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Life Insurance According to Islamic Principles

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AGENDA

- Muslim communities worldwide
- Islam and Insurance
- Development of Takaful
- Takaful Models
- ReTakaful
- Future of Takaful

MUSLIM COUNTRIES AND MUSLIMS WORLDWIDE

approx. one and a half billion people

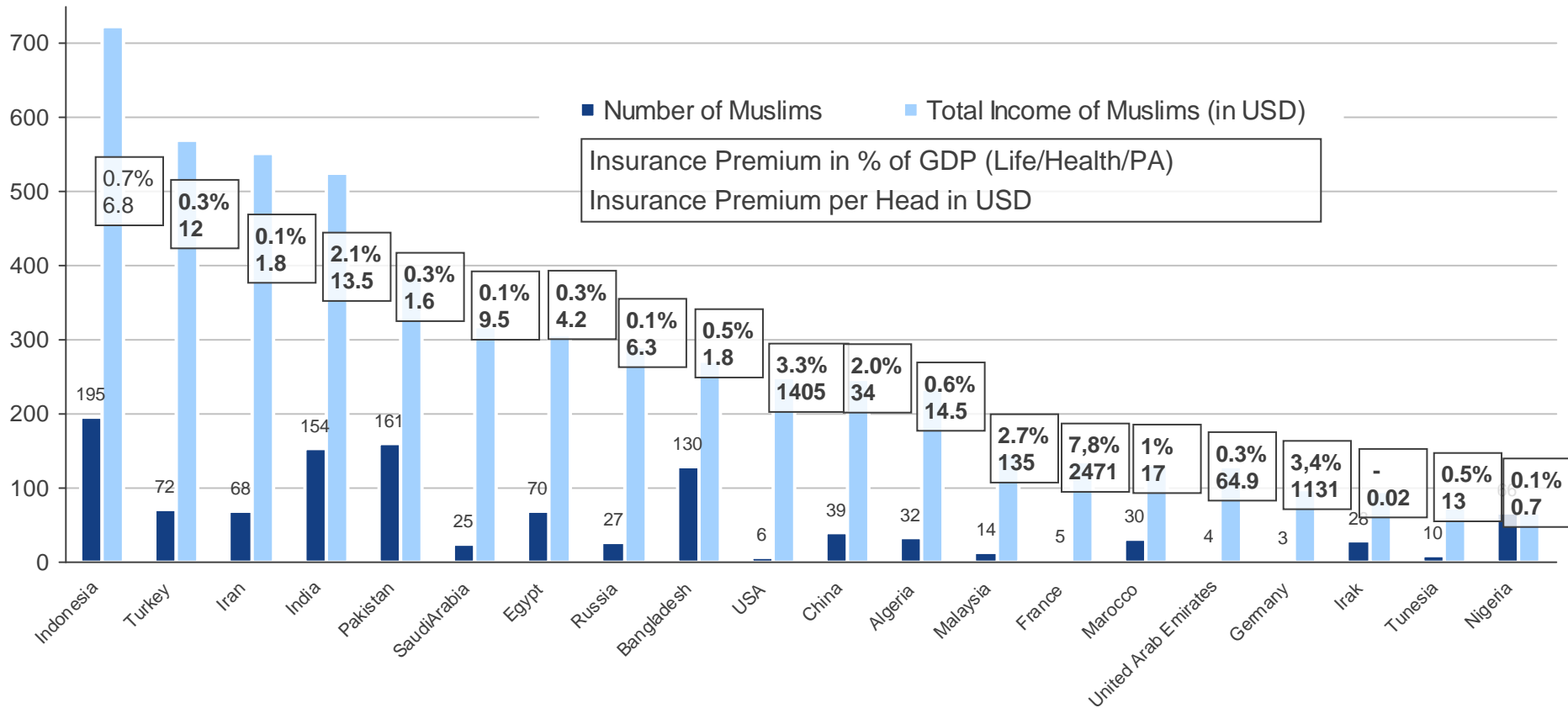


Muslim majority

Approx. 50% Muslims

THE POTENTIAL OF MUSLIM POLICY HOLDERS

Buying Force is there, but insurance penetration is low



Source: CIA World Factbook, www.adherents.com, www.auswaertiges-amt.de, AXCO Insurance Market Reports

