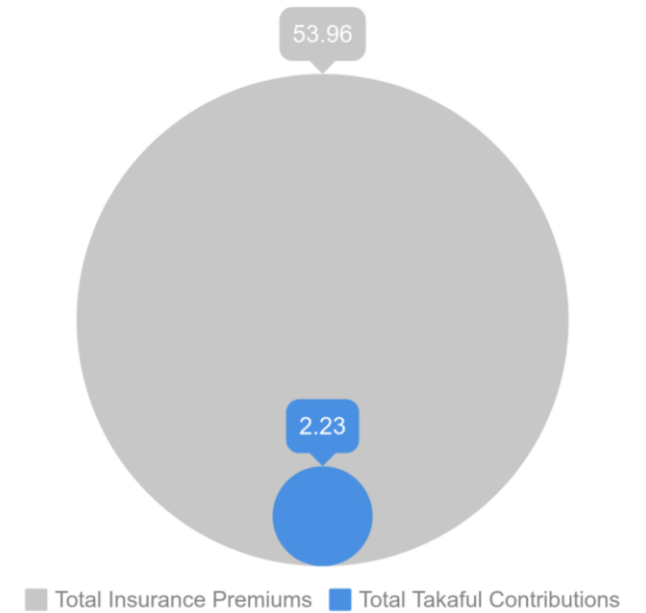


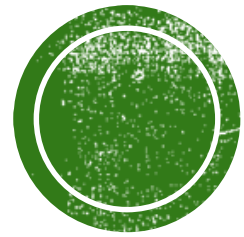
Conventional Insurance



Takaful

4.31% Islamic Insurance





METHODOLOGY

Based on literature review and surveys



Research Methodology



Literature Review



Data



Synthesis

(i) Primary data:

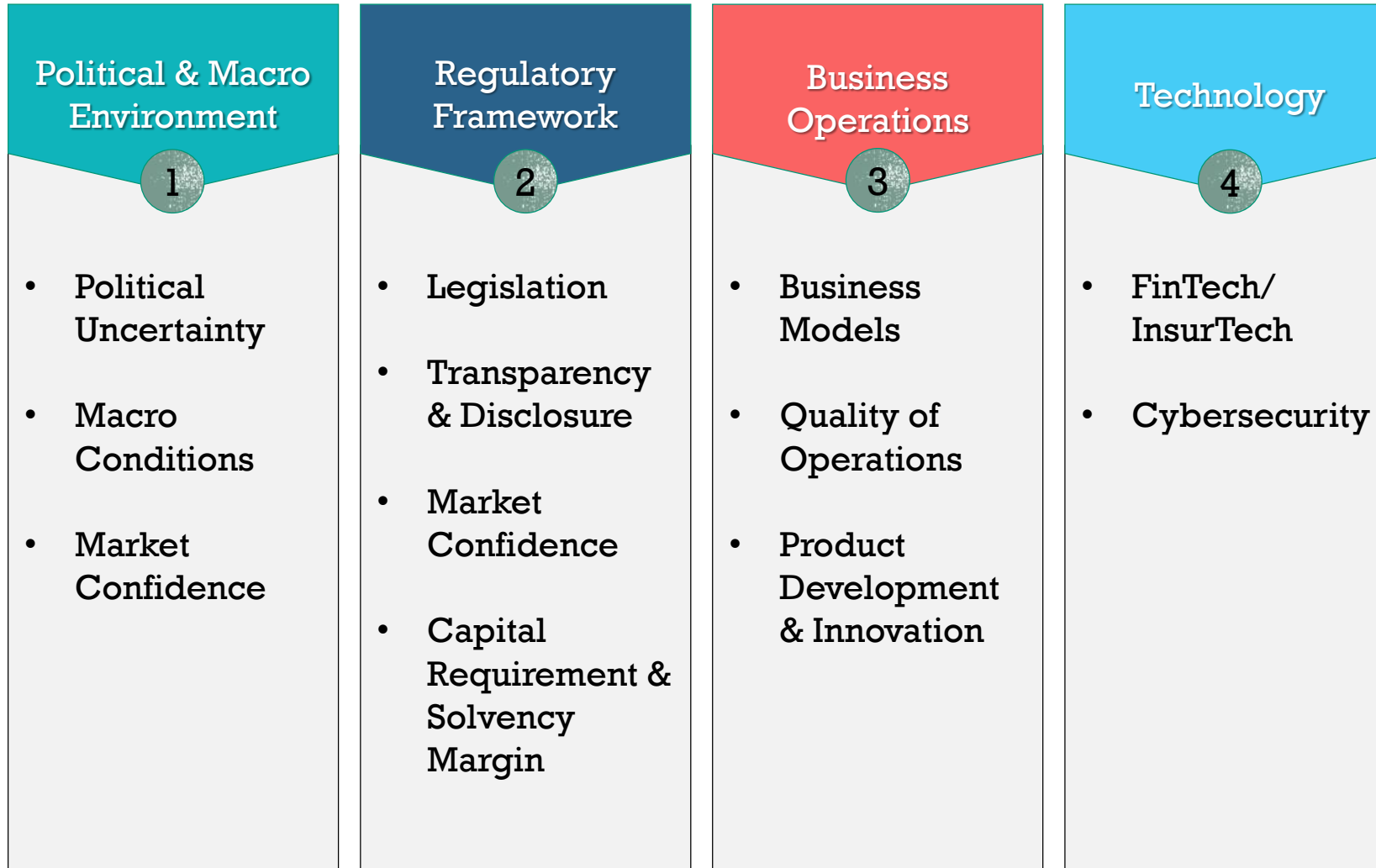
- Structured questionnaires: *all stakeholders*
- Semi-structured interviews: *regulators & executives*

