

# What Are We Trying To Brand?

by Ajmal Bhatty



12<sup>th</sup> July 2011

*Bridging the Gap Between Takaful and Insurance*

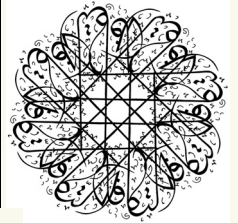
International Takaful Summit 2011, London

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**Afkar Consulting and Istishar iQ**



# Key Points



**The current predicament – the Brand we have**

**The Brand we started off with, and should have**

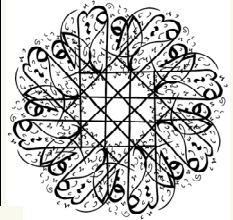
**We Sell, we Advertise, but do we do enough Marketing?**

**We operate within the Halo of Cooperative Principles**

**Rethink about Cooperation & Mutuality...**

# The Web says ...

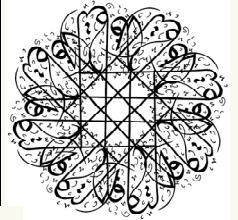
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- ② Takaful is an Islamic insurance concept which is grounded in Islamic muamalat (banking transactions), observing the rules and regulations of Islamic law. This concept has been practiced in various forms for over 1400 years. ... [en.wikipedia.org/wiki/Takaful](http://en.wikipedia.org/wiki/Takaful)
- ② Takaful is an alternative form of cover that a Muslim can avail himself against the risk of loss due to misfortunes. The concept of takaful is not a new concept; in fact, it had been practiced by the Muhajrin of Mecca and the Ansar of Medina following the hijra of the Prophet over 1,400 years ago. ... [www.moneyscience.com](http://www.moneyscience.com)


# The Customer continues to say ...

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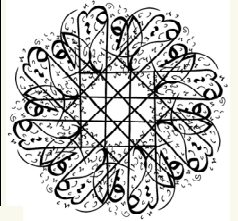
-  What is Takaful ?
-  How much do I have to pay?
-  Where is the surplus?
-  The bank deposit rates, mortgage rates, takaful rates are the same for Islamic products and conventional products. Conclusion: This is just a label ....

## A GCC Takaful Executive says ...

-  Takaful should focus on Islamic customers, that's where it can differentiate. *Source: E&Y World Takaful Report 2011*

# Insurance is easily defined ...

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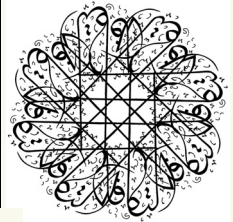


- ② “Insurance is a promise of reimbursement in the case of loss; paid to people or companies so concerned about hazards that they have made prepayments to an insurance company.”

*Web definition of insurance*

# Takaful can be easily defined.

*We should find simpler ways to define it...*



“Takaful is a cooperative system of reimbursement in case of loss, paid to people and companies concerned about hazards, compensated out of a fund to which they agree to donate small regular contributions, managed on their behalf by a takaful company.

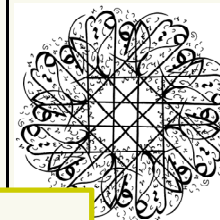
The company invests all its funds in assets and businesses under defined principles that are good for society and environment at large and whenever the fund is in surplus, a part of the surplus is set aside to be shared with its customers within certain rules and conditions.”

*Source: Author*

## ***Insurance definition:***

*“Insurance is a promise of reimbursement in the case of loss; paid to people or companies so concerned about hazards that they have made prepayments to an insurance company.”*

# The current predicament of Takaful Industry



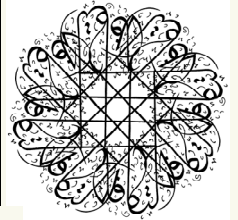
1. Takaful remains for Muslims only, and Muslim countries largely have conventional insurance companies
2. Takaful companies give more focus on Selling than Marketing
3. Customer has little understanding of what takaful means
4. Too much emphasis on concepts, little effort to ensure practicality
5. Shortcuts in the name of Zharurah
6. Insufficient support at government / regulator level

## **This leads to issues, problems, weaknesses like .....**

- Cut and Paste of conventional to takaful
- Lack of innovation
- Takaful remains a niche within conventional system
- Risk Based Capital is an issue
- ERM is an issue
- MI / KPIs are an issue
- Young industry – runs on high expense ratios - wastage of capital
- Low retention (investment driven rather than u/w results driven)

## The Brand we have ...

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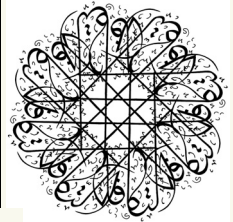


- We build expectations without emphasizing on the caveats. This gives semblance of false promises.
- Customers are approached with a proposition of insurance that is distinct and unique.
- Claims are met, Service is provided. But Takaful Brand is much more than that .....  
..... without adherence to Takaful Brand Value, a takaful company and a takaful product would look like, feel like and be like conventional insurance

**The Brand we have, is it more Takaful than Insurance?**

## **Takaful is good for all .. Protecting Community and Investing in It**

**Takaful  
Brand  
is**



Takaful encourages the use of money with commensurate risk and reward for a sustainable system good for all, irrespective of religion.