ISLAM AND INSURANCE

- The concept of mutual protection is accepted in Islam:
"Help ye one another in righteousness and piety, but help ye not one another in sin and rancour"
- However, the traditional idea of insurance developed in the western world is based on elements that are forbidden by the "**Shariah**" (Muslim Law; system of divine law; way of belief and practice).
 - "**Gharar**": Uncertainty e.g. business model, lack of transparency concerning contract, charges and provisions
 - "**Maisir**": Gambling e.g. term life: small contributions \leftrightarrow large benefit on death
 - "**Riba**": Usury / Interest e.g. guaranteed interest, conventional asset management
 - Capital Investments in forbidden industries (Alcohol, Pork) etc
 - Implication of Life Insurance as a life prolonging measure
 - Importance of family support

The solution

ISLAM AND INSURANCE

...providing acceptable Risk Transfer not just for Muslims

- Islamic scholars declared that a cooperative contract which is grounded in Islamic *muamalat* (man-to-man relationships), on the basis of charitable donations and observing the Shariah
- This concept has been practised, in various forms, for over 1400 years
- 1985 the Islamic Fiqh Academy cleared the path for Takaful
The word Takaful derives from a combination of *Ta'awan* which means to help each other on mutual basis, and *Kafalah* which means "guaranteeing each other"
- Takaful is based on mutual co-operation, responsibility, assurance, protection and assistance between groups of participants.

ISLAMIC REFERENCES TO TAKAFUL

→ Basis of Co-operation

- Help one another in virtue, righteousness and piety (Surah Al-Maidah, Verse 2)
- Allah will always help His servant for as long as he helps others (Hadith narrated by Imam Ahmad bin Hambal Imam Abu Daud)

