

# ***The International Takaful Summit 2012***

## **EMPIRICAL STUDY OF TAKAFUL PERCEPTIONS IN SAUDI ARABIA**

by

**Dr. Hashem Abdullah AlNemer**

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**JUMEIRAH CARLTON TOWER, KNIGHTSBRIDGE, LONDON**

## *Key Points*

- *Motivation for this Study*
- *Aims of Study*
- *Objectives of Study*
- *Proposed Satisfaction Model*
- *Imperial Findings*
  - *Participants' Perceptions about TOs Disclosure System*
  - *Participants' Knowledge*
  - *Participants' Preferences*
- *Conclusion*
- *Recommendations*

## *Motivation for this Study*

*There are a number of challenges reported by several professionals in the takaful industry...Exmp.*

*Malaikah (2006) asserted that, (i) awareness and knowledge of the takaful concepts among policyholders is very limited, (ii) Takaful operators find it difficult to manage and meet the demands of Shari'ah-compliant investments which have limited investment options.*

## *Motivation for this Study Contd...*

*Bhatty (2010) indicated other industry shortage such as (i) Dissemination of credible and relevant financial and technical statistics to public (ii) Standardization in accounting and operational approaches by markets, regions and jurisdictions, (iii) cooperation among takaful bodies and other international insurance bodies to standardize the takaful business*

## *Motivation for this Study Contd...*

The confusion of *takaful* insurance hybrid structure...Is the *takaful* scheme mutual or a proprietorship?

The legal system of Saudi Arabia and other countries doesn't cater to adopt the setting of such forms of a company, As the TOs should have an identified shareholders and an identified capital ,*i.e* SAMA's treat the TOs on the basis of proprietorship and not mutual basis.

*However*

From a legal perspective, participant owners in the *takaful* fund cannot be eliminated.

## *Motivation for this Study Contd.*

*Saudi Arabian Monetary Agency (SAMA) Regulations for Insurance... That:*

- *Although, Insurance in the Kingdom operates as a cooperative manner with the principles an of Islamic Shari'ah, by the Royal Decree M/5 dated 17/5/1405 H.*

*And*

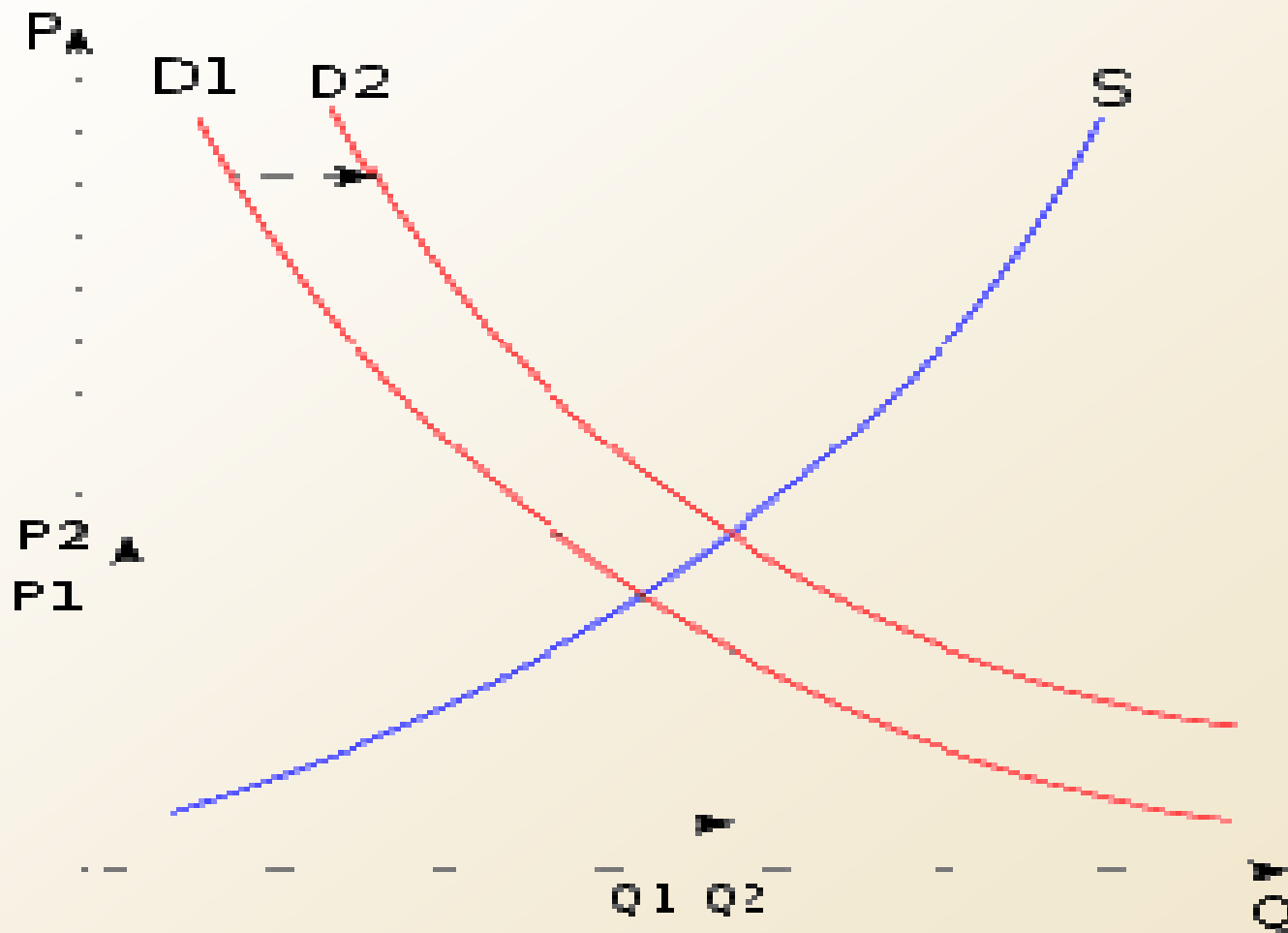
- *Although, the Saudi cooperative model is similar and a key feature to the takaful model such it has (funds segregation and surplus distribution).*