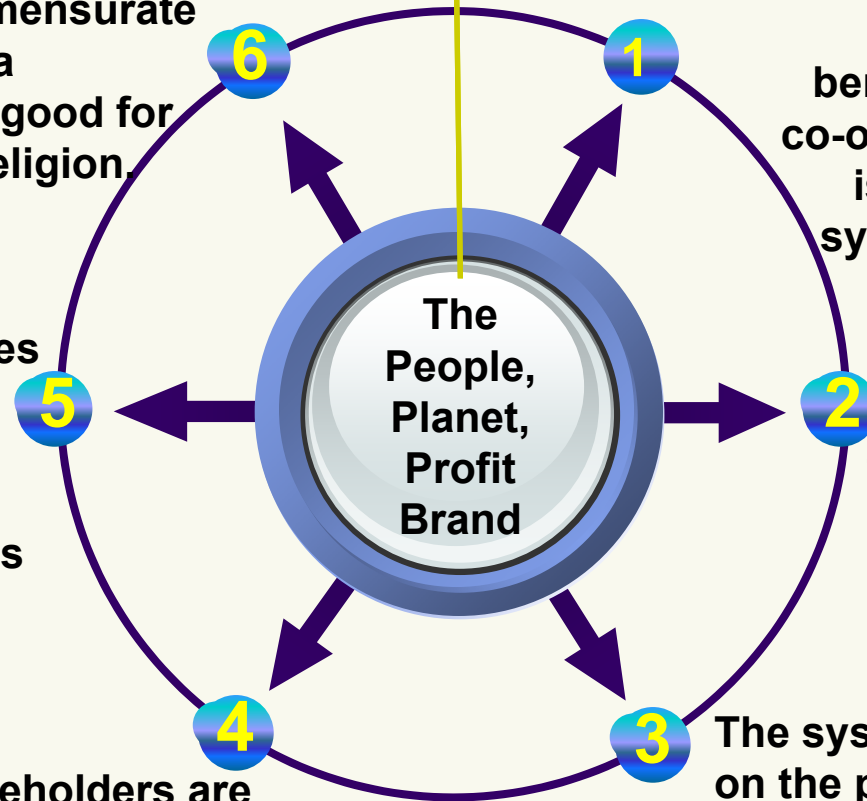
Takaful stakeholders are all part of a community benefiting from mutual and co-operative system. Takaful is in-between Proprietary system and Mutual system

Takaful system utilizes wealth to generate economic activity in socially responsible and eco-friendly ways

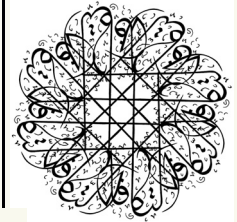
Takaful enables channeling wealth and capital with social conscience and responsibility

The rights of stakeholders are clearly defined and transparent, and the takaful company is not just a manager but an enabler to enlarge the co-operative system

The system of takaful is built on the principles of equity, justice and fair-play, minimizing uncertainty of terms and ensuring a system of Risk Sharing where one party cannot exploit another