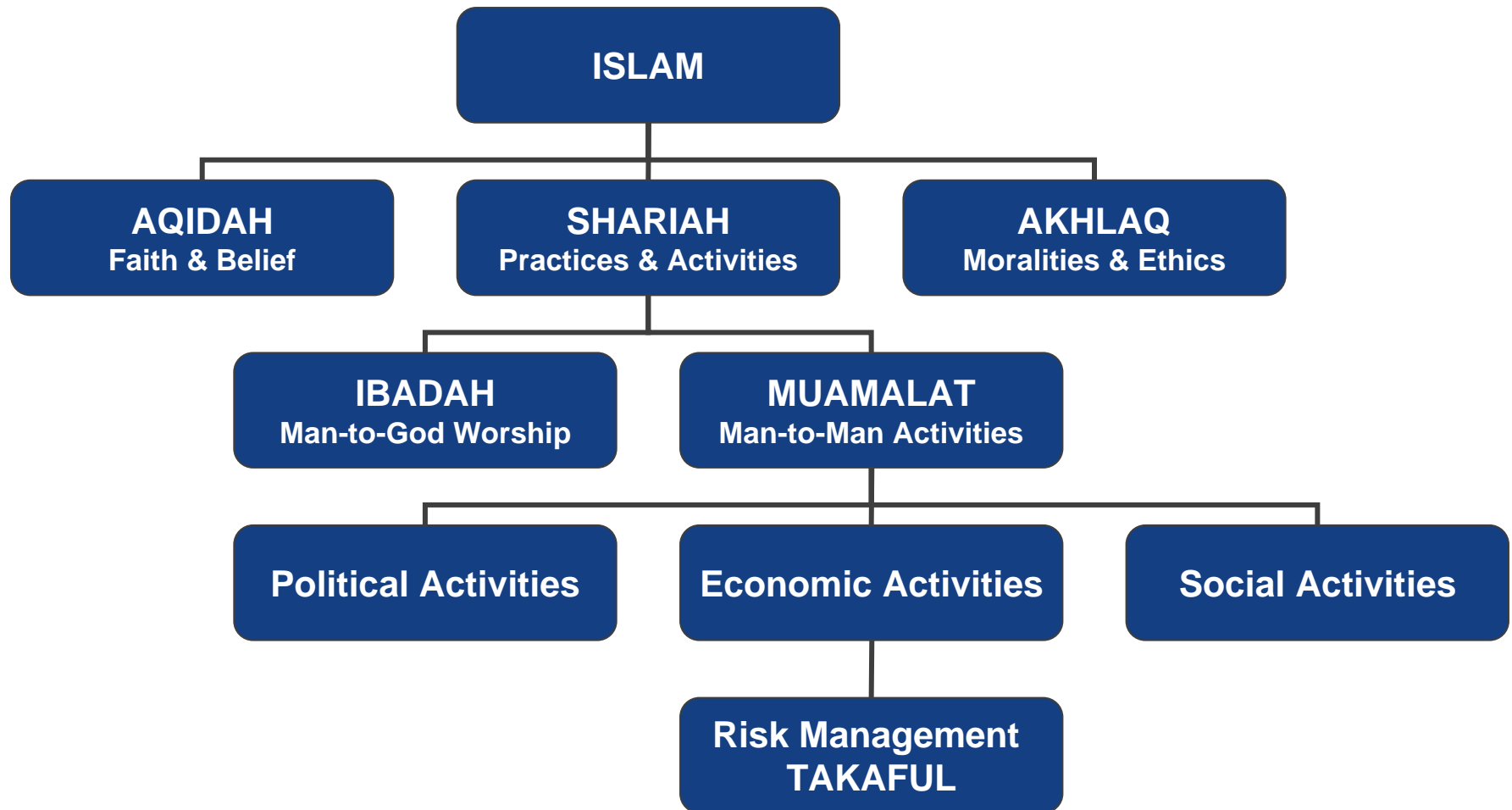
→ Basis of Responsibility

- The believers, between each other, are just like the body (Hadith narrated by Imam al-Bukhari and Imam Muslim)
- The believers are just like a building and strengthen each other (Hadith narrated by Imam al-Bukhari and Iman Muslim)

→ Basis of Mutual Protection

- Nobody will enter Paradise if he does not protect his neighbour who is in distress (Hadith narrated by Imam Ahmad bin Hanbal)

