



# **TAKAFUL DEVELOPMENTS & CHALLENGES IN PAKISTAN**


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# FLOW OF PRESENTATION

- **Insurance Industry in Pakistan**
- **Emergence of Takaful Rules**
- **Progress so far**
- **Challenges for Growing Takaful Industry**
- **What is needed?**

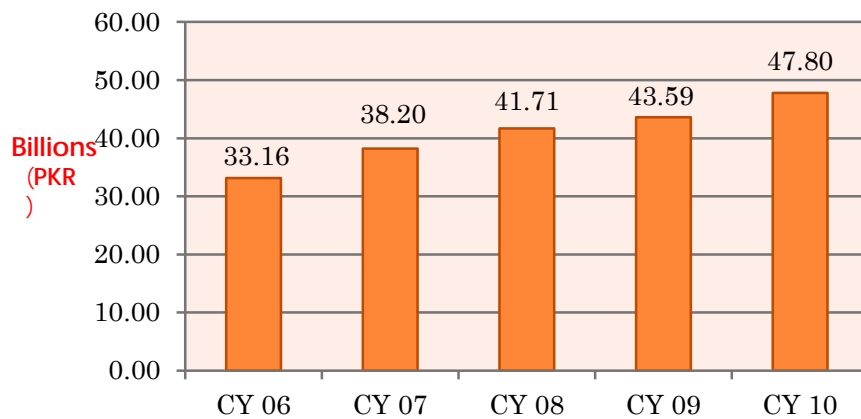


# INSURANCE INDUSTRY- SOME FACTS

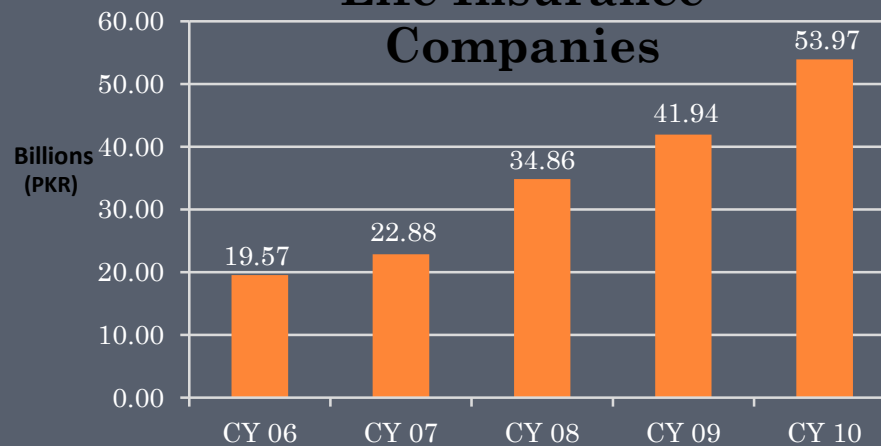
- 180 million people with more than 95% Muslims.
  - Insurance penetration is less than 1% of GDP which is very low.
  - Life Insurance Industry was nationalized in 1972. SLIC
  - Reopened the market in 1992 and allowed both local and international investors to operate in private sector.
  - Five New conventional life companies were opened between 1995 and now, two of them multinationals (ALICO, CU).
  - Two Family Takaful operators started since 2007.
- 

# Gross Premiums – Billions of Rupees

## Non life Insurance



## Life Insurance Companies



# GROSS PREMIUMS IN USD - CONVENTIONAL AND TAKAFUL

*US\$ million*

	2010	2009	2008	2007
<b>Life Insurance Companies</b>				
<b>Gross Premium</b>	<b>634.94</b>	<b>493.45</b>	<b>410.14</b>	<b>269.17</b>
<b>Non-Life Insurance Companies</b>				
<b>Gross Premium</b>	<b>562.35</b>	<b>512.80</b>	<b>490.68</b>	<b>449.37</b>
<b>Family Takaful Operators</b>				
<b>Gross Premium</b>	<b>14.67</b>	<b>6.08</b>	<b>1.57</b>	<b>0.01</b>
<b>General Takaful Operators</b>				
<b>Gross Premium</b>	<b>11.25</b>	<b>11.14</b>	<b>7.85</b>	<b>3.11</b>



# EMERGENCE OF TAKAFUL RULES

- SECP notified Takaful Rules in 2005.
- Two Family Takaful and three General Takaful companies commenced operations.
- 100% foreign shareholding is allowed.



# EMERGENCE OF TAKAFUL RULES

- Window operations were not allowed till Sept 2010 under the Takaful Rules 2005. However Rules being changed and likely to allow windows.
- Existing insurance players can take takaful license and have a one year time to fully convert to Takaful.



