



# THE WORLD TAKAFUL REPORT

تقرير التكافل العالمي

Highlighting a new growth opportunity in Islamic finance.





3rd Annual

THE WORLD TAKAFUL  
CONFERENCE  
مؤتمر التكافل العالمي

**Dear Insurance Industry Leader,**

It is with great pleasure that we introduce this industry-first initiative, The World Takaful Report. As market awareness of Takaful products becomes more established and as major new institutions consolidate their presence, the Takaful industry is poised for an exciting growth curve and the inaugural World Takaful Report offers a ground-breaking overview of this dynamic industry.

Providing unique insights into the opportunities and challenges for Islamic insurance industry players, the Report is essential reading for anyone connected with the Takaful industry and the wider Islamic financial services.

Our gratitude goes to leading audit and business advisory firm, Ernst & Young and their Islamic Financial Services Group led by Sameer Abdi, who have invested their considerable international talent and resources in leading the research project and in developing the insights contained in this Report.

We would also like to take this opportunity to express our thanks to FWU for their support as Thought Leadership sponsor and for making the initiative possible this year.

We hope that the content of the inaugural Report will be useful in your own strategic planning activities and will assist your organisation in its quest for success in this rapidly growing industry.

Yours sincerely,

**David McLean**

*Managing Director*

**The 3rd Annual World Takaful Conference**

**A MEGA Brand**



**A MEGA Brand: Achieving Business Results for the Islamic Finance Industry Since 1993**

P.O. Box 72045, Dubai, UAE | t. +9714 343 1200 | f.+971 4 343 6003

**MEGA Brands. MEGA Clients. Market Leaders.**

[www.megaevents.net](http://www.megaevents.net)









**Dear Takaful Executive,**

On behalf of Ernst & Young, I would like to take this opportunity to introduce to you the Ernst & Young World Takaful Report 2008. We are honoured to have been asked to produce this report, which we believe sets a new benchmark for the Takaful industry and is essential reading for anyone involved in Islamic financial services.

This inaugural report is an exciting mixture of primary research (based on interviews with leading players in the industry) and desk-based analysis (which has only been made possible by our market-leading combination of depth and spread across the Islamic financial services industry). Offering new insights to industry insiders as well as those contemplating entering a new market place, the report underscores why the Takaful industry is poised for significant growth. Starting with a retrospective overview of the industry, the report moves on to identify key areas of opportunity for the Takaful industry and isolates fundamental growth drivers. Key executives in the Takaful sector then identify the factors which are most likely to affect the future profitability of their institutions – in both a positive and a negative direction.

With estimated total Takaful premiums in 2006 of \$2 billion (against global insurance premiums of \$3.7 trillion), it is clear that there are significant opportunities for Takaful in the years ahead. High levels of liquidity in its natural market should encourage Takaful to raise its global profile.

We hope that this report will allow market participants to understand better the growth factors underpinning the industry as well as encouraging new market entrants. I hope you find this report informative and helpful in many different ways to identify and exploit the various opportunities that exist in the Takaful market today.

Yours sincerely,

**Sameer Abdi**

*Partner, Head of Ernst & Young's Islamic Finance Services Group*  
**Ernst & Young Bahrain**



**Dear Takaful Executive,**

The renaissance in Islamic banking and finance and demand for Shariah compliant investments has spurred the double-digit growth of the global demand for Takaful, or insurance based on principles of mutual assistance. The first Takaful company was established in 1979. Now, there are over 250 globally. The Takaful product family spans general, life, health and pensions business. The two main business models used in the Takaful industry are Mudarabah and Wakalah. The Wakalah model is more prevalent. Under this model, the Takaful operator acts as an agent (Wakeel) for the participants and manages the Takaful/reTakaful fund in return for a defined fee.

According to the Standard & Poor's April 2007 report on Takaful, "the GCC Takaful market is currently growing at 40% per year and the opportunities for increased uptake of Takaful in the GCC markets are positive. The GCC insurance market has a potential size of US\$20 billion (currently US\$6 billion). Within the GCC insurance sector, the Takaful market has the potential to reach US\$4 billion at the current level of development (currently US\$170 million)". The distribution of Takaful life and savings products through bank channels is relatively new. According to the S&P report, "contributions from bancassurance constitute slightly more than 20% of all Takaful contributions in the more established Malaysian Takaful market. In comparison, this distribution channel remains under-utilized in the GCC, and generally contributes only a small amount to the overall contributions generated".

Based on a 2007 Oliver Wyman report, "in terms of headline revenue potential, reasonable assumptions about likely penetration among Muslims, and adjustments for non-Muslim potential, suggest that there is worldwide Takaful premium potential of at least US\$20 billion annually, compared to today's figures of US\$4 billion at most". Wyman's analysis suggests that up to 20% of Takaful revenues could emanate from non-Muslim customers. Due to the ethical guidelines underpinning Shariah compliant financial services, the increasing transparency of customer terms and conditions, pricing structure, regular compliance monitoring by the relevant Shariah boards and supervisory regulators and adequate disclosure of information and transparency to policyholders, such offerings have tended to attract both Muslim and non-Muslim customers.

The nascent Takaful industry needs to enhance customer education and awareness, gain critical mass, to provide an innovative array of products and superior quality service to customers, to build worldwide brand recognition and to exceed performance standards set by the conventional insurance industry. Acceptance of Shariah compliant savings, education, marriage and retirement plans is gradually increasing among the affluent, but significant investment in customer education and training of financial planners and investment advisers is still necessary. Hence this new Ernst and Young Takaful Report is a timely and welcome resource to enhance the reader's understanding of the principles of Takaful, current business models, main products and services, emerging market trends and developments and enhancing customer awareness and education.

The Takaful industry is an important component in the overall Islamic financial system, given its role in providing risk protection. Future challenges and opportunities include the development and harmonization of the regulatory framework and prudential standards for the Takaful industry, the promotion of corporate governance, transparency and market discipline, the creation of suitable Shariah compliant investment securities and the development of viable Islamic capital markets, optimizing the use of technology for customer after sales care and the creation of strongly capitalized global reTakaful and multiline Takaful providers.

**Sohail Jaffer**  
Partner  
**FWU Group**

## FWU GROUP

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.

The group is valued for its product development and process innovation, a seamless systems based approach, open investment architecture, the creation and use of a proprietary Fund Selection and Allocation Model (SAM), pioneering of a unique Retakaful solution with a global reinsurance company, high customer service quality and its significant wealth of Sharia and deal structuring expertise. The FWU Group has its own Sharia Board with renowned advisers and it is also an observer member of the Islamic Financial Services Board (IFSB). Today, the group offers an attractive array of bancassurance and investment solutions designed to match the risk/reward profile of both individual and institutional customers. It is a market leader in Family Takaful and Unit linked investment plans and won 5 industry awards including the Euromoney award for being the "Best Takaful provider".

The FWU Group has also attracted minority corporate shareholders such as Swiss Re, an international reinsurer and other European insurance companies. The FWU Group has set up strategic alliances with 5 major takaful operators worldwide. In the Kingdom of Saudi Arabia, the Al Ahli Takaful company was recently established in partnership with the National Commercial Bank (NCB) and the IFC, the private investment arm of the World Bank. The FWU Group also concluded a Cooperation Agreement with Takaful Ikhlas in Malaysia in 2006 and one with Pak Qatar Family Takaful in Pakistan in 2007. Current bancatakaful partners include ADCB, NBD, ABN AMRO, NCB and AM Islamic.

The FWU group is rated as investment grade by Deutsche Bank's independent rating unit in Germany.

If you would like more information on the FWU Group or its Family Takaful products and services please contact:

**Dr. Manfred J. Dirrheimer**  
*Chairman & CEO, FWU Group*  
Boschetsrieder Straße 67  
D-81379 Munich  
Tel: +49-(0)89-7485880  
Fax: +49-(0)89-7485881  
m.dirrheimer@fwugroup.com

**Mr. Sohail Jaffer**  
*Partner, FWU Group*  
4A Rue Albert Borschette  
L-1246 Luxembourg  
Tel. +352-26197 700  
Fax. +352-26197 801  
s.jaffer@fwugroup.com









# Contents

---

- 8 - 9** Overview...
- 11 - 15** An introduction to Takaful...
- 16 - 21** Insurance in Muslim countries remains underdeveloped...
- 22 - 29** Global Takaful markets...
- 30 - 36** Consider the growth drivers...
- 37 - 45** Meeting the challenge and ensuring profitability...
- 46 - 47** Conclusions...

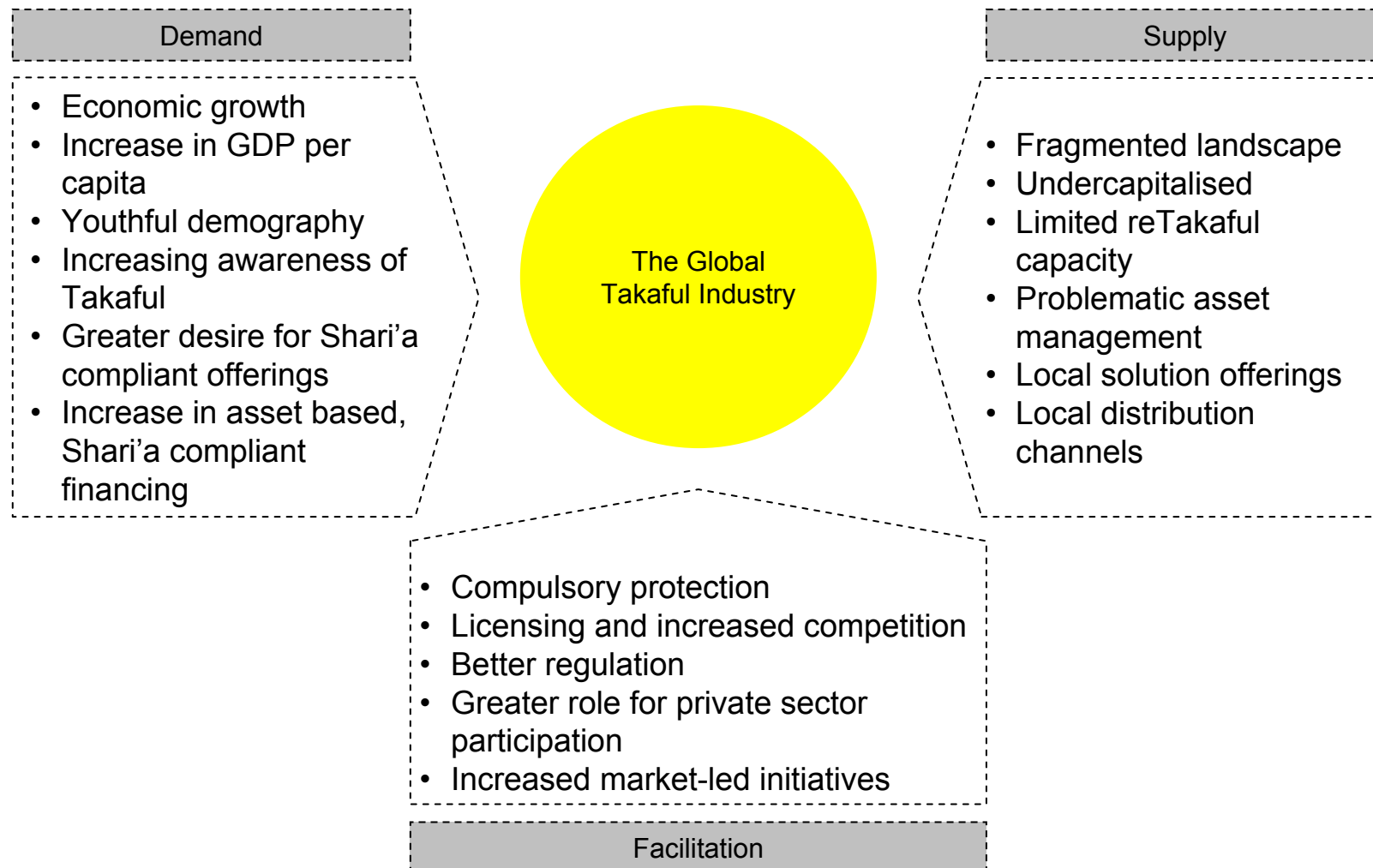


# Overview...

---



## The Takaful industry is poised for significant growth as demand increases and industry enablers are further aligned ...







# An Introduction to Takaful...



# Conventional forms of insurance are prohibited under Islamic law as they contain elements of maysir, gharar and riba...

### Conventional Insurance (non-mutual)

The company accepts premiums from the insured at a level which it anticipates will cover claims and result in a profit. This process of anticipation is akin to *maysir* (speculation).

The insured pays premiums to the company in exchange for indemnity against risks that may not occur. This process of ambiguity is akin to *gharar* (uncertainty).

The company engages in investments that derive their income from interest and/or prohibited industries. This process is akin to *riba* (usury) and/or relates to *haram* (prohibited) activities.

-----

### Takaful

Takaful is based on principles of *Ta-awun* (mutual assistance) that is *Tabarru* (voluntarily) provided. Takaful is similar to conventional cooperative insurance whereby participants pool their funds together to insure one another.

### Five Key Elements

**Mutual Guarantee** - The basic objective of Takaful is to pay a defined loss from a defined fund. The loss is borne by a fund created by the donations of policyholders. The liability is spread amongst the policyholders and all losses divided between them. In effect, the policyholders are both the insurer and the insured.

**Ownership of Fund** - Donating their contributions to the Takaful fund, policyholders are owners of the fund and entitled to its profits (this varies slightly between the adopted models which are described later).

**Elimination of Uncertainty** - Donations, causing transfer of ownership to the fund, are voluntary to mutually help in the case of a policyholder's loss without any pre-determined monetary benefit.

**Management of the Takaful Fund** - Management is by the operator who, depending on the adopted model, utilises either (or a combination) of two Shari'a compliant contracts, namely *mudaraba* or *wakala*.

**Investment Condition** - All investments must be Shari'a compliant, which prohibits investment in *haram* industries and requires the use of instruments that are free of *riba*.

