4th INTERNATIONAL TAKAFUL SUMMIT 2010

MASTERCLASS AT NORTON ROSE

DAY ONE – 13/07/2010

The day began with welcoming remarks from Susan Dingwall, a partner at Norton Rose Solicitors. Susan provided a preview of the day and conducted the proceedings as chairperson.

M IQBAL ASARIA *(AFKAR CONSULTING LTD)*

The opening speech was made by M Iqbal Asaria, the Convener of the Summit, who gave a bird's eye view of the takaful and re-takaful industry. He highlighted the key statistics showing the expansion of the industry together with huge growth potential for coming years. The rationale behind takaful in the historic context was also discussed and whether that essential spirit of risk pooling and sharing was still present in modern practices. The various evolving takaful models and their implications were considered in sufficient detail. He also talked of a 'takaful affinity community' which includes numerous like-minded participants be they Muslim, ethically-oriented or even socially responsible investors. The implications for the so-called 'unique selling point' (USP) of takaful depending on geographical contiguity or dispersion were alluded to and several emerging issues such as the "sticky" *qard al hasan* were aired.

Iqbal also set the tone for re-takaful discussion which was picked up by other speakers later in the day. He briefly pointed to some of the issues in re-takaful and the linkage with the reinsurance markets against the backdrop of present state and future directions of the industry. He further looked at gaps in takaful provision in particular in the area of micro takaful. Iqbal concluded his presentation with 5 issues and future directions:

- lessons from Principle Insurance,
- improving outreach so as to include captive structures, friendly societies and discretionary mutuals;
- creating a USP for takaful,
- asset management challenges and
- utilising institutions like Lloyds of London for re-takaful.

ZAINAL ABIDIN *(MANAGING DIRECTOR, MERCER ZAINAL CONSULTING)*

Zainal deliberated on the evolution and future direction of takaful models. He compared takaful with cooperatives with reasons for demutualisation. He demonstrated the hybrid operational structure of takaful where participants bear certain risks.

Zainal referred to the Malaysian experience through the example of Syarikat Takaful Malaysia (STMB), which used the *mudarabah* model, by highlighting the family and general takaful products. He discussed the strategy employed at the time whereby the model in question aligned the interests of both stakeholders and participants. He then went on to look at the modified *mudarabah* model as adopted by Takaful Nasional and its implications.

Zainal also considered the current favourite model of *Wakalah* and its mechanics including the profit-sharing aspect and the associated *shariah* arguments. He argued that although the alignment of interests was not on par with the previous models, it was nonetheless a 'business friendly' model. He posed the question of whether takaful is faith-based or profit-driven, with citations of Christian Health Sharing Arrangements and Christian Associations.

Zainal concluded with the following points:

- personal lines were more 'takaful friendly', as opposed to commercial lines;
- takaful products are initially more expensive than their conventional counterparts due to regulatory requirements,
- the alignment of the interests of all stakeholders is critical for success, which is challenging in the *Wakalah* model; and
- takaful potentially has a sparkling future as an 'aggregator of savings'.

AJMAL BHATTY *(CEO TAKAFUL & COO, TOKIO MARINE, MIDDLE EAST)*

Ajmal discussed the corporate governance issues in takaful. After outlining the definitions of corporate governance and providing an introduction to takaful, he approached the topic in eight logical steps.

Ajmal looked at takaful as a composition of concept (of risk sharing) and product which requires connectivity with customers and creating a sense of belonging among the group involved and society at large. He ruminated over issues in *shariah* compliance in terms of wider responsibility and the inherent conflicts at play as well as the requirement for *shariah* audits to support the overall process.

He referred to issues regarding participants' expectations as they are the ultimate owners and thus should be the beneficiaries, and as such the treatment of surplus ought to be in this light. In addition he referred to issues regarding shareholders' expectations due to the fiduciary nature of their responsibilities and the need for a commercial reality to the undertaking from their perspective.

He raised questions with respect to the various models and funds with the hybrid model attending to some of the risks in the individual models and that the funds need not only be separated but also segregated into separate risk portfolios. He argued that asset and liability matching for individual pools is increasingly crucial for the solvency and durability of the funds.

He also underlined the importance of recognising that numerous dispensations granted in takaful undertakings are only supposed to be for a limited period until the pretext is satisfied. He considered various practical and *shariah* arguments in this context.

He mentioned the lack of disclosure, knowledge, expertise, overall corporate governance guidance as well as absence of board committees as being critical challenges for executive structures and corporate management.

Ajmal finished off by seeking attention to the need for conformity to industry and international standards as well as capacity building for stakeholders.

FFION FLOCKHART *(SENIOR ASSOCIATE, NORTON ROSE LLP)*

Ffion looked at the legal issues in takaful contracts where she highlighted the paramount significance of the contractual wording. She argued that due to a number of factors there is a drive for certainty in contracts.