# TAKAFUL MODEL IN PAKISTAN

- Basically all companies operate on Wakala model for Takaful fund and Wakalah or Mudaraba for investment management.
- Wakala Model with WAQF entity between participants and Takaful Operator. Tabarru given to WAQF fund with no rights to surplus. Addresses intergenerational inequity issue, surplus and other issues.
- The Wakala fees needs to be defined upfront.





## Gross Contributions in Rupees

PAK QATAR FAMILY TAKAFUL LIMITED				
Avenues	CY 07	CY 08	CY 09	CY 10
Gross Contribution	1,267,407	129,682,372	466,646,900	1,043,142,563

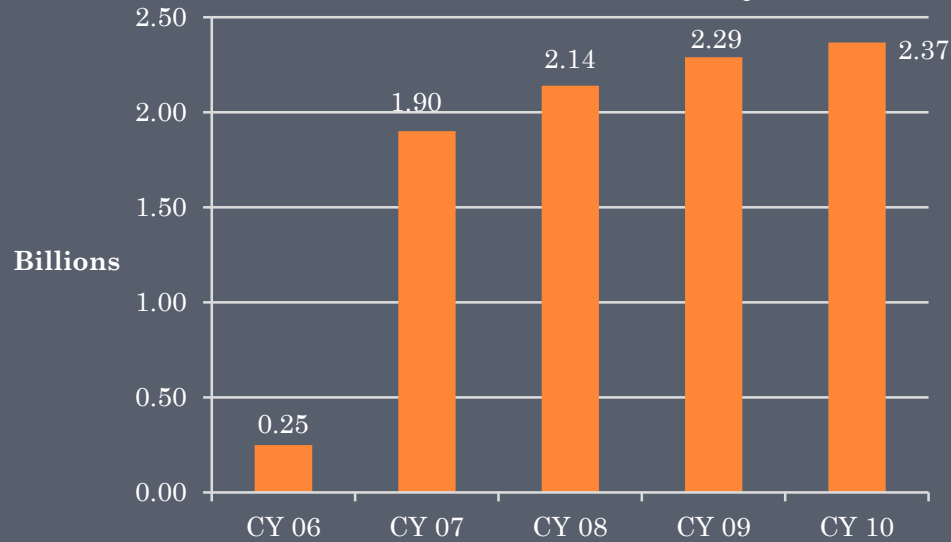
DAWOOD FAMILY TAKAFUL LIMITED			
Avenues	CY 08	CY 09	CY 10
Gross Contribution	3,401,712	49,822,909	203,652,743

PAK - KUWAIT TAKAFUL COMPANY LIMITED					
Avenues	CY 06	CY 07	CY 08	CY 09	CY 10
Gross Contribution	128,968,834	262,373,109	342,240,000	438,814,712	535,258,803

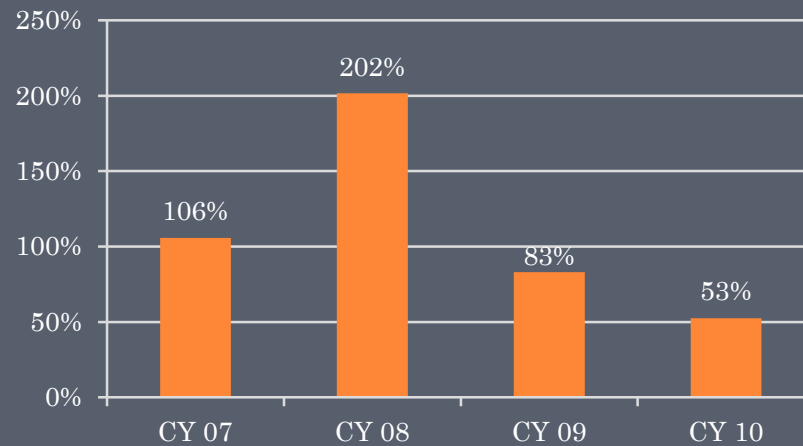
PAK QATAR GENERAL TAKAFUL LIMITED				
Avenues	CY 07	CY 08	CY 09	CY 10
Gross Contribution	1,621,080	86,420,975	171,701,983	217,182,324

TAKAFUL PAKISTAN LIMITED			
Avenues	CY 08	CY 09	CY 10
Gross Contribution	3,401,712	49,822,909	203,652,743