*However*

- *SAMA has not issued a single directive that deals with takaful insurance.*
- *SAMA never addresses Shari'ah Governance issue in any of its directives.*

## *Motivation for this Study Contd*

### *Demand & Supply Curve*



## *Aims of Study*

*To Enhance the penetration level of the takaful insurance in Saudi Arabia and world wide.*

*To overcome some of the encountered challenges in the takaful industry.*

*To enhances the loyalty and appreciation level among the takaful participants.*



## *Objectives of Study*

- 1. To explore participants satisfaction level, by exploring their,*
  - Perceptions about the Takaful Operators (TOs) Disclosure System.*
  - Knowledge about takaful insurance Products and Services.*
  - Preferences about takaful insurance Products and Services.*
- 2. Exploring participants perceptions, knowledge and preferences determinants variables that affects their satisfactions level by conducting correlation and regression analysis.*
- 3. TO compare SAMA laws and directives with the international insurance standards, polices and recommendations by (AAOIFI, IFSB, IAIS & OECD).*

# Proposed Satisfaction Model

## Participants' Perceptions about TOs Disclosure System

- Disclosure Mechanisms (DM)
- Disclosure of Investment Returns (DIR)
- Disclosure of Underwriting Surplus(DUS)
- Disclosure of *Sharia'h* Compliance (DSC)
- Disclosure of Claims and Indemnities (DCI)
- Disclosure of Fees, Deficits and *Qard* (DFDQ),
- Disclosure of Key Personnel (DKP).

## Participants' Satisfaction

## Participants' Knowledge

- Knowledge of the principle of the T.Os Model (KPM)
- Knowledge of Investment Returns (KIR)
- Knowledge of Underwriting Surplus (KUS)
- Knowledge of *Sharia'h* Compliance(KSC)
- Knowledge of Charged Fees, Encountered Deficits and availability of *Qard* (KFDQ)
- Knowledge of Key Personnel Power and Activities (KKP)
- Knowledge of Dissatisfaction Channels (KDC)

## Participants' Preferences

- Preference on *Sharia'h* Compliance (PSC)
- Preference to have a representative on Board of Directors *BoDs* (PRB)
- Preference on T.Os Key Personnel (PKP)
- Preference on the reason to use *takaful* policy (PRU)
- Preference on claims and underwriting surplus (PCU)

# *Imperial Findings*

## *Targeted Participants'*

- *Participants with family takaful policy, who eligible to receive (Underwriting Surplus & Investment Return).*
- *Individual contracted participants who didn't belong to a corporation i.e. the takaful contract are between the TO and the participants.*
- *TOs' employees are not allowed to participate in the survey as they might possess more information than regular participants*

*Accordingly, 300 Participants' who contributed to a family takaful scheme from more than 5 TOs in Jeddah, successfully participated on the Survey campaign on April 2011 to reflect their perceptions, knowledge and preferences on the takaful products and services*

# *Participants' Perceptions about TOs Disclosure System*

*-Disclosure Mechanisms*

*- Disclosure of Investment Returns*

*-Disclosure of Underwriting Surplus*

*-Disclosure of Sharia'h Compliance*

*-Disclosure of Claims and Indemnities*

*-Disclosure of Fees, Deficits and Qard*

*-Disclosure of Key Personnel*

## *Disclosure Mechanism*

**Q1- The company discloses ways to let me review my benefits at the participants' fund**

Options	Frequency	Percent
No	276	92.0
Yes	24	8.0
Total	300	100.0

**Q2-The company often notifies me on different *Fatwas* issued regarding PF, specifically "Investment & surplus distribution"**

Strongly Disagree	5	1.7
Disagree	122	40.7
Neutral	58	19.3
Agree	105	35.0
Strongly Agree	10	3.3
Total	300	100.0