She focused on three key legal issues in the main, namely governing law clauses, validity of *Wakalah* contracts and arbitration clauses. With regards to the governing law issues, she advanced various permutations such as national law, *shariah* law or even both as governing laws and the implications where there is a conflict. She poignantly referred to the well-known case of Shamil Bank v. Beximco which in abstract terms decided that *shariah* principles only applied if there was compatibility. As for the validity of *Wakalah* contracts, once again another relevant case of TID v. Blom was invoked as reference which showed that English courts are taking an active role in such issues. She contended that such legal cases could potentially have huge ramifications for the *Wakalah* model.

The arbitration clause issue as per the case of Jivraj v. Hashwani underscored the point that such clauses would be void should there be any contravention of discrimination laws. A noteworthy point of this case is that its application is retrospective as well.

Ffion concluded by repeating the importance of regularly reviewing the wording in takaful and re-takaful contracts as part of good risk management practice.

SAFDER JAFFER *(SENIOR CONSULTING ACTUARY, MILLIMAN)*

Safder focused on actuarial inputs in family takaful provision in a very comprehensive manner. His presentation was four-pronged which included the actuarial role, family takaful inputs, family re-takaful inputs and issues and challenges for actuaries.

He began with the common actuarial cycle and the various functions played in the context of takaful. He outlined the balancing act of an actuary between the practical solutions and the *shariah* intricacies.

Before discussing the family takaful inputs, Safder considered numerous statistics and factors vis-a-vis the growth potential of family takaful. He then listed three key areas for actuarial input, namely product design, surplus distribution and role of *qard al hasan*. With regards to product design, he argued that the key actuarial role is to provide tailor-made solutions for client needs. As for surplus distribution, he pointed out that the primary actuarial input is to provide a fair distribution mechanism that accounts for participants' reasonable expectations. With respect to the role of *qard al hasan*, he stated that the key actuarial role is to ensure adequate capitalisation and the long-term sustainability of the operator.

Safder then turned to the topic of family re-takaful inputs where he brought attention to contingency reserves and recapture / inforce block takeover. With regards to the former, he argued that the key actuarial role is to facilitate a process of standardisation within the industry for long-term sustainability of re-takaful operators. As for the latter, he stated that the key actuarial role is to facilitate a discussion on such issues that are still open to be resolved.

Safder concluded with a list of issues and challenges including pricing, underwriting, limited data and a shortage of expertise.

JOHN GILBERT *(CONSULTANT, HOGAN LOVELLS)*

John's presentation revolved around the friendly society's route as a possible route to life takaful provision. He began with the historical background to friendly societies, leading to modern-day functions which include insurance benefits, discretionary grants and other social and benevolent activities. He enumerated five peculiarities of such societies which include:

- non-commercial activities,
- voluntary contributions of members,
- the democratic voting system and
- tax treatment and opportunities for general insurance through subsidiaries.

John then moved to highlight the shared ground between Islamic concepts and the ethical notion of friendly societies. After a brief mention of the foreseeable challenges for the industry, he concluded with talking about the common opportunities such as favourable tax regimes, flexible legal vehicle and pro-mutual stance of the new coalition government in the UK.

AZMAN ISMAIL *(PRESIDENT, IIFIN CONSULTING)*

Azman's talk was the first of two such presentations on *qard al hasan* whereby he provided the Islamic jurisprudential perspective. He started with the contention that *qard al hasan* conceptually has no jurisprudential basis but nevertheless cannot be rejected because of only that reason owing to various legal maxims. He then set out the operational development as it evolved over time in Islamic banking.

Azman looked closely at *qard al hasan* as part of the takaful undertaking, firstly in the Malaysian context and then from both the AAOIFI and IFSB perspectives. He then considered surplus sharing together with ways that deficit can arise and the benefits of prudent reserving as a *shariah* objective. He concluded with considerations for *shariah* advisors, namely the need to be informed of the impact and implication of deficit so that they can make informed decisions.

DR LUDWIG STIFTL *(HEAD OF RETAKAFUL, MUNICH RE)*

Dr Stiftl also spoke about *qard al hasan* but predominantly focused on the theoretical considerations of risk and the related repercussions. He began with an alleged Malaysian saying which had the audience in a fit of laughter. The upshot of it was to the effect that if a loan is repaid then it is deemed *'qard al hasan '* but if it is not repaid then it is referred to as *'qard al husain'*. He went on to advance the permutations of surplus and deficit in the *Wakalah* model from the perspective of risk-bearing customers (homo Islamicus) and risk-averse customers (homo rationalis) with apt use of simple calculations and succinct graphical illustrations. He argued that such behaviour has to be anticipated and as such part of the *qard al hasan* is likely to be irrecoverable. This, he argued, needs to be part of risk modelling so that prospective pricing can replace tangible calculations and also avoid overbidding for *Wakalah* fees.

