



Solvency and capital requirements in Islamic Insurance

- interview with Marcel Omar Papp, director, head of Retakaful Operation, Kuala Lumpur

Marcel Omar Papp is the head of Swiss Re's Retakaful operation which was set up in Kuala Lumpur in 2009 and is the global Retakaful centre for the Swiss Re Family and General Retakaful business. Until he moved to his current position at the beginning of 2009, he was based in Hong Kong for six years as the head of the Casualty Treaty Desk, managing and developing casualty treaty business across Asia, and as Product Manager Casualty for Asia. Prior to that, he spent four years based in Singapore as casualty underwriting manager for South East Asia.

He started his career in insurance 16 years ago as a claims broker in the London market working for Willis. Later on he moved to Union Re (Zurich) working in Client Market and Underwriting functions before joining Swiss Re in 1998. Marcel Omar holds a Masters of Arts (Business Administration) from the University of Zurich (Switzerland) and is an Associate of the Chartered Insurance Institute (A.C.I.I.) of London.

Marcel Omar Papp tells Global Islamic Finance magazine what is Islamic insurance and how SwissRe has been implementing strategies on new market.

What are the key principles of Takaful – Islamic insurance?

Takaful is Islamic insurance based on the principle of mutual assistance (takaful) and voluntary contribution, where the risks are shared collectively and voluntarily by a group of participants.

It has been developed in the past 30 years as a Shari'a (Islamic law) compliant alternative to conventional insurance, which is forbidden under Shari'a because it contains elements of uncertainty and unclear terms (gharar), excessive risk taking (maisir), payment/receipt of interest (riba), and risks which are forbidden (haram) in Islam e.g. alcohol, gambling. The contract of Takaful is not one of buying or selling but rather one of contributing to a pool for the purpose of mutual financial help. The fund itself is managed and invested according to Shari'a principles.

Is Islamic insurance truly Islamic, or is it just cosmetically enhanced conventional insurance?

If Takaful is done according to the principles

outlined in question above, then it is Shari'a compliant and by this truly Islamic.

What are the main regulatory challenges for Islamic finance insurance?

1 Lack of standardisation: (Re)Takaful operators apply different operating models and practices which make it difficult to come up with regulations which are acceptable to all market players.

2 Difference in opinion between Islamic Scholars: the above is aggravated by the fact that there is no common understanding between Shari'a scholars concerning operating models and practices e.g. some practices may be acceptable in one country but forbidden in another.

3 Solvency and capital requirements: it is rather challenging to come up with adequate solvency and capital requirements for (Re) Takaful operators in view of the fact that the typical Takaful undertaking consists of a two-tier structure that is a hybrid of a mutual, and a proprietorship company.

Do you have any estimates for current size of the global industry?

According to Swiss Re's Economic Research & Consulting, the global market size is as follows in 2008:

(Sources: World Islamic Insurance Directory; company data; supervisory authorities)

Total Islamic insurance: USD 7.5bn which consists of:

- 1** Takaful: USD 2.2bn.
- 2** Cooperative model (Saudi Arabia): USD 0.6bn.
- 3** Conventional ins. with Islamic finance system (Iran): USD 4.7bn

Takaful itself is split as follows between the various countries:

1 Malaysia:	34%.
2 Saudi Arabia:	27%.
3 Sudan:	13%.
4 UAE:	5%.
5 Indonesia:	5%.
6 Bahrain:	3%.
7 Other countries:	13%.

Which countries are the main players in Islamic insurance?

In Southeast Asia, Malaysia and Indonesia. In the Middle East, Saudi Arabia, UAE and Bahrain.

What role do you see Islamic insurance playing on a global scale in the next five to ten years?

Despite the impressive annual growth rates of over 20% in the past five years, Takaful is still small on a global scale. This is due to the fact that it is a very young industry. At the same time, insurance is underdeveloped in a lot of the target markets and Takaful can play a key role in raising insurance awareness.

Also the populations of Muslim countries are rapidly growing and the demographics are favourable. This will further spur the demand for Islamic insurance. Last but not least, Takaful can also be an attractive solution for Non-Muslims thereby increasing the potential market size further. So it is expected that Takaful will continue to grow rapidly with double-digit annual growth rates in the next five to ten years.