(ii) Secondary data

- *Databases*
- *Official statistics*

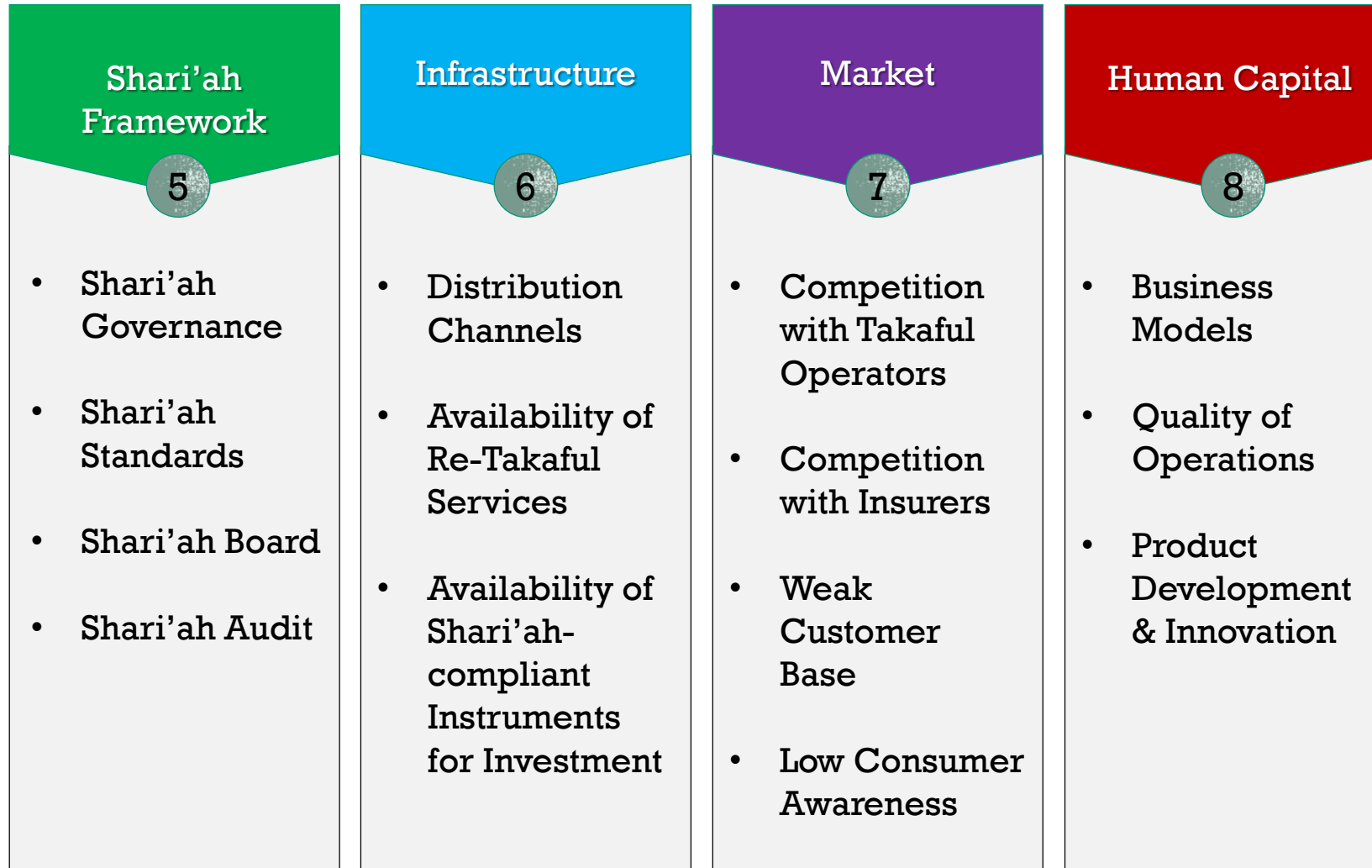
Survey Questions

Challenges Facing the Takaful Industry



Survey Questions

Challenges Facing the Takaful Industry



Survey Questions

Company-Level **SWOT** Analysis

Internal Factors	STRENGTHS <ul style="list-style-type: none">• Use of Technology to Sustain the Quality of Services• Successful Product Development and Innovation• High Level of Customer Satisfaction• Well-developed Distribution Networks• Strong Free Cash Flow for Further Expansion of Projects• High Rate of Return on Shari'ah-compliant Investments• Having High-Skilled Workforce• Diversification Across Countries	WEAKNESSES <ul style="list-style-type: none">• High Attrition Rate in Workforce• Lack of Efficient Financial Planning• Rigid Organization Structure to Accommodate New Business Models• Poor Marketing Strategies• Lack of Investment into R&D - Below Industry Average
External Factors	OPPORTUNITIES <ul style="list-style-type: none">• Strong Support from the Government for Development of the Industry• New Customers via Online Channels• Access to New InsurTech• Future Growth due to Political and Economic Stability• Expansion in Other Countries	THREATS <ul style="list-style-type: none">• Intense Competition from TOs and Insurers• New Restrictive Regulations• Irregular Development and Supply of New Products• Vulnerable Cybersecurity• High Bureaucracy Level as an Impediment to Growth

Thank you!

Q&A





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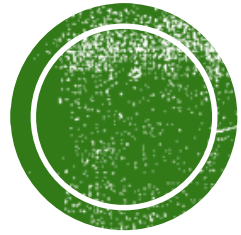
Dr.Adam (Ruslan Nagayev)