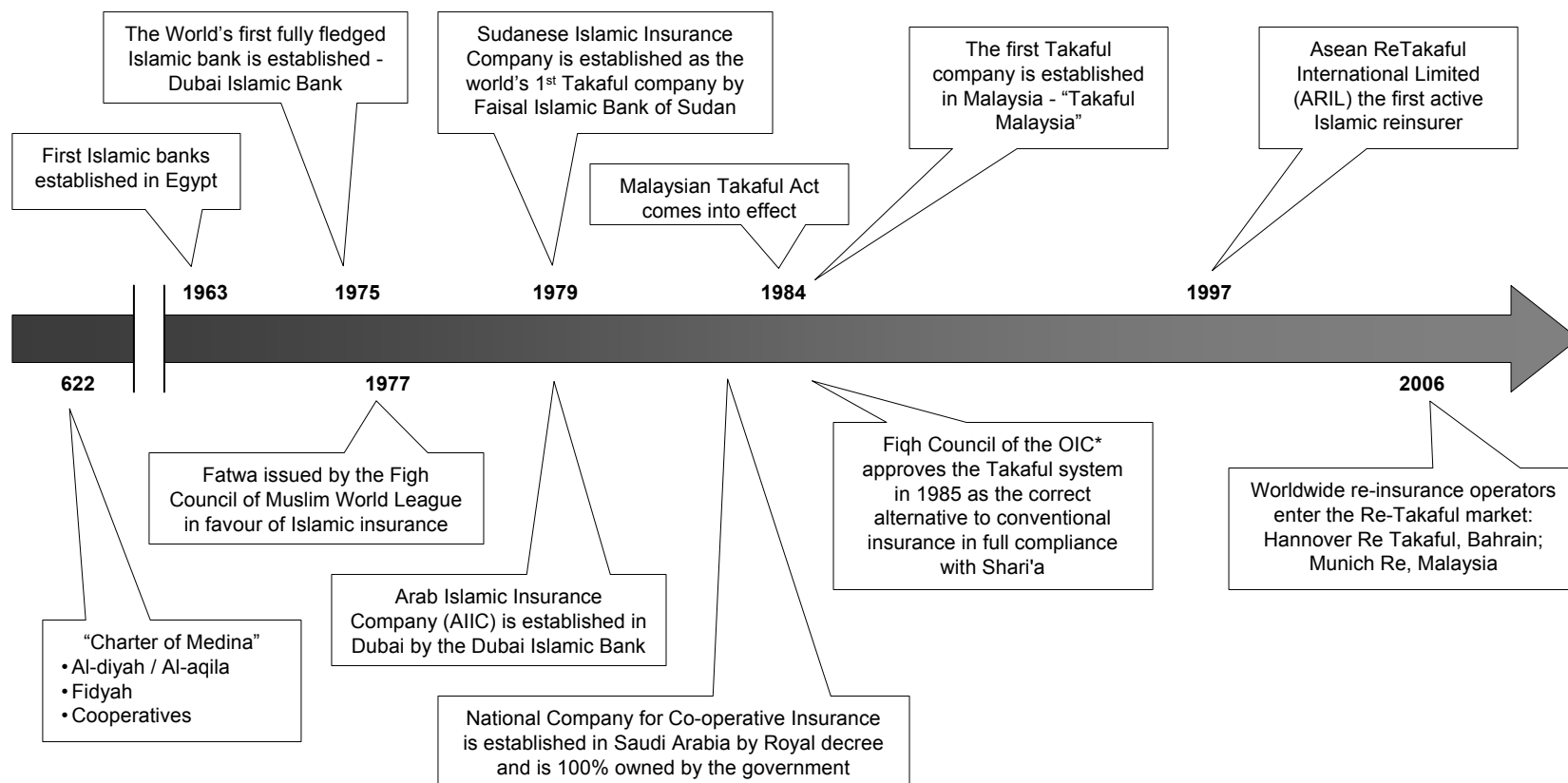


## Takaful can be considered a Shari'a compliant form of conventional cooperative insurance...

	Takaful	Cooperative Insurance	Proprietary Insurance
Contracts Utilised	Donation and mutual contract.	Mutual contract.	Exchange contract.
Company Responsibility	Pay claims with underwriting fund and interest free loan in case of shortfall.	Pay claims with underwriting fund.	Pay claims from underwriting fund and shareholders equity.
Participants' Responsibility	Pay contributions.	Pay contributions.	Pay premiums.
Capital Utilised	Participant's funds.	Participating capital.	Share capital.
Investment Considerations	Shari'a compliant.	No restrictions except prudential.	No restrictions except prudential.

## An Introduction to Takaful...

Contemporary execution of the concept of Takaful has existed for less than three decades...



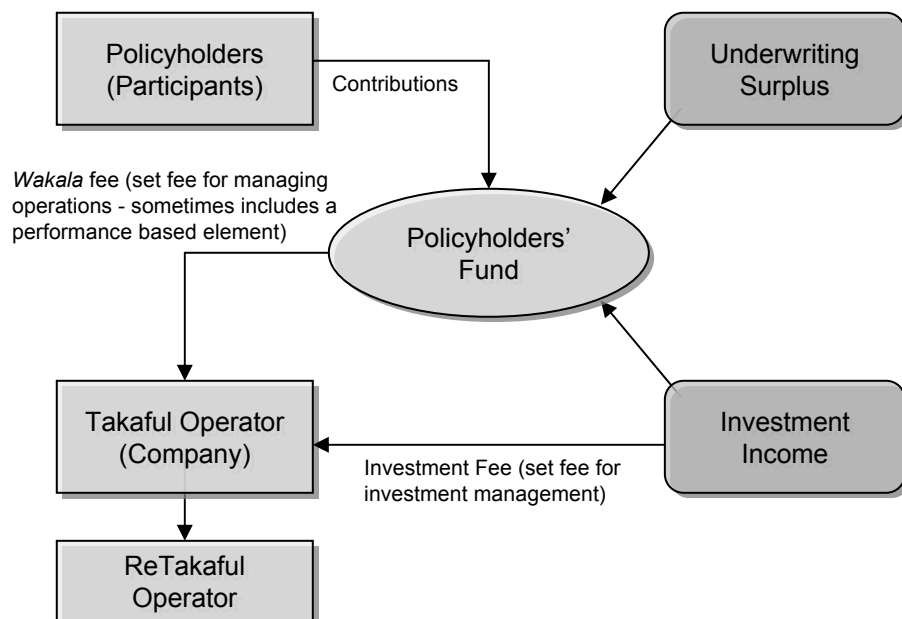
\* The Organisation for the Islamic Conference (OIC).

Source: Factiva, Company Websites

## The Takaful industry currently employs three different models to execute its business...

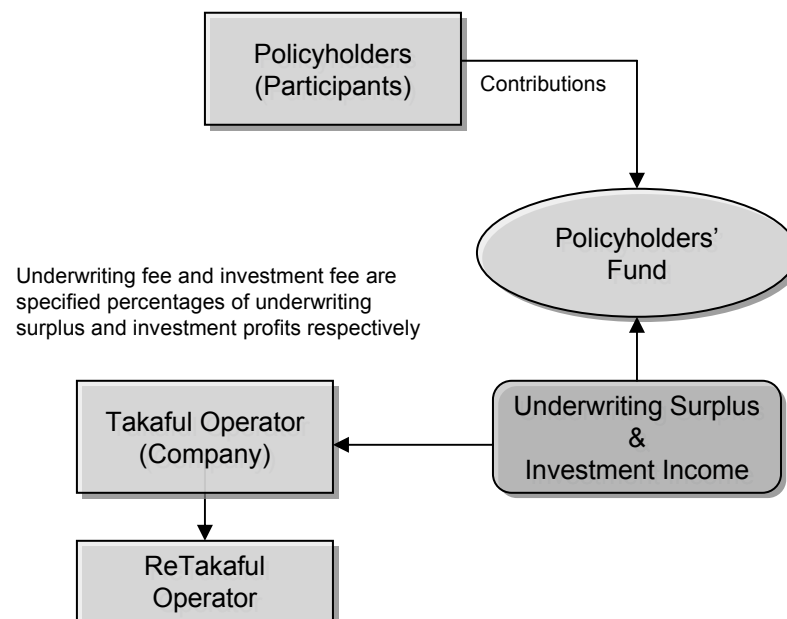
### 1 Wakala Model

A principal-agent arrangement is used between the policyholders and the Takaful operator for both underwriting and investment activities.



### 2 Mudaraba Model

A principal-manager agreement is used between the policyholders (*Rab al Mal* - capital providers) and the Takaful operator (*Mudarib* - entrepreneur) for both underwriting and investment activities.



### 3 Combined Model

The combined model utilises both contracts. The *Wakala* contract is used for underwriting activities, while the *Mudaraba* contract is used for investment activities. This model is recommended by certain financial services regulators (including the Central Bank of Bahrain) and international organisations.

Note: Critics of the *Mudaraba* model argue that in the cooperative framework, underwriting surplus is not considered a profit and the Takaful operator does not therefore have any right to it. Furthermore, the *Mudaraba* contract entitles the Takaful operator to a share in the underwriting surplus, but not to a share in any deficit.



# Insurance in Muslim countries remains underdeveloped...

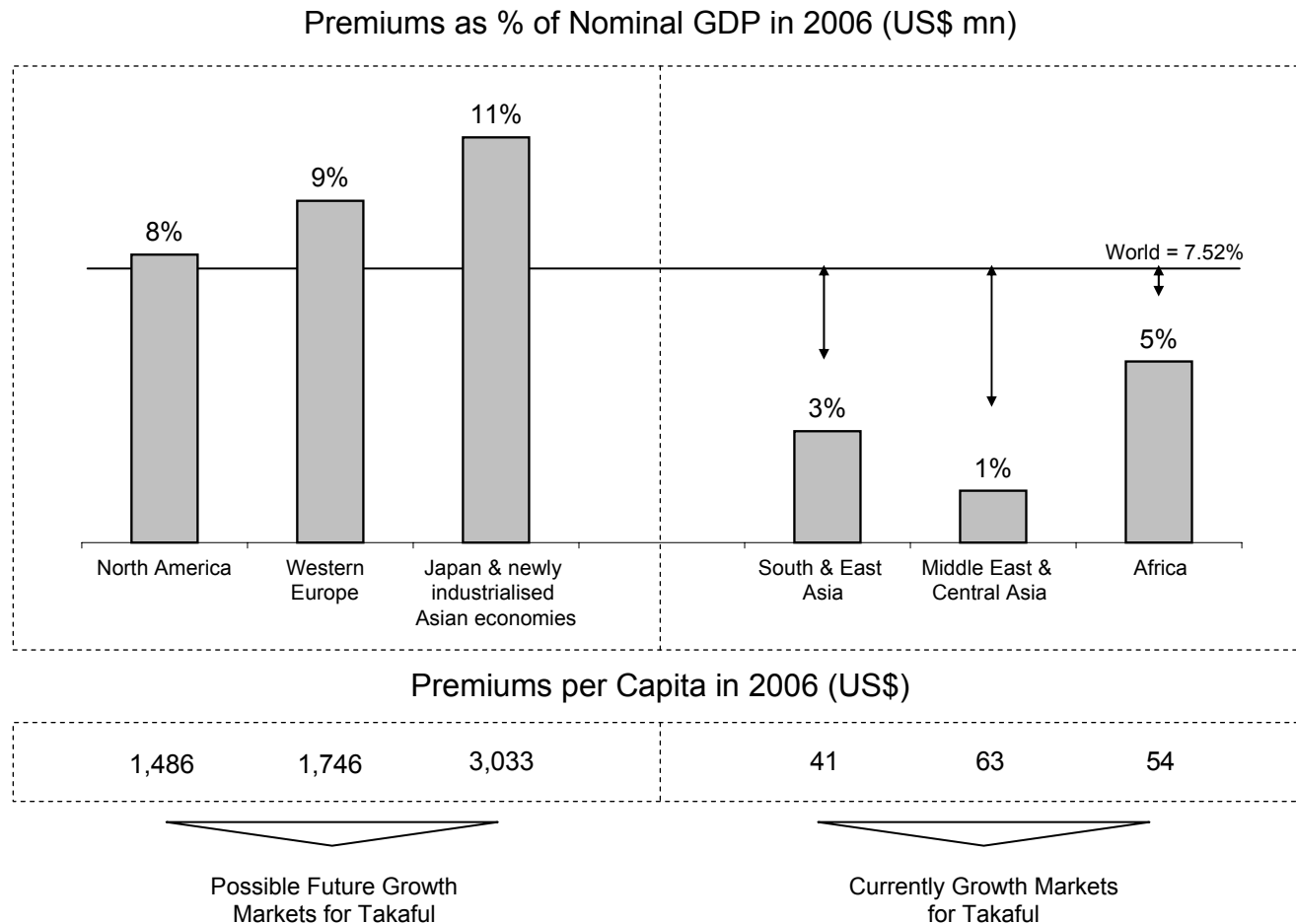


The image shows a close-up of a fountain pen lying diagonally across a financial table. The table has a header row with the years 2002, 2003, 2004, 2005, and 2006. Below the header, there are several rows of numerical data. The table is titled 'STRUCTURE AND PERFORMANCE' in large, bold, capital letters.

	2002	2003	2004	2005	2006
	38.0	42.4	50.1	64.9	81.7
	49.1	48.0	48.4	48.0	47.7
	774	870	1,351	1,713	1,713
	4,930	6,800			

Insurance in Muslim countries remains underdeveloped...

Muslim-majority regions (most OIC countries) display an underdeveloped insurance sector...