# Gross Contributions Billions of Rupees Takaful Industry



## Year On Year Increase



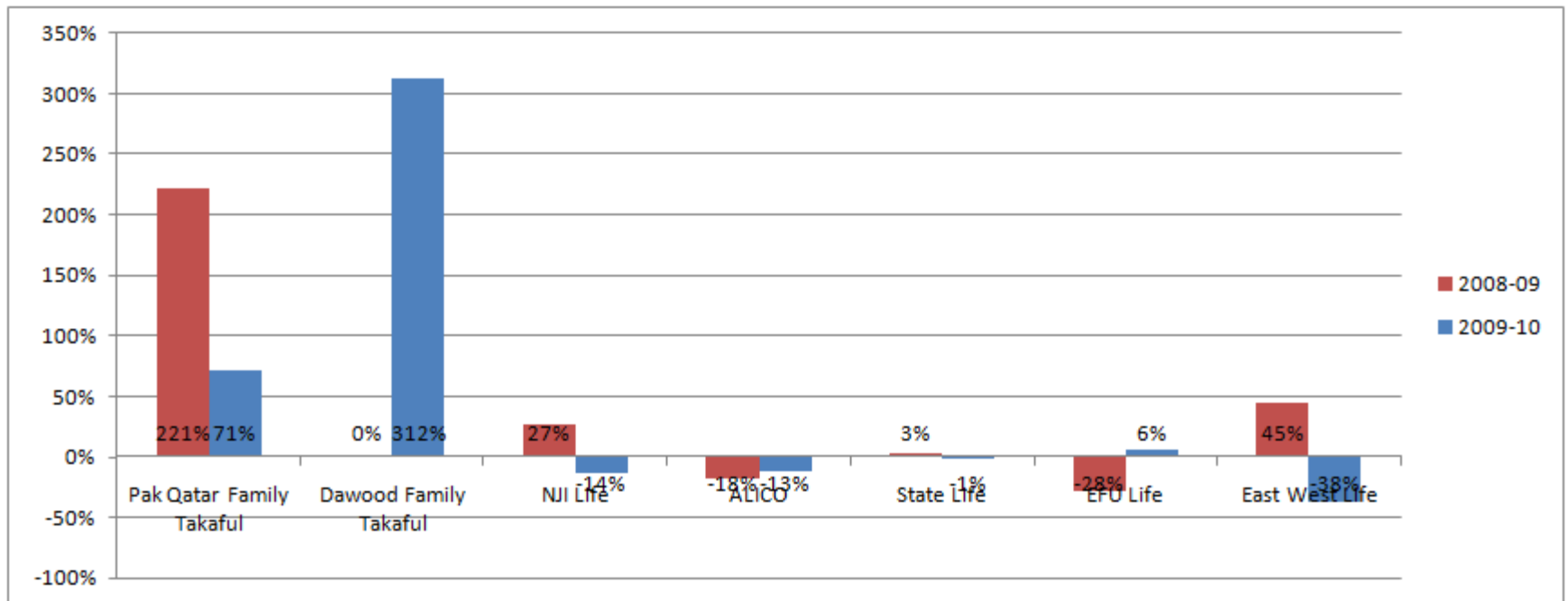
# GROWTH IN INDIVIDUAL FAMILY TAKAFUL

*Millions*

Regular First Year Premiums										
		2010			2009			2008		
		Rs.	\$	Market Share	Rs.	\$	Market Share	Rs.	\$	Market Share
Pak Qatar Family Takaful		600.0	7.1	4%	269.1	3.2	2%	62.0	0.7	1%
Dawood Family Takaful		135.6	1.6	1%	25.2	0.3	0%	-	-	0%
NJI Life		1,771.6	20.8	12%	1,582.7	18.6	14%	920.8	10.8	11%
ALICO		506.9	6.0	3%	444.0	5.2	4%	401.2	4.7	5%
<b>State Life</b>		9,330.1	109.8	<b>63%</b>	7,225.1	85.0	64%	5,181.0	61.0	62%
EFU Life		2,451.1	28.8	17%	1,778.2	20.9	16%	1,825.7	21.5	22%
East West Life		29.0	0.3	0%	35.8	0.4	0%	18.3	0.2	0%
Adamjee Life		Not Avail			2.1	0.0	0%	-	-	0%