After briefly discussing the applied *shariah* principles, Dr Stiftl sought to advocate a case for the soundness of the *Wakalah* model and its inherent advantages vis-a-vis *qard al hasan* . He argued that the model is practical, flexible and transparent as well as being best-suited for risk sharing. He concluded with a series of questions which went to the heart of the rationale of takaful.

BILAL KHAN *(EXECUTIVE DIRECTOR, ISLAMIC FINANCE EDUCATION COUNCIL)*

Bilal presented on the salient features of family and general re-takaful. He began with an introduction to re-takaful which covered the nature and extent of re-takaful; its need and benefits; the differentiating factors from reinsurance and some vital industry statistics.

He then focused on family and general re-takaful fundamentals and considered the products, models and contracts involved in the two types of re-takaful together with respective advantages. Most notably, he argued that, for instance, through family re-takaful the takaful operator can cede the mortality and disability components. This would allow them to concentrate more on the savings and investment business. As for general re-takaful, one of the advantages he put forward was that through cession the operator has the ability to assume more short-term risks at the same level of capital.

Bilal then proceeded to map the legal landscape in UK with regards to (re)takaful and considered the implications of the following (re)insurance law:

- Law Commission's 2010 Issue Paper The Third Parties (Rights against Insurers) Act 2010 has no implications for reinsurance nor for re-takaful
- Gard Marine v (1) Lloyd Tunnicliffe (2) Glacier Reinsurance (3) Agnew Higgins (2009)
- C vs. D (2007)
- WASA vs. Lexington Insurance Co. (2009)
- 2004 judicial outcome of the "Energy 77 Crisis of 1999".

Bilal also looked at the following Islamic jurisprudential issues in re-takaful:

- *Shariah* basis of cession
- Doctrine of necessity and reinsurance
- Re-takaful commission and *riba*
- Queries about non-proportional treaty
- Cross-funding between heterogeneous categories of risks.

Bilal concluded with comments about the following challenges facing re-takaful:

- Asset management
- Rating
- Solvency II
- Retrotakaful

ABID SHAKEEL *(CEO, IJMA & QIYAS)*

Abid presented on one of the more neglected but crucial topics - marketing takaful and Islamic finance in the UK as a niche product. He began by setting out the historical context of insurance in the UK together with an overview of the Islamic finance market in terms of product range.

Abid drew the audience's attention to various statistics and demographical data which he pointed out was very much out of date and thus market analysis ought not to be based on these. He argued that prominent market research companies and their various studies have struggled to gain real insight and feedback from the wider Muslim communities owing to certain erroneous assumptions.

Abid sought to highlight the importance of focusing on some of the most valued criteria by purchasers and the customer needs as seen by distributors. According to him, these are price and profitability; product and brand / trust. Against the backdrop of other recent statistics, he advocated a new strategy for takaful and Islamic finance whereby the mainstream market should be targeted as a whole and partnerships built with large conventional banks. Abid also alluded to other strategies and listed a number of challenges such as the scarcity of senior people with quality industry experience.

PROF. LUC VAN LIEDEKERKE *(PROFESSOR, KUL)*

Prof. Liedekerke spoke about the unique selling point of ethical finance and insurance. He went back in time with the origins of insurance and then looked at the challenge of global markets which he argued equally apply to takaful.

He suggested that through the uniqueness of being religious and community-based, takaful can retain its identity in the face of current and future challenges. He argued that this element should be at the core of product design, investment and the communicational role of *shariah* board. He emphasised the point that financial products are speech acts and thus education and training of relevant personnel is paramount. He also stressed that takaful already has its unique selling point (USP) and it is only a case of guarding and retaining it.

Prof. Liedekerke concluded with reference to the causal link between insurance and economic development historically. However, he stated that takaful reverts to the roots of financial and insurance systems as its functional role is the growth of communities, and that this mutuality is the USP of takaful.

DATO' MOHD FADZLI YUSOF *(DIRECTOR, FIRST INTERNATIONAL CONSULTING)*

In the final speech of the day, Dato Fadzli presented passionately on the merits of the *mudharabah* model. He started off with reference to the 1983 Task Force commissioned to establish Islamic insurance in Malaysia wherein there was pertinent mention of *mudharaba*.

He then shed some light on the mechanics of the *mudharabah* model in takaful with specific reference to profit in both family and general takaful. He argued that profit in the former constituted returns on investment and surplus arising from actuarial valuation (mortality surplus) and in the latter it equated to returns on investment and underwriting surplus generally.