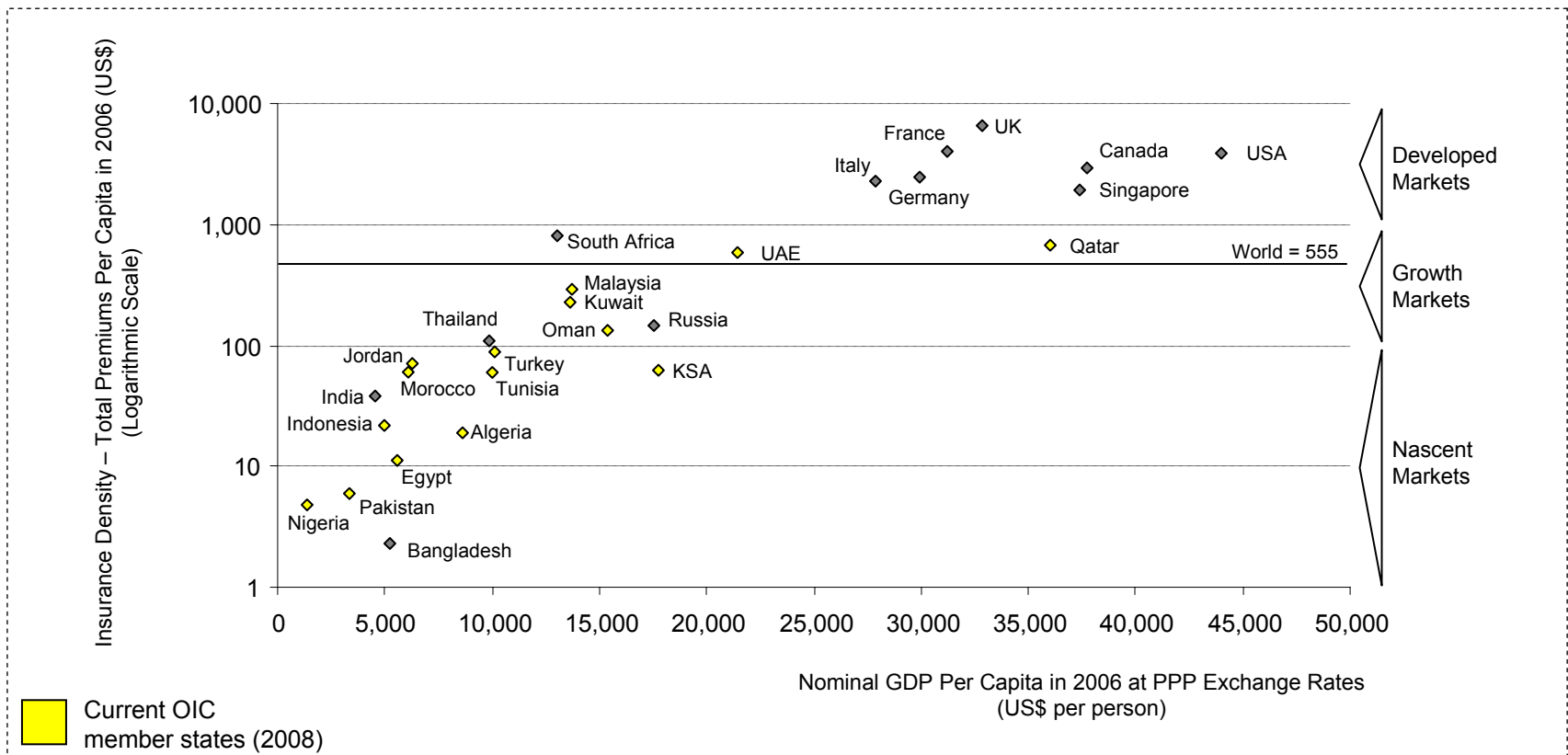


Source: Swiss RE - Sigma No. 4 (2007), Ernst & Young Analysis

Insurance in Muslim countries remains underdeveloped...

Insurance markets in Muslim countries are largely at a nascent or growth stage of development and exhibit low insurance density...

Insurance Density and GDP Per Capita for Select Countries (2006)



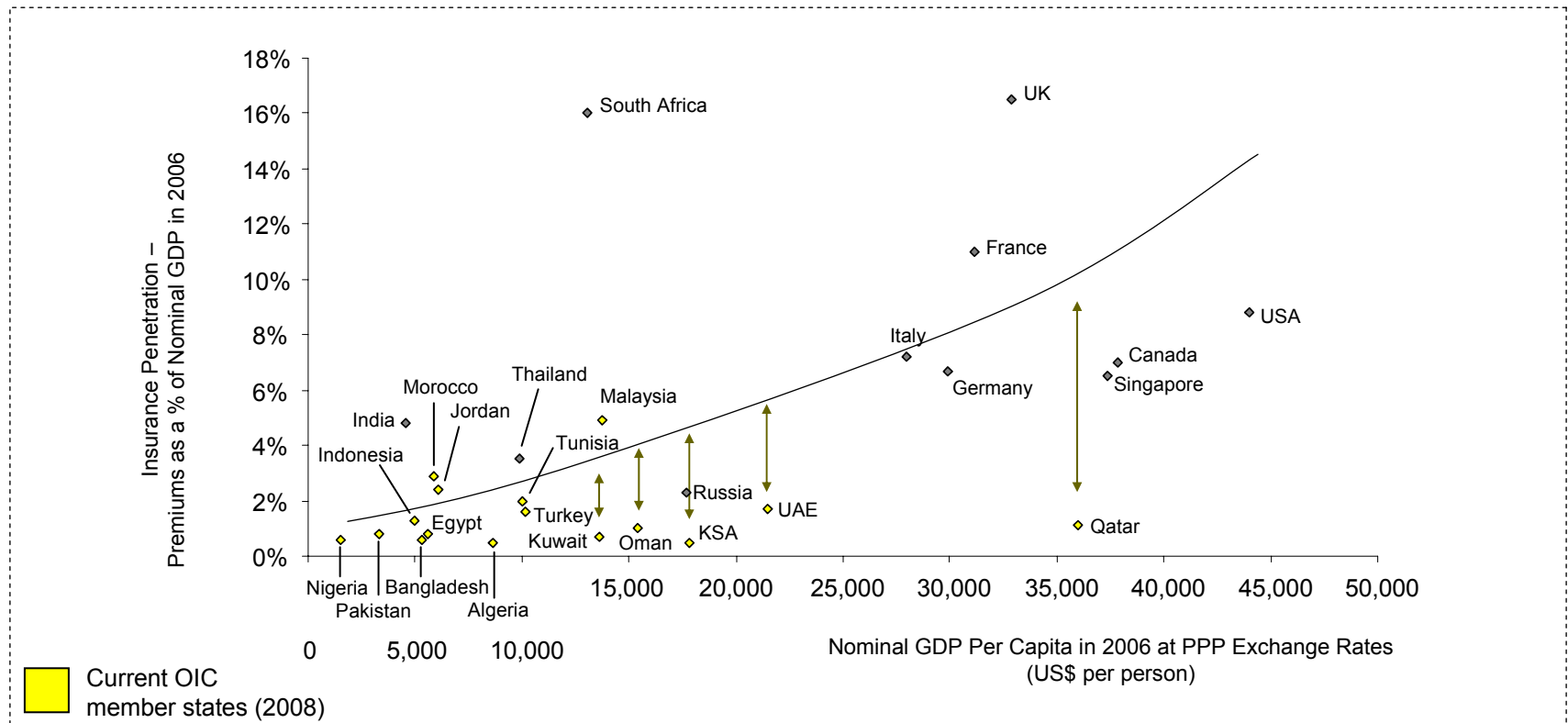
Source: Swiss RE - Sigma No. 4 (2007), Global Insight, Ernst & Young Analysis



Insurance in Muslim countries remains underdeveloped...

The level of GDP per capita in many Muslim countries is not reflected in insurance penetration rates...

Insurance Penetration and GDP Per Capita for Select Countries (2006)

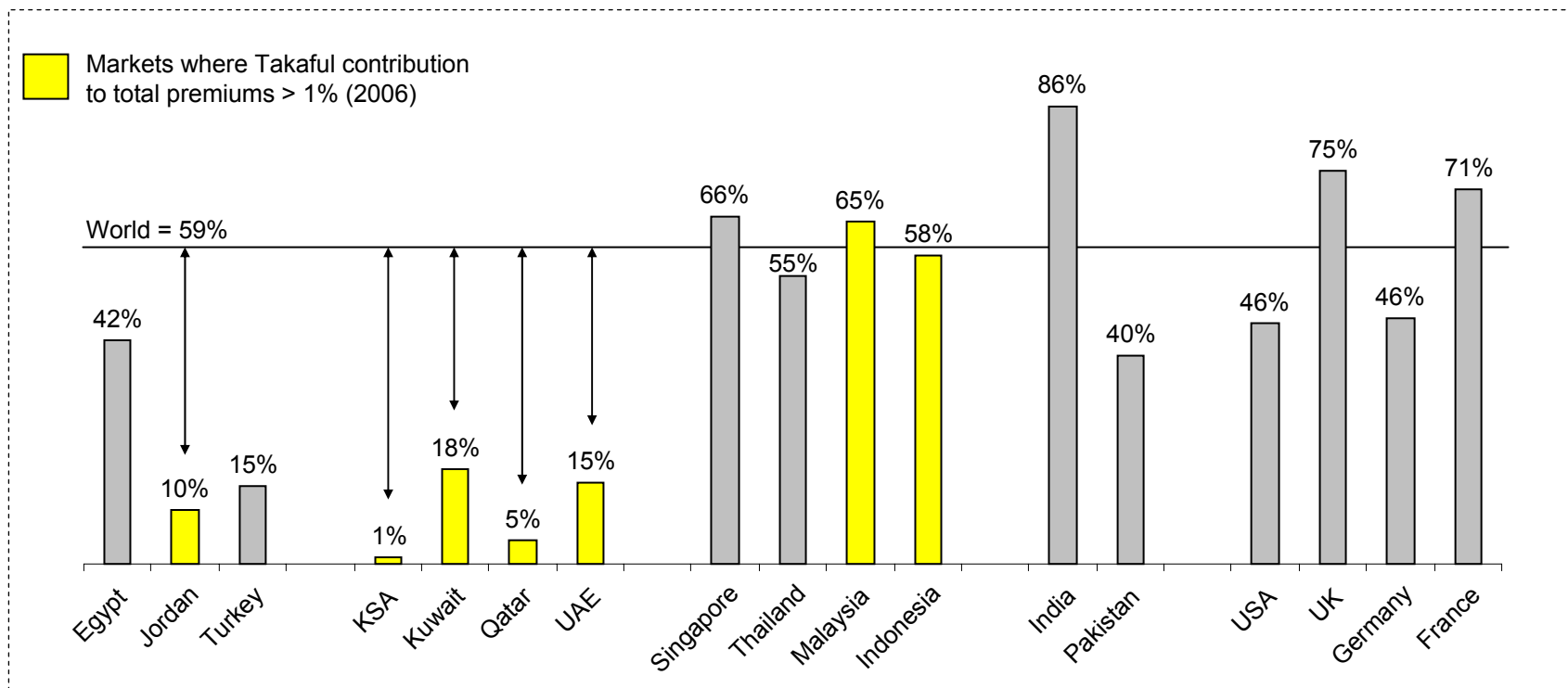


**“Saudi is a completely untapped market; it was completely unregulated until a few years ago. It’s probably the highest growth market that you will see - the growth will be initially on the general side, but I think in the long-term it will move to the family side as well.”**  
– Interview, Senior Management, Takaful Operator (March, 2008)

Insurance in Muslim countries remains underdeveloped...

Life insurance is underdeveloped in a number of existing Takaful markets, particularly those in the Middle East...

Life Premiums as % of Total Premiums in 2006 (US\$ mn)



Source: Swiss RE - Sigma No. 4 (2007), Ernst & Young Analysis

## The underdevelopment of insurance in OIC countries can be attributed to a number of factors...

### Religious

Shari'a sensitivities have led to injunctions against conventional forms of insurance. This has severely restricted demand, particularly for personal and life products lines.

### Cultural

An extended family system has historically acted as the primary source of financial support to the dependent population, particularly the elderly.

### Regulatory and Fiscal

The insurance sector has historically lacked regulation (and in some instances been closed), which has discouraged insurance operators from writing business and subsequently led to reduced customer awareness.

A lack of fiscal incentives aimed at encouraging savings, together with a high level of state support, have annulled the creation of corporate pension plans and reduced the demand for private sector annuity and savings products.

### Demographic

Legislation aimed at increasing private sector savings is a response to ageing populations where retirement is outpacing taxable workforce expansion. Countries with a youthful population and rapidly expanding workforce do not yet face these problems.

“In this region (the Middle East) there is no insurance buying culture because there is confusion between Takaful and conventional insurance because, frankly, there isn't enough public education on risk and risk management.”

– Interview, Senior Management, Takaful Operator (March, 2008)

“We think that there is a trend of building private pension schemes. Insurance companies need to step up and they need to be sensitive to cultural issues, religious issues, to investment issues.”