# GROWTH IN INDIVIDUAL FAMILY TAKAFUL

- Growth in Market Share of Regular First Year Premiums



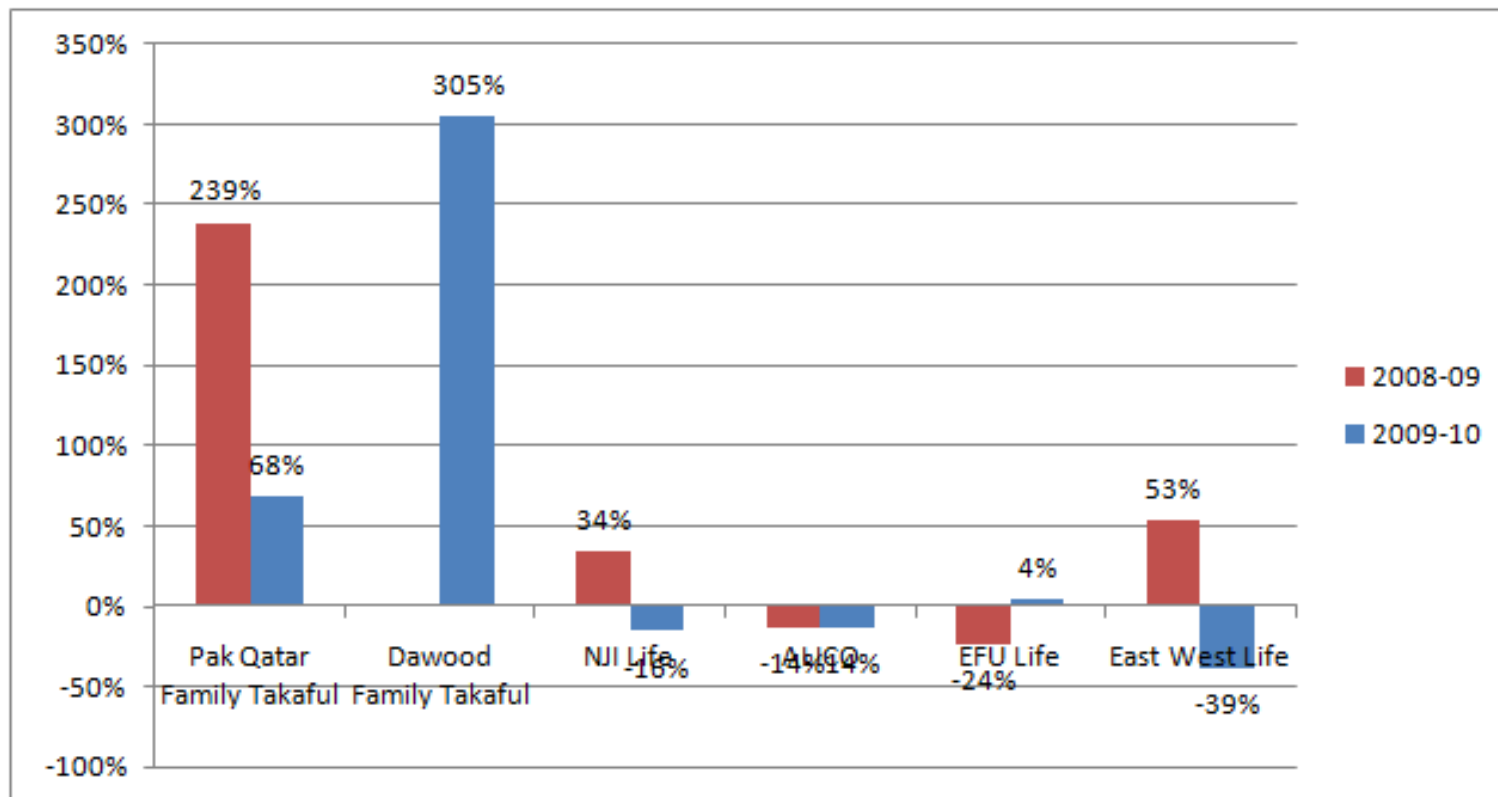
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Dawood Family Takaful		135.6	1.6	2%	25.2	0.3	1%	-	-	0%
NJI Life		1,771.6	20.8	32%	1,582.7	18.6	38%	920.8	10.8	29%
ALICO		506.9	6.0	9%	444.0	5.2	11%	401.2	4.7	12%
EFU Life		2,451.1	28.8	45%	1,778.2	20.9	43%	1,825.7	21.5	57%
East West Life		29.0	0.3	1%	35.8	0.4	1%	18.3	0.2	1%
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# GROWTH IN INDIVIDUAL FAMILY TAKAFUL

- Growth in Market Share of Regular First Year Premiums – Takaful is gaining market share