IMPROVING THE TAKAFUL SECTOR IN ISLAMIC COUNTRIES

Session 2: Lessons Learnt from the Selected Case Studies and the Policy Options

17th October, 2019



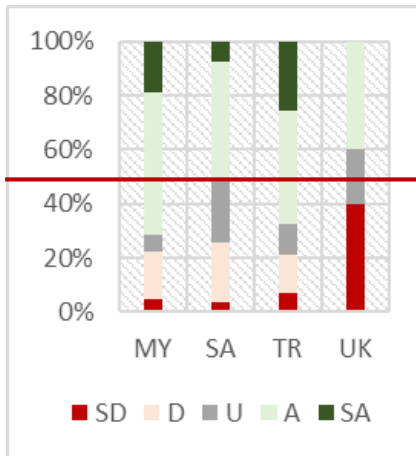
DISCUSSION OF FINDINGS

Discussion of survey results: Challenges and SWOT analysis results

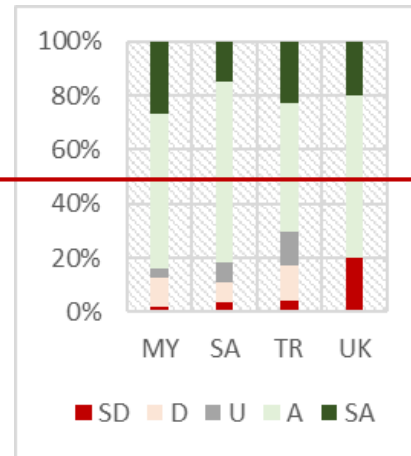
Survey on

CHALLENGES

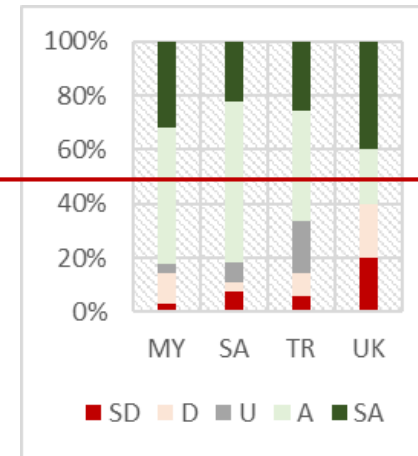
Political Uncertainty



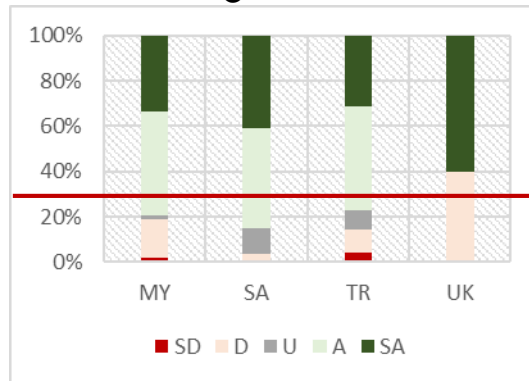
Macro Conditions



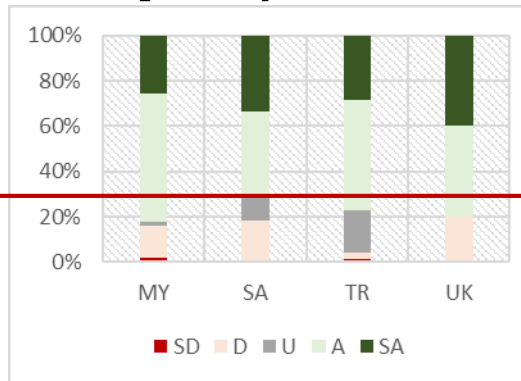
Market Confidence



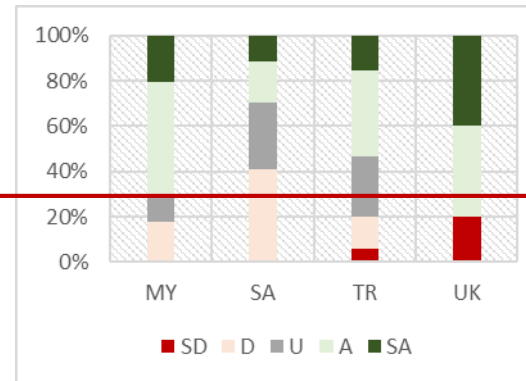
Legislation



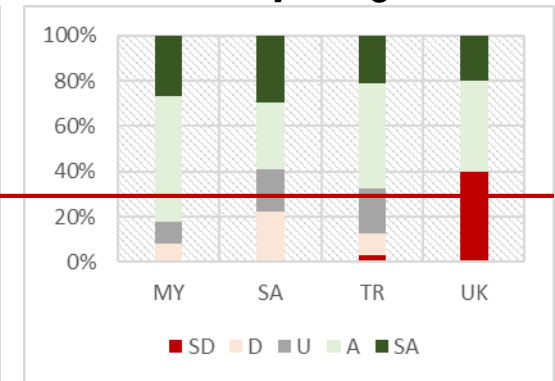
Transparency & Disclosure



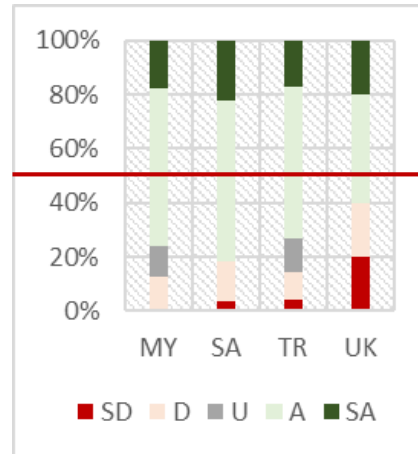
Taxation



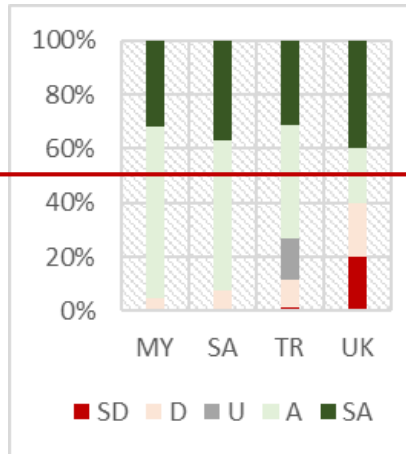
Capital Requirement & Solvency Margins



