

SUMMARY OF THE GLOBAL FAMILY TAKAFUL REPORT 2011

Barely scratching the surface – Unfolding the family Takaful potential

The First Global Family Takaful Report

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Introduction

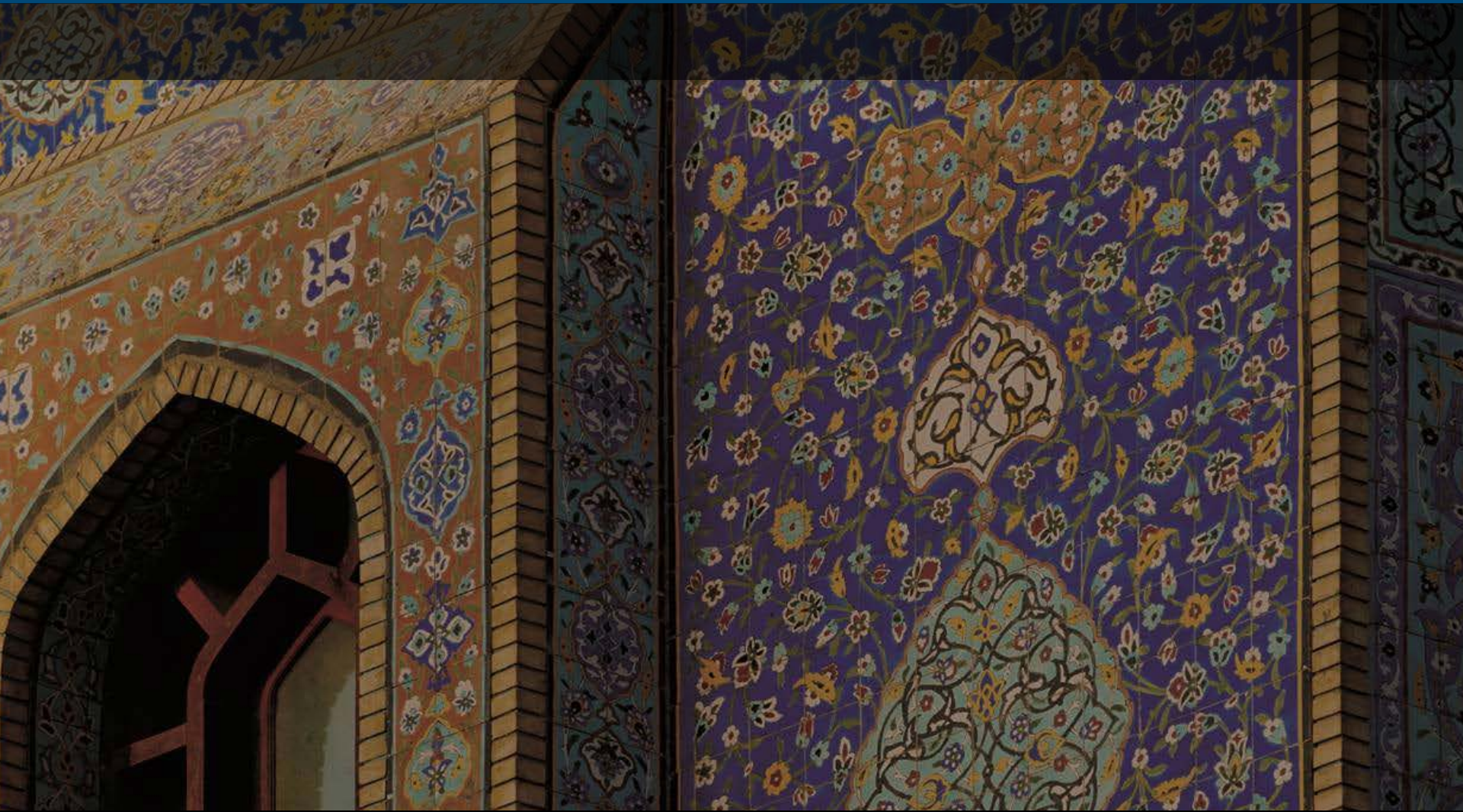
- **Milliman is proud to present the first 'Global Family Takaful Report 2011'. Contents of the report include:**
 - Industry growth in key regions
 - Overview of the Takaful regulatory landscape
 - Family Takaful business models and product proposition
 - Milliman Family Takaful Survey 2010
 - Special feature: UK mutuals and Takaful
 - Special feature: Focus on Malaysia
 - Issues and challenges facing family Takaful
- **This session provides a brief overview of the report.**

**The full report can be ordered online at
www.milliman.com/takaful2011**

Introduction

- ❑ Family Takaful accounted for 20% of the global Takaful gross written premiums in 2009.
- ❑ Long term & sustainable proposition with strong bottom-line expectations
 - Higher profit margins
 - Potentials for surplus sharing
 - Spiritual dimensions of Takaful
- ❑ The spirit of 'risk sharing' versus 'risk taking'
- ❑ Industry report approaches 'combined' versus 'specific'
- ❑ The report will cover most dimensions of family Takaful and Retakaful including industry growth, financial highlights, regulatory updates, and pertinent contemporary issues facing the world of family Takaful.
- ❑ Focus on Malaysia and UK Mutual Insurers

Industry growth in key regions



Life insurance statistics - 2009

Life Insurance in Muslim countries is grossly under developed

Rank by Premium	Country	Life Premium (millions USD)	Life Density (USD Per Capita)	Life Penetration (% of GDP)
33	Malaysia	5,682	206.9	2.9
34	Indonesia	5,066	22.0	0.9
44	Turkey	1,148	15.3	0.2
48	Morocco	825	25.8	0.9
49	United Arab Emirates	732	159.2	0.4
50	Egypt	704	8.5	0.4
54	Bangladesh	636	3.9	0.7
55	Pakistan	543	3.0	0.3
64	Saudi Arabia	267	10.4	0.1
67	Lebanon	232	55.0	0.8
69	Iran	225	3.0	0.1
73	Nigeria	147	0.9	0.1
75	Bahrain	137	173.6	0.6
79	Oman	102	35.9	0.2
80	Tunisia	100	9.7	0.3
82	Kuwait	88	29.6	0.1
83	Algeria	63	1.8	0.0
84	Kazakhstan	63	4.0	0.1
86	Jordan	49	7.8	0.2
1	United States	492,345	1,602.6	3.5
2	Japan	399,100	3,138.7	7.8
3	United Kingdom	217,681	3,527.6	10.0
4	France	194,077	2,979.8	7.2
5	Italy	115,290	1,878.3	5.3
World		2,331,566	341.2	4.0