# FIRST YEAR PREMIUMS BY DISTRIBUTION CHANNEL

*millions*

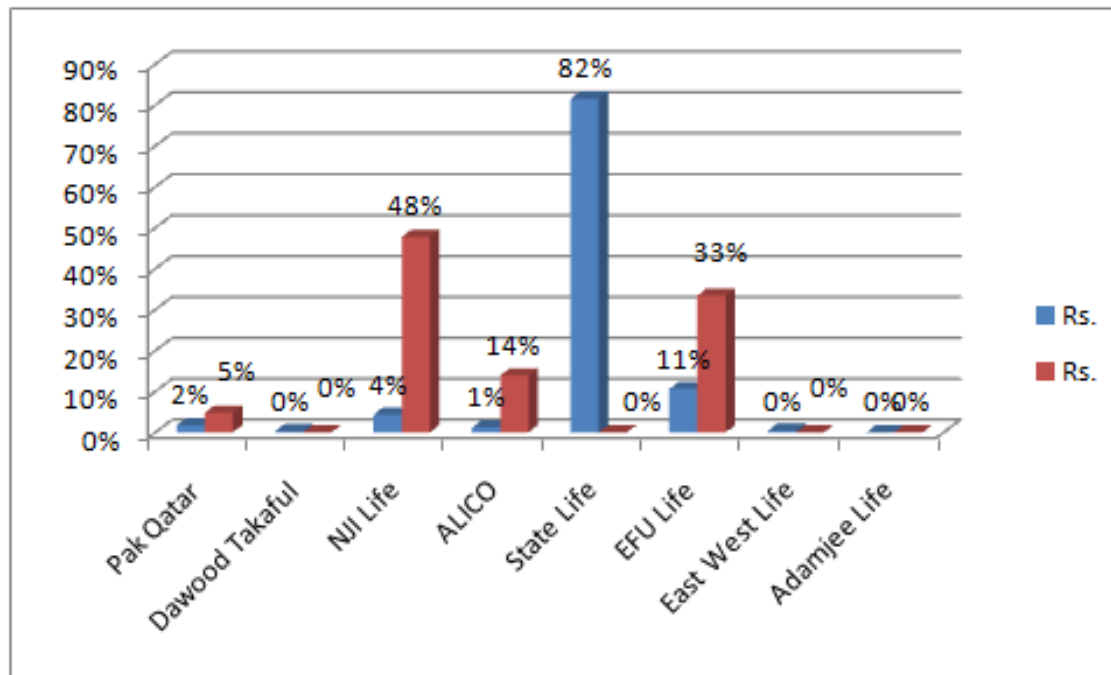
## **First Year Premiums Income by Distribution Channel 2009**

		DSF			Bancassurance		
		<b>Rs.</b>	<b>US \$</b>	<b>Market Share</b>	<b>Rs.</b>	<b>US \$</b>	<b>Market Share</b>
Pak Qatar Family Takaful		149	2	2%	120	1	5%
Dawood Family Takaful		25	0	0%	-	-	0%
NJI Life		383	5	4%	1,200	14	48%
ALICO		106	1	1%	350	4	14%
State Life		7,225	85	82%	-	-	0%
EFU Life		938	11	11%	840	10	33%
East West Life		36	0	0%	-	-	0%
Adamjee Life		-	-	0%	2	0	0%
<b>Total</b>		<b>8,862</b>	<b>104</b>	<b>100%</b>	<b>2,512</b>	<b>30</b>	<b>100%</b>