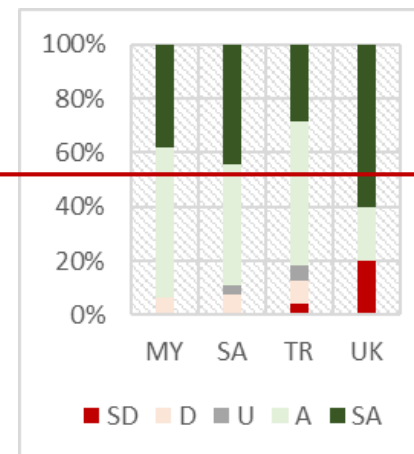
New Business Models



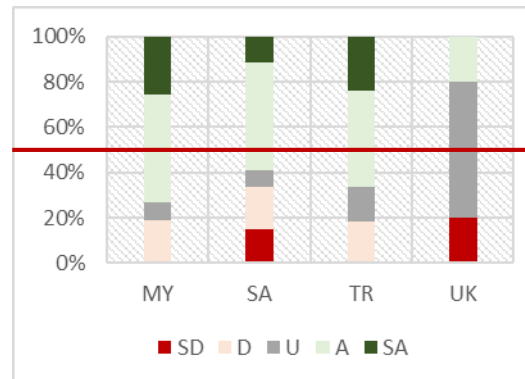
Quality of Operations



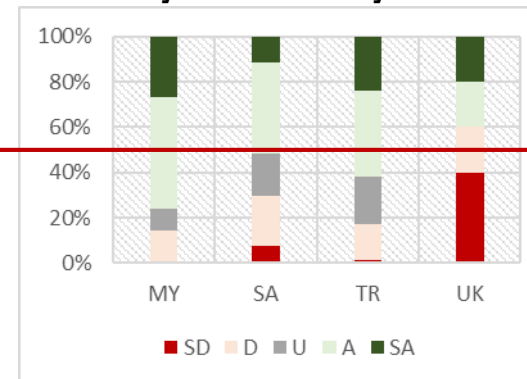
Product Development & Innovation



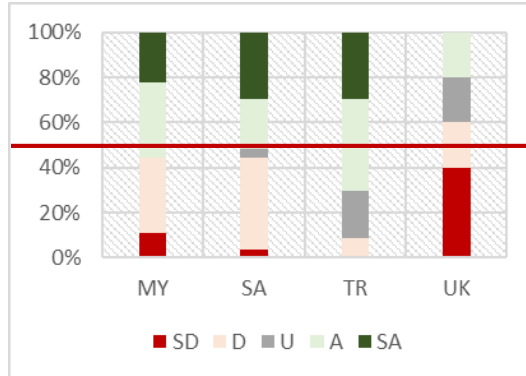
FinTech / InsurTech



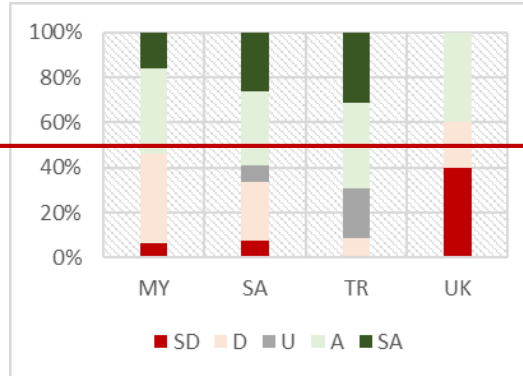
Cyber Security



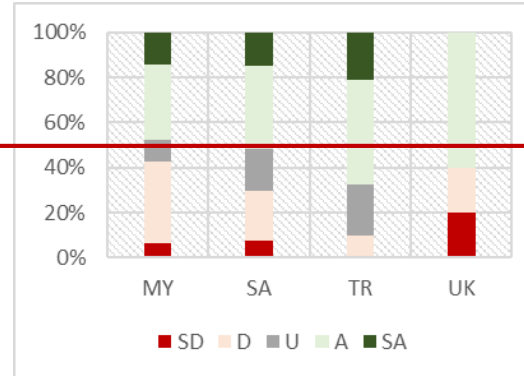
Shari'ah Governance



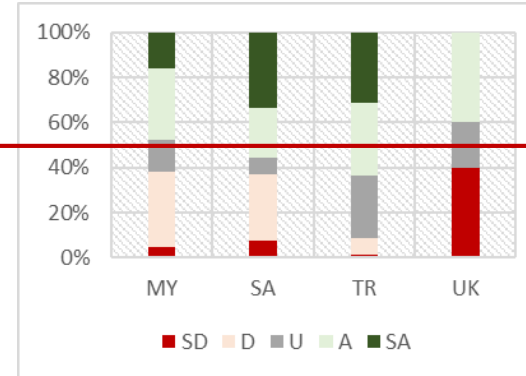
Shari'ah Standards



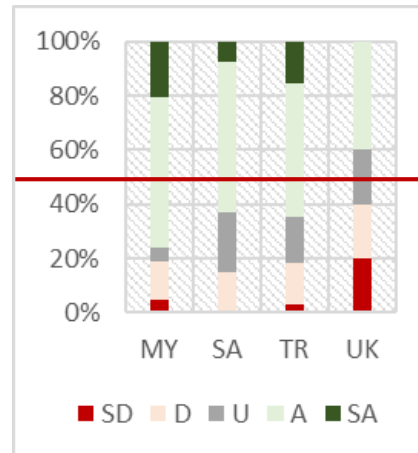
Shari'ah Board



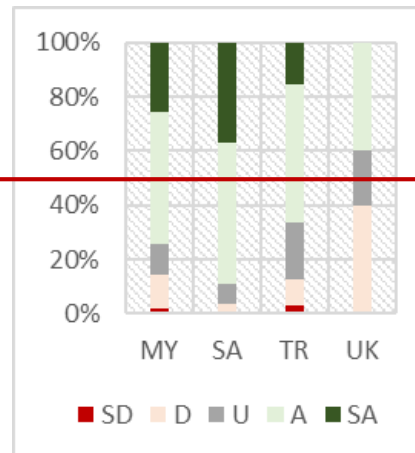
Shari'ah Audit



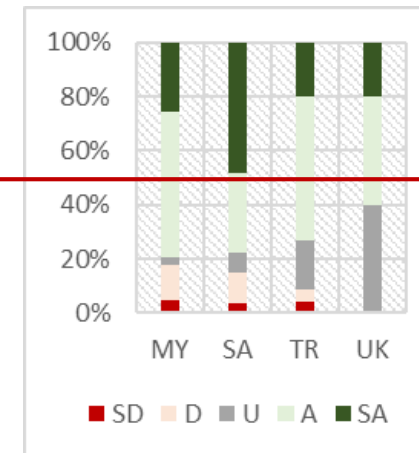
Distribution Channels



Availability of Re-Takaful Services



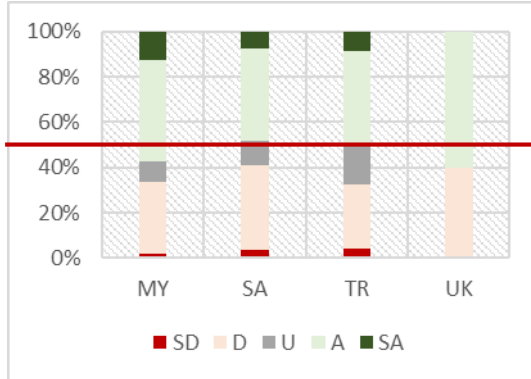
Availability of Shari'ah-compliant Instruments for Investment