– Interview, Senior Management, Takaful Operator (March, 2008)



# Global Takaful Markets...

---

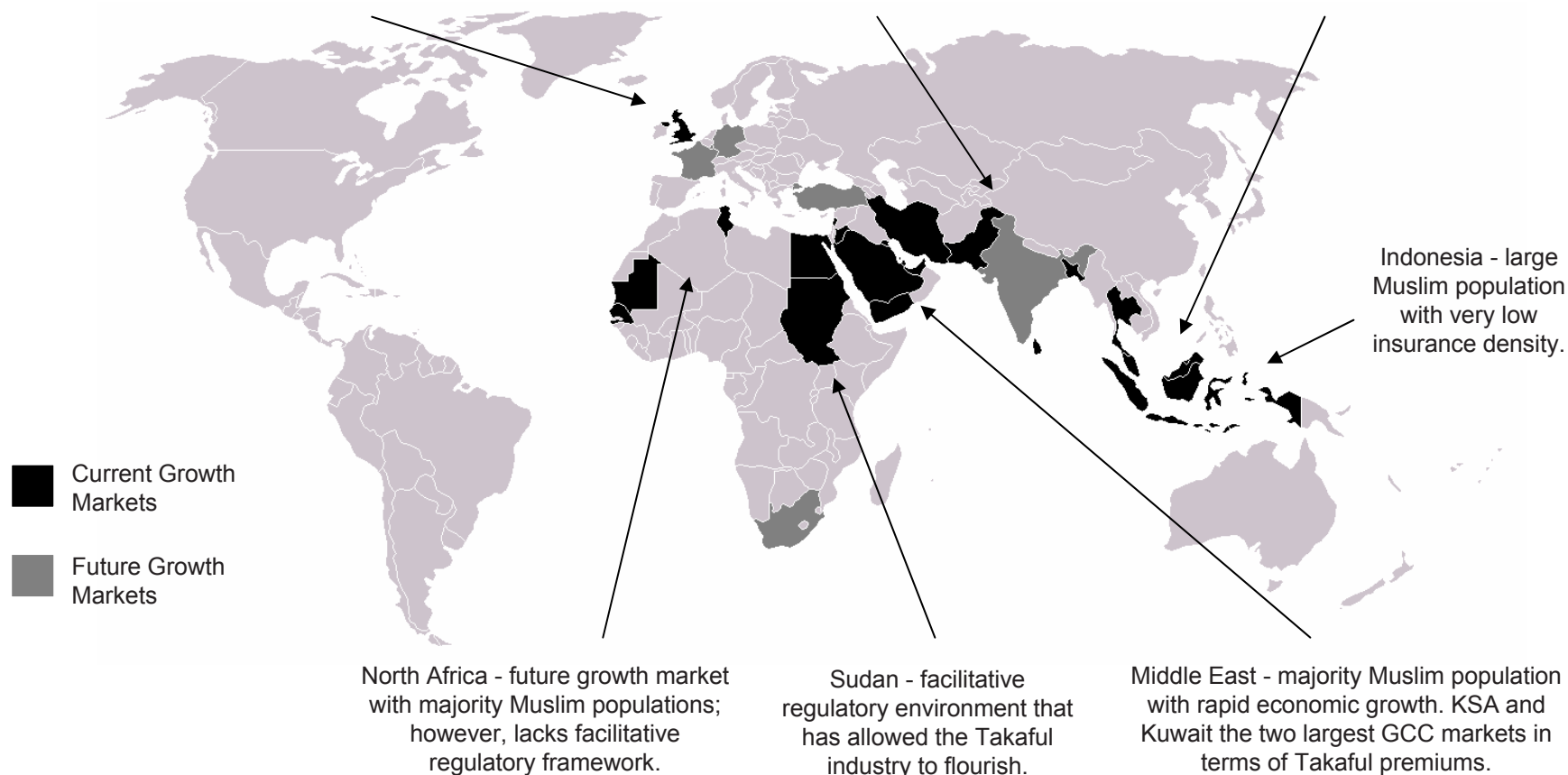


## The Takaful industry is slowly expanding beyond its home markets...

The UK - facilitative regulatory initiatives and mature insurance market, considered a gateway to Muslim populations in continental Europe.

Indian sub-continent - region characterised by large Muslim populations and low insurance density. India will become attractive once the Islamic finance framework is defined.

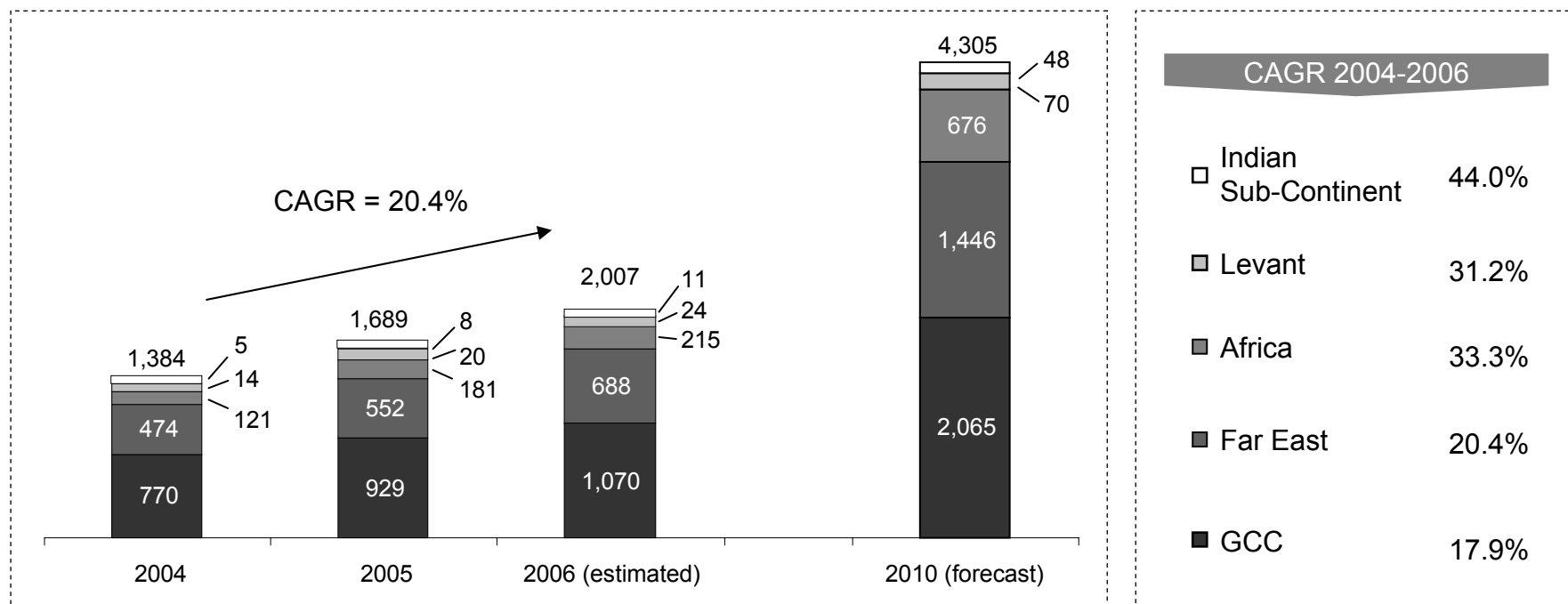
Malaysia - an established Islamic financial services industry with a high density of life business.



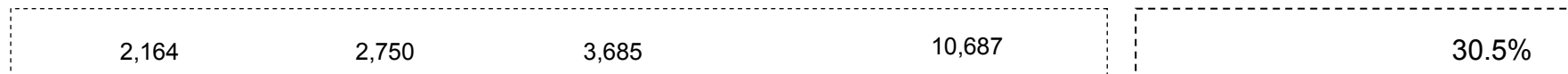
Source: Takaful Re Limited and Middle East Insurance Review (2008), Factiva, Ernst & Young Analysis

The global Takaful industry is growing by 20% per annum and accepted contributions worth US\$ 2 bn in 2006...

Global Gross Takaful Contributions by Year (US\$ mn)\*



Iran - Gross Takaful Contributions by Year (US\$ mn)



\* Note: Iran's financial services sector, which is entirely Islamic, has been shown separately from the global analysis because of its size. The forecast for 2010 assumes growth at the individual regions' respective CAGR for 2004-2006.

Source: Takaful Re Limited and Middle East Insurance Review (2008), Ernst & Young Analysis

A total of 133 Takaful operators existed in 2006, with the GCC accounting for the largest regional concentration in the world...

Total Operators (2006)  
133

Other regions -  
2 operators.

Levant - 4 Takaful operators.

Indian sub-continent - 9 Takaful operators; however, none yet exist in India.

Far East -  
22 Takaful operators.

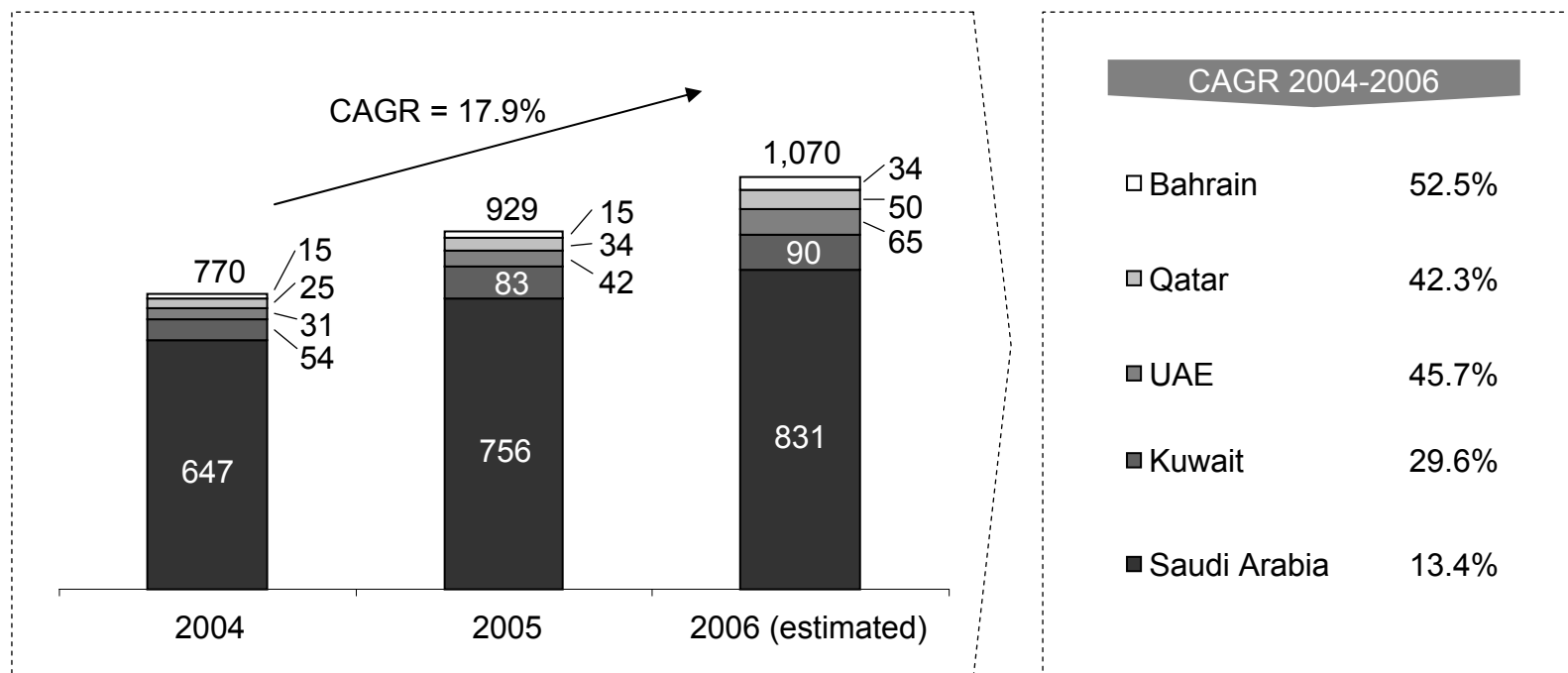
Africa - 21 Takaful operators, the majority of which are found in Sudan.

The GCC - 59 Takaful operators, the majority of which are found in Saudi Arabia.

Iran - 17 Takaful operators.

The GCC is the single largest Takaful market with contributions in excess of US\$ 1 billion in 2006...

Gross Takaful Contributions in the GCC (US\$ mn)

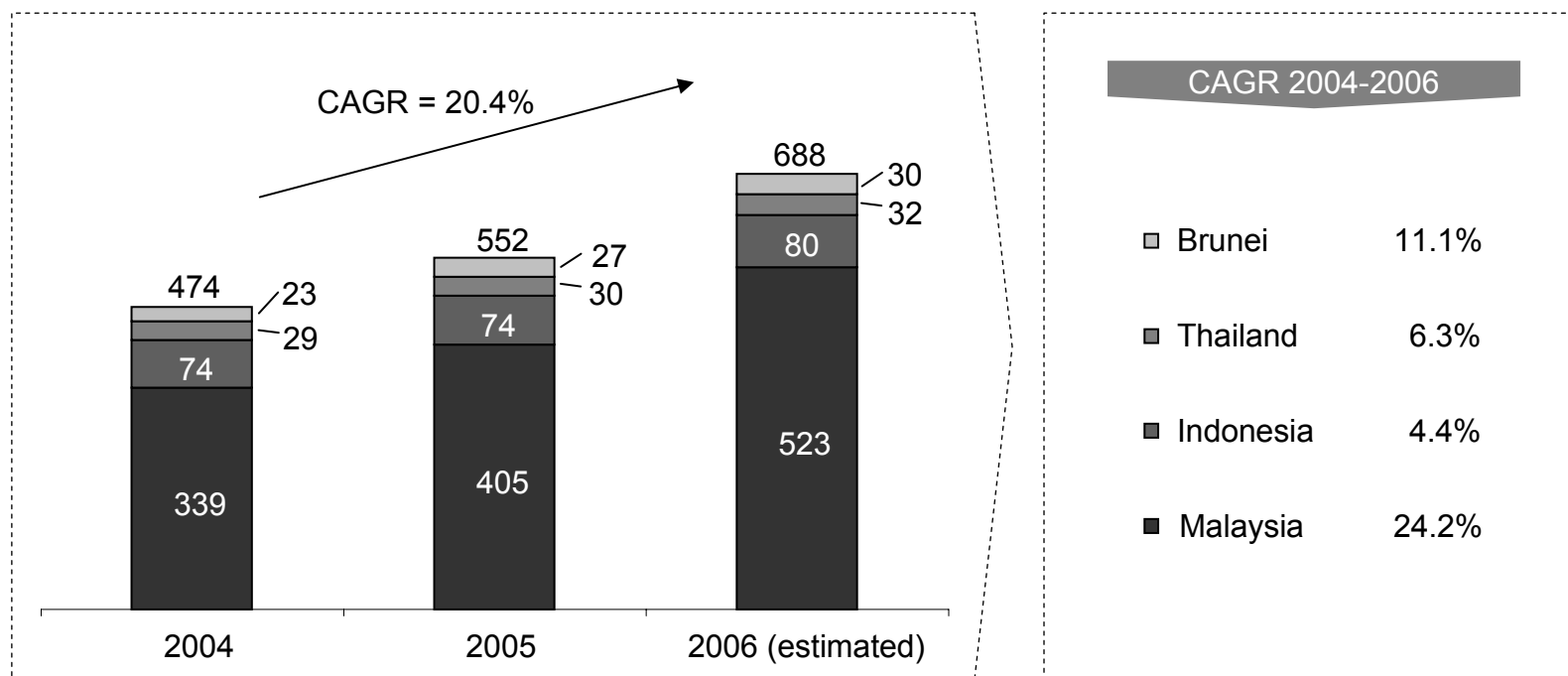


Source: Takaful Re Limited and Middle East Insurance Review (2008), Ernst & Young Analysis



The Far East is the second largest market with contributions of almost US\$ 0.7 billion in 2006...