# FIRST YEAR PREMIUMS BY DISTRIBUTION CHANNEL

- First Year Premium Income by Distribution Channel





# FIRST YEAR PREMIUMS BY DISTRIBUTION CHANNEL

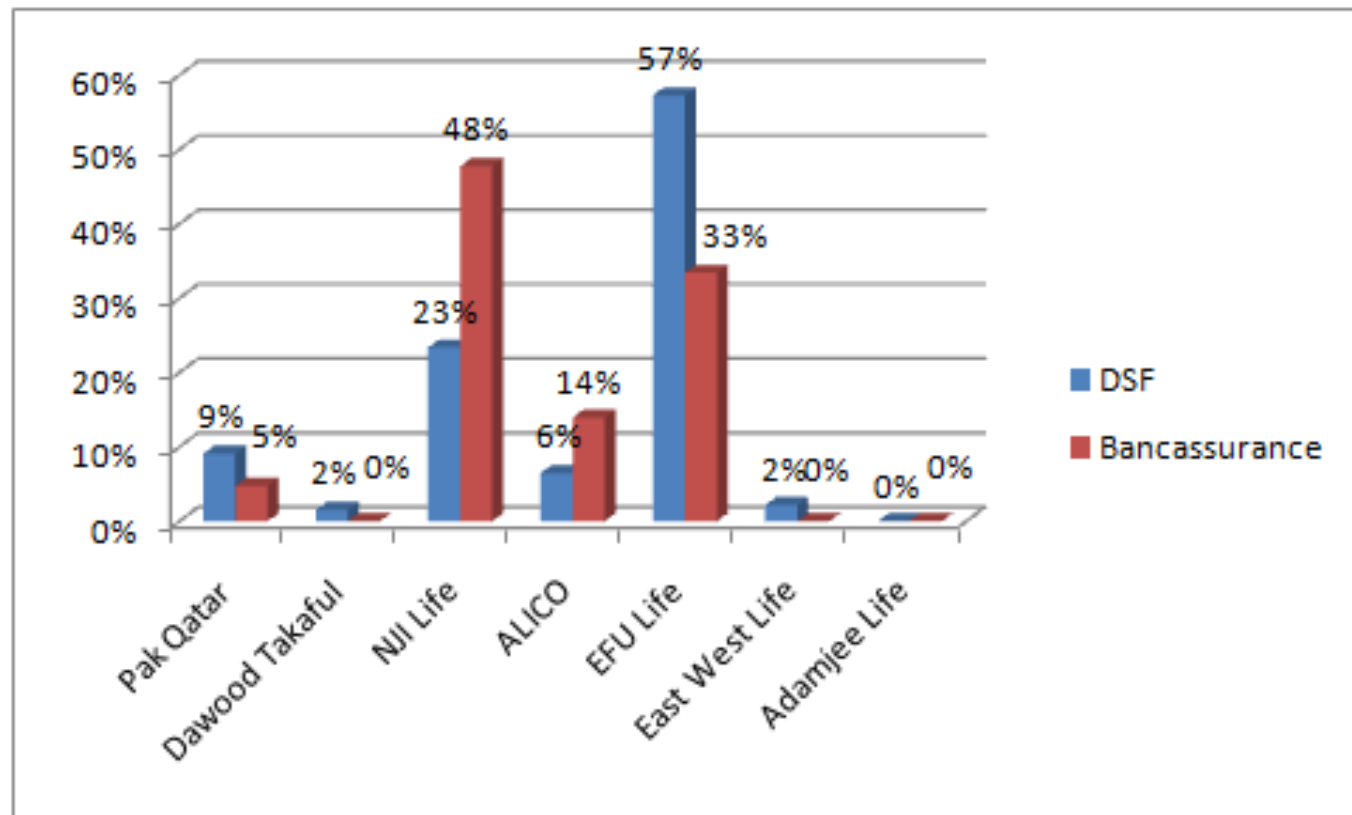
*millions*

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East West Life		36	0	2%	-	-	0%
Adamjee Life		-	-	0%	2	0	0%
Total		1,637	19	100%	2,512	30	100%