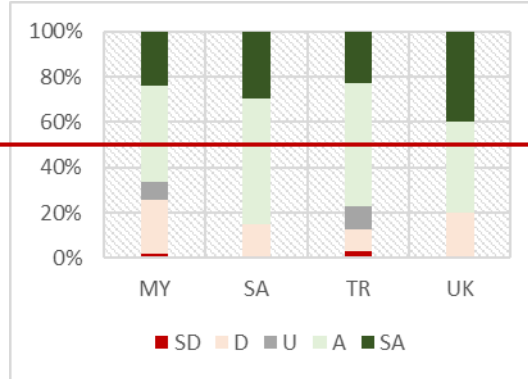
CHALLENGES: 7

Market

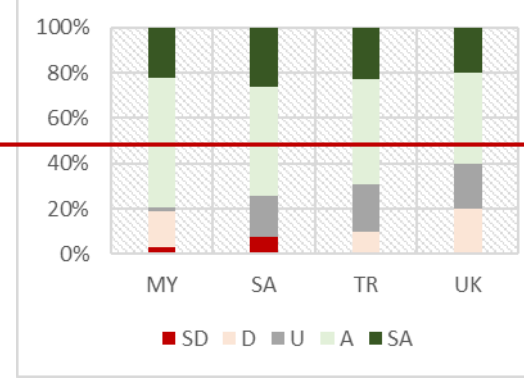
Competition from Takaful Companies



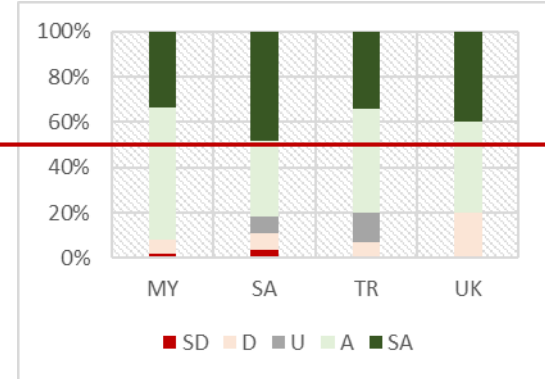
Competition from Conventional Insurers



Weak Customer Base



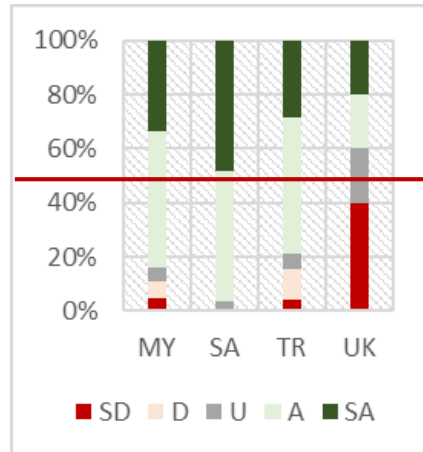
Low Consumer Awareness



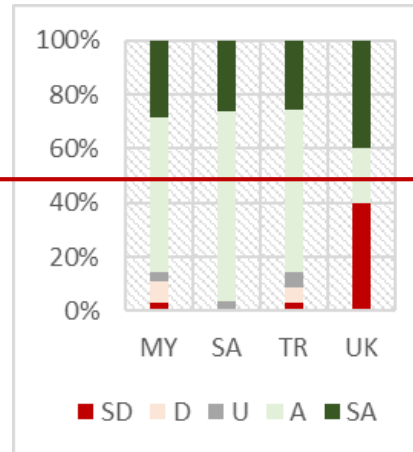
CHALLENGES: 8

Human Capital

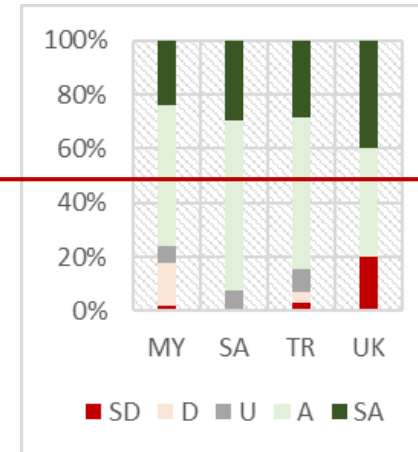
Lack of Qualified Personnel



Inadequate Education and Continuous Development



Inadequate Training for Agents and Brokers

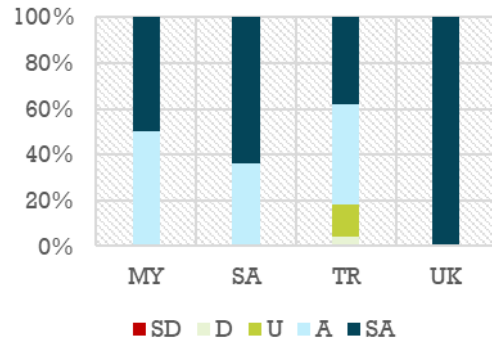


Survey for

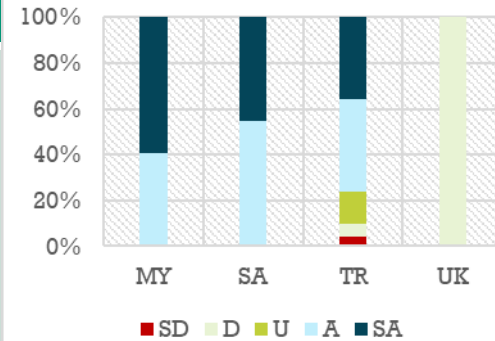
SWOT Analysis

STRENGTHS

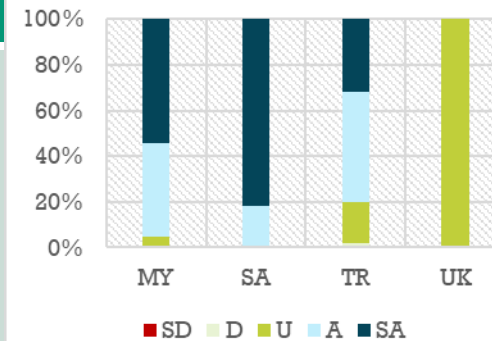
(A) Use of Technology to Sustain the Quality of Services



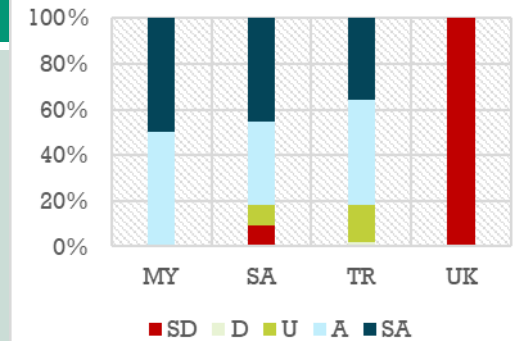
(B) Successful Product Development and Innovation



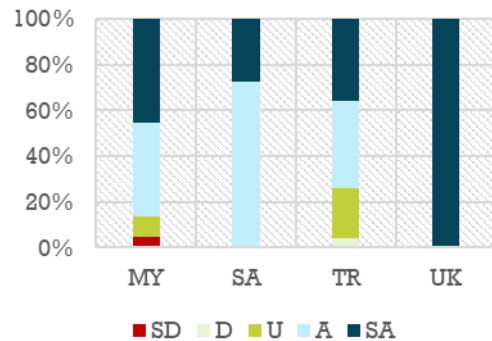
(C) High Level of Customer Satisfaction



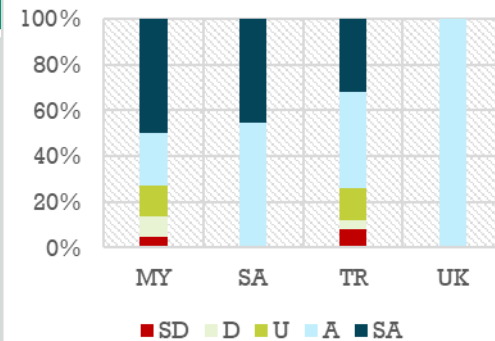
(D) Well-developed Distribution Networks



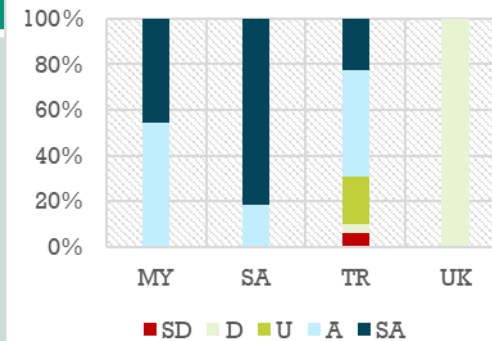
(E) Strong Free Cash Flow for Further Expansion of Projects



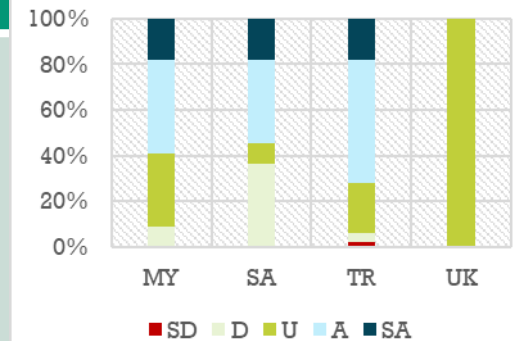
(F) High Rate of Return on Shari'ah-compliant Investments