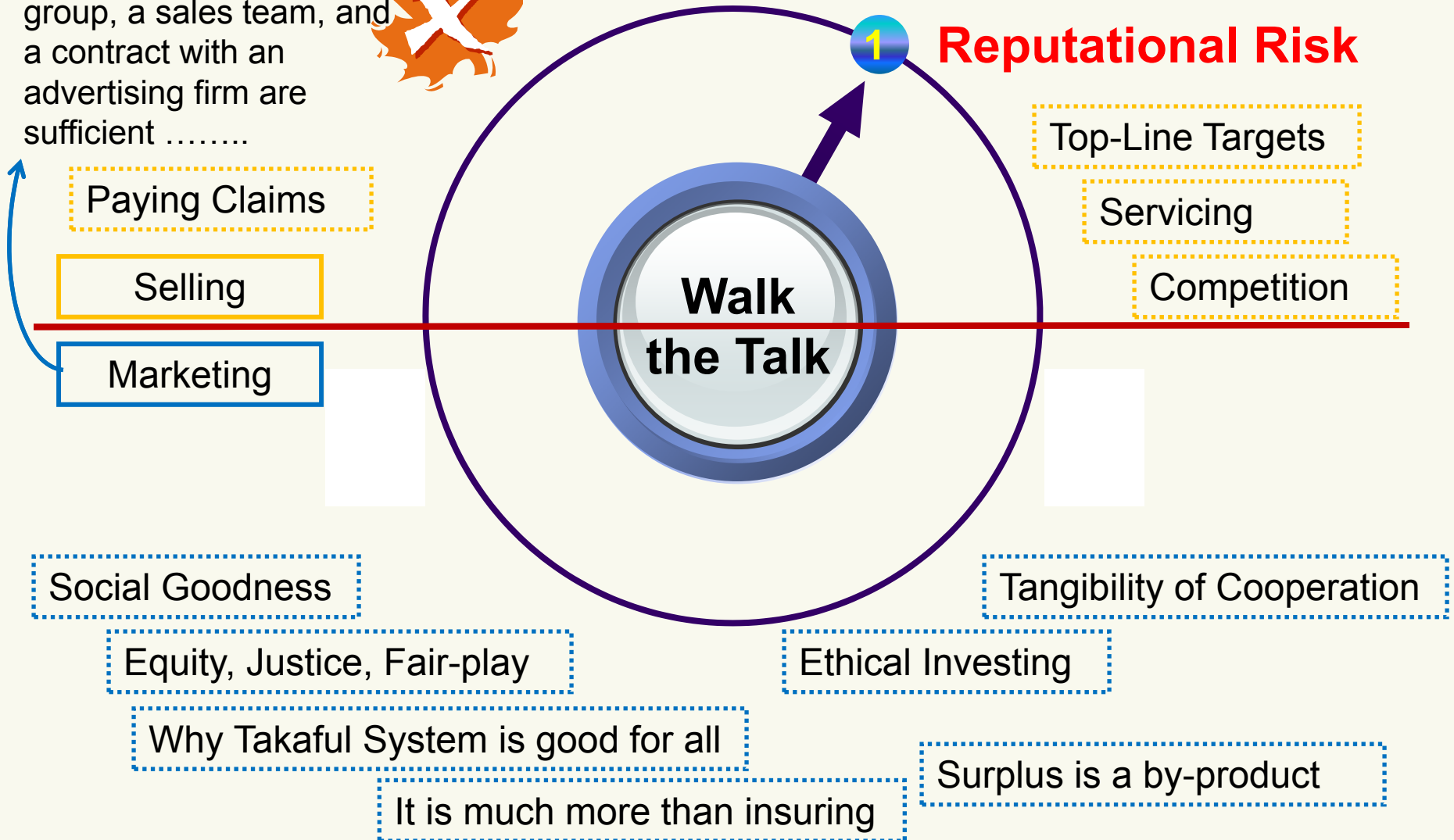


# Selling without marketing carries a reputational risk for the industry

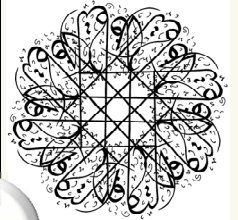


CEO, CMO, BOARD

A product-development group, a sales team, and a contract with an advertising firm are sufficient .....



# The Reputational Risks



1

**To what degree is the customer aware of the benefits of Takaful Brand Value?**

2

**What are mutual and co-operative principles, why takaful is a fairer system except for the explanation of surplus sharing?**

3

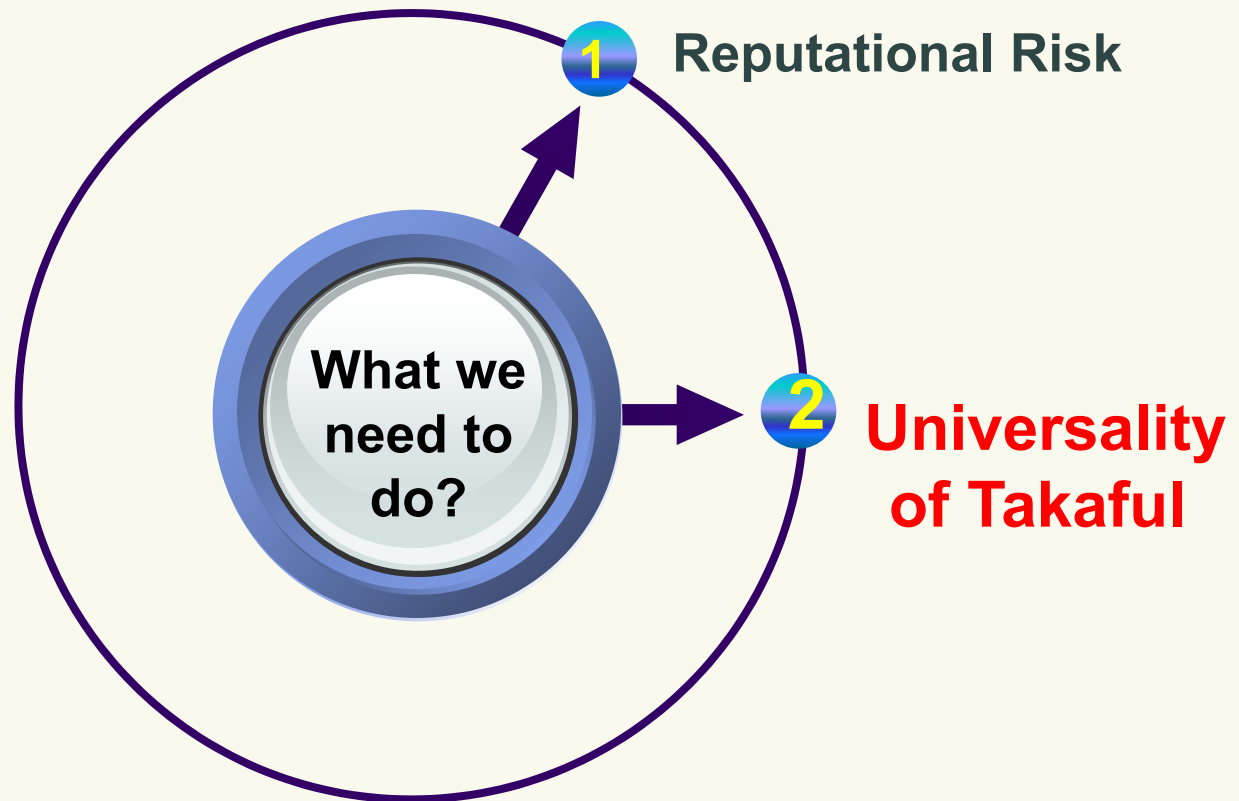
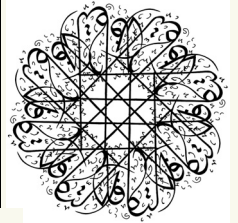
**Do we build expectations and then cut corners outside the principles of Zarurah... investing?... retakaful...? surplus...?**