## *Disclosure of Investment Returns*

**Q3 - The company disclosed their policy and procedures for handling participants' investment returns.**

<b>Options</b>	<b>Frequency</b>	<b>Percent</b>
<b>No</b>	<b>213</b>	<b>71.0</b>
<b>Yes</b>	<b>87</b>	<b>29.0</b>
<b>Total</b>	<b>300</b>	<b>100.0</b>

**Q4 - The company disclosed a performance statement for participants' investment fund**

<b>No</b>	<b>291</b>	<b>97.0</b>
<b>Yes</b>	<b>9</b>	<b>3.0</b>
<b>Total</b>	<b>300</b>	<b>100.0</b>

## *Disclosure of Underwriting Surplus*

**Q5-The company disclosed their policy and procedures for handling participants' surplus from underwriting activities.**

<b>Options</b>	<b>Frequency</b>	<b>Percent</b>
<b>No</b>	<b>204</b>	<b>68.0</b>
<b>Yes</b>	<b>96</b>	<b>32.0</b>
<b>Total</b>	<b>300</b>	<b>100.0</b>

**Q6-The company disclosed the methods used to calculate Underwriting Surplus**

<b>No</b>	<b>269</b>	<b>89.7</b>
<b>Yes</b>	<b>31</b>	<b>10.3</b>
<b>Total</b>	<b>300</b>	<b>100.0</b>

## *Disclosure of Shari'ah Compliance*

<b>Q7 -The company disclosed the <i>Shari'ah</i> compliance annual report to participants</b>		
<b>Options</b>	<b>Frequency</b>	<b>Percent</b>
<b>No</b>	<b>246</b>	<b>82.0</b>
<b>Yes</b>	<b>54</b>	<b>18.0</b>
<b>Total</b>	<b>300</b>	<b>100.0</b>
<b>Q8 -The company disclosed the method and basis of <i>Shari'ah</i> methods used to allocate Underwriting Surplus to participants</b>		
<b>No</b>	<b>290</b>	<b>96.7</b>
<b>Yes</b>	<b>10</b>	<b>3.3</b>
<b>Total</b>	<b>300</b>	<b>100.0</b>



## *Disclosure of Claims and Indemnities*

**Q9-The company discloses their policy and procedures for handling participants' claims and indemnities.**

<b>Options</b>	<b>Frequency</b>	<b>Percent</b>
<b>No</b>	<b>234</b>	<b>78.0</b>
<b>Yes</b>	<b>66</b>	<b>22.0</b>
<b>Total</b>	<b>300</b>	<b>100.0</b>

## *Disclosure of Expenses, Fees, Deficits and Qard Hasan*

Q10 - The company disclosed the incentives percentage taken by the company for good performance		
Options	Frequency	Percent
No	278	92.7
Yes	22	7.3
Total	300	100.0
Q11 - The company disclosed the direct and indirect expenses against the participants' fund		
No	284	94.7
Yes	16	5.3
Total	300	100.0

## *Disclosure of Key Personnel*

Q12-Disclosure of shareholders activities on participant underwriting surplus		
Options	Frequency	Percent
No	289	96.3
Yes	11	3.7
Total	300	100.0
Q13-Disclosure of BoDs decisions regarding Participants Fund PF		
No	266	88.7
Yes	34	11.3
Total	300	100.0

## *Participants' Knowledge*

*-Knowledge of the principle of the TOs Model*

*-Knowledge of Underwriting Surplus*

*-Knowledge of Charged Fees, Encountered Deficits  
-and availability of Qard*

*- Knowledge of Dissatisfaction Channels*

## *Knowledge of the Takaful Model Principles*

Q14- What are the <i>takaful</i> models you are participating in		
<i>Wakalah</i>	11	3.7
<i>Mudarabah</i>	130	43.3
<i>Waqf</i>	4	1.3
Don't Know	147	49.0
Other	8	2.7
Total	300	100.0

## *Knowledge of Underwriting Surplus*

Q15 - What options of underwriting surplus distribution were given by the TOs in association with participants claim situation?		
Options	Frequency	Percent
Without Differentiation	16	5.3
To Non-claimable Participants	3	1.0
Amount of claims < contributions	1	.3
I don't know	280	93.3
Total	300	100.0

## *Knowledge of Charged Fees, Encountered Deficits and availability of Qard*

**Q16- Which of the following fees does the company charge the participants' fund account.**

Options	Frequency	Percent
<i>Wakalah</i> Fee	1	.3
Investment Management Fee	1	.3
I don't Know	298	99.3
Total	300	100.0

**Q17- Under which of the following conditions would you be required by the *takaful* company to pay additional contributions:**

Recovering Underwriting Deficits	3	1.0
Building-up Reserves	14	4.7
Paying back Shareholders' <i>Qard</i>	2	.7
I don't know	281	93.7
Total	300	100.0

## *Knowledge of Dissatisfaction