Gross Takaful Contributions in the Far East (US\$ mn)

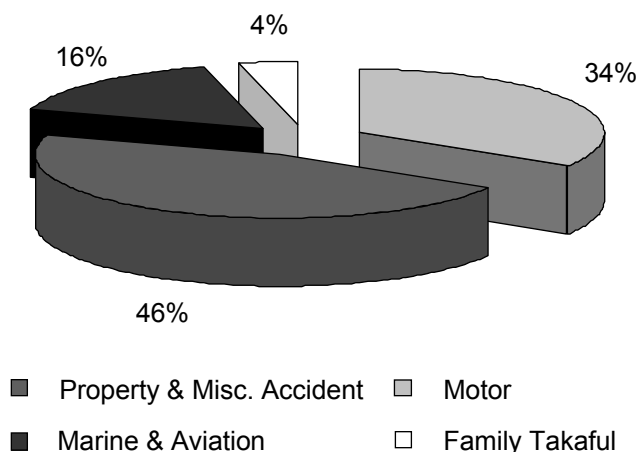


Source: Takaful Re Limited and Middle East Insurance Review (2008), Ernst & Young Analysis

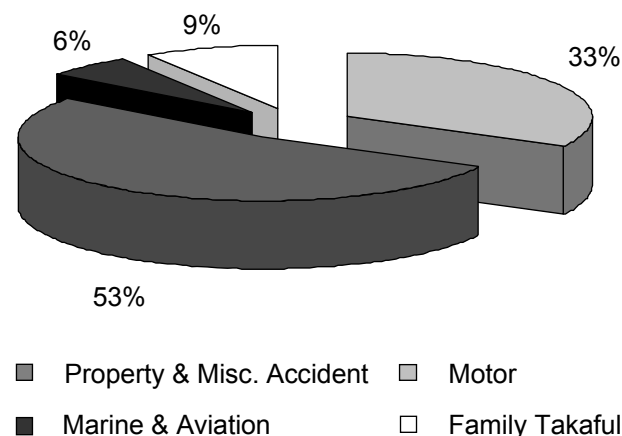
## General Takaful currently accounts for the majority of written business in both MENA and the Far East...

Gross Takaful Contributions by Business as % of the Total (2006)\*

### MENA



### Far East



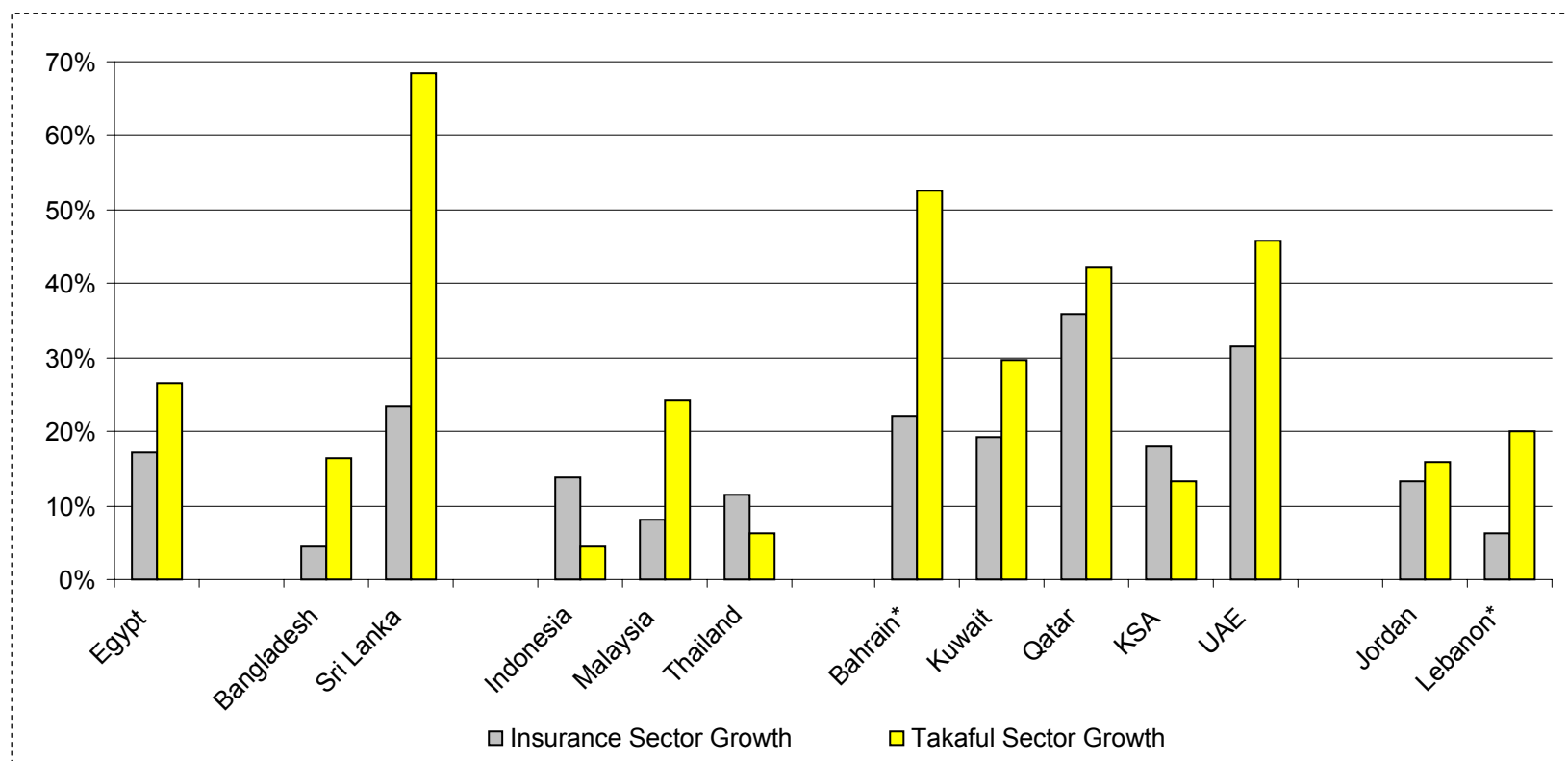
**“As the market matures, as we reach a certain level of penetration, the personal line will take over, that is where our strategy and ultimate value added segment will be coming from – the personal and life side.”**  
– Interview, Senior Management, Takaful Operator (March, 2008)

Note: **Motor** includes two main lines - Third Party and Comprehensive. **Property and Miscellaneous Accident** includes Fire, Engineering, General Accident, Personal Accident, Workmen's Compensation, Medical, etc. **Marine & Aviation** includes Aviation, Marine Cargo, Marine Hull and Inland Cargo. **Family Takaful** includes individual life (individual term and assurance products) and group life (a group of policies purchased together, i.e. employee life insurance by an employer for all staff).

Source: Takaful Re Limited and Middle East Insurance Review (2008), Ernst & Young Analysis

## Growth in the Takaful sector has largely outpaced that witnessed in respective insurance sectors...

Growth of the Insurance Sector and Takaful Sector by Country (CAGR % 2004-2006)



**“Yes, (Shari’a compliance) it does make a difference, because if you are on the fence, it makes you go one way.”  
– Interview, Senior Management, Takaful Operator (March, 2008)**

\* Note: Bahrain’s insurance sector growth and Lebanon’s Takaful sector growth are both for 2005-2006 only.

Source: Swiss RE - Sigma No. 4 (2007) and Business Monitor International for Insurance, Takaful Re Limited and Middle East Insurance Review (2008) for Takaful, Ernst & Young Analysis



## Consider the growth drivers...

---

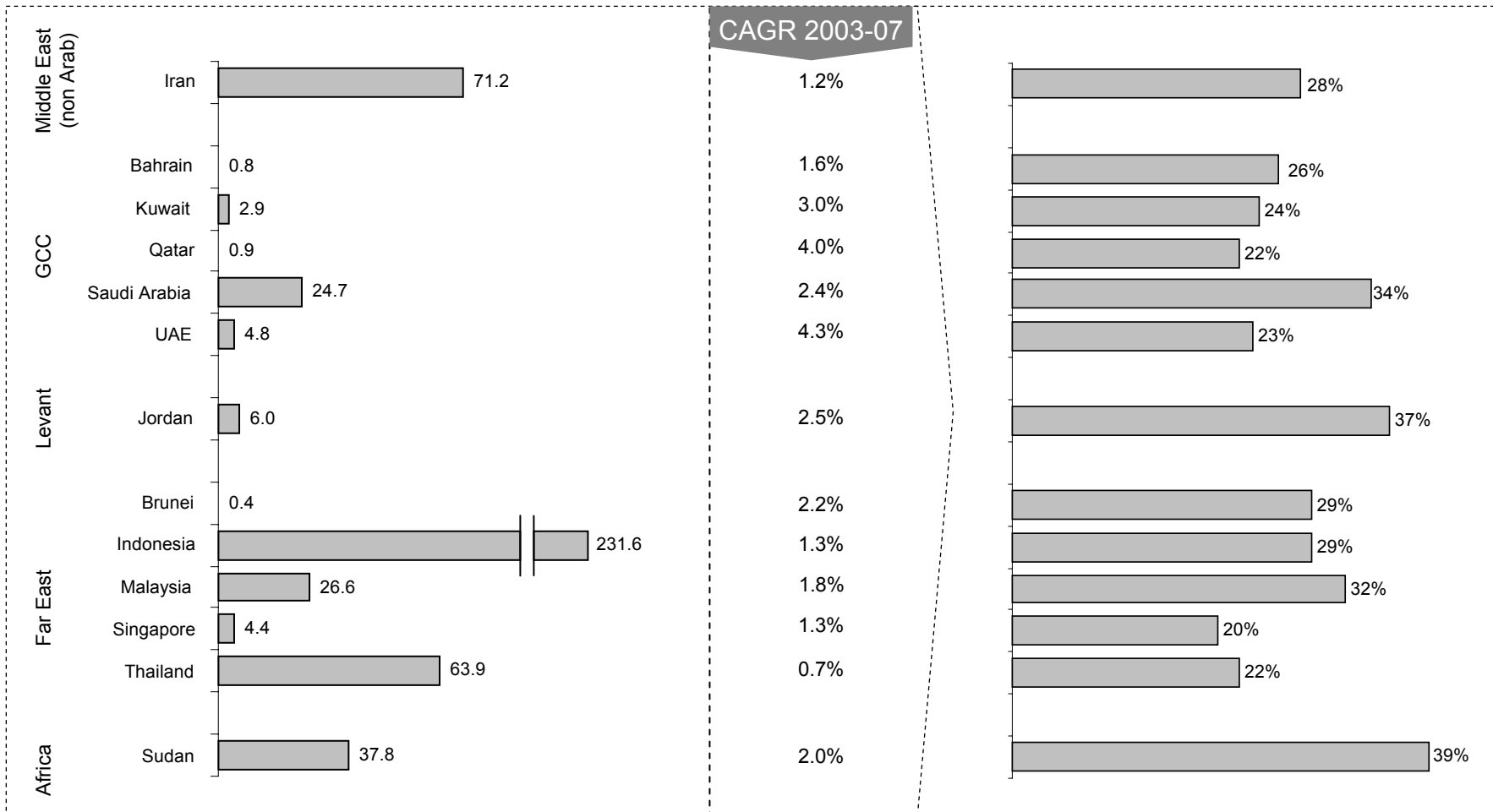


Consider the growth drivers...

## Demographic fundamentals infer significant future demand in many existing Takaful markets...

Population (2007)

Youth Population as a % of Total (2005)

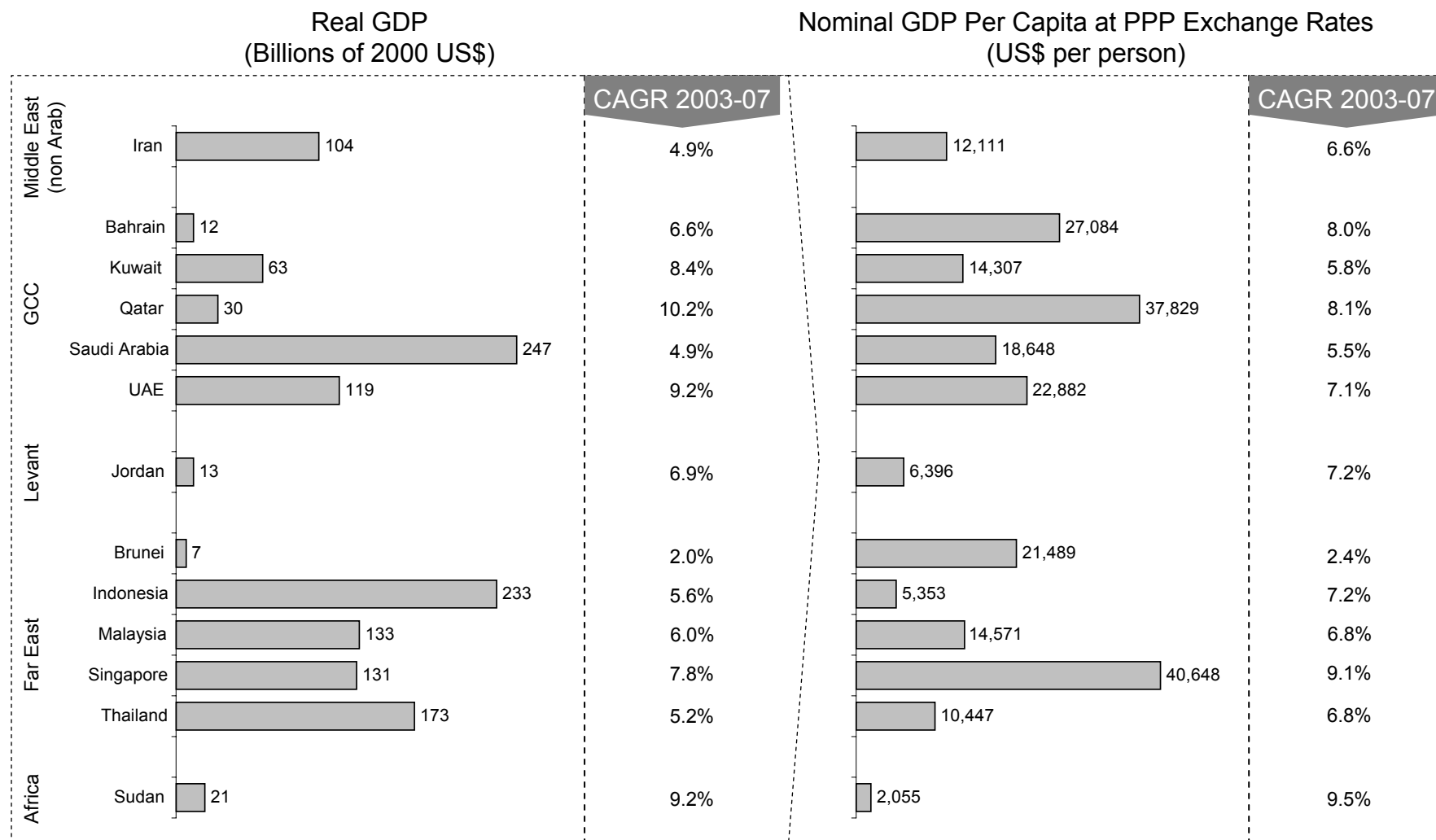


Source: Global Insight

Source: Business Monitor International, Global Insight

Consider the growth drivers...