# FIRST YEAR PREMIUMS BY DISTRIBUTION CHANNEL

- First Year Premium Income by Distribution Channel



# GROWTH IN GROUP FAMILY TAKAFUL

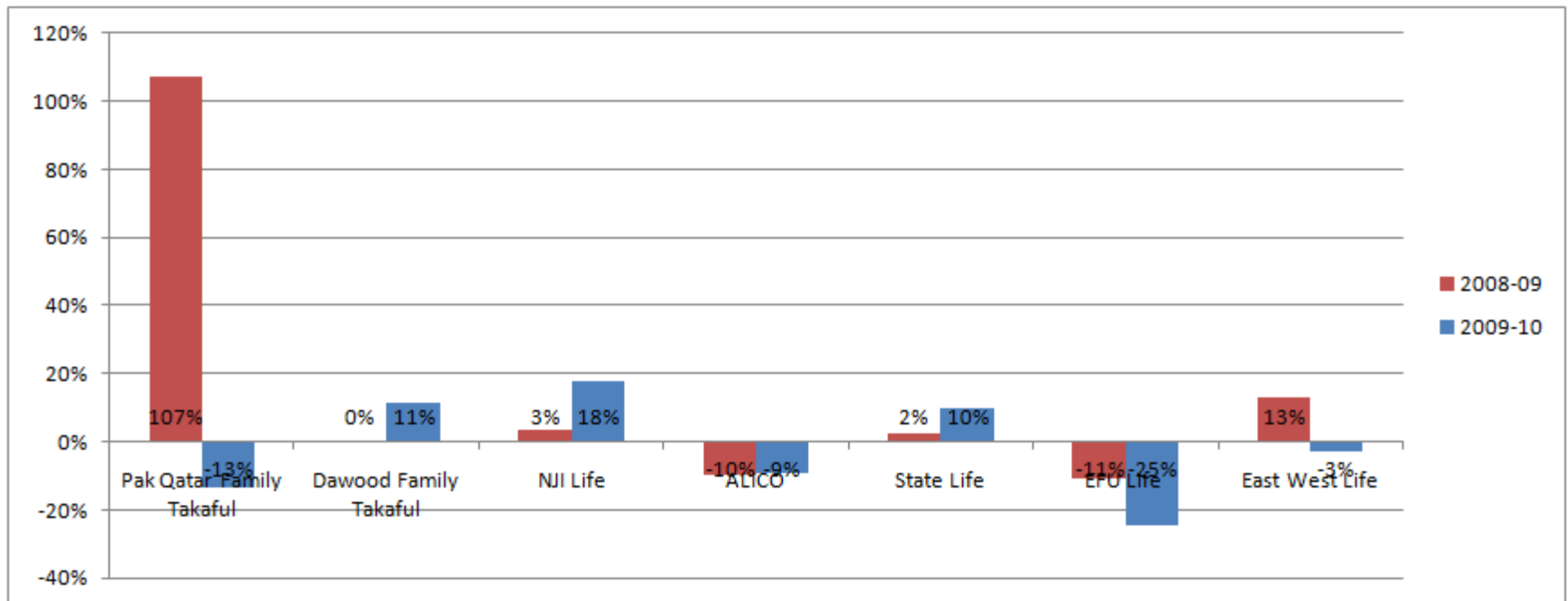
Millions

Group Life & Pension Premiums										
		2010			2009			2008		
		Rs.	\$	Market Share	Rs.	\$	Market Share	Rs.	\$	Market Share
Pak Qatar Family Takaful		69.2	0.8	1%	77.2	0.9	1%	38.5	0.5	1%
Dawood Family Takaful		23.4	0.3	0%	20.4	0.2	0%	3.4	0.0	0%
NJI Life		971.9	11.4	15%	799.5	9.4	13%	798.5	9.4	12%
ALICO		186.9	2.2	3%	199.8	2.4	3%	228.6	2.7	3%
<b>State Life</b>		3,950.0	46.5	<b>60%</b>	3,490.8	41.1	55%	3,532.2	41.6	54%
EFU Life		1,244.5	14.6	19%	1,602.1	18.8	25%	1,857.9	21.9	28%
East West Life		90.1	1.1	1%	89.8	1.1	1%	82.2	1.0	1%
Adamjee Life		Not Avail			49.8	0.6	1%	-	-	0%