With the aid of *mudharabah* model flowcharts for family and general takaful, Dato Fadzli looked meticulously at the model and argued its value proposition of strengthening the takaful fund as well as being transparent and equitable.

He concluded by comparing the *mudharabah* and *Wakalah* account statements in general and family takaful, and thus endeavoured to substantiate the profitability and commercial viability of the model.

INTERNATIONAL TAKAFUL SUMMIT

The two-day Summit was chaired by Dr. Alberto Brugnoni with opening remarks from Lord Mohamed Sheikh and Rt. Hon Alderman Nicholas Anstee, the Lord Mayor of the City of London.

DAY TWO – 14/07/2010

MOHD TARMIDZI BIN AHMAD NORDIN *(ADVISOR, ACR RETAKAFUL)*

In his keynote address, "Reflections on Three Decades of Takaful Provision", Mohd Tardmidzi spoke comprehensively and eloquently vis-a-vis the Malaysian experience. His speech covered the following points:

- Before 1984 – special task force set up to study the viability of takaful in Malaysia
- Phase 1 (1984-1992) – only one takaful provider and the enactment of the Takaful Act 1984
- Phase 2 (1993-2000) – second takaful provider and the incorporation of ARIL as re-takaful provider
- Phase 3 (2001-2010) – 6 more direct takaful providers and 4 re-takaful providers excluding Labuan
- Beyond 2010 – building the takaful brand with unique selling points and need for new takaful legislation

SOHAIL JAFFER *(PARTNER, FWU)*

In the interest of time, Sohail did not deliver his presentation but the following are the key points in his slides which were made available to all delegates:

- The concept of takaful for all through awareness, pricing, customer segmentation and profiling, and distribution and white labelling
- Micro-insurance as corporate social responsibility initiative as opposed to the usual commercial approach
- Benefits of Bijak Malaysia, the basic takaful product in Malaysia

DEBO AJAYI *(MANAGING CONSULTANT)*

Debo spoke about "creating an inclusive takaful proposition" which covered the following aspects:

- Inclusivity of takaful to include non-Muslim population
- Engagement with target population for takaful penetration
- Risk management solutions needing to be the focus of takaful proposition
- Survival of takaful being based on realignment of motives of the players

AJMAL BHATTY *(CEO TAKAFUL & COO, TOKIO MARINE, MIDDLE EAST)*

Ajmal presented on "Protecting the Forgotten through Micro-takaful" which is often disregarded by many in the industry. The salient points in his presentation were as follows:

- Need for takaful to set forth schemes, services and products for people with lowest incomes
- Micro-takaful being in line with the UN Millennium Development Goals
- Landscape of micro-insurance and micro-takaful
- Statistics showing the profitability potential of micro-takaful
- Micro-takaful requiring government subsidies, support from donor agencies and zakat funds

OSMAN EL HADI IBRAHIM *(MANAGING DIRECTOR, SHIEKAN INSURANCE)*

Osman shared with the audience the “Shiekan’s Success Story” in Sudan and focused on the ensuing core elements:

- Sudan is the founder of both insurance and takaful
- Statistics about Shiekan and its successes
- Offering agricultural takaful, medical takaful, life takaful, export credit takaful, micro-finance takaful, travel, hajj and umrah takaful and professional indemnity
- Takaful provision beyond subscribers such as ambulances and blood banks

CLARA HUGHES *(ASSOCIATE DIRECTOR, FITCH RATINGS)*

Clara gave an interesting presentation on “The Impact of Solvency II”, with particular focus on the following areas:

- The road ahead for implementation and the various timelines
- Capital ratios such as comparison of solvency ratios; internal models with calibration to 99.5% VaR over 1 year; and some outstanding issues such as equivalence and tax
- Impact on the insurance industry such as shift from capital-intensive to capital-light products, asset reallocation and increased de-risking
- Implications for ratings
    - Increased capital requirements mean leverage down; increased barriers to entry; improved risk-based assessment; increased transparency and comparability
    - Short-term implementation risk; threats to some product lines; technical issues such as coupon deferrals; decreased transparency and comparability

DAWOOD TAYLOR *(SENIOR REGIONAL EXECUTIVE, PRUDENTIAL)*

Dawood presented on “Risk Management and Disclosure in Takaful Practices”. His speech revolved around the following points:

- Shared risks across takaful and conventional life markets
- Takaful can also leverage risk management best practices of the Islamic asset management sector
- Additional operational risks such as reputational, governance and compliance with *shariah* rules bringing increased responsibilities
- Feed “lessons learned” back into on-going risk management

NEIL GOSRANI *(RATINGS ASSOCIATE, STANDARD & POOR’S)*

Neil spoke about “Capital Analysis of Takaful Companies” from the perspective of Standard & Poor’s where he referred to the following key issues:

- S&P’s approach to capitalisation in the areas of capital adequacy, reinsurance and reserves through qualitative and quantitative assessments
- Particular issues for takaful considered such as benevolent loan and concentrations with capital models and qualitative analysis being adjusted
- Future capitalisation expected to remain a relative strength to ratings of existing takaful companies in the medium term

AYMAN AL AJMI *(CEO, DAR AL TAKAFUL)*

Ayman endeavoured to make a case for the *Wakala* Incentive Model and his presentation concentrated on the following areas:

- Overview of current takaful models
- Limitations of current models and the need for alternative solution
- Overview of the *Wakala* incentive model
- Scenario analysis (for best combination of *Wakala* fee rate and surplus distribution ratio) together with goals and framework of the incentive model
- Results and findings across various permutations show the most aggregate value to be 80/20 surplus share ratio, the most favourable combination to be 80/20 at 5% *Wakala* fee rate and the fairest share of wealth between operator and participants to be either 70/30 or 60/40 at 10% *Wakala* fee rate

JUDITH BENSON *(COO, Prime Rate Capital Management LLP)*

Judith spoke about "The Islamic Liquidity Fund: Liquidity Management in Takaful" and highlighted the following points:

- Need for substantial liquidity in the growing takaful market
- Shortage of products in the market and the use of commodity *murabaha* in Malaysia
- Discussion of investment opportunities such as government securities, bank placements without interest, OTC commodity *murabaha*, sukuk, *shariah*-compliant funds, *murabaha* via exchange platforms and *shariah*-compliant CD issuance
- Benefits of The Islamic Liquidity Fund such as security, instant access, competitive profit rate, convenience and *shariah* compliance
- Key features of AAA rate platform for liquidity management
- Benefits of commodity *murabaha* such as fund performs transactions instead of investor, suitable for those already using commodity *murabaha* and removes ad hoc documentation and negotiation, break costs and frees up counterparty credit lines
- Fund credentials of Prime Rate Capital Management

NORIPAH KAMSO *(CEO, CIMB-PRINCIPAL ISLAMIC ASSET MANAGEMENT)*

Noripah discussed the "Value Add of a Dedicated Asset Manager". She canvassed the following:

- A dedicated asset manager assists with pooling of funds, bigger investable amount, diversified and longer average duration; and better yields and returns
- Benefits include economies of scale, addressing liquidity concerns and higher returns as a portfolio
- Comparison between the annualised price returns of global and of speciality indices
- Misconceptions and the truth about Islamic investment such as better than perceived track record of Islamic indices, positive move towards harmonisation of *shariah* interpretation and no inferiority to conventional performance due to comparable return, volatility and risk-return profile

SCOTT DAKERS *(HEAD OF PRODUCT SOLUTION, SCOTTISH WIDOWS)*

Scott's presentation on "Scottish Widows Investment Partnership (SWIP) Islamic Global Equity Fund" looked at the following aspects:

- SWIP philosophy and approach such as identification of stocks trading below long term intrinsic value and research based on 5 year financial forecasts
- Robust and repeatable four-stage investment process
- *Shariah* fund guidelines including

    - Unlawful industries such as tobacco, pork, liquor, pornography, arms and gambling as well as non-Islamic structured banking, finance, investment or life insurance business; or any other interest-related activities
    - Interest revenue not exceeding 5% of total revenue; structured borrowing not exceeding 30% of company's adjusted total assets and each company should have more than 51% non-liquid assets
- Stocks need to meet both the industry screens and financial ratio screens to be eligible for Dow Jones Islamic Market Indexes
- SWIP fund profile

<u>SAMEE UL HAQ THANVI *(GENERAL MANAGER, TTD, BANK AL JAZIRA)*</u>

Samee ul Haq delivered his presentation on "Family Takaful in Saudi Arabia: The Bank Aljazira Takaful Ta'awuni Experience" with the following items on the agenda:

- Distribution of Muslim population globally and in MENA
- Global takaful presence with reference to Ernst & Young report
- Evolving Saudi Insurance Regulations both pre and post 2004 and the overall market
- Insurance statistics
- Bank Aljazira Takaful Ta'awuni experience
    - Growth and development of takaful talent
    - Sustained leadership position in market share and profitability
    - Product offerings: individual and group
    - Assets under management
- Future outlook and objectives
    - Complete regulatory licensing process
    - Complete operational readiness exercise
    - Strength leadership position
    - Strategic development on distribution, products and business lines

<u>BRADLEY BRANDON-CROSS *(CEO, PRINCIPLE INSURANCE HOLDINGS)*</u>

Bradley gave first-hand account of the lessons learned from Salaam Halal Insurance venture and spoke about "A Future for Takaful in the UK" with particular focus on the following:

- Salaam's timeline
    - April 2008: FSA authorisation
    - July 2008: Motor takaful
    - April 2009: Home takaful
    - 2010 and beyond:
        - Family takaful
        - Non-Muslim takaful
        - Commercial SME
        - Europe
- Lessons learned:
    - Always plan to build a multi-product and multi-channel business on the back of personal lines products and customers
    - Avoid present scenario whereby Salaam solvent run-off in October 2009 due to danger of breaching minimum solvency capital
    - Generating quotes not an issue through price comparison websites but sales conversion rates 8% ca which needs to be improved
    - Claims generated motor loss ratio in excess of 160% which needs to be better mitigated and managed
    - Avoid present scenario whereby actual capital always less than required and thereby leading to truncated plans and no follow-through

- Over-ambitious plans drove speed and cost as opposed to capital preservation through trials and tests
- Future is based on communication and incremental growth

AZMAN ISMAIL *(PRESIDENT, IIFIN)*

Azman presented on “Dynamic *Fiqh* (Jurisprudence) Applications in Takaful”. He covered the following main points:

- Dynamism of Fiqh from 800 AD to 2000 AD
  - Mutakillimun such as al-Basri, al-Juwaini, al-Ghazali, al-Amidi, al-Baidawi
  - Fuqaha such as al-Karkhi, al-Jassas, al-Dabusi, al-Bazdawi, al-Nasafi
  - Muta’akhirun such as al-Razi, al-Baghdadi, ibn al-Subki, ibn al-Hamam, al-Tufi
  - Maqasidiyun such as ibn Abdul Salam, al-Qarafi, ibn Taimiyah, ibn Qayyim, al-Shatibi
  - Khalafiyyun such as Shaukani, al-Mihlawi, Khudari Bek
  - Mu’asirun such as ibn Ashur, al-Qaradawi, al-Raisuni
- Relationship between various types of jurisprudence
- Ijtihad, the requirements of a *Mujtahid* and methodology of *Usul al Fiqh*
- Role of takaful in meeting the *Maqasid al Shariah* with particular reference to micro-takaful
- Application of jurisprudence to takaful with examples of products and issues

V.A. TOMMY *(DIRECTOR, SUN REINSURANCE)*

Tommy spoke about “Promoting Takaful around the Globe: Role of Insurance intermediaries” with the main focus being on the following:

- Relevance of takaful and re-takaful in current times
- Role of brokers in takaful and re-takaful
- Conceptualising takaful in different markets
- *Shariah*-compliant product structuring and sourcing re-takaful capacity
- Exploring investment opportunities in terms of innovation and diversification as well as training and workshops to bridge the gap of talent and expertise shortage

DAY THREE – 15/07/2010

TOBIAS GRIMM *(SENIOR PROJECT MANAGER, MUNICH RE)*
LUDWIG STIFTL *(HEAD OF RETAKAFUL, MUNICH RE)*

This idealised presentation was jointly delivered by Tobias and Ludwig. Munich Re in regards to their Desertec initiative (Dii GmbH), seeking to provide investment opportunities for reinsurance and re-takaful providers within the realm of climate change.

The following were considered:

- Climate change facts and figures and the causal link to global natural catastrophes with comparison of overall losses and insured losses between 1980 and 2009
- Climate strategy of Munich Re since 1970s in the form of risk transfer solutions for renewable energies with particular focus on:
  - Risk assessment through research of natural hazards, climate liability issues and prospective risk management
  - Business opportunities such as wind cover, exploration cover for geothermal drilling projects, hydro power plants cover, performance cover and all risk covers for biomass power plants
  - Asset management with integration of sustainability criteria
- Munich Re investments in renewable energies such as in a solar plant on a traffic noise barrier in Bavaria
- Dii GmbH technologies for concentrating solar power, wind power, photovoltaic power and high voltage direct current
- Aims of Dii towards energy supply in the EUMENA region and comprehensive solution to global problems
- Approach of Dii being consideration of existing and approved technologies with overall 400 billion euro investment needs
- Goals of Munich Re
  - Medium term: Insurance solutions for renewable energies and investment
  - Long term: Climate protection and business opportunities
- Munich Re strategy can potentially mean demand for solar energy sukuk market and development of a decentralised "under-storey" using Islamic mutuality approach

SUSAN DINGWALL *(PARTNER, NORTON ROSE)*

Susan spoke on the interesting topic of opportunities for takaful at Lloyd's of London, which covered the following areas:

- Key historical facts about Lloyds
- Lloyd's total global business, basic operating structure and chain of security
- Potential issues for takaful model
  - Segregation of funds (premium trust funds, members' funds and central fund)
  - Surplus distribution and deficit funding (Lloyd's accounting and benevolent loan)
  - Rating (market rating; A+ from S&P and Fitch Ratings; A from AM Best)
- Lloyd's strategy 2010-2012
  - Diversity
  - Maintaining competitive advantage against other markets
  - Brand and reputation

<u>MARCEL OMAR PAPP *(DIRECTOR, SWISS RE)*</u>

Marcel looked at how re-takaful can enhance family takaful provision and thus focused on the following points:

- Being a strategic partner
  - Value proposition beyond capacity concerns
  - Management of various components of the value chain
  - Bringing innovative ideas such as Road to Health (RTH), a creative health risk management program, to enhance family takaful
- Ensuring *shariah* compliance
  - *Shariah* compliance is integral to family (re)takaful solution
  - Development of new *shariah*-based products
  - Employing new solutions such as telemarketing where conventional approach may not work

<u>TARIK AOUAD *(MANAGING DIRECTOR, HANNOVER RE)*</u>

Tarik discussed "Surplus Distribution Issues in Takaful and Re-takaful" with following key submissions:

- Takaful in essence is risk sharing and an act of sincerely helping fellow humans without profit orientation
- Surplus distribution is not an integral part of a takaful scheme
- Absence of surplus distribution does not render takaful invalid vis-a-vis *shariah* compliance
- Surplus distribution may be against the core value of takaful
- Surplus distribution is not a technically sustainable measure for takaful and re-takaful operators due to volatility
- Severe misunderstanding that takaful equals insurance plus surplus distribution and so both the market and the public need to be re-educated

<u>ISMAIL BIN MAHBOOB *(PRESIDENT & CEO, MNRB)*</u>

Ismail presented on "Re-takaful Prospects and Challenges" under the following sub-headings:

- Re-takaful put into perspective
  - The concept newly operationalised
  - Transformation stage from social to capitalistic mechanism and other evolutionary issues
  - Competitive advantage against conventional reinsurance
- Industry landscape revisited
  - Conventional formula being used for contribution pricing
  - Conventional accounting approach
  - Conventional-inclined standard setting bodies
  - Outsourcing affects intellectual development
  - Conventional mind-set with product focus being elementary range as well as high value and sophisticated risks virtually non-existent
- Prospects and challenges
  - Increasing accepting of Islamic finance in the leading economies
  - Alternative to conventional insurance and reinsurance through strengthening internal capabilities development of pooling concept for surplus distribution
  - Adapt to Lloyd's of London structure
  - Captives being at developmental stage
- Key objectives and strategic intent of sustainability, growth and profit requiring sound pricing, capacity building and VAS capabilities

SAFDER JAFFER *(SENIOR CONSULTING ACTUARY, MILLIMAN)*

Safder began a series of talks on takaful and pensions. His presentation concentrated on the following elements:

- Key pensions-related statistics
- State provision being in dire straits coupled with global financial crisis
- Pensions and takaful
  - Takaful evolution towards private pensions
  - Pension takaful models
  - *Shariah* compliant annuities
  - Managing longevity and other associated risks
  - Active asset management
- Challenges ahead
  - Developing pension schemes for takaful providers
  - *Shariah* perspective on pension provision
  - Creating *shariah* compliant asset classes for provision of pensions and annuities

ZAINAL ABIDIN *(MANAGING DIRECTOR, MERCER ZAINAL CONSULTING)*

Zainal continued the pension theme under the heading of "Annuities for takaful: Can we afford to retire" with particular focus on the following issues:

- Inadequate provision for retirement due to
  - Ageing boomer population straining social security systems
  - Falling birth rates causing disproportionate ratio between working and retired population
- Financial risks post-employment
  - Investment risk – not achieving expected rate of return on savings or even losing capital
  - Inflation risk – ever diminishing natural resources (supply side) and depreciating purchasing power (demand side)
  - Longevity risk – people living longer but not necessarily healthier or happier
- Risk management in a *shariah* compliant manner (sukuk, savings in wadiah accounts, real estate and precious metals)
- *Shariah* compliant annuity takaful pool and related issues
- Abolishing retirement due to lack of resources and does not suit flexible world of work

FAIZAL MANJOO *(LECTURER, MARKFIELD INSTITUTE OF HIGHER EDUCATION)*

Maulana Manjoo looked at the "*Shariah* Perspectives on Pension Provisions" with following points:

- Ageing population phenomenon and its impact on the pension industry
- Muslim demographics and the need for pension consideration
- Fiqhi problems in establishing an Islamic private pension fund
  - Whether purchasing an annuity for retirement is permissible in Islam due to riba and gharar
  - Whether inheritance law is an issue in testate succession since beneficial interest in pension receipts is not directly acceptable
  - Whether the accumulation of supporting funds such as zakah as investment poses a challenge to Islamic law
  - Whether alternative forms of decumulation, other than annuities, are also unacceptable in their current form