## Economic development across existing markets bodes well for continued expansion in Takaful...

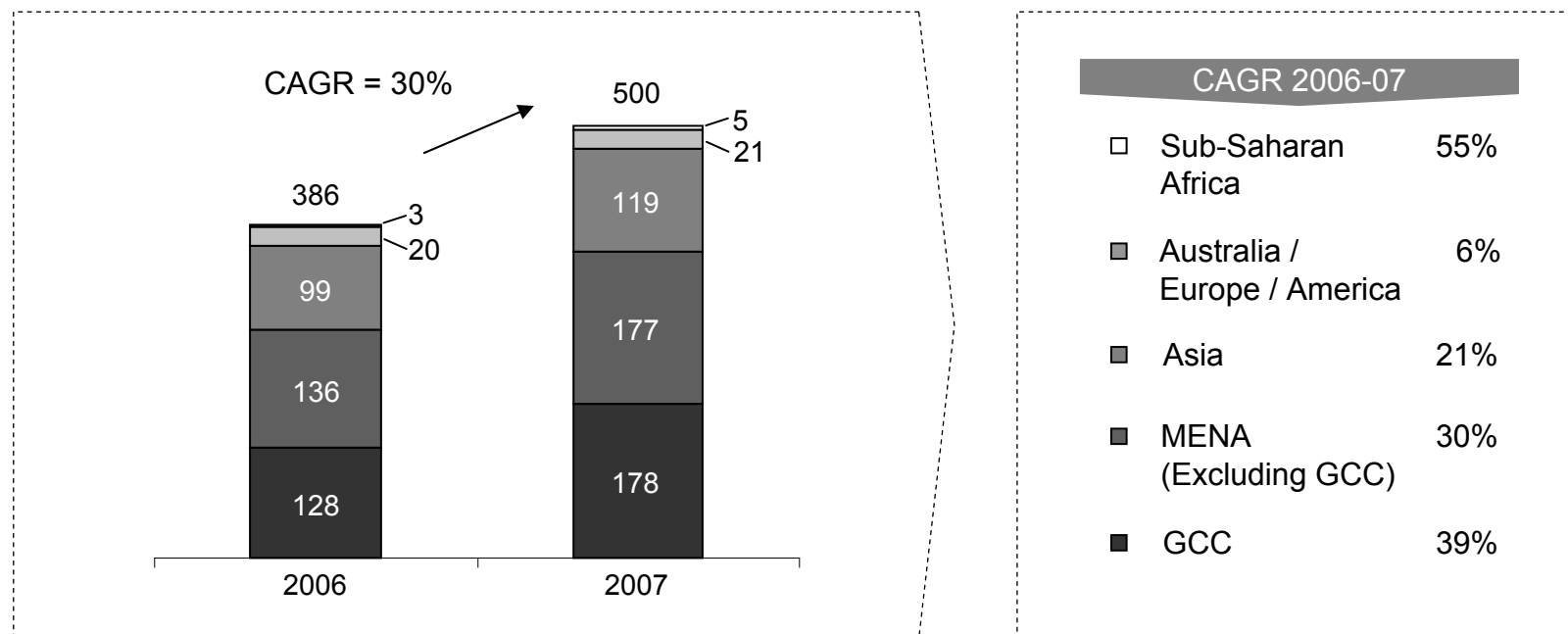


Source: Global Insight

Consider the growth drivers...

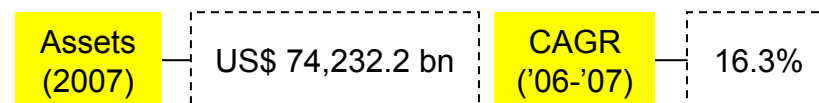
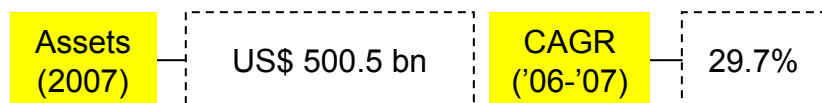
Furthermore, Islamic financial services continue to flourish in an era of high liquidity...

Global Shari'a Compliant Assets by Region (US\$ bn)



Islamic Financial Services Industry – Top 500 (2007)

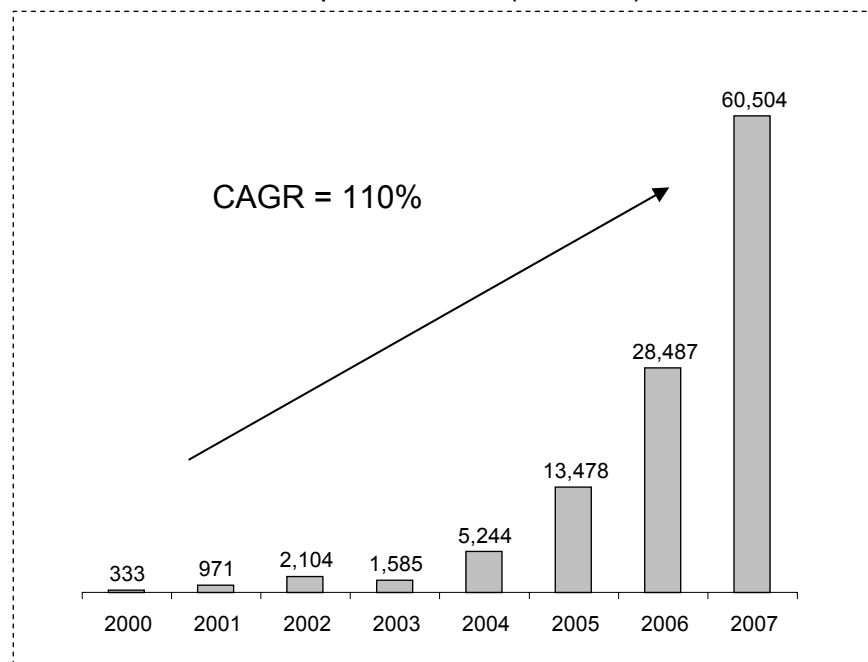
Conventional Financial Services Industry - Top 1,000 (2007)



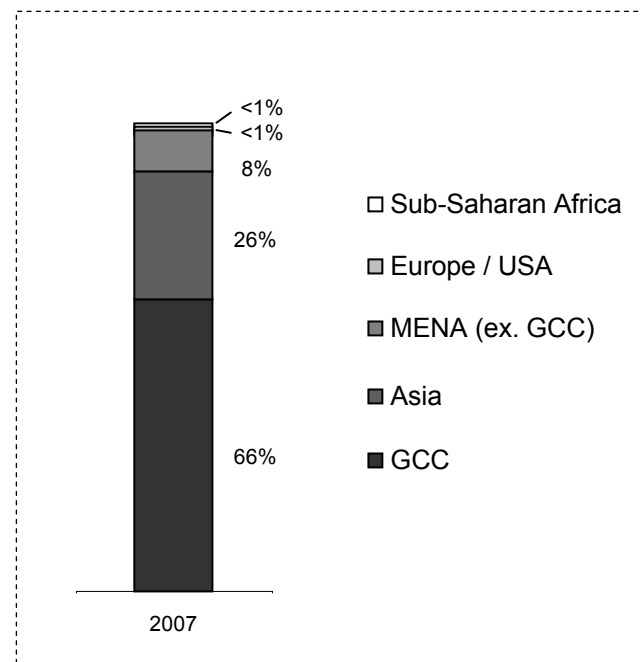
Consider the growth drivers...

The preference for Islamic offerings is reflected in increased Shari'a compliant financing, particularly in the GCC and Asia regions...

Value of Launched Islamic Projects in  
Respective Year (US\$ mn)



Target Regions of Launched Islamic  
Projects in 2007 (% of total value)



**"The rule is quite simple - everything that gets financed, first gets insured.  
So if it gets Islamically financed, it should be Islamically insured."  
- Interview, Senior Management, Takaful Operator (March, 2008)**

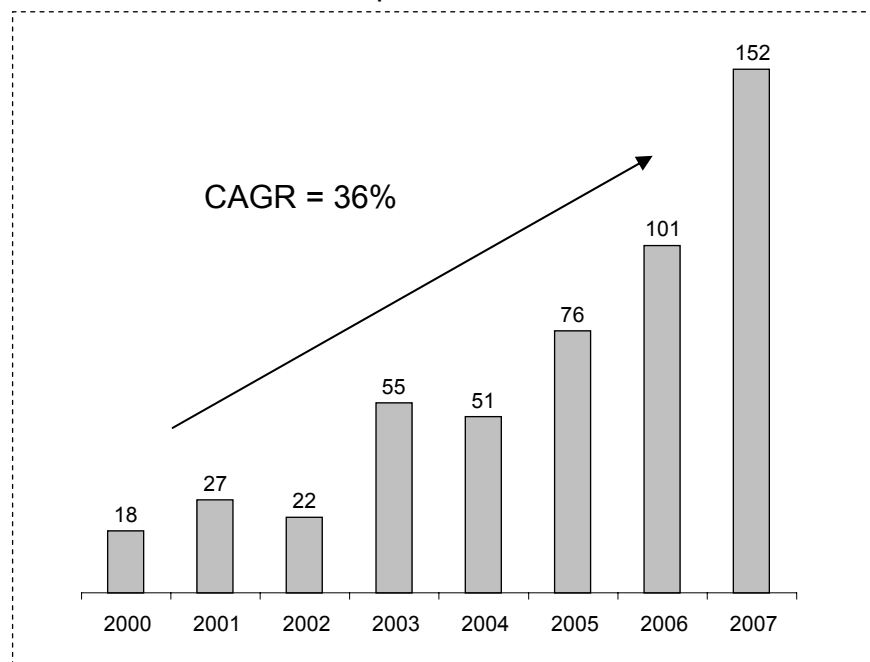
Source: IFIS Islamic Projects Database, Ernst & Young Analysis



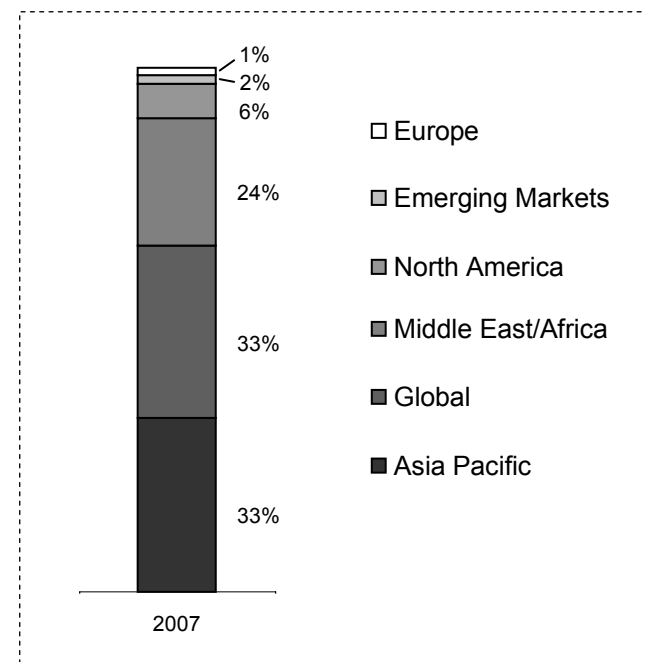
Consider the growth drivers...

And increased Shari'a compliant funds, with a focus on assets in the Asia Pacific, Middle East/Africa regions and Global markets...