Source: Swiss Re Sigma No 2/2010

0.72%

Life insurance premiums of
Muslim countries as %
of world premiums

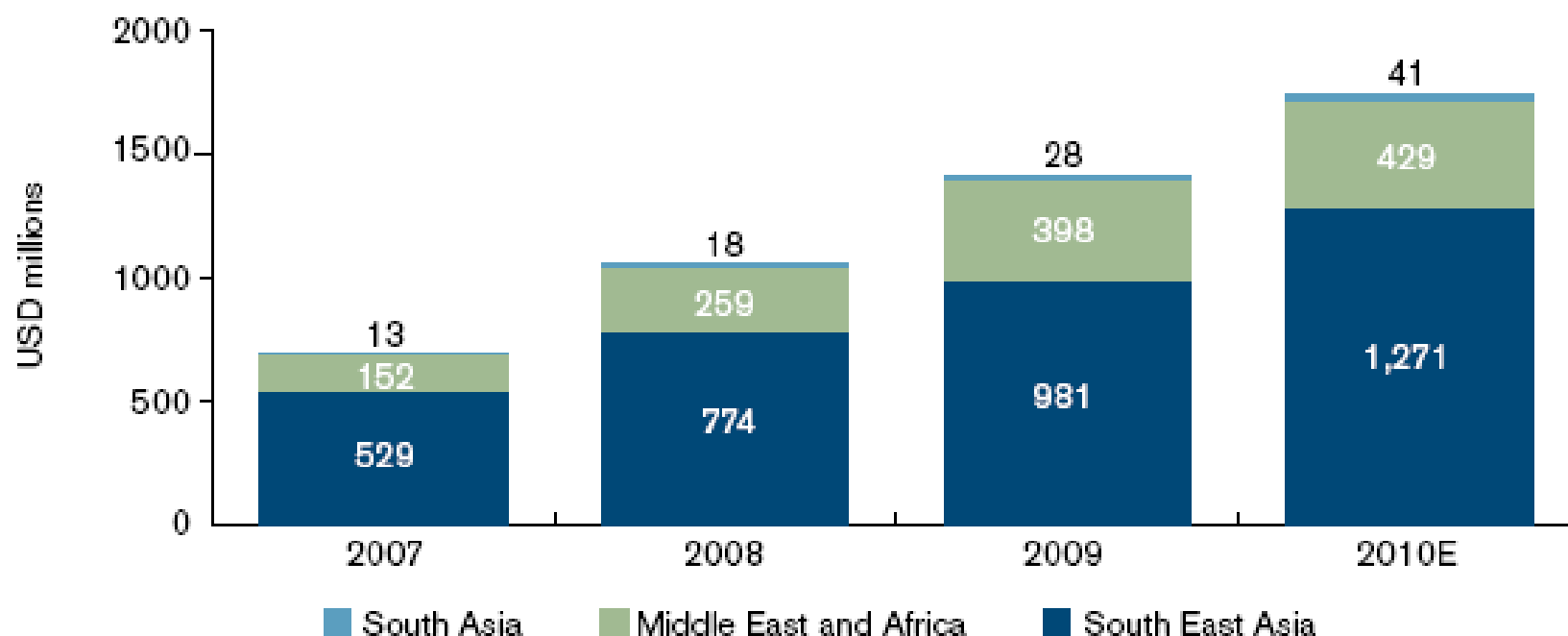
8x

Size differential based on Life
Insurance density between
highest ranked Muslim country
(Malaysia) and global leader
(USA)

Historic and projected growth in key regions

- No single source containing quantification of family Takaful contributions .
- Milliman has estimated the family Takaful numbers from company financials, industry reports and internal estimates.
- The global gross contribution industry estimates were aggregated from:
 - Southeast Asia (primarily Malaysia, Indonesia and Brunei)
 - Middle East and Africa (primarily GCC countries and Sudan)
 - South Asia (primarily Bangladesh, Pakistan and Sri Lanka)
- We have considered the market share, historic growth and projected growth by key countries and regions (listed above).

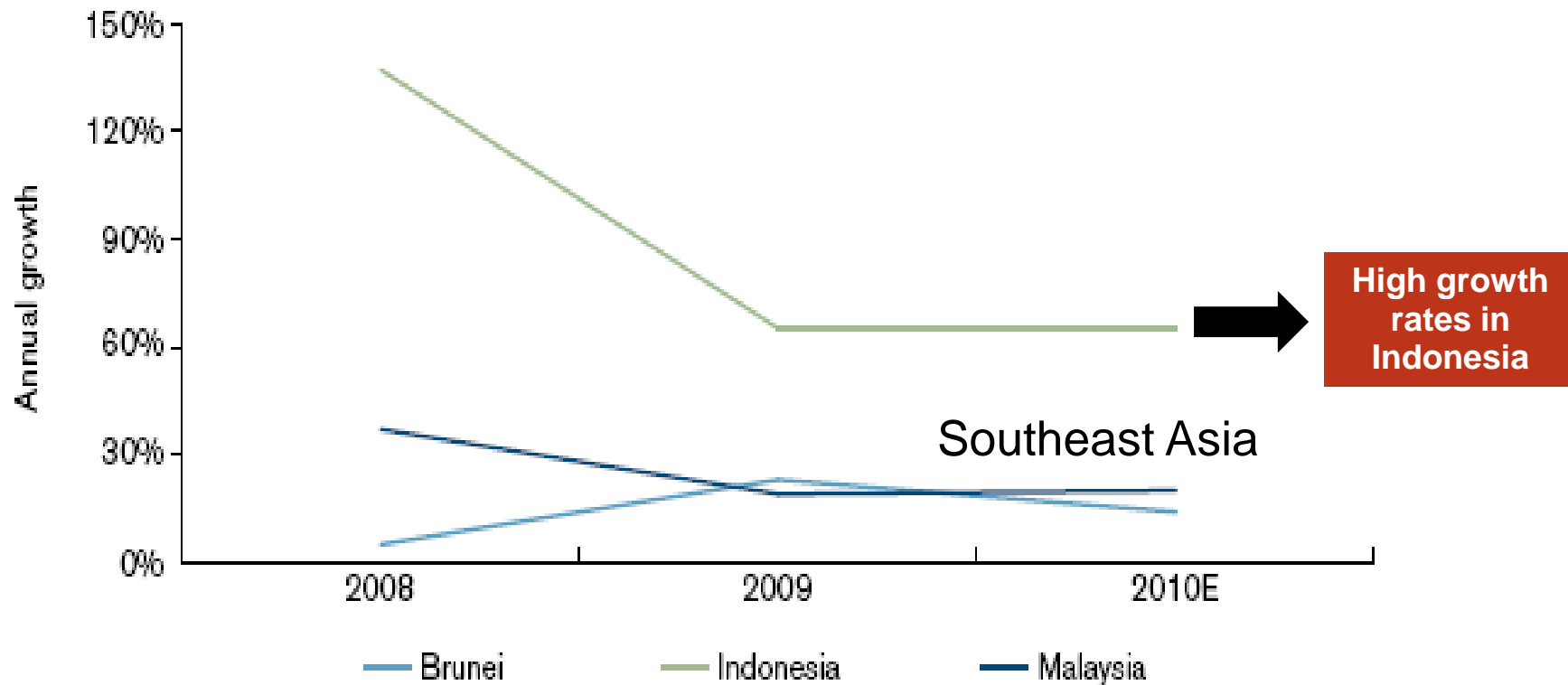
Global family Takaful gross contributions