# GROWTH IN GROUP FAMILY TAKAFUL

- Growth in Market Share of Group Life & Pensions Premiums



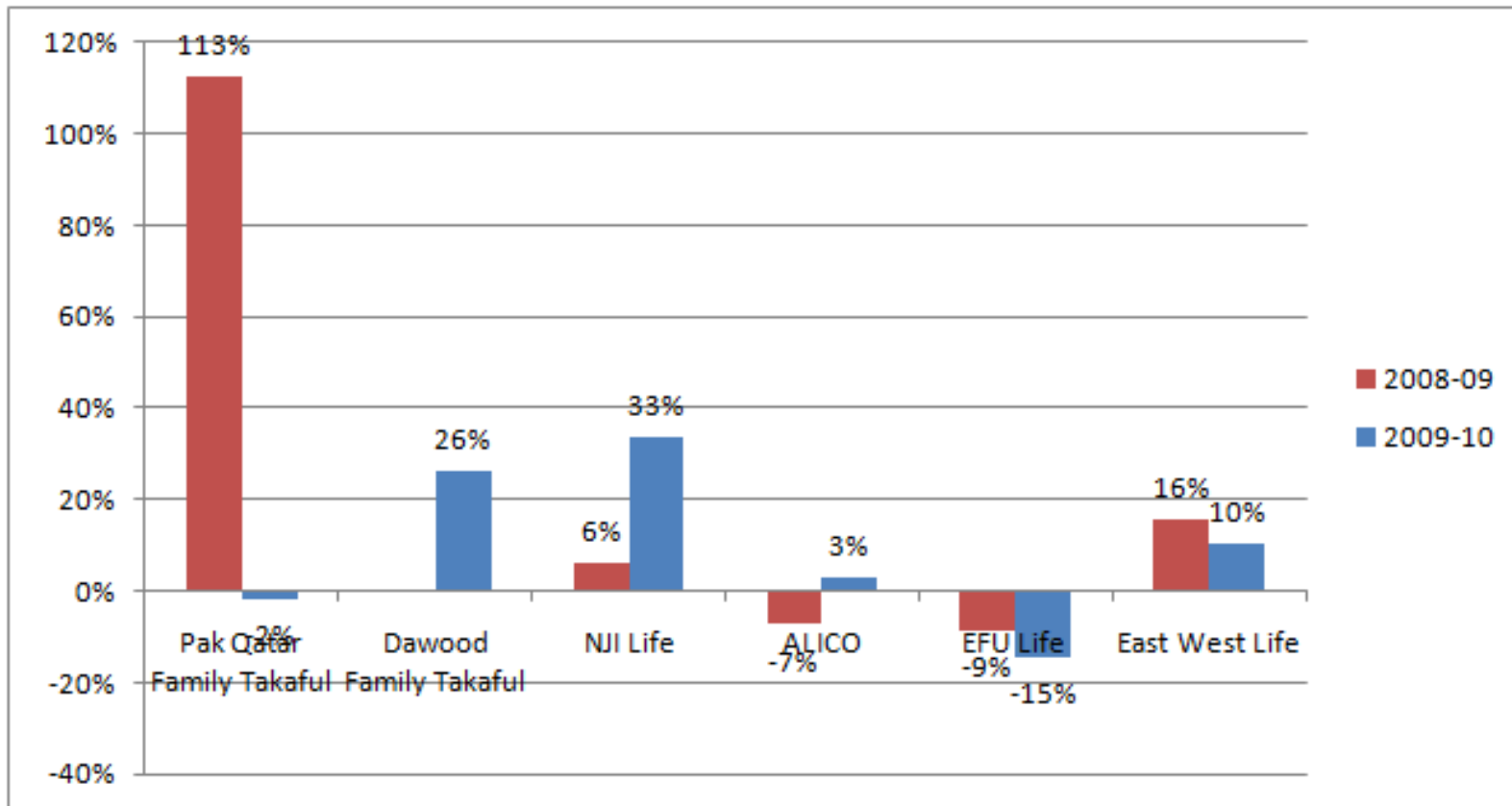
# GROWTH IN GROUP FAMILY TAKAFUL

Millions

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# GROWTH IN GROUP FAMILY TAKAFUL

- Growth in Market Share of Group Life & Pensions Premiums



# TAKAFUL INDUSTRY - PROGRESS SO FAR

- Initially the consumer response was slow but it is now getting popular amongst masses as awareness is increasing.
- As seen the **response from individual customers** is much more encouraging than corporate.
- This also indicates that individuals are more concerned about conventional **life insurance being un-islamic** and hence potential for takaful appears very encouraging.



# CHALLENGES

- Creating awareness amongst masses both for risk mitigation and Shariah compliance.
- Poor insurance penetration rate overall.
- Un-healthy market practices by conventional insurers specially in non-life sector makes it more difficult for **takaful as mindset change** required.
- More professionals with **Takaful mindset** required to implement.
- Very few players are operating and non of international or local insurance groups has yet ventured into the market. With more such players **awareness** would increase.





# CHALLENGES

- Weak regulatory body. SECP does not have resources to properly regulate and drive this sector. Different practices **confuse the customer and loss of credibility.**
- If window operations are allowed then existing dedicated players may face more pressure on prices.
- It seems though that window operations are not preferred by consumers who may prefer dedicated players.



# CHALLENGES IN TAKAFUL GLOBALLY

- Takaful Model implementation
  - Concerns about **high wakala fees** with expected deficit in Takaful fund on the non-life side and **hence Qard**. Risk Contributions going to takaful fund should be signed off by professionals is KEY.
  - High initial costs should not be paid by Takaful fund but by the Shareholders.
  - **Wakala fees** should reflect long term expenses plus profit margins. Initial participants should not be charged high fee and get discouraged by the takaful system.
  - **Cost of capital** as part of Wakala fees not permissible. **Consider creating a fund from part of Wakala fees to pay for Qard so that over time Qard may not be needed which is a KEY area of Shariah and Shareholder concerns in Takaful.**
  - **Cumulative surplus** distribution will help to reduce Qard issue.

# CHALLENGES IN TAKAFUL GLOBALLY

- Shariah compliance **implementation**: need regular coordination between management and Shariah on operational matters on a daily basis. See missing in Middle East.
- Retakaful models under question:
  - Standardisation of **Retakaful models** required. Example some having single funds for each client not aligned with Shariah.
  - Cost of capital on Qard issue can be looked at similar to point in previous slide.
  - Shariah scholars to ensure that takaful operators they guide need to move to retakaful.
- Issues related to Surplus distribution and sharing.



# WHAT IS NEEDED IN PAKISTAN?

- Potential seems significant for more innovative and professional multinational players in Takaful.
- All current operations are sponsored by private non-insurance groups. No international or local insurance/Takaful group has yet ventured into the market.
- **More operators with good reputation and expertise with experience of running insurance/takaful operations.**
- Possible Government support to encourage new players.



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