Number of Launched Shari'a Compliant Funds in Respective Year



Target Regions of Incepted Shari'a Compliant Funds in 2007 (% of total)

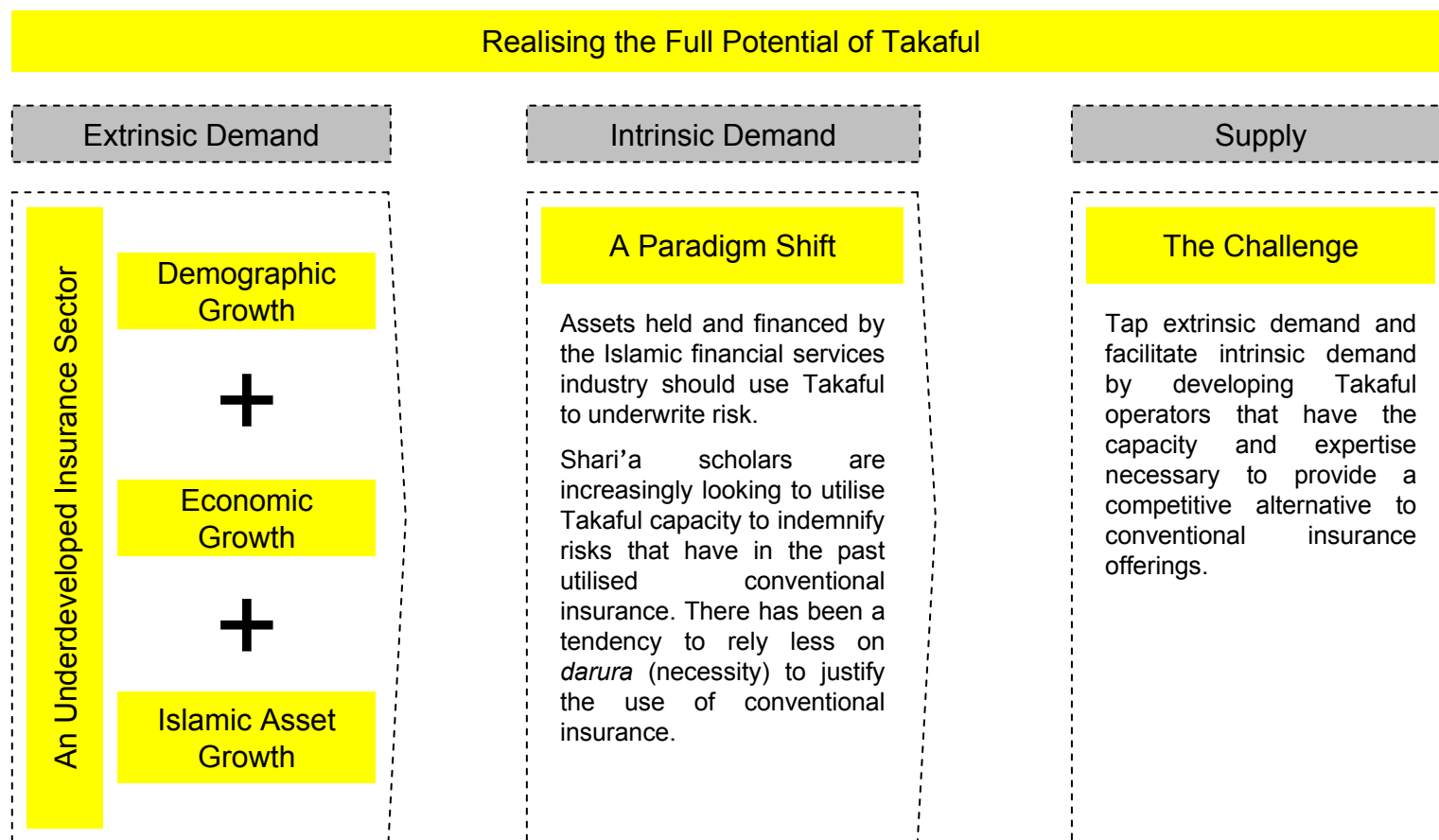


**“Takaful businesses are not focused on that (industrial) market segment. They don’t have the technical underwriting abilities. They probably don’t have access to the specialised insurance required. They are not risk takers. They don’t have the balance sheets to do much fronting, let alone any risk taking.”**

**– Interview, Senior Management, Takaful Operator (March, 2008)**

Consider the growth drivers...

Extrinsic demand drivers suggest upside potential for the Takaful industry, with emerging intrinsic demand further augmenting growth...





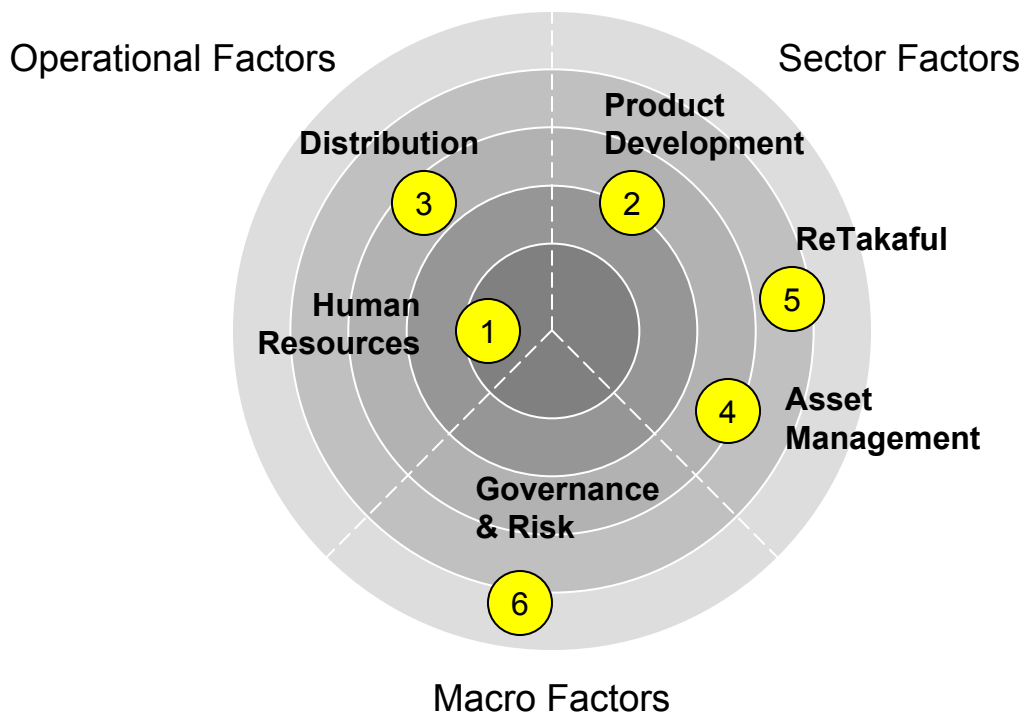
**Meeting the challenge and ensuring profitability...**

---

## Meeting the challenge and ensuring profitability...

Industry experts have highlighted six areas which are most likely to affect future profitability and growth...

Summary of Discussions with Senior Management from the Takaful industry:  
“In order of priority, which factors are most likely to effect the future profitability of your institution?”



**“I think at the end of the day, to run a commercial enterprise, people will always look at price, product, distribution, and quality of the service.”**  
– Interview, Senior Management, Takaful Operator (March, 2008)

## Cost implications of human resource shortages will further augment as the Takaful industry develops...

### Human Resources

The demand for human resources across the entire Islamic financial services industry is high. As the Takaful industry develops and institutions expand or are established, the demand for seasoned human resources will only increase. Human resources are the single largest contributor to an Islamic financial institution's operating expenses and thus have the potential to greatly effect profitability.

### Retention

A Takaful operator's ability to attract and retain quality staff will ultimately become a competitive advantage. As recruitment costs increase, Takaful operators will need to shift their focus from recruitment to retention. Retaining human capital is cost-effective but requires a well-developed human resources function and financial incentives that lead to a vested interest in the operator.

### Competitiveness

On its own, Shari'a compliance is not an absolute competitive advantage because markets invariably include consumers that require quality of service and/or price that can match all competitors (including conventional). Takaful operators require quality human resources that can provide competitive customer services on the retail side and technical expertise on the wholesale side.

**“One of the big challenges is the availability of human resources, qualified human resources, and I think that is an industry issue, but more so in Takaful because Takaful is a specialised area.”**  
– Interview, Senior Management, Takaful Operator (March, 2008)



## Meeting the challenge and ensuring profitability...

# Takaful operators need to enhance their product offering through demand-driven approaches...

### Consumer Awareness

Many Muslim customers remain sceptical of the insurance industry, particularly of family Takaful product offerings. Educating consumers and providing information on product offering is key to addressing under-penetration and creating demand for Takaful products.

### Client Segmentation

Increased competition for customers will force Takaful operators to adopt demand-driven methodologies to develop products and services. Sophisticated client segmentation facilitates the development of products and services that are tailored to the needs of specific segments and enhance product cross selling (share-of-wallet).

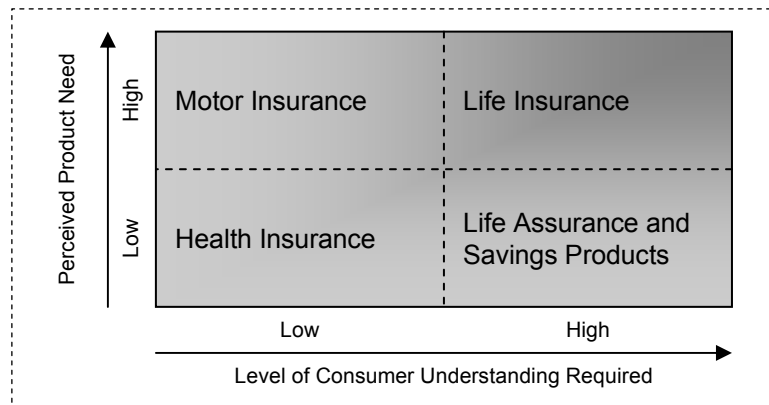
### Economies of Scale

Creating operating efficiencies through streamlined processes and possible out-sourcing of back office functions (investment accounting, claims processing and underwriting) that minimise costs and create efficiency.

### 'Revenues of Scale'

Personal (plain vanilla) products are low-value and require high volume if they are to create profitability. Takaful players that focus on personal offerings need to enhance volume creation through the provision of a broad product portfolio that allows for enhanced cross selling.

### Typical Demand Profile for Insurance Products (Illustrative Analysis)



**"I think definitely one of them is awareness, it is a nascent industry and it is growing at 20% pace - but you still need to spend a lot of time and effort on awareness."**

**– Interview, Senior Management, Takaful Operator (March, 2008)**

**"Our business model is for the region. It will achieve economies of scale and it will also bring cost effective operations by so doing."**

**– Interview, Senior Management, Takaful Operator (March, 2008)**

## Successful distribution strategies may hinge upon building corporate relationships and bancTakaful...

### Distribution

The Takaful industry is dominated by local operators. New entrants should create exportable platforms that can be used in different geographies and leverage existing distribution channels (bancTakaful and strategic alliances) to challenge incumbents. Enhancing premium volume is key to enhancing profitability.

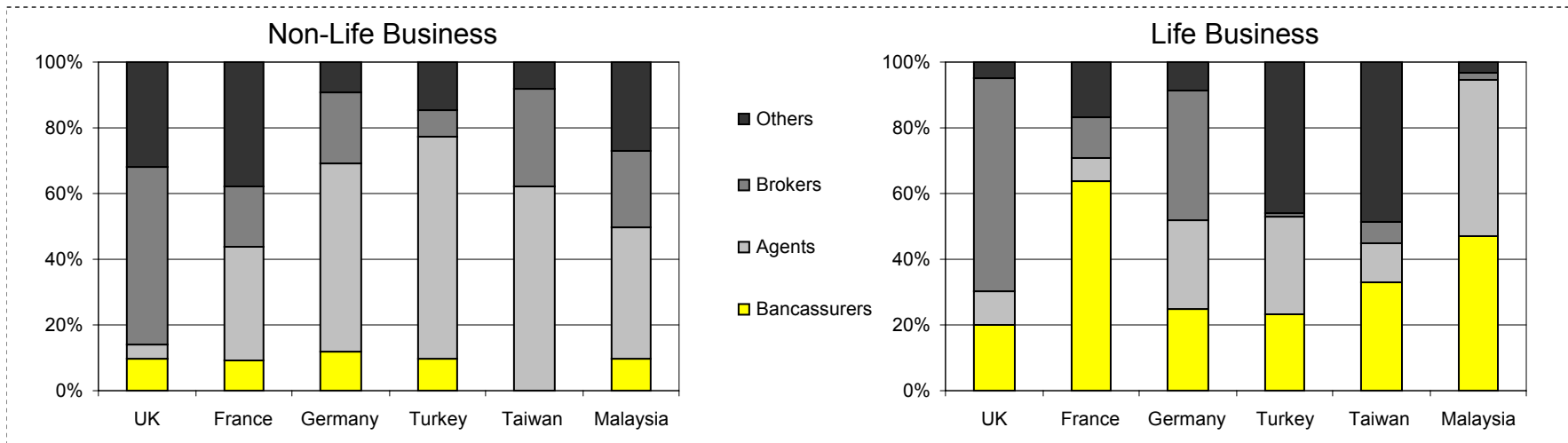
### Corporate Relationships

Access to commercial business is dependent upon the existence of strong relationships with corporate clients and government organisations. New entrants wishing to target this business should seek strategic relationships with prominent Islamic banks that can provide access to deals.

### BancTakaful

Physical distribution channels and face-to-face interaction remain important, particularly for retail and family Takaful. Bancassurance, particularly for life business, is prominent in a number of developed insurance markets, but remains insignificant in the Middle East and low in Africa. Growing use of indirect distribution through independent advisors and bancTakaful is expected in coming years.

Share of Bancassurance Distribution in Select Markets (% of Total)



Source: Swiss RE - Sigma No. 5 (2007), Ernst & Young Analysis

## Meeting the challenge and ensuring profitability...

The Takaful industry is set to emerge as an influential institutional investor but asset allocation is still difficult...

### Asset Management

Strategies that successfully combine Shari'a-compliant risk-adjusted returns with actuarial analysis are required to meet claims and ensure profitability of an operator. This is especially true of shareholders' funds and of family Takaful, where both shareholders and participants seek long-term returns on their equity and contributions.