What would be the best advice that you can give to the institutions that decided to start offering Islamic insurance as one of their product?

The organisation will need to have a very good understanding of Shari'a, its underlying principles, and ensure that both products and operations are truly Shari'a compliant.

It will not be sufficient to make some minor alterations to existing operations and products. Hence, Takaful should be entered into as a long-term commitment.

Islamic Insurance is so called more ethical and socially responsible comparing to conventional insurance. Is there any demand on Islamic insurance within non-Muslim consumers?

Both Islamic and conventional insurance can be ethical and socially responsible e.g. mutual insurance; micro-insurance/takaful. Yes, there is demand from Non-Muslims.

They are mainly attracted by the fact that the profits from the Takaful pool are shared with the participants. Actually, in the cases of several Takaful operators in Malaysia and also Indonesia, a big portion (in some cases even the majority) of the policyholders are Non-Muslims.

What should be done to increase their interest on that range of products?

There is still the mistaken notion that Islamic insurance is only for Muslims. More education can be done to raise awareness that Takaful is an ethical product which can also be of interest to Non-Muslims. One way of doing so is to replace some of the Islamic terms currently used in Takaful.

What are the advantages and disadvantages of working within the framework of Islamic rules?

One main advantage is that some recent excesses of conventional insurance can hopefully be avoided in Takaful due to the adherence to Shari'a rules.

At the same time, it is very difficult to adapt some of the conventional insurance concepts to Takaful e.g. coverage of high-capacity, high-exposure risks in a Takaful pool may make the whole pool unbalanced. So, following the framework of Islamic rules may mean it is not possible to offer a Takaful solution to all insurance needs.

Can you tell us the history of the beginnings of the SwissRe Retakaful division?

As Takaful is Islamic insurance, so Retakaful is Islamic reinsurance.

Swiss Re started to offer Family Retakaful solutions for the Middle East out of Zurich in 2006. As a next step of our strong commitment to Takaful we have set up a dedicated Retakaful operation in Kuala Lumpur, Malaysia.

In September 2009, we received the operating licence which allowed us to offer Family and General Retakaful solutions on a worldwide basis.

What are the strengths of SwissRe as regards to Islamic finance products?

We consider ourselves a true strategic partner with a strong track record for helping our clients to increase their market position.

As such, Swiss Re provides strong product development and diversification support to our clients. We are a market leader in product innovation and aim to help our clients develop their Shari'a compliant range of products. Swiss Re Retakaful is Shari'a compliant and committed

to the global Takaful market growth. Our clients can rely on Swiss Re Group's financial strength.

Can you tell us what is the most popular Islamic reinsurance products that you offer?

Swiss Re offers products and services in all business lines usually offered in ReTakaful. In Family Retakaful, our most popular products are Individual/Group Life. However, in recent times our clients are also interested in other Family products such as Health, Mortgage Reducing Term Takaful and Investment Linked Products. In General Retakaful, the main demand is for property and motor but we also offer the other general lines such as Engineering, Marine, Liability and Accident.

What are the plans for SwissRe Retakaful for next years?

We want to grow our Retakaful business not only in the main markets of Southeast Asia and the Middle East but also in other emerging markets by being a true strategic partner to our Takaful clients worldwide. At the same time, it is our duty as pool manager to offer a financially viable Retakaful pool to our clients which is operated in a Shari'a compliant manner.

What is your main role in the SwissRe?

As the head of the Retakaful operation in Kuala Lumpur, I am the client manager responsible for Retakaful clients in Southeast Asia and India. In addition, the office acts also as the Centre of Competence for Retakaful within Swiss Re. In this role, the operation is responsible for the development of Shari'a compliant products, processes and the contact to our Shari'a Board.

Why did you choose the career in the Islamic finance sector?

It combines my interest in Islam and (re)insurance. In addition, (Re)Takaful is still a young industry, thereby offering some very interesting challenges for shaping practices and influencing its development. As the head of Swiss Re Retakaful, I will Insha Allah have the opportunity to actively contribute to the success of (Re) takaful.

If you like Global Islamic Finance to interview representative of your company, please send your request to info@gifmagazine.com.

Do you know what will happen tomorrow?

www.grmg.co.uk