4

**The staff of takaful companies too have low awareness of the principles of Takaful and its Brand Value**

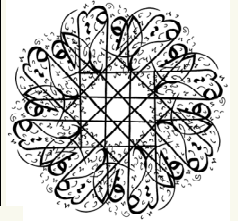
# Marketing / Awareness

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# Universality of Takaful: Is Takaful for Muslims only?

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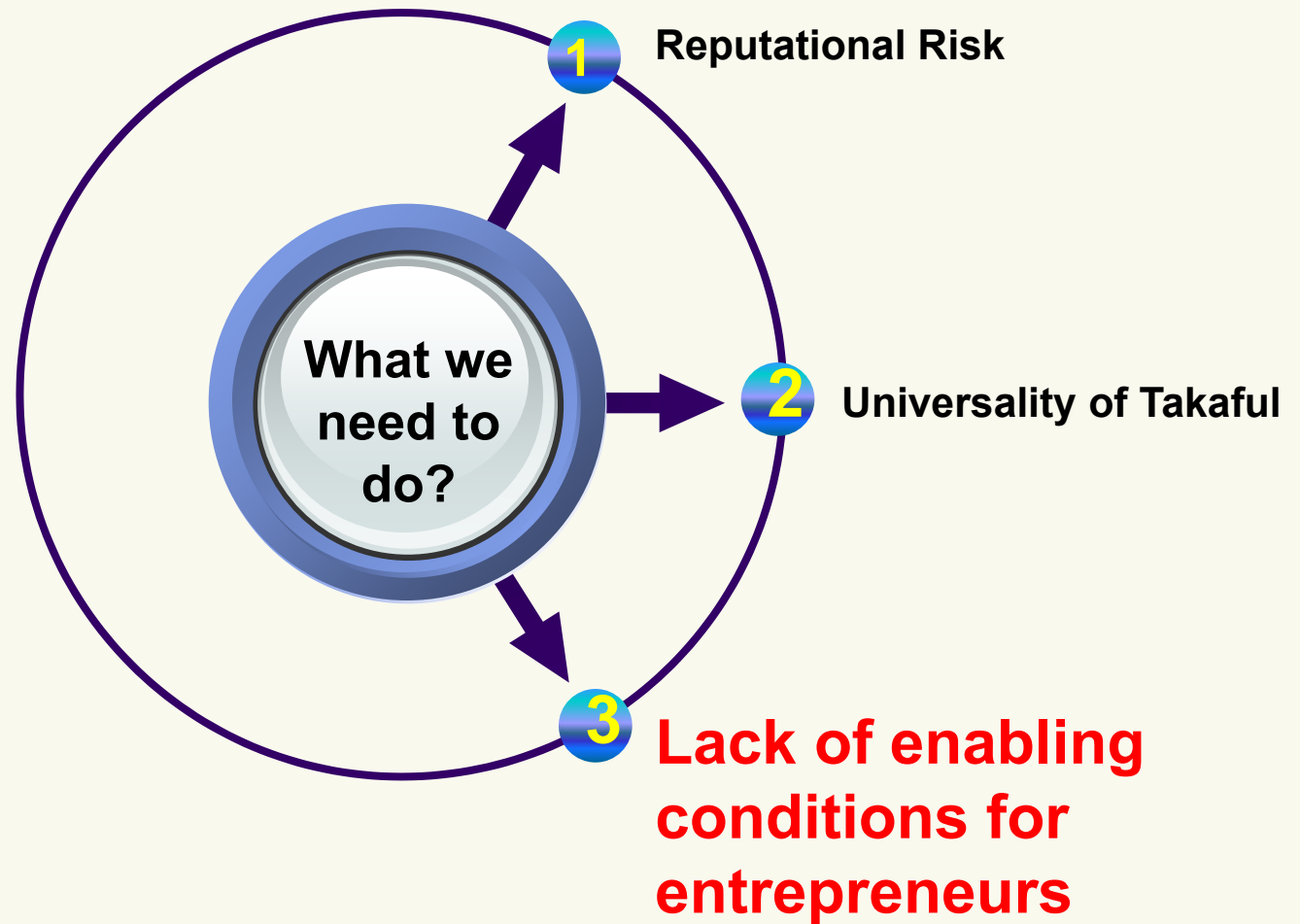
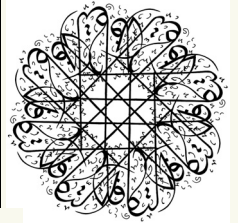


If certain principles are good for one, they are good for all . . .