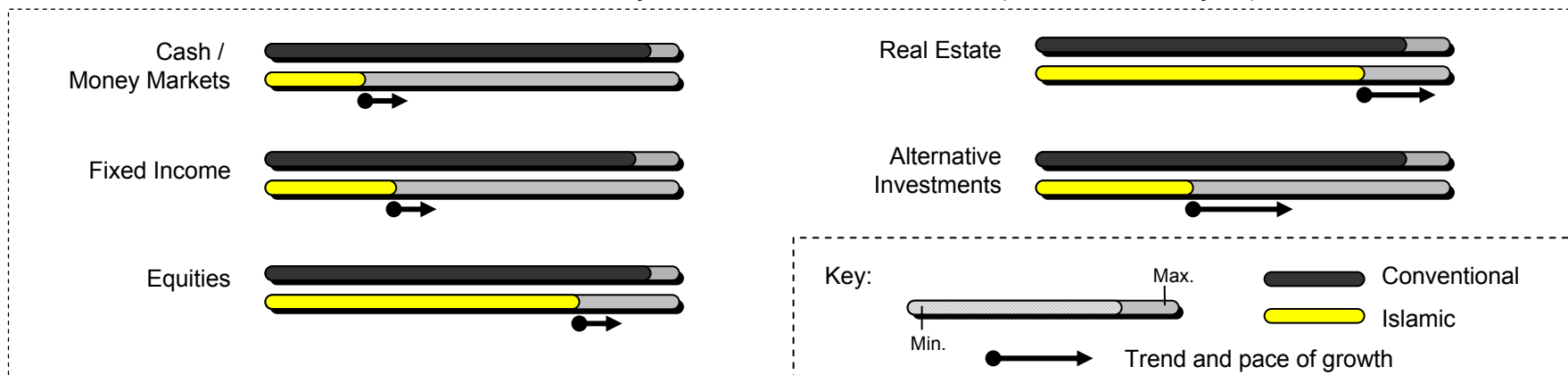
### Institutional Investors

As the Takaful industry grows and family Takaful becomes more prominent, Takaful operators will collectively emerge as significant institutional investors. Outsourcing of the asset management function provides considerable opportunity for specialised managers.

### Asset Allocation

Presently, the Islamic investment management industry is still evolving – product depth and geographical diversification are major obstacles to effective asset allocation. Takaful institutions, similar to conventional insurers, need a wide variety of products to effectively manage their risk-return targets for their investment portfolios.

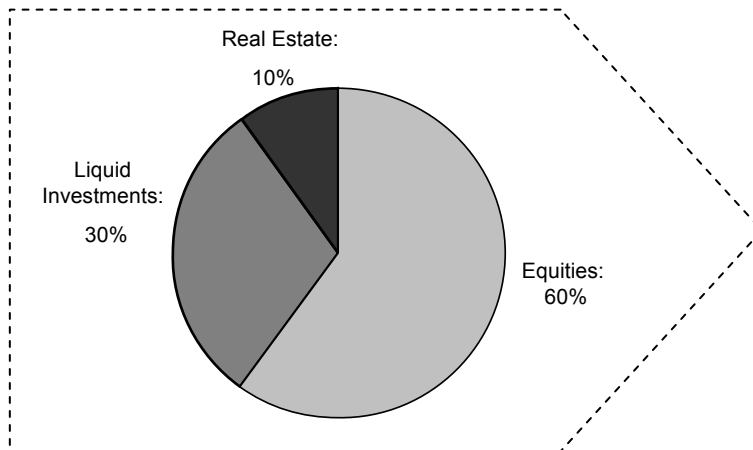
### Asset Classes Availability – Conventional vs. Islamic (Illustrative Analysis)



Source: Ernst & Young Analysis

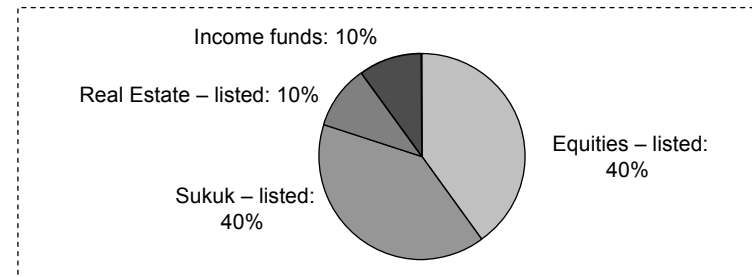
...with an overemphasis on listed equities and short term placements with financial institutions (international murabaha)

### Current Typical Asset Allocation of a GCC-based Takaful Operator (Illustrative Example)

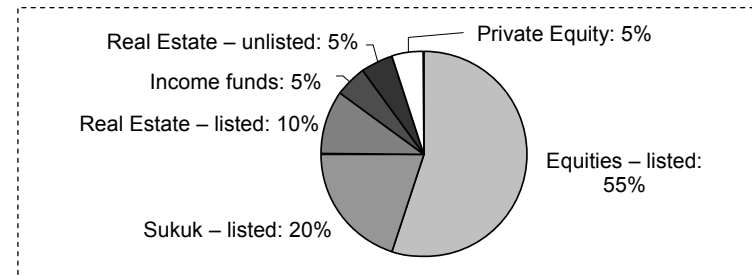


**Overemphasis on Equities and Liquid Instruments**

### Potential Future Asset Allocation (General Takaful)



### Potential Future Asset Allocation (Family Takaful)



“You are competing with others on returns, especially on the family side. It makes it more difficult for you to accomplish these returns with the limited instruments that you have that are Shari’a compliant – that is a very big challenge.”  
– Interview, Senior Management, Takaful Operator (March, 2008)

Meeting the challenge and ensuring profitability...

ReTakaful capacity has been increasing, but the availability of rated, reputable operators remains limited...

#### Need for Rated Capacity

The ability of the Takaful industry to tap extrinsic demand, particularly that created by Islamically-financed assets, is dependent upon access to multiple, rated reTakaful pools to manage risks. Without such pools, Takaful operators are unlikely to be able to sustain their double-digit growth rates in the future.

Existing ReTakaful Operators/Pools

	Tokio Marine Ret	Hannover RE	MNRB ReTakaful	Takaful RE	ARIL
Capital (US\$ mn)	25	53	150	125	14.1
Rating (S&P)	AA	A	A-	BBB	NR

**“There is a responsibility in the Takaful sector to nurture and help the reTakaful businesses grow on their own. However...if they are not rated, it would be very difficult to give them all the business or some categories in the business.”**  
– Interview, Senior Management, Takaful Operator (March, 2008)

**“The way it works now for the Takaful industry, it is very similar to conventional (insurance) because, with a lack of a complete cycle of reTakaful capacity and providers, all of us use conventional.”**  
– Interview, Senior Management, Takaful Operator (March, 2008)

Source: Takaful RE, Company Websites



As the industry develops and expands, issues relating to corporate governance and risk management are also surfacing...

#### Surplus Contributions

Under existing business models, Takaful operators are not obliged to reimburse participants when a surplus emerges in a general Takaful pool. Industry stakeholders are currently debating the issue of equitable distribution of surplus, together with need for participants' representation on the boards of Takaful operators, possibly through the appointment of independent directors.

#### Standardisation

The global Takaful industry currently includes a number of different operational models, accounting standards and regulatory regimes. Bahrain, Malaysia and Pakistan are currently the only markets to have issued specific Takaful laws or regulations, but there remains no global standards on regulation and best practice, the development of which would do much to facilitate cross-border growth. Standardisation would also assist in developing the perceived trustworthiness of the Takaful industry and prevent unfavourable press coverage. The embryonic state of many regulatory regimes also makes Takaful operators susceptible to unfavourable regulatory decisions and the possibility of increased regulatory compliance costs.

#### Solvency II

As with Islamic banking and Basle II, the Takaful industry will soon have to begin considering the implications of Solvency II. The implementation of applicable risk management frameworks and training of staff will represent significant costs that will have to be considered.

#### Catastrophic Events

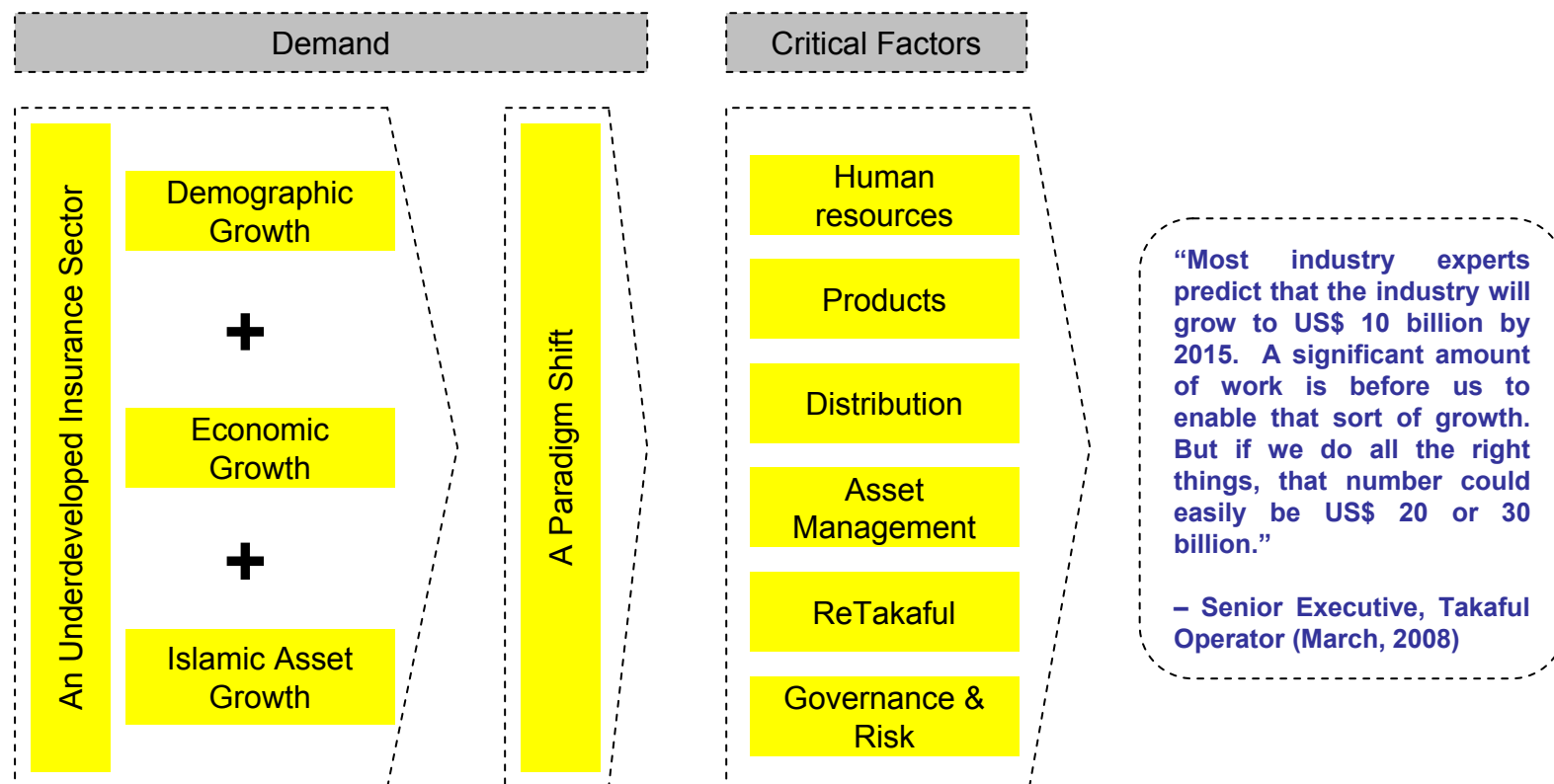
The effect of Cyclone Gonu in the summer of 2007 highlighted the possibility of catastrophic events in a region that is considered a non-catastrophe market. Takaful and reTakaful operators should remain conscious of the possibility of catastrophe, including that which relates to terrorism and the difficulties with defining such loss events.

# Conclusions...

---



Current growth trends and industry watchers point towards a US\$ 10 to 15 billion industry (in per annum contributions) within ten years, but not without addressing critical factors ...



# The Ernst & Young Team

<b>Bahrain</b>	<b>Manama:</b>	Sameer Abdi Mark Stanley	+973 1753 5455 +973 1753 5455	sameer.abdi@bh.ey.com mark.stanley@bh.ey.com
<b>UAE</b>	<b>Dubai:</b> <b>Abu Dhabi:</b>	Najeeb Rana Richard Mitchell	+971 4332 4000 +971 2627 7522	najeeb.rana@ae.ey.com richard.mitchell@ae.ey.com
<b>Saudi Arabia</b>	<b>Riyadh:</b>	Ahmed Taher	+966 1273 4740	ahmed.taher@sa.ey.com
<b>Qatar</b>	<b>Doha:</b>	Robert Abboud	+974 4414 599	robert.abboud@qa.ey.com
<b>Kuwait</b>	<b>Kuwait:</b>	Camille Haddad	+965 2452 880	camille.haddad@ku.ey.com
<b>UK</b>	<b>London:</b>	Ken Eglinton Omar Shaikh	+44 207 951 2000 +44 207 951 1076	keglinton@uk.ey.com oshaikh@uk.ey.com
<b>USA</b>	<b>New York:</b>	Sabah Khan	+1 212 773 8329	sabah.khan@ey.com
<b>Malaysia</b>	<b>Kuala Lumpur:</b>	Abdul Rauf Rashid	+60 3 7495 8000	abdul-rauf.rashid@my.ey.com
<b>Luxembourg</b>	<b>Luxembourg:</b>	Bernard Lhoest	+352 42 124 8341	bernard.lhoest@lu.ey.com



## Disclaimer

The contents of the World Takaful Report 2008 ("this report") are based on qualitative comments and hence provide a subjective assessment of the current market. All quantitative comments are based on published information wherever possible. Where published reliable data was not available, qualitative comments were made which may or may not reflect the true state of affairs. Information has been assimilated from secondary sources, including published country, industry and institutional information and primary sources, in the form of interviews with industry executives.

Our approach and procedures, applied for the collection and collation of market related information, do not constitute either an audit or a review carried out in accordance with International Standards on Auditing. We are not expressing any assurance on the accuracy or completeness of the information obtained.

Although this report has been documented based on our understanding of Islamic financing activities to include only such activities that are deemed Shari'a compliant, no Shari'a opinion whatsoever has been taken on this report. Hence, the contents of this report, in terms of the activities to be carried out, might not necessarily be consistent with Shari'a in all cases, and the opinion of a Shari'a scholar(s) should be taken before any further steps are made to implement suggestions made in the report.

Whilst every care has been taken in the preparation of this report, no responsibility is taken by Ernst & Young as to the accuracy or completeness of the data used or consequent conclusions based on that data, due to the respective uncertainties associated with any assumptions that have been made.



Thought Leadership Sponsor



MEGA Brands. MEGA Clients. Market Leaders