(G) Having High-Skilled Workforce

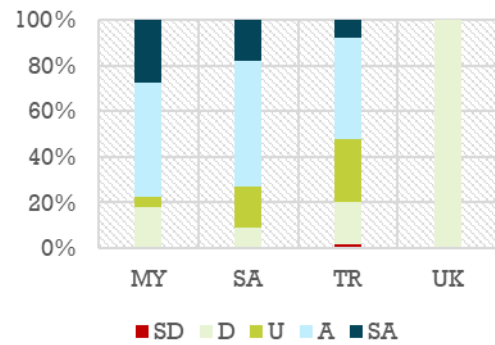


(H) Diversification Across Countries

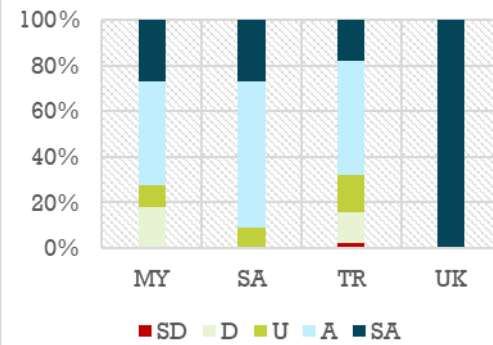


WEAKNESSES

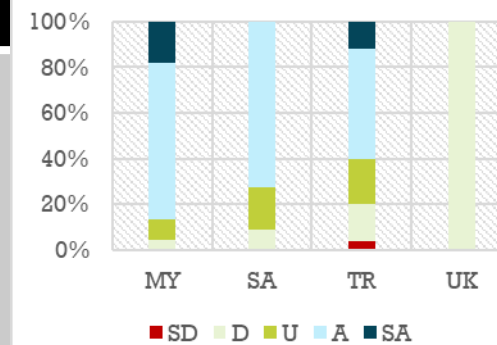
(A) High Attrition Rate in Workforce



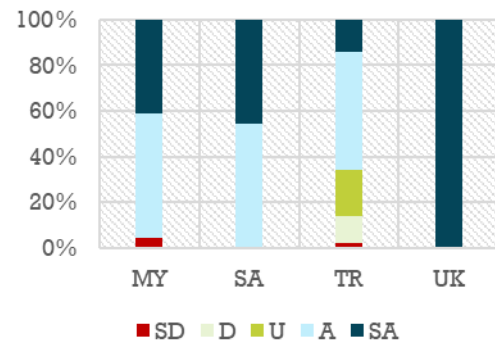
(B) Lack of Efficient Financial Planning



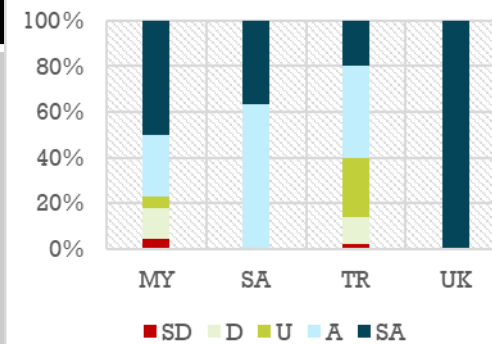
(C) Rigid Organization Structure to Accommodate New Business Models



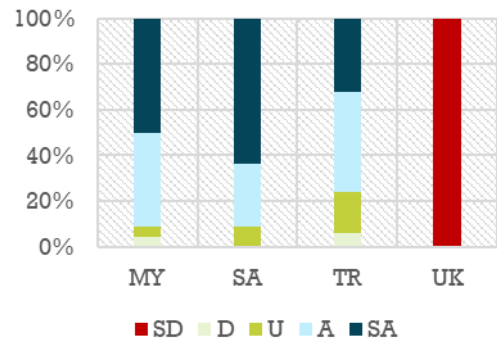
(D) Poor Marketing Strategies



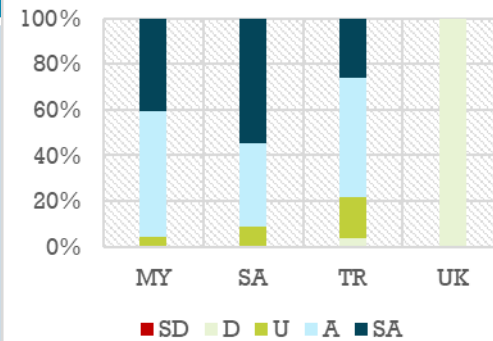
(E) Lack of Investment into R&D - Below Industry Average



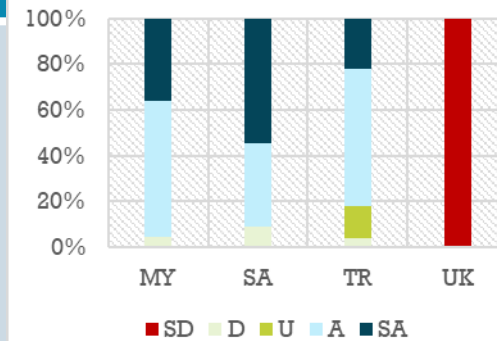
(A) Strong Support from the Government for Development of the Industry



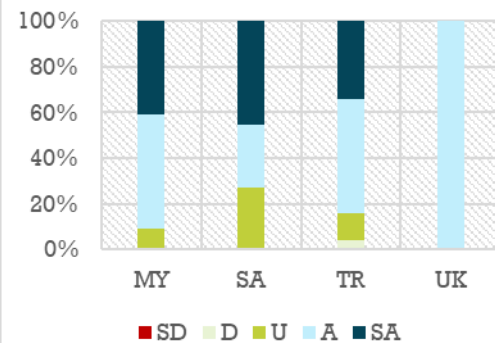
(B) New Customers via Online Channels



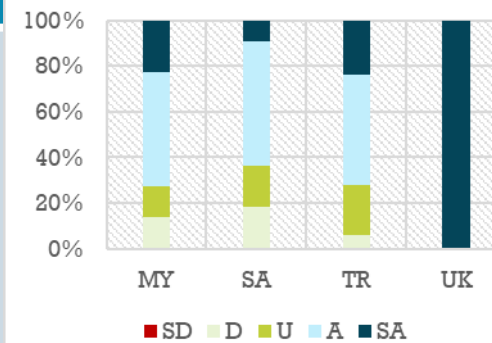
(C) Access to New Insurance Technology



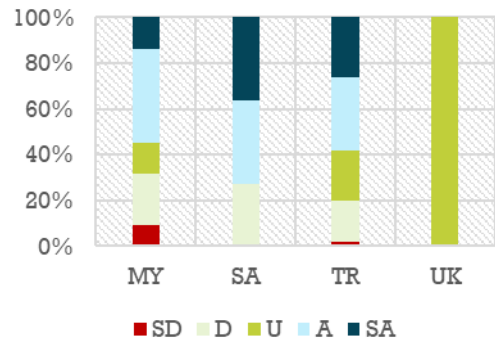
(D) Future Growth due to Political and Economic Stability



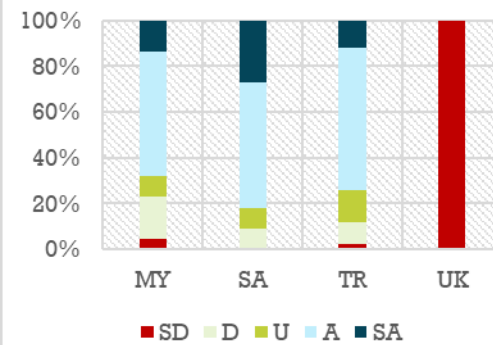
(E) Expansion in Other Countries



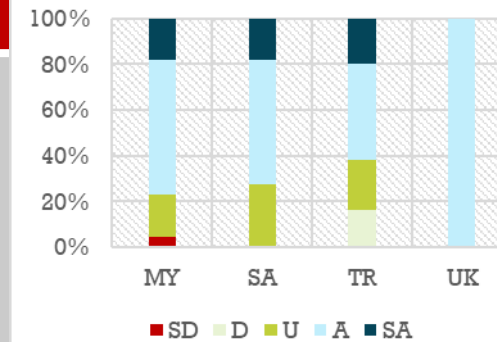
(A) Intense Competition from Takaful Operators and Conventional Insurers