- To what extent does the takaful material and publications talk about the universality of takaful? This aspect is of paramount concern
- We need a concerted effort to promote real values of takaful and why it is good for everyone

# The Investing Community

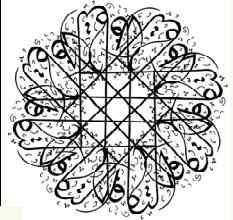
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# Takaful must make business sense.....

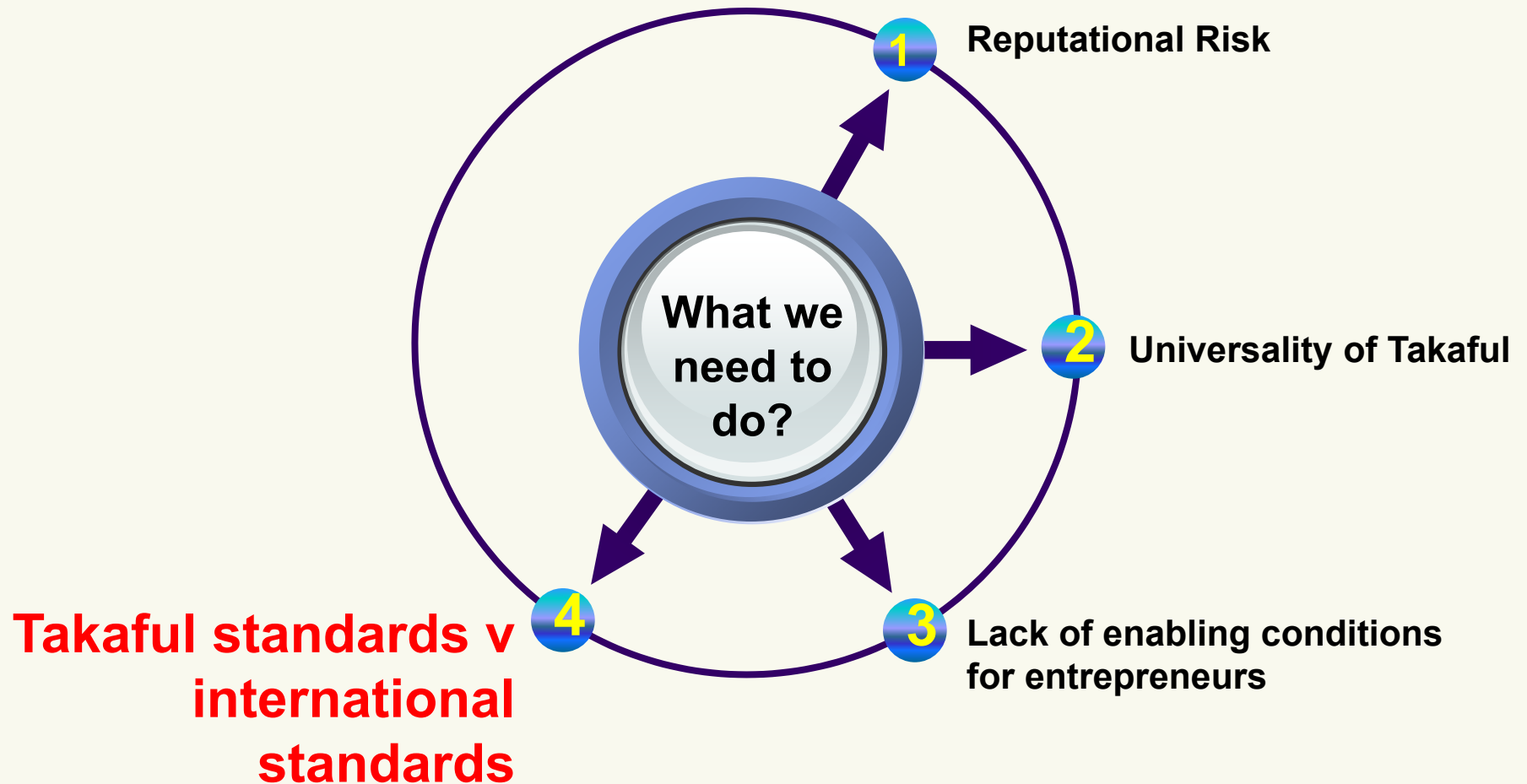
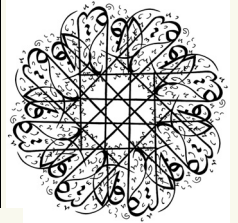
## How else can we have publicly quoted companies?