    - Whether appropriate and sufficient *shariah* compliant investments are available
    - Whether a *shariah* compliant approach to conventional actuarial assumptions is possible
- A proposed model for private Islamic pension fund
- Need for longevity sukuk both for aggregate and specific longevity risks

GEERT BOSSUYT *(CEO, DAR AL ISTITHMAR)*

Geert spoke about "Investment Opportunities for Takaful Companies" and the following were the main highlights:

- Takaful industry statistics
- Takaful investment products: needs and requirements
    - Investment into high quality short-term instruments for liquidity management such as liquid sukuk for medium term or short-term repo facility or Islamic commercial paper
    - Medium-term investments for capital protection and growth with monthly contributions such as 3-5 years USD product with minimum guaranteed return and potential for upside with AAA credit risk
    - Takaful contribution receipts invested in low risk stable return assets with yearly contributions such as 10+ years USD annuity product with minimum AA credit risk
- Takaful investment products: opportunities
    - Fully asset-backed *shariah* compliant products with medium to long term maturities
    - Developing strategic partnerships with niche asset managers in asset (based) classes such as aircrafts, containers, ships and green energy
    - Examples of long term transactions include photo-voltaic investment and shipping container leasing fund

FAISAL KHAN *(DIRECTOR, 3I INFOTECH)*

Faisal's presentation examined "The Pivotal Role of Technology in Takaful" with the following being the main features:

- 3i Infotech's involvement in takaful
- Enabling the automated value-chain
- Technologies for innovation
- Solving the distribution challenge

KHAERUDDIN SUDHARMIN *(MD & CEO, MOTORDATA RESEARCH CONSORTIUM)*

Khaeruddin lightened the atmosphere with an enjoyable presentation about "The Secret of Making Numbers Work for Takaful" which covered the following points from the Ernst & Young World Takaful Report together with humorous punch lines:

- Economic growth forecasts state that emerging markets likely to experience comparatively strong economic growth
- Global gross takaful contributions continue to post healthy growth
- Comparatively high rates of real GDP growth paired with low insurance penetration rates suggest strong future growth across OIC countries

RIDWAN ABBAS *(TAKAFUL CORRESPONDENT, ASIA REVIEW & MEIR)*
SIVAM SUBRAMANIAM *(EDITOR IN CHIEF, ASIA REVIEW & MEIR)*

Ridwan and Sivam jointly presented on "Developing an International Voice for Takaful" and the following were the main points:

- Current voice of takaful in the world
- Figures on growth and development
- Key players who shape the voice of takaful
- Environmental scan of Islamic finance bodies such as AAOIFI, IFSB, GTG, ISRA, Hawkamah – The Institute of Corporate Governance
- Problem areas in the market
  - Proper definition of an Islamic insurer
  - Surplus sharing
  - Treatment of benevolent loan
  - Greater harmonisation in *shariah* rulings
  - Identifying and communicating the value proposition of takaful
  - Building up brand and credibility of takaful
- Learning from the traditional market especially key international (IIS, IAIS, Geneva Association), regional and national bodies
- Recommendation for a dedicated think tank and representative body to provide thought leadership and be responsible for lobbying and communications
- There are critical success factors such as more aggressive promotion campaigns, the USP of takaful that must be a value-add and more a committed role played by key players

REZA ZAIN JAUFEERALLY *(CENTRE FOR ECONOMICS & ETHICS, KUL)*

Reza re-delivered Prof. Liedekerke's previously mentioned Masterclass presentation. For further details please refer to the Masterclass section.

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THE ABOVE REPORT WAS COMPILED BY BILAL KHAN

Bilal is presently a Law Lecturer at Leeds Metropolitan University on a part-time basis. Bilal read law with LL.B (Hons) at the University of Leeds. He has also completed his Legal Practice Course at BPP Law School with specialisation in Public Takeovers & Equity Finance, Banking & Debt Finance and Mergers & Acquisitions.

Prior to this Bilal completed his BA (equivalent) in Arabic & Islamic Studies at Darul Uloom Karachi, Pakistan with the world renowned Justice Mufti Taqi Usmani and other leading scholars and jurists.

Currently Bilal is also undertaking an MA in Islamic Banking, Finance & Management with extensive research into Takaful, Re-takaful and the regulatory framework within the English legal context under the supervision of Mohamed Iqbal Asaria, CBE. Bilal hopes to continue his research into a full PhD in the next academic year when he will also be undertaking an MBA in Legal Business at BPP Business School. From 2012 Bilal will be joining the international law firm Simmons & Simmons.