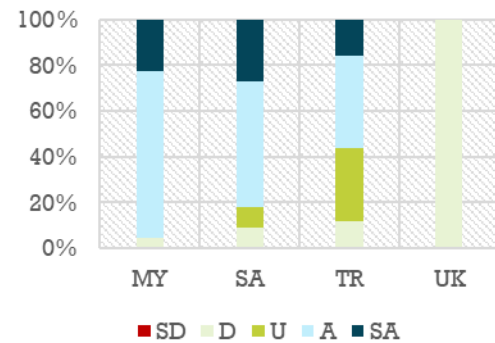
(B) New Restrictive Regulations



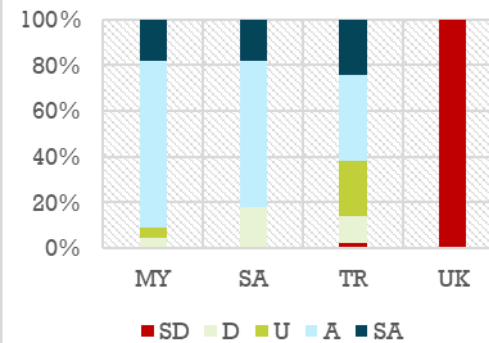
(C) Irregular Development and Supply of New Products

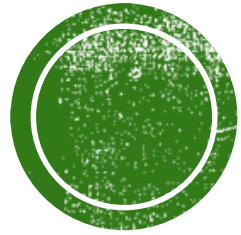


(D) Vulnerable Cybersecurity



(E) High Bureaucracy Level as an Impediment to Growth





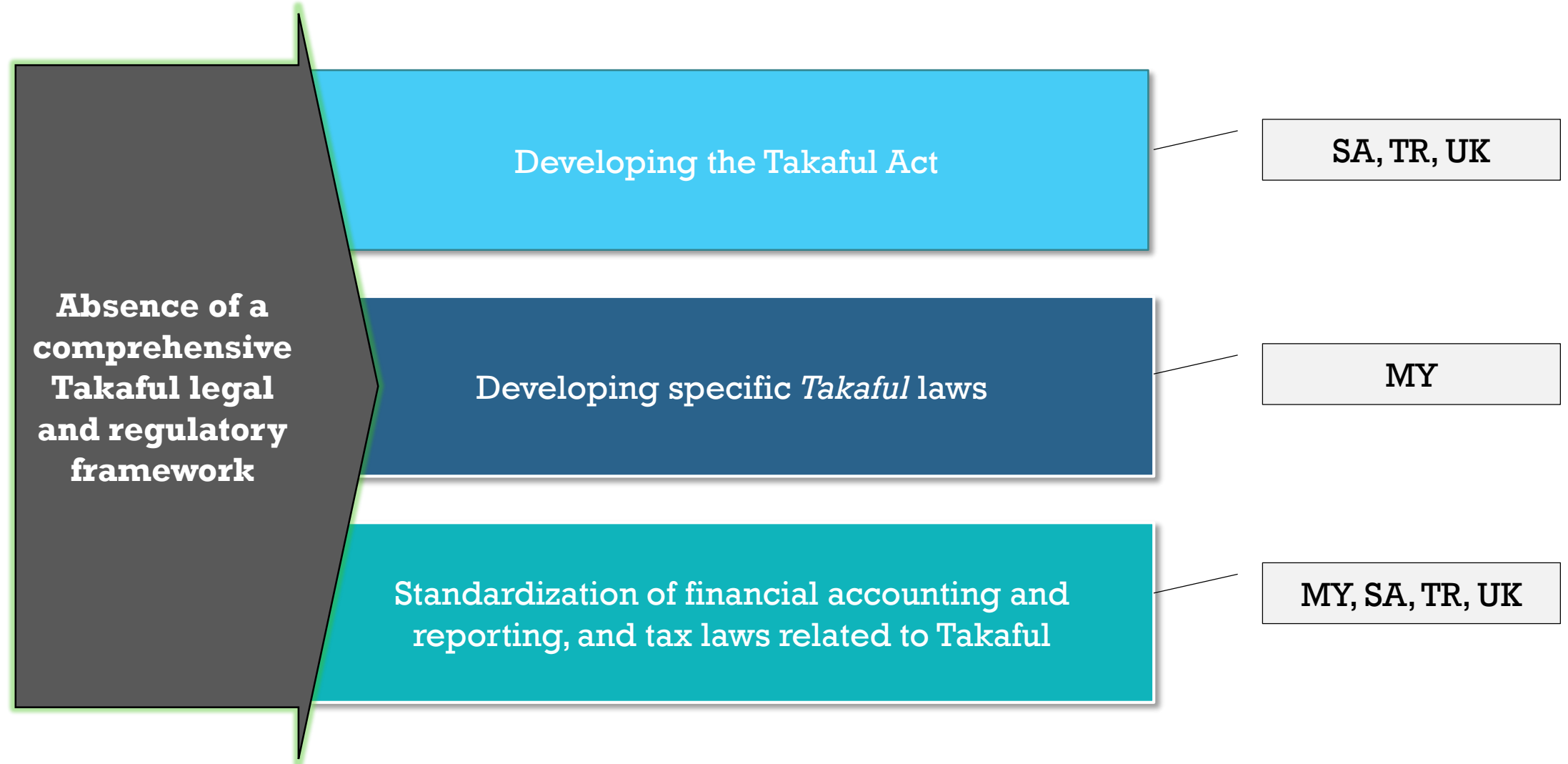
ISSUES & RECOMMENDATIONS

Based for the countries under study

17th October, 2019

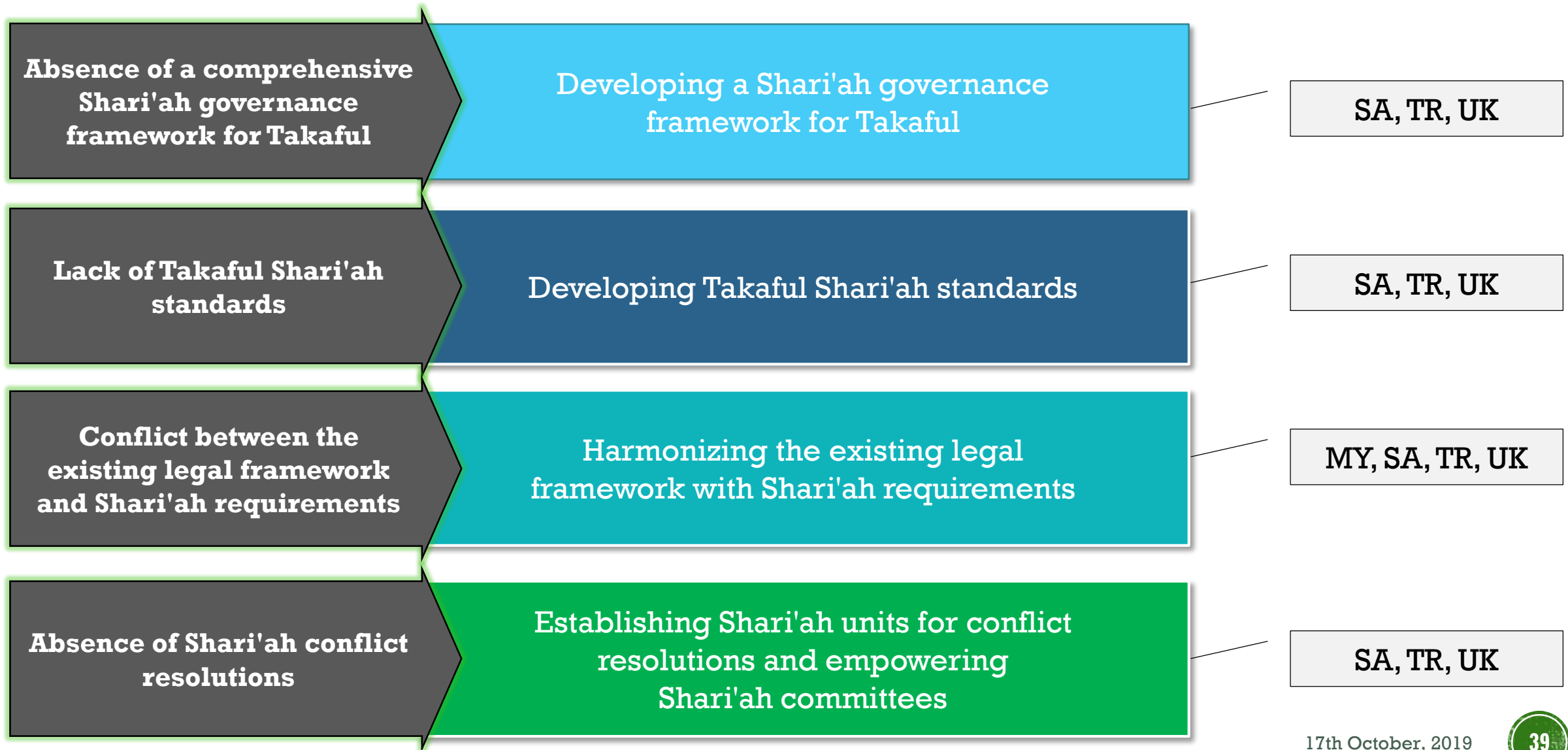
Issues and Recommendations

1) Legal and Regulatory Framework



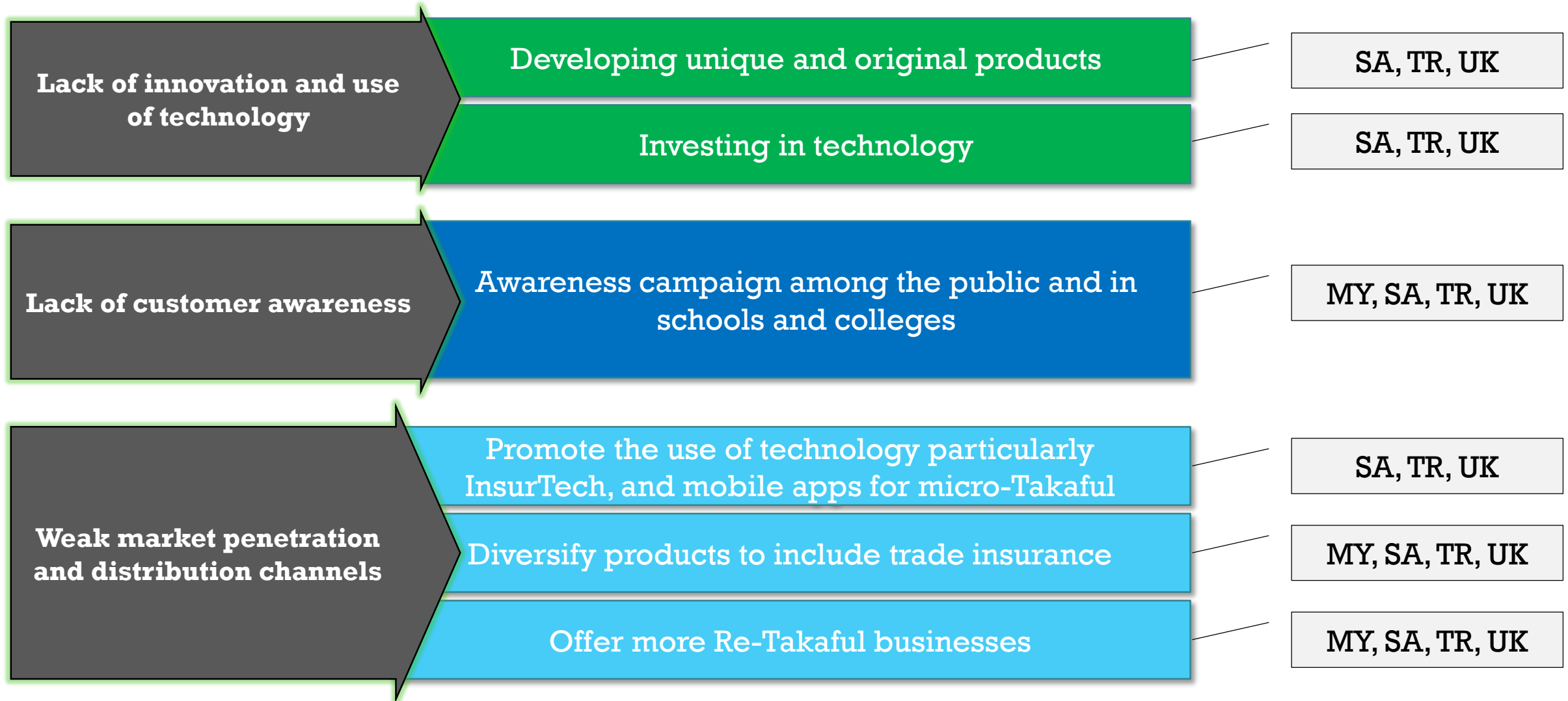
Issues and Recommendations

2) Shari'ah Framework



Issues and Recommendations

3) Products and Services



Issues and Recommendations

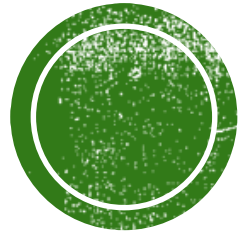
4) Talent Development



Issues and Recommendations

5) Takaful Business Sustainability





RECOMMENDATIONS

For all OIC countries based on the level of development

17th October, 2019

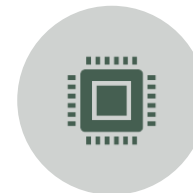
Recommendations

New and Emerging Takaful Markets

1. Set up the **supportive** regulatory and legal frameworks
2. Increase the **awareness** of the market about the nature of Takaful
3. Develop the **Shari'ah** framework
4. Develop a comprehensive Islamic finance **infrastructure**
5. Build a **human capacity**

Developed Takaful Markets

1. Ensure the **continuous human capital** development
2. Stimulate **innovation**
3. Embrace new **technology** and maintain **cybersecurity**



Thank you!

Q&A