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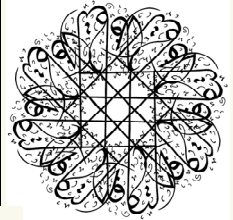
- To an entrepreneur starting a takaful venture, it must make business sense ....but with social conscience .....
- There are impediments for a takaful shareholder in getting a decent return?
  - Wakala model: Open to abuse and exploitation as wakala fees can be increased to generate higher returns for the shareholders.
  - Mudaraba model: It forces shareholder to bear heavy expense burden until surplus arises after a time lag.
  - Sticky issues: **Sharing in surplus** of participants' fund and benevolent loan or **Qard**.
  - The Qard exposes the shareholder to financial risks and puts a dent in the return on his capital.
  - For the Wakeel, Qard does not have a legal backing under the statutory regulations of a country and yet it is needed but is non obligatory under Shariah

# Global Standards?



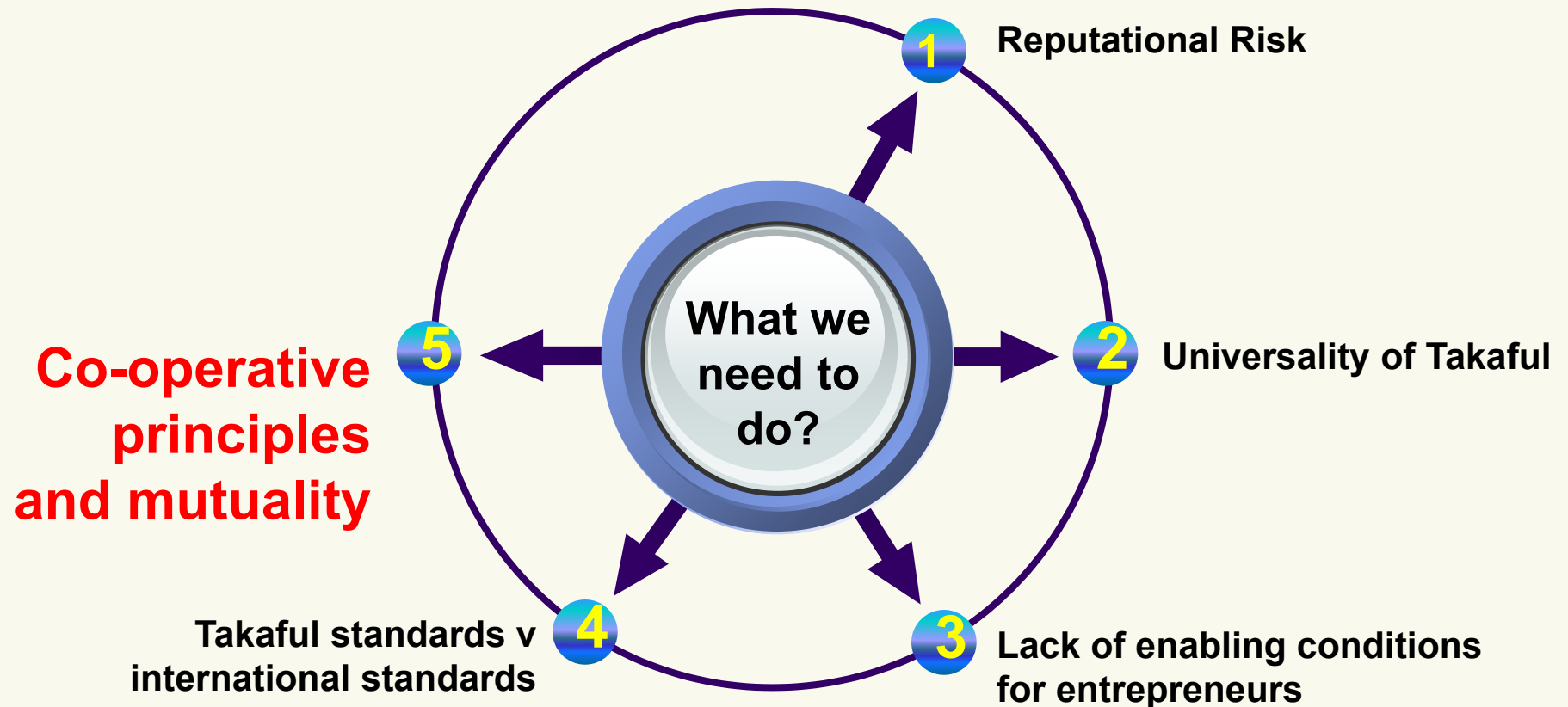
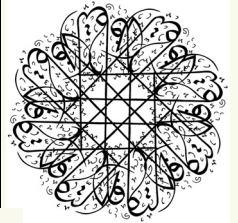
# To compete, takaful standards need to be at par with international standards

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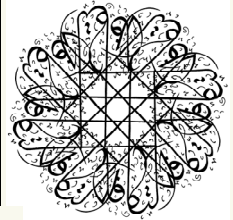


- This is essential for takaful companies to compete domestically and internationally
- AAOIFI and IFSB are working hard to achieve standardizations
- There are big gaps between new standards of IASB / IFRS and takaful accounting.
  - There is the basic difference between Risk Transfer and Risk Sharing. How does one reconcile this fundamental difference, especially on retakaful side?
  - .. requirements for separate accounting for participants and shareholders,
    - .. the impact of surplus distribution on long term reserving
    - .. calls on shareholders equity through deficit funding / and for Risk Based Capital. Qard is obligatory in conventional but discretionary under takaful.