TAKAFUL IN RELATION TO ISLAM



ISLAMIC INSURANCE / TAKAFUL

Definitions

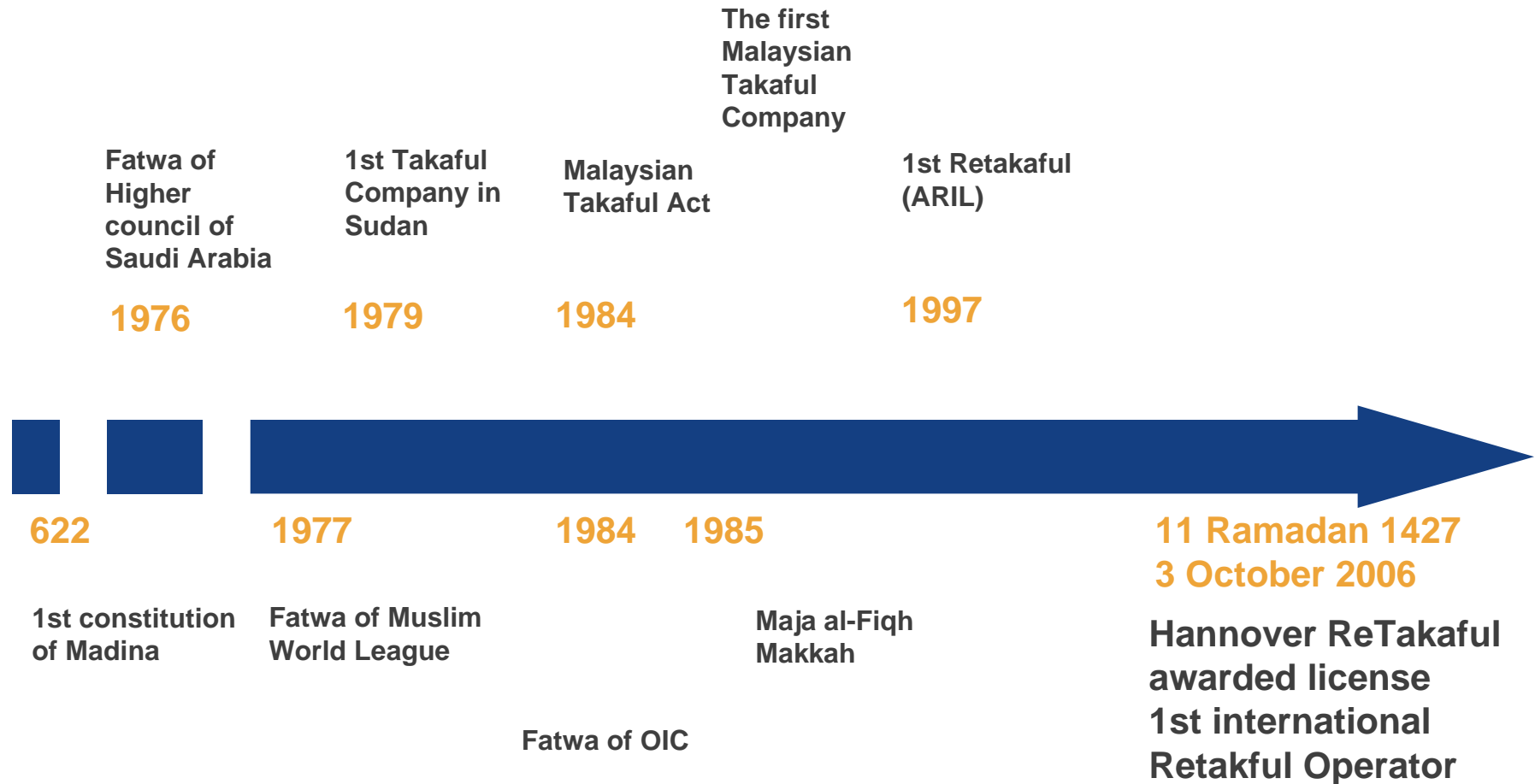
- Islamic insurance is a system through which the participants donate part or all of their contributions which are used to pay claims for damages suffered by some of the participants. The company's role is restricted to managing the insurance operations and investing the insurance contributions
- A scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose

TAKAFUL & CONVENTIONAL INSURANCE

An Overview: the key differences

CONVENTIONAL INSURANCE	TAKAFUL
Risk transfer mechanism from the risk owners to other party (the insurance company)	Risk Sharing mechanism amongst the risks owner that is administered by the company
The risk owner is the Insured	The risk owner is the participant of the group/pool that share risk among themselves (guarantee each other)
The company is the Insurer that bear the risk	The company is the operator or administrator of the risk sharing system
The whole premium belong to The company	The Contribution (premium) belong to participants collectively or in waqf model, belong to nobody
All Profit or Surplus goes to the company	Profit or surplus belong to the participants or the waqf fund
Deficit will be borne by the company	Deficit of the fund is responsibility of the participants, but the company is required to deal with it by giving Qard Hasan (benevolent loan)