Source: Company financials, industry reports, Milliman estimates

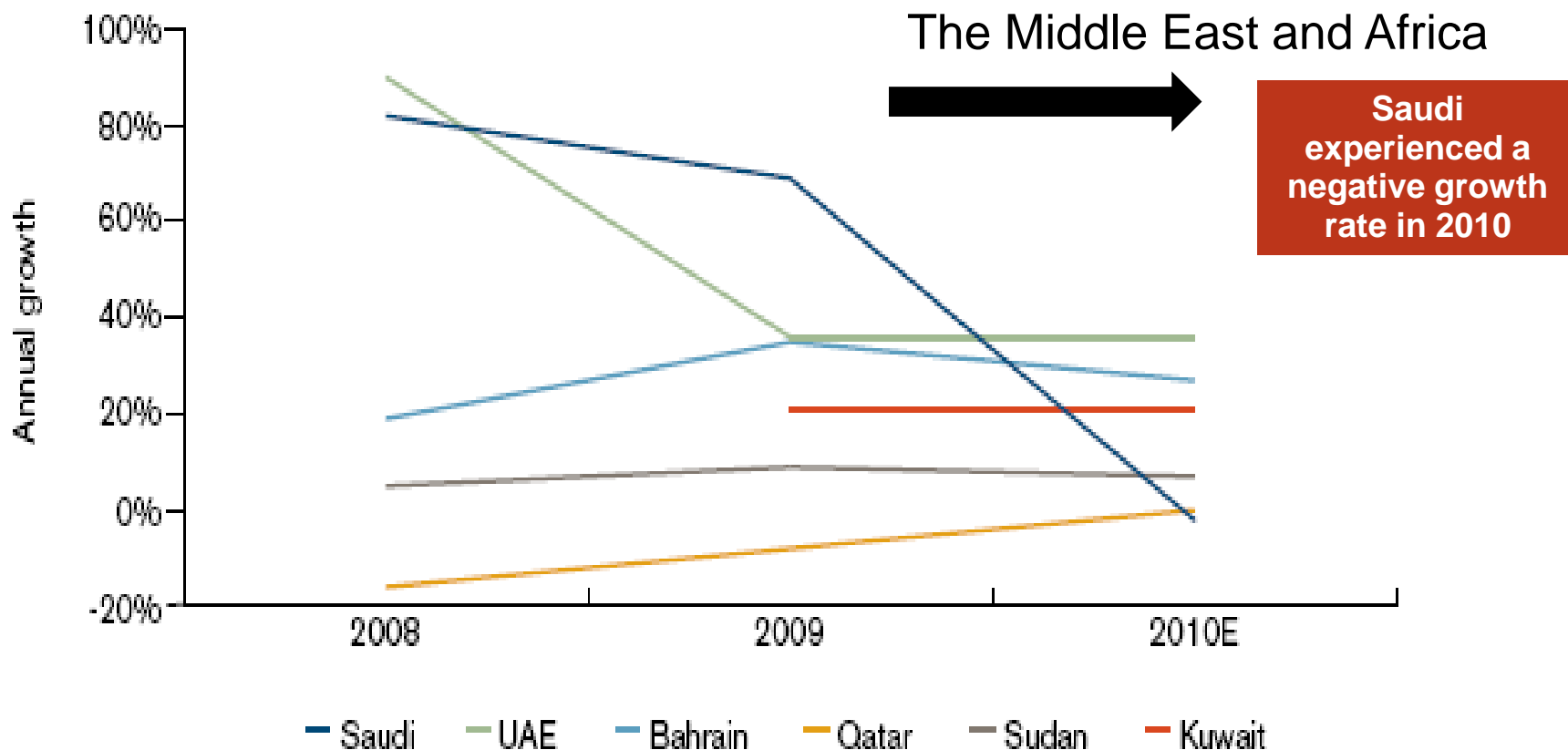
- The global family Takaful gross contributions in 2010 are estimated to be US\$ 1.7 billion (24% higher than 2009).
- The global family Takaful gross contributions increased at a compound annual growth rate (CAGR) of 36 % (2007-2010).

Annual growth in Southeast Asia region



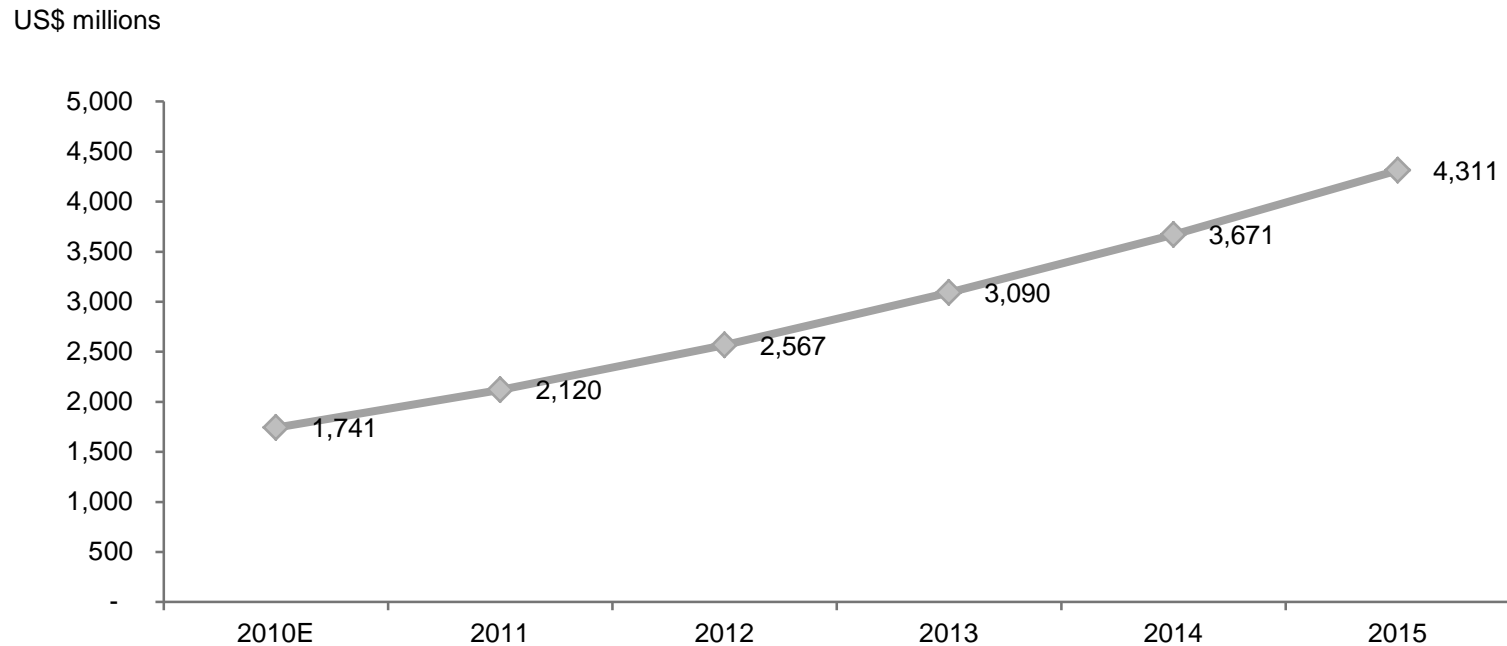
Source: Company financials, industry reports, Milliman estimates

Annual growth in the Middle East



Source: Company financials, industry reports, Milliman estimates

Projected global gross contribution

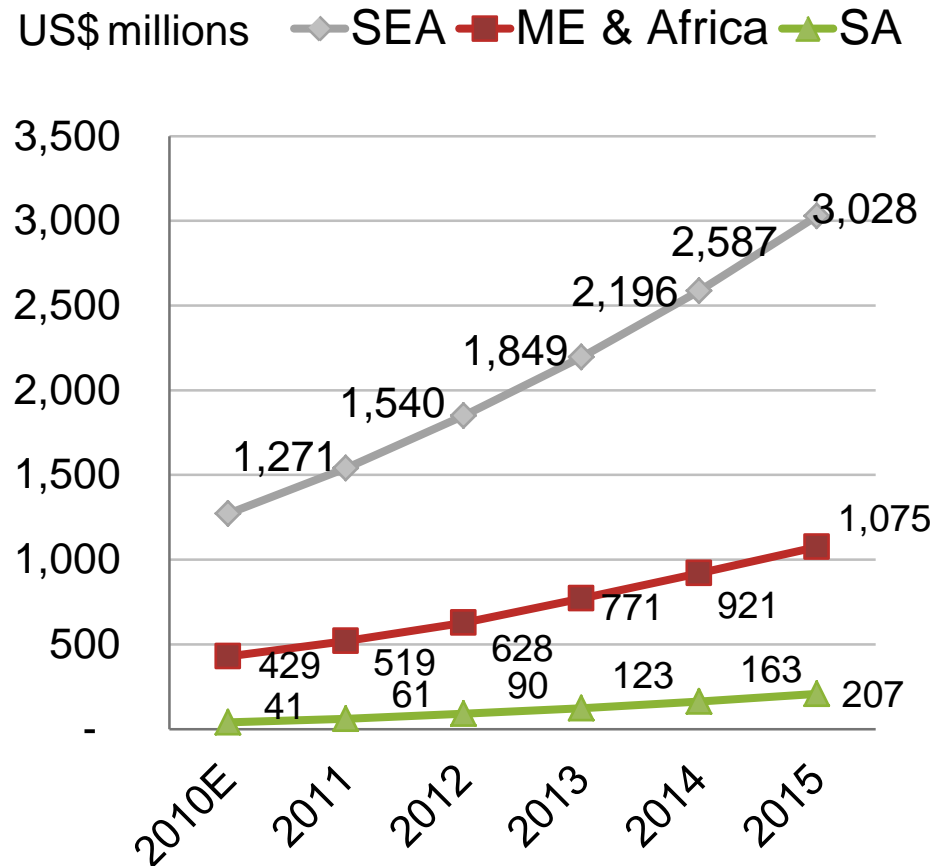


Source: Milliman estimates based on a range of macro economic indicators and historical growth rates

The gross contribution is projected to increase to US\$4.3 billion by 2015.