# The Halo of Cooperative Principles



# Who bears the risk of the business?

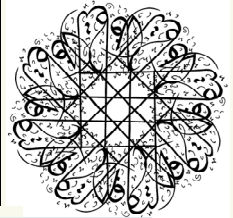


- The co-operative structure is the main pillar of takaful.
- The shareholders bring in the enabling capital
- Should the co-operative spirit not be broader than just applying to the participants?
- Takaful is made possible only because the shareholders' capital enables the mutual risk sharing to take place.
- The shareholders expose their capital to the very risks the participants are mutually protecting against except the risk is of different nature. Their capital is undeniably and inescapably exposed to the financial risks emanating from the outcome of insured events that may or may not occur.

No  
Shareholders  
No  
Takaful

# “Stakeholder” Cooperation

## MUTUAL HELP & COOPERATIVE HELP



*Extend the principles of cooperation to embrace the larger community where*

***MUTUAL HELP** is By The Participants For The Participants and **CO-OPERATIVE HELP** is By The Shareholders For The Participants*

It aligns participants and shareholders together without upsetting the core values of takaful

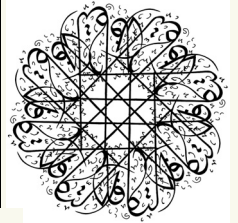
The shareholder is obliged to be the lender of last resort in helping the takaful participants.

The wakala fees are geared towards only the expenses for running the business.

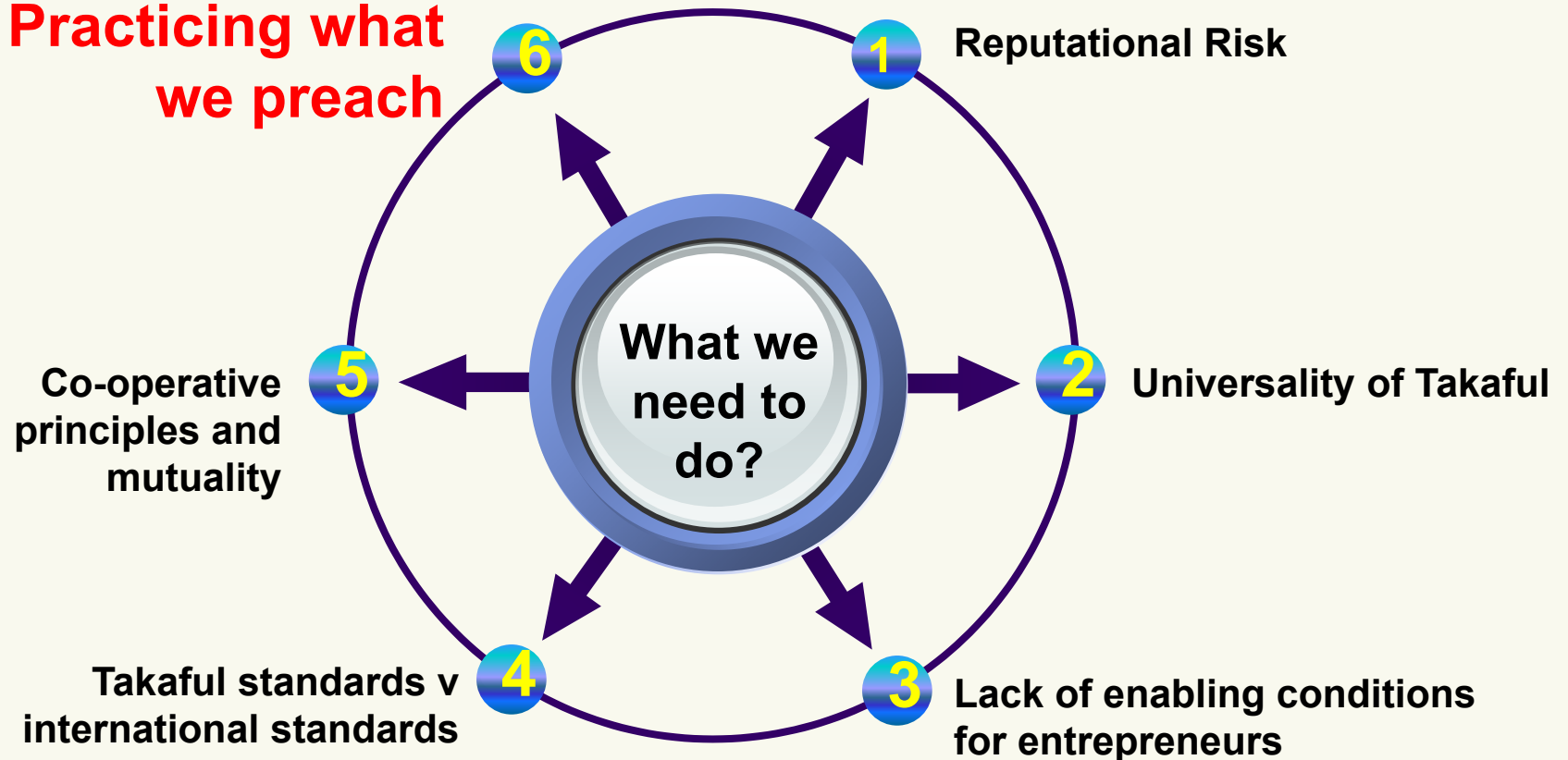
It enables the wakeel to compete better in the market due to the facility of risk based capital.