TIMELINE OF TAKAFUL



THE DEVELOPMENT OF TAKAFUL

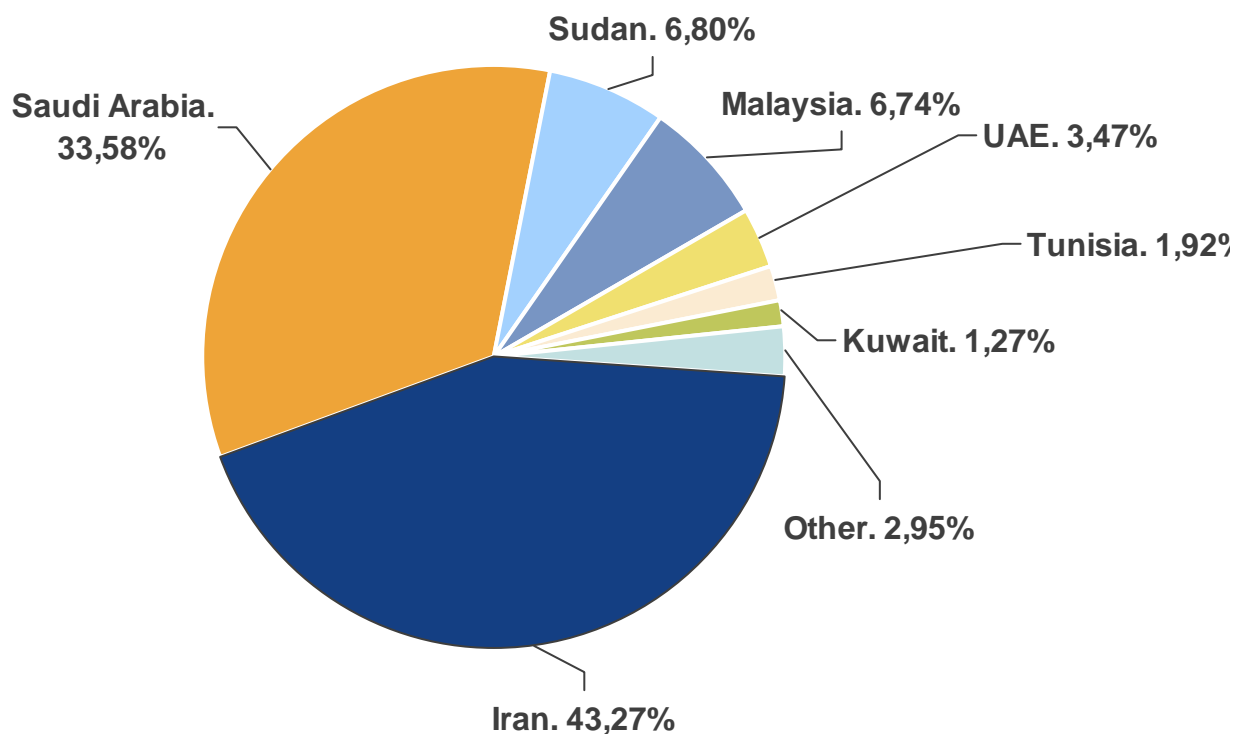
a comparatively young industry

- 1979 Establishment of the first Takaful companies
 - 1996 **30** companies now offer Takaful products
 - 2002 **50** Takaful companies and 4 Retakaful companies
 - 2004 **80** Takaful companies, 200 "Takaful windows, 12 Retakaful companies
 - 2006 Over 100 Takaful players in the world
-
- Leading Regions:
 - GCC States: 34 (22 of which are situated in Saudi Arabia)
 - Africa: 19
 - Far East: 17

GLOBAL TAKAFUL CONTRIBUTION

WORLD GROSS TAKAFUL PREMIUM 2005 (FAMILY & GENERAL)

The BIG Five: Iran, Saudi, Sudan, Malaysia, UAE



Total GWP
USD 5.64 Billion

Takaful: Insurance Products conform to Islamic Principles

SOLUTION OF PRACTICAL ISSUES

- **Riba:** Unit linked Life insurance & Shariah compliant investment strategy
- **Maisir:** Risk premiums are the equivalent of a donation
- **Gharar** - Two business models are accepted, based on traditional Islamic contracts:
 - **Mudharaba:** defines a type of partnership - some of the partners in the contract contribute only capital while the other partners contribute only labour.
 - **Wakala:** this contract defines an agency - one person (Wakeel) represents the other as the latter's agent. In exchange for compensation, the agent performs a certain service.

GRAPHICAL REPRESENTATION OF TAKAFUL

Two alternative models

Profit Share

Individual funds

Contributions

Rates and fees

Wakala Fee

Claims payments

Claims Reserves



Community of the insured

Expenses and Fees

IBNR

Share for the insured

Model dictates the share for the provider

Share for provider

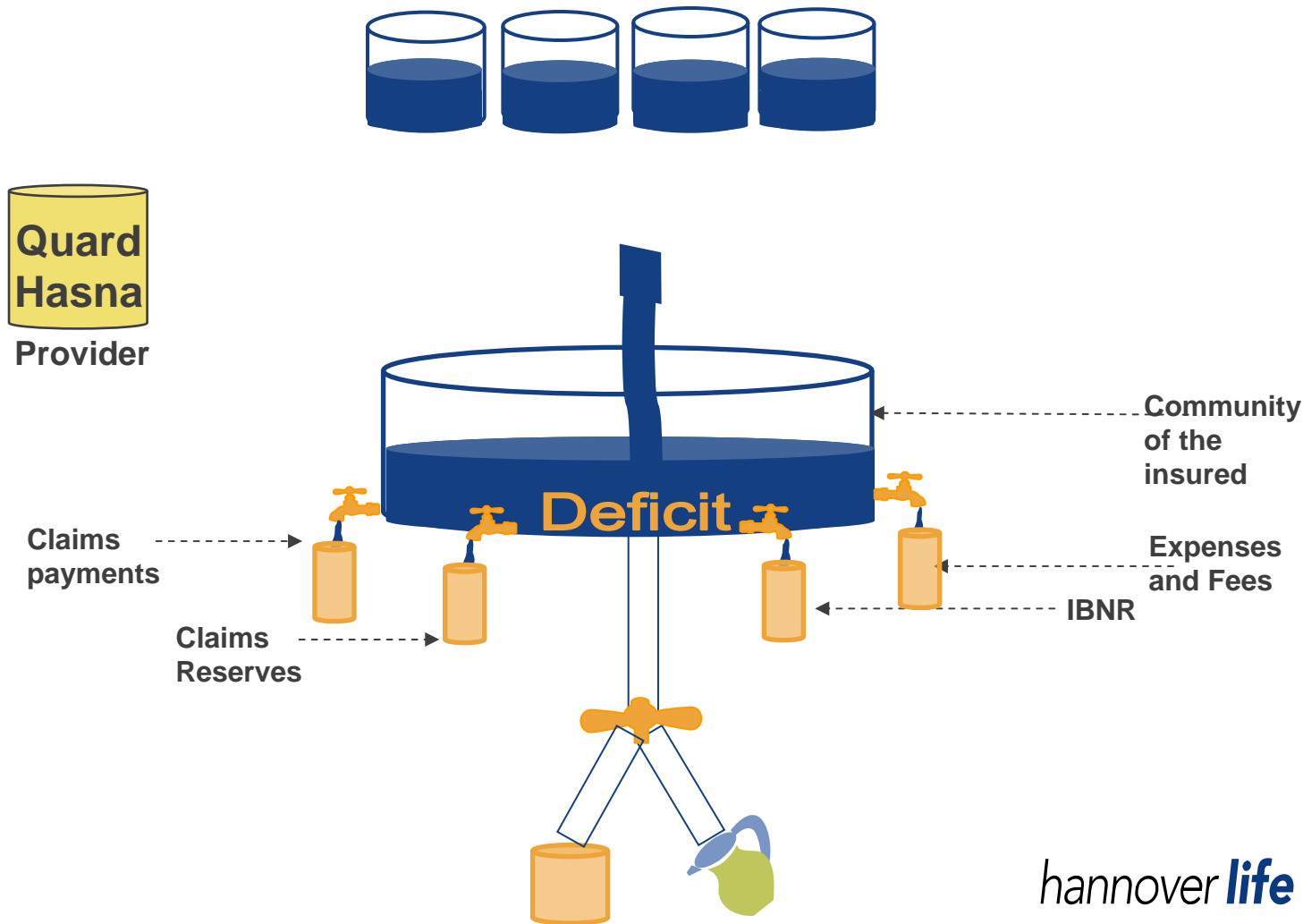
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Mudharaba

50 100

GRAPHICAL REPRESENTATION OF TAKAFUL

Deficit scenario



REQUIREMENTS TO BE FULLILLED BY A TAKAFUL OPERATOR

- Acceptable business model (Wakala or Mudharaba)
- Shariah Advisory Board (advisory board consisting of religious scholars, who certify the Shariah compliance of processes, products etc)
- Appropriate market presence
- Terminology (e.g. *participants*, *donations*)
- Shariah compliant investment strategy
- Suitable products with respective processes (no interest rate, transparent cost structure, reporting requirement, profit share)
- Appropriate sales structure
- Retakful (..of increasing importance)

RETAKAFUL

...increased demand

- The same principles and rules apply as with Takaful – especially in respect of the business model and Shariah compliance
- Until quite recently no sufficiently capitalised provider of ReTakaful with a respectable rating was available – most Takaful providers received a certificate of exemption from their Shariah boards, in order to reinsure their business with a conventional reinsurer.
- More and more professional international reinsurers aim at providing ReTakaful.
- Thus the pressure on Takaful providers has increased to switch from conventional reinsurance to ReTakaful

RETAKAFUL OPERATORS WORLDWIDE

5 full-fledged operators

Full-fledged Operators

- Hannover ReTakaful B.S.C©, Bahrain
- Takaful Re, Dubai, UAE
- Asean Retakaful International Limited (ARIL), Labuan, Malaysia
- MNRB Retakaful, Kuala Lumpur, Malaysia
- Tokio Marine Retakaful, Singapore

Further Providers

- Munich Re, Retakaful Branch, Kuala Lumpur, Malaysia
- Labuan Re, Labuan, Malaysia
- Converium, Labuan, Malaysia
- Best Re, Tunis, Tunisia
- ReINDO, Jakarta, Indonesia
- Nasional Re, Jakarta, Indonesia
- Marein, Jakarta, Indonesia

Substantial Growth of Islamic insurance market in next 5 years

FUTURE OF TAKAFUL

Premium Increase : USD 5.64 billion in 2005 to USD 10 billion in 2010

- Large potential for Life Takaful business ("Family Takaful") in line with a rise in consumer awareness and compliance with religious beliefs.

- **Takaful Drivers:**
 - Oil Price
 - Development of Infrastructure
 - Asset Management
 - Bancatakaful

- **Takaful Challenges:**
 - Misconception
 - Service Levels
 - Micro-takaful
 - Operational Standards
 - Retakaful



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Thank you for your attention!

Dieter Kroll

Date of Birth: 4 September 1967

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Career

1994 – 1997 Hannover Reinsurance Company (Hannover Re),
Hannover, Germany

1998 – 1999 Assistant Vice President of Hannover Re,
Hannover, Germany
Liaison officer for Hannover Re's offices in Hong Kong and Kuala Lumpur

2000 – 2007 Munich Reinsurance Company (Munich Re), Munich,
Germany
Life reinsurance marketing and servicing

Since 2007 Associate Director of Hannover Re,
Hannover, Germany
Head of department, responsible for marketing and underwriting support for
the Hannover Life Re branches and offices in South and East Asia

Education

1987 – 1992 Studies in mathematics and economics at the universities of Marburg and
Freiburg, Germany

1993 – 1994 Postgraduate studies in computer science at the university of
Marburg, Germany

Since 2001 Actuary (DAV) – Membership in the German Actuarial Association