Projected global gross contributions by region

- The gross contributions are projected to increase to US\$4.3 billion by 2015.
- Southeast Asia is projected to continue as the market leader.
- Indonesia is growing at a faster pace than Malaysia and is expected to have a similar market share to Malaysia within Southeast Asia by 2015.
- Due to the uncertainty and volatility in the Saudi Arabia market, future growth rate in that market were projected conservatively.
- If Takaful manages to breakthrough in India, the growth in South Asia could accelerate rapidly and industry.



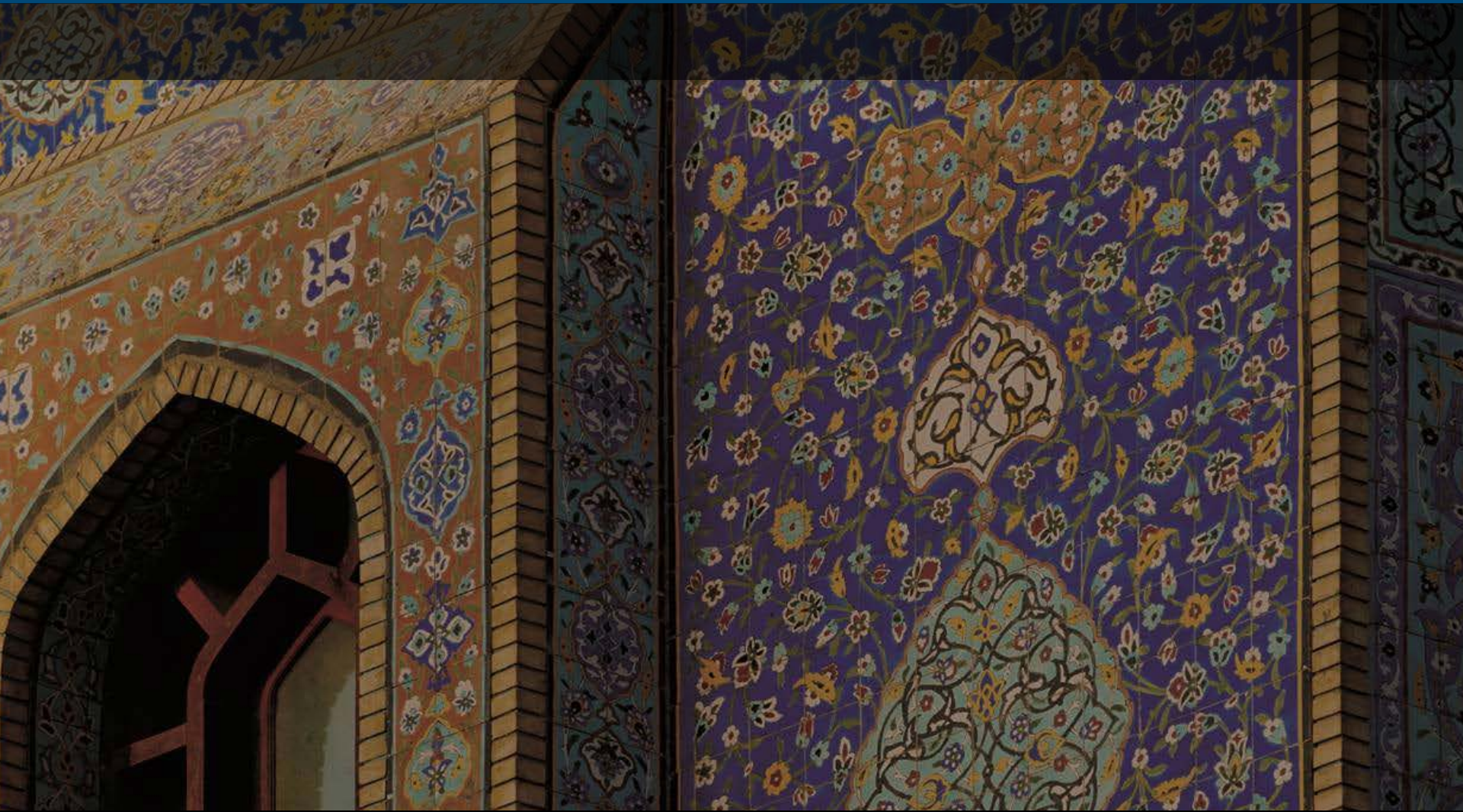
Source: Milliman estimates based on a range of macro economic indicators and historical growth rates

DETAILED REPORT

**Further details are provided in
the full report**

www.milliman.com/takaful2011

Overview of the Takaful regulatory landscape

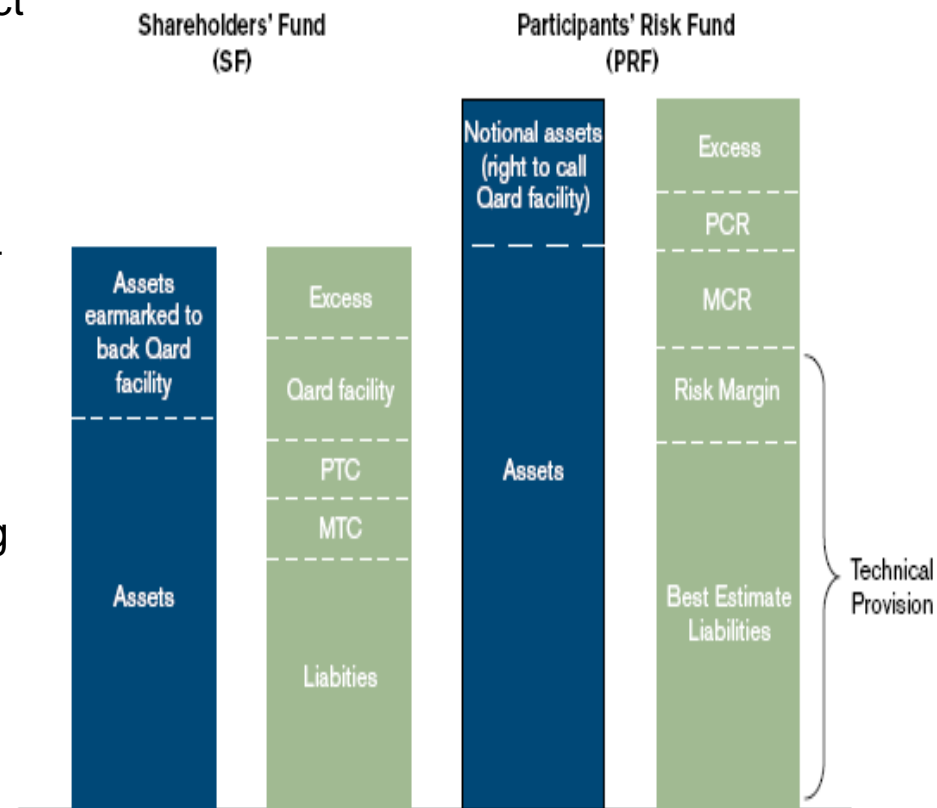


Overview of Takaful regulatory landscape

- **Malaysia:** Arguably has the most robust Takaful regulatory framework (e.g. TOF, RBC).
- **Bahrain:** One of the first to recognise the distinct characteristics of Takaful for regulatory purposes.
- **Pakistan, Qatar, and the UAE:** Issued new Takaful regulatory frameworks in recent years – strives to be consistent with AAOIFI standards.
- **Saudi Arabia:** Strengthened its regulatory framework on a cooperative model approach without explicit recognition of Takaful.
- **Indonesia:** Takaful framework could be moving towards the Malaysian approach though it currently tolerates a window approach which is likely to change in future.
- **UK:** Adopted a 'level playing field' approach in regulating conventional and Takaful firms.

OVERALL JOURNEY HAS JUST BEGUN

IFSB: Standard on Solvency Requirements for Takaful Undertakings'



Source: Standard on solvency requirements for Takaful undertakings, December 2010, IFSB.

Family Takaful business models

Popular models typically adopted

Country	Model				
	Variant Mudarabah *	Wakala (with or without incentive fee)**	Wakala Mudarabah (hybrid)***	Wakala With Waqf	Others
Bahrain		●	●		
Malaysia	●	●	●		
Pakistan			●	●	
Qatar			●		
Saudi Arabia****		●	●		●
South Africa			●	●	
UAE		●	●		

* There has been a gradual move away from it but legacy business remains on this model.

** Primarily used for protection products such as term life.

*** Primarily used for saving products such as investment-linked.

**** Uses the cooperative model

Further details on the various models and their practical application to family Takaful products can be found in the full report.

Family Takaful business models and product offerings

Key findings:

- The concept of Takaful is often not communicated fully / effectively to consumers.
- Takaful product features is typically not highlighted in marketing literatures (e.g. surplus distribution mechanism).
- Investment-linked products dominate globally, whereas pure protection is still uncommon in many emerging markets (e.g. the Middle East).

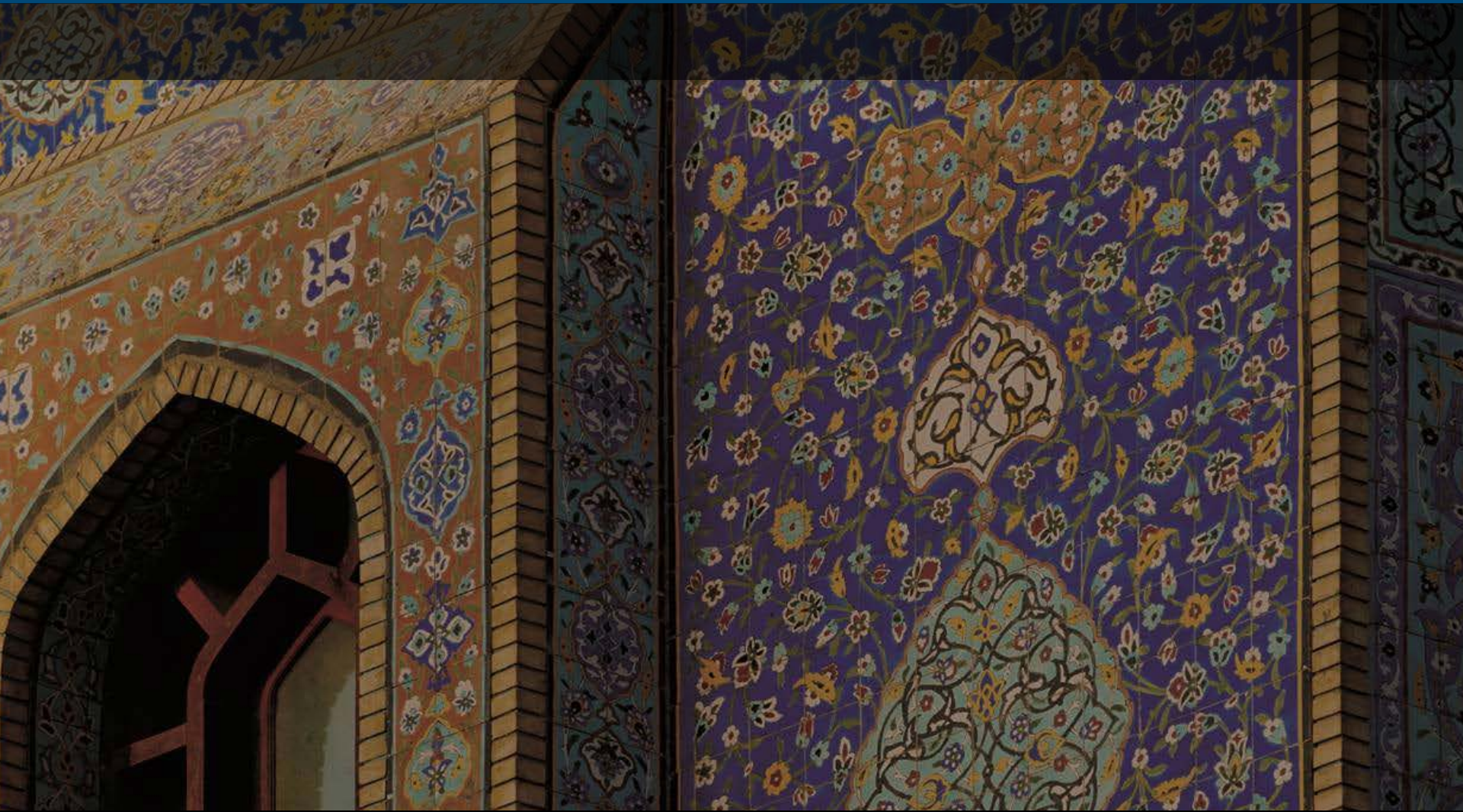
Product offerings in key countries

PROTECTION					SAVINGS					GROUP		
S.NO. COMPANY	TERM	KEYMAN	MORTGAGE	CRITICAL ILLNESS	GENERIC	EDUCATION	RETIREMENT	HAJJ / UMRAH	INVESTMENT	LIFE	ACCIDENT	CREDIT
1 SAUDI ARABIA - 1					X							
2 SAUDI ARABIA - 2	X				X		X			X		
3 SAUDI ARABIA - 3	X			X	X					X		
4 SAUDI ARABIA - 4	X	X	X			X						
5 SAUDI ARABIA - 5	X				X	X	X			X	X	
6 SAUDI ARABIA - 6	X					X	X				X	
7 SAUDI ARABIA - 7	X									X		
8 SAUDI ARABIA - 8	X	X	X		X	X	X			X		
9 SAUDI ARABIA - 9	X		X							X		X
10 UAE - 1								X		X		
11 UAE - 2	X				X	X	X			X		X
12 UAE - 3			X	X						X	X	
13 UAE - 4	X			X	X	X	X		X	X		
14 UAE - 5	X			X	X	X	X		X			
15 UAE - 6	X		X	X	X					X		
16 QATAR - 1	X		X		X		X					
17 BAHRAIN - 1	X		X		X							
18 BAHRAIN - 2	X		X		X	X	X		X	X	X	
19 MALAYSIA - 1	X		X		X	X	X			X	X	
20 MALAYSIA - 2	X		X	X	X				X	X		
21 MALAYSIA - 3	X		X		X	X		X	X	X	X	
22 MALAYSIA - 4	X		X	X	X	X	X	X	X	X		
23 MALAYSIA - 5	X		X		X	X	X			X		
24 MALAYSIA - 6					X	X	X	X	X	X	X	X
25 PAKISTAN - 1			X		X	X				X	X	X
26 PAKISTAN - 2					X	X	X			X	X	X
27 SRI LANKA - 1				X	X	X						
28 NIGERIA - 1	X	X	X		X	X	X	X		X		

There is not much distinction in product value proposition between conventional and family Takaful products

Product innovation is significantly lacking within the Takaful space

Milliman Family Takaful Survey 2010



Milliman Family Takaful Survey 2010

- Milliman carried out a qualitative questionnaire survey in late 2010 to explore the key current issues and focus areas of Takaful players globally.
- A range of Takaful and Retakaful operators from different key regions worldwide participated in the survey.
- Six key areas were identified as the focus for future family Takaful developments:
 - Products
 - Wakala fees
 - Asset classes
 - Surplus distribution
 - Environment – regulatory, distribution, Retakaful
 - Challenges and opportunities

Key findings of Family Takaful Survey 2010 (1)

- **Products:** Consumer education is key and retirement is a key growth area. Many operators viewed Shariah restrictions as a unique selling feature and not an impediment to product innovation.
- **Wakala fees:** Level varies significantly by region and is primarily derived from expense analysis although Retakaful players felt this was driven by competitive pressures.
- **Asset classes:** Shortage of suitable assets is acknowledged which tends to limit product design. Most operators are comfortable with concentration risk of assets (by class, geography and ownership).
- **Surplus distribution:** Most have distributed surplus (only a handful have distributed 100% of surplus arising or none at all). Only a small proportion of operators shared in underwriting surpluses (incentive fees). Retakaful players believe that convergence of surplus distribution policies between cedants pool unlikely. Many viewed surplus distribution is a major attraction for Takaful product and crucial for the sustainability of the industry.
- **Environment – regulatory, distribution, Retakaful:** Many viewed that there is no issue with retakaful capacity. Many operators felt that regulators do not take into account the unique features of Takaful (e.g. Qard) but felt Shariah Board is cooperative in finding solutions. Main distribution channels are direct sales agents and brokers followed by banks.

Key findings of Family Takaful Survey 2010 (2)

Key challenges

- ☐ Competition intensifies as more players enter market.
- ☐ Lack of awareness in certain markets in GCC is hampering growth in family Takaful.
- ☐ Investment related issues with the downturn has slowed down investment growth.
- ☐ Lack of regulatory understanding of Takaful.
- ☐ Irrational pricing of competitors (Retakaful).
- ☐ Lack of suitably trained sales agents.
- ☐ Lack of interest in savings products due to poor fund performance.
- ☐ Shortage of experienced talent (e.g. actuaries).
- ☐ Product approval cycle time.
- ☐ Lack of growth in mortgage/real estate lending related products following economic downturn.
- ☐ Unresolved technical and Shariah issues.
- ☐ Shortage of Shariah compliant securities.
- ☐ Lack of standard regulatory framework in many countries.
- ☐ Lack of product innovation.
- ☐ Competition with conventional companies.

Key findings of Family Takaful Survey 2010 (3)

Key opportunities

- ❑ Growth is here to stay.
- ❑ BancaTakaful is the way forward for effective Takaful distribution.
- ❑ Low penetration in family Takaful markets creates opportunities for exponential growth.
- ❑ MicroTakaful in economies with relatively low GDP per capita.
- ❑ Availability of retirement products.
- ❑ High growth of family Takaful within the growing middle class.
- ❑ Launch of group savings.
- ❑ Improved financial and fund market performance.
- ❑ Increased appetite for Shariah compliant products.

Special feature: UK mutuals and Takaful

We have considered:

- The differences between UK mutuals and Takaful operators
- The lessons that can be learned from UK mutuals, such as:
 - Surplus distribution mechanisms
 - Overcoming the challenges faced by mutuals
 - Factors that have helped mutuals succeed.

Takaful operators vs. UK mutuals

Key differences between takaful operators and UK mutuals:

- Structure
- Product design
- Surplus distribution
 - Reversionary Bonus (RB)
 - Terminal Bonus (TB) (Final Bonus or Loyalty Bonus)
 - Smoothing
 - Estate Distribution

Lessons learned in surplus distribution:

- Many Takaful operators currently use ad hoc methods when distributing surplus.
- Much can be learned from the UK distribution methodologies for a fair and equitable surplus distribution. Operators should also consider the various smoothing mechanisms in operation in the UK

Lessons learned from UK mutuals

- Challenges in UK mutuals have arisen as a combination of industry wide reputational damage and an economic climate no longer conducive to saving.
 - Best avoided with tight and consistent regulation with clear and transparent operational procedures. Therefore, further development of a standardised and well regulated Takaful model should be encouraged to avoid such challenges.
- Other lessons learned:
 - Target certain affinity groups who share the same careers, interests or live in a similar area.
 - Take advantage of any marketing opportunities that may arise from networks already in place within these groups.
 - Consider a strategy to concentrate all efforts in becoming known as the best provider and market a single product across an entire region.
 - In the significant consolidation witnessed in the UK life insurance industry over the last ten years – it was only the proactive that survived.

Special feature: Focus on Malaysia

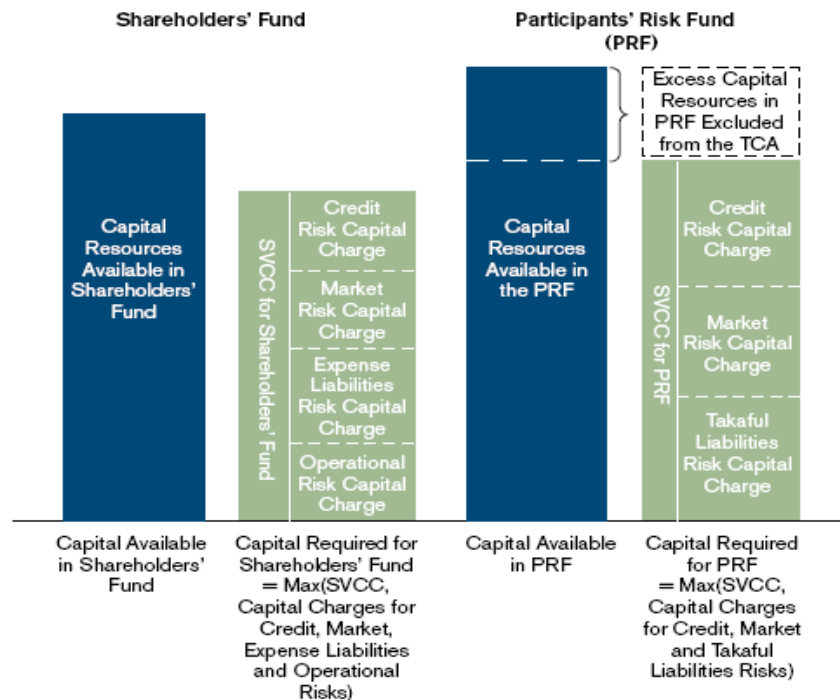
We have considered:

- The regulatory developments in Malaysia
- The financial highlights of takaful operators in Malaysia for family takaful
- The new business contributions in Malaysia:
 - By product type
 - Distribution channel

Malaysia: Takaful Operational Framework (TOF) and the draft RBC framework for Takaful Operators

- In the report, we have summarised the regulatory developments in Malaysia, including the TOF and RBC framework

Draft RBC framework for Takaful Operators in Malaysia



Objectives of TOF

- To enhance operational efficiency of Takaful business
- To build healthy Takaful funds which are sustainable
- To safeguard the interests of participants
- To promote uniformity in Takaful business

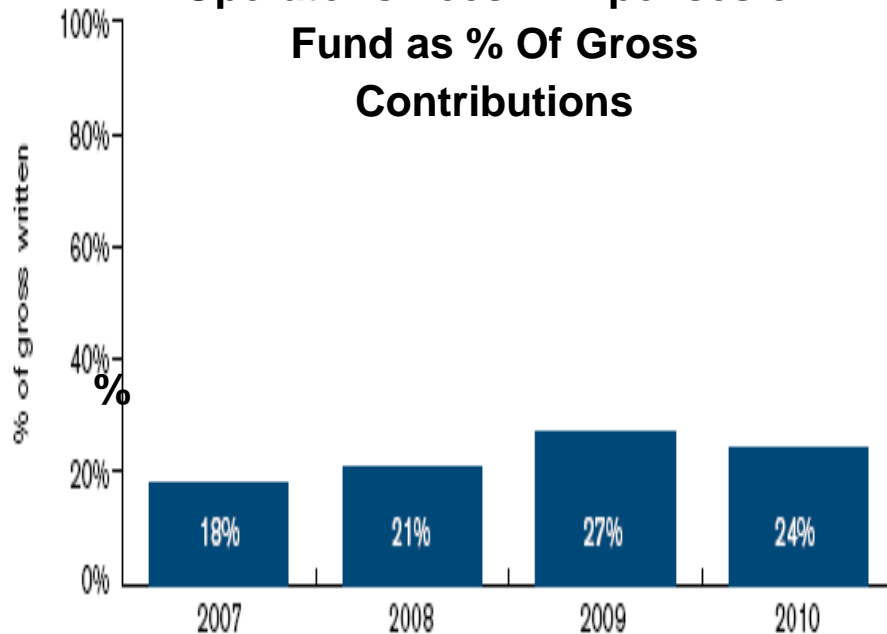
Further analysis on the framework, including details on the calculation of capital by key risks, as well as the potential Impact of the proposed guidelines on the industry, are provided in-depth in the full report.

Malaysia: Financial ratios



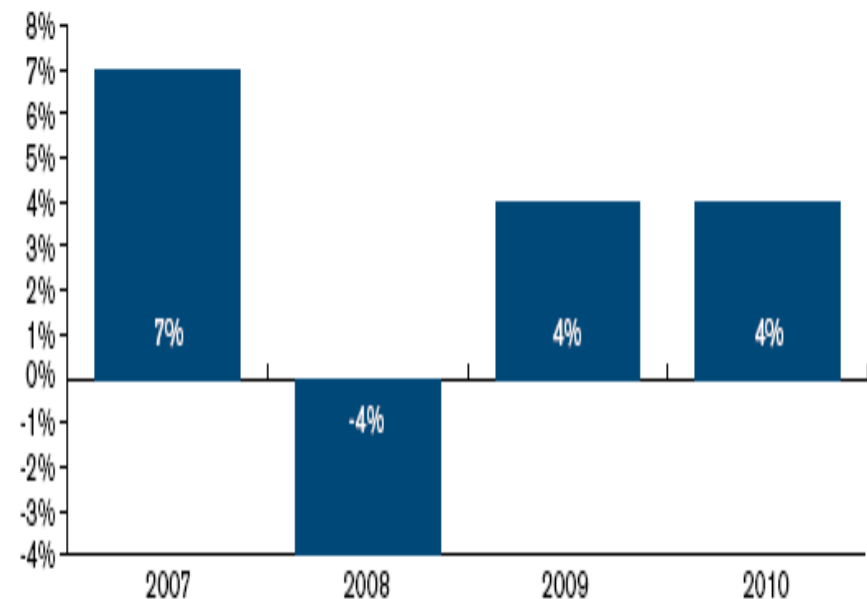
- In the report, we have summarised the financial highlights of the takaful operators for family takaful. Examples are shown below.

Operator's Fees + Expenses of Fund as % Of Gross Contributions



Source: Published company financials (seven companies in 2007-2009 and three in 2010)

Net surplus as % Of Gross Contributions

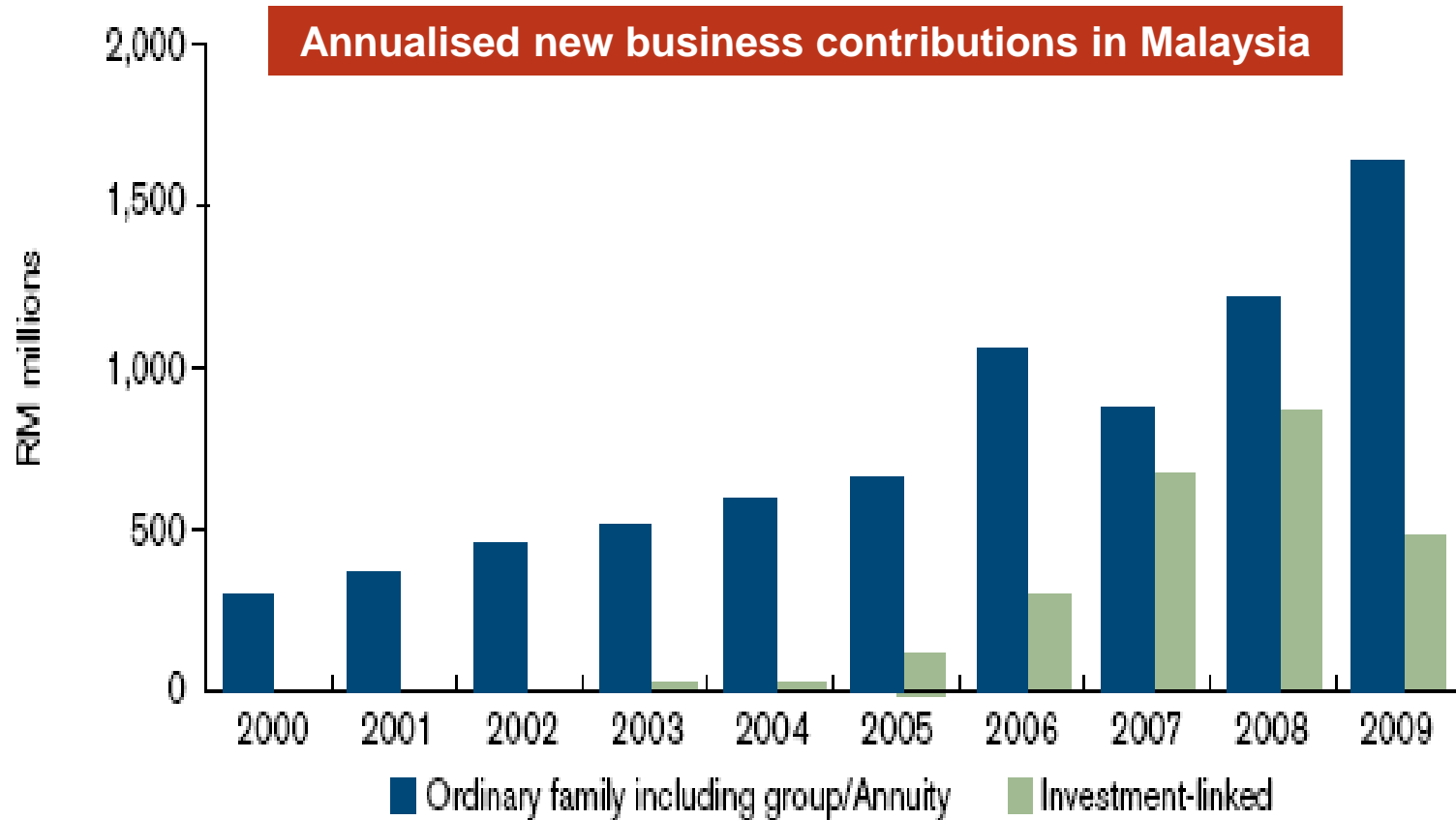


Source: Published company financials (seven companies in 2007-2009 and three in 2010)

Family Takaful: Product mix

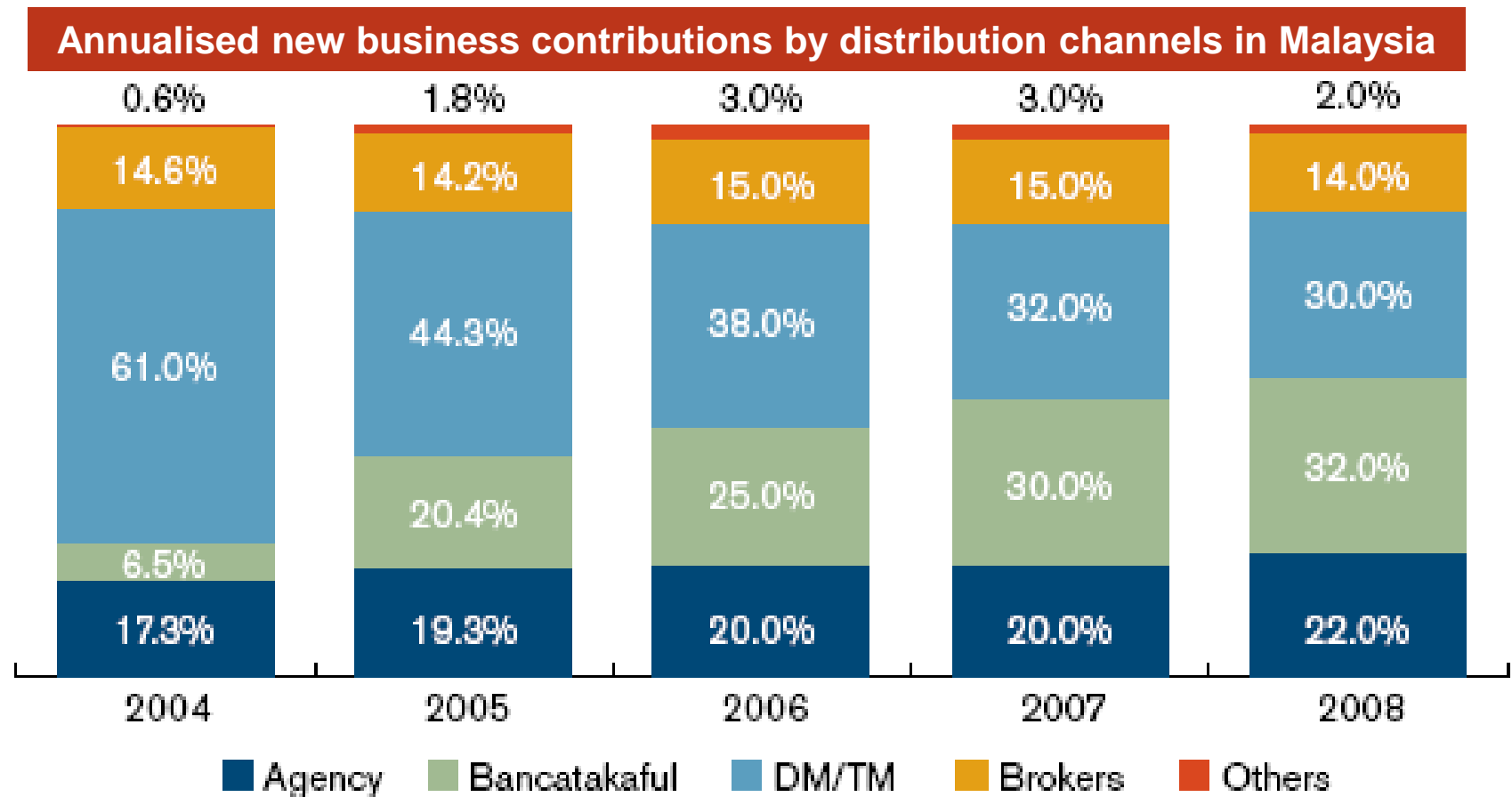


- We have also analysed the product mix and sales by distribution channel in Malaysia.



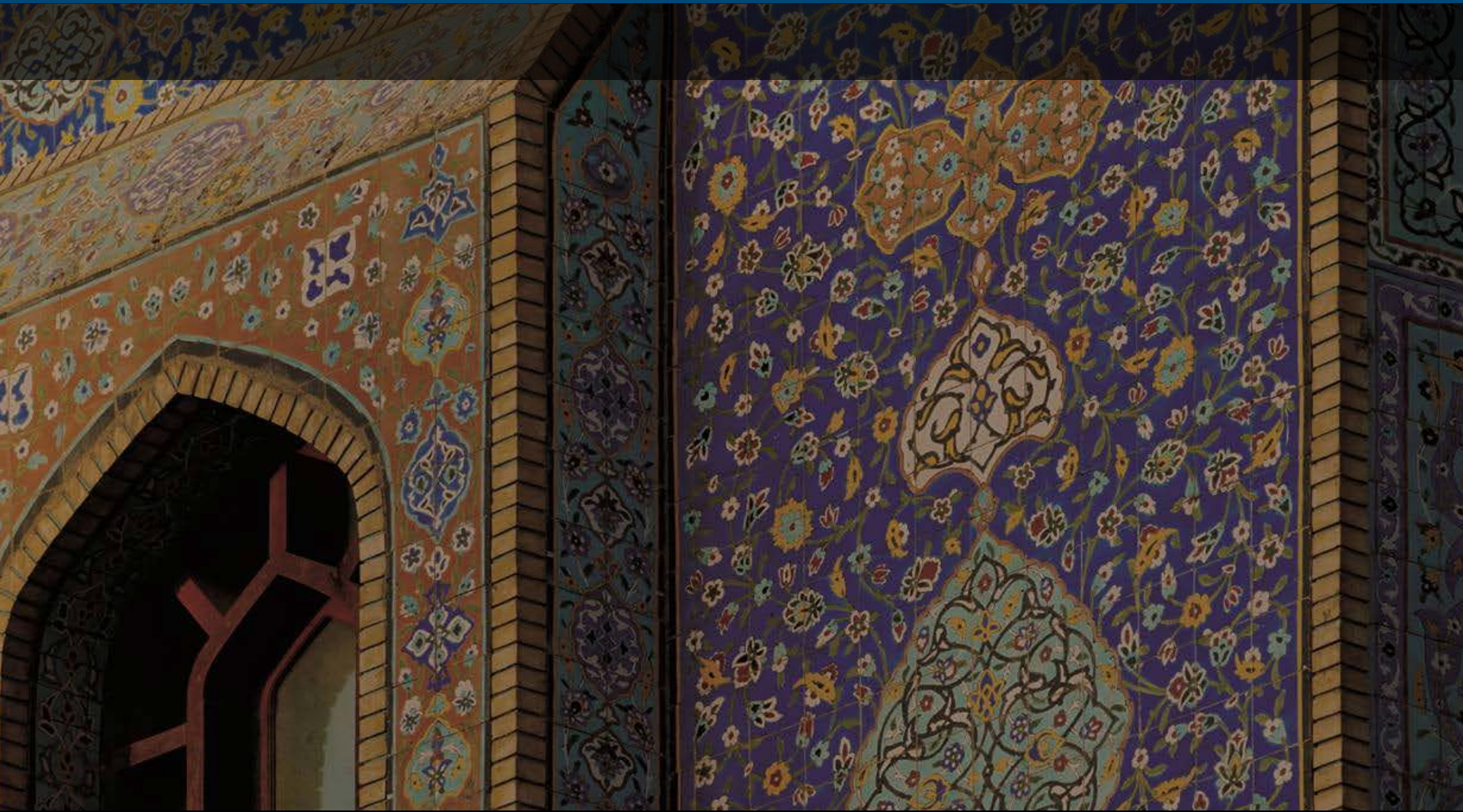
Source: ISM – Insurance Service Malaysia Berhad

Family Takaful: Sales by distribution channel



Source: Axco 2010

Conclusions



Conclusions

- Family Takaful remains the most attractive proposition – Growth is here to stay
- Regional growth and volatility remains with Malaysia continuing to dominate with Indonesia and the Middle East experiencing the fastest growth
- Takaful Standards and Regulations diverse in spite of standardisation efforts
- Wakala Hybrid model remains the most favoured approach
- Huge room for innovation in product design
- Mutuality concept worth exploring
- Striving towards development of best practices with extensive opportunities for actuarial input

“For family Takaful to survive to the next generation and beyond, concerted effort is required by practitioners, operators, Shariah scholars and regulators to synchronise their efforts. This will ensure a convergence of ideas whilst at the same time respecting plurality of thought and practicality of the proposition. “

Details on obtaining the full report: “Global Family Takaful Report 2011”

- The Global Family Takaful Report 2011 is a ‘first-of-its-kind’ industry report, focusing on the recent developments within family Takaful.
- This comprehensive report provides further analysis and insights on the issues and opportunities within the family Takaful industry as highlighted in this summary report.

To purchase the full report, please visit

www.milliman.com/takaful2011

Any questions?

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