It makes the risk and reward equation possible for the shareholders to have the incentive of returns on their capital through share of surplus

# Do We Walk The Talk?

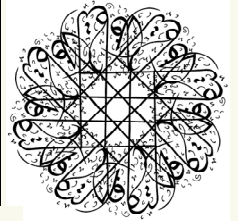


**Practicing what  
we preach**



# How do we enable the industry to practice what we preach?

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- This is the biggest gap ...
- **This is what we preach:** Takaful built on the spirit of mutual help and co-operation between a community of people who bring their money together to help each other.
- How do we make sure that the holder of a takaful certificate gets this real sense of community belonging, of the mutuality aspects?

*.... here is one solution to remove it.*

# The spirit and the essence of takaful .....

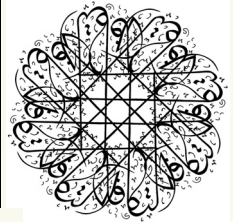


- **A practical solution:** An annual gathering of the community of participants, employees, shareholders to build and strengthen the co-operative bond.
- To impart better understanding of what it means to donate through tabarru concept, get to know directly from Shariah scholars what it means to be Shariah compliant, from the management of how the company ensures all contracts, operations, transactions are devoid of interest, speculation and uncertainty (*Riba, Gharar, Maysir*), how retakaful works with minimum of conventional reinsurance on the basis of Zarurah.



This will work where takaful value chain is strong. It should increase the awareness of takaful hugely and give takaful customers a tangible feel of what it means to be a takaful customer compared to being an insurance customer.

# Thinking Outside The Box



Achieves greater understanding of takaful principles and concepts resulting in better top line penetration

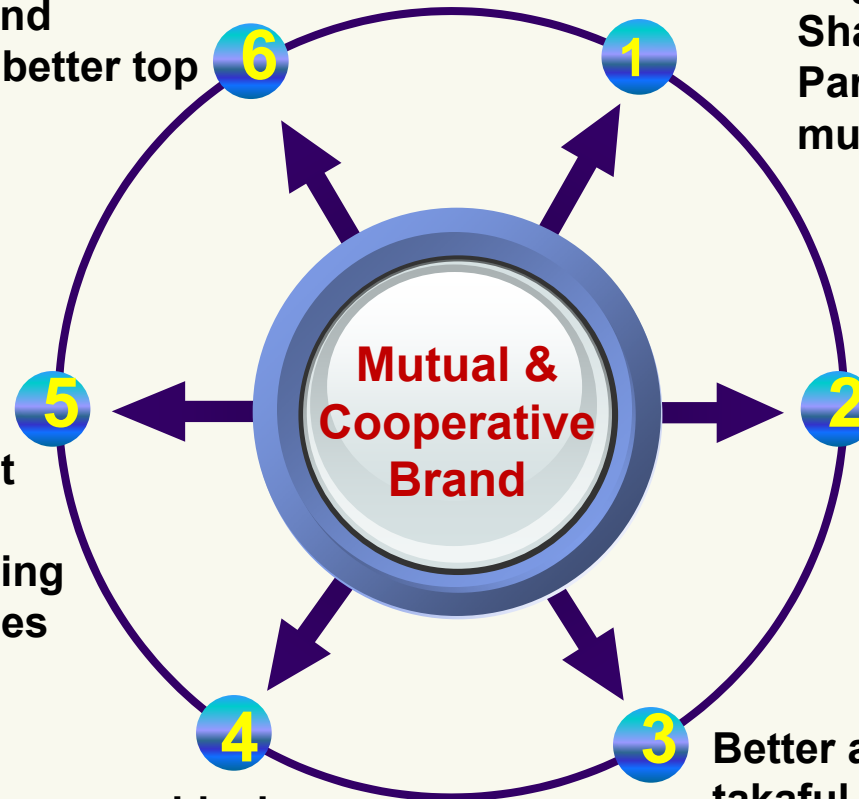
Aligns the interests of Shareholders and Participants towards mutuality

Companies can concentrate more on developing Shariah compliant investment solutions rather than bogged down in dealing with operational issues

Enables the universality of Takaful

Takaful businesses can grow, achieving durability due to easier availability of Risk Based Capital for retaining more risk, for writing bigger risks and for achieving better solvency

Better accommodation of takaful within regulations that are currently inhibiting and facilitates takaful's entry into all parts of the world



*Is this what “you” are trying to Brand?*

**Thank You**

**Q&As**



**12<sup>th</sup> July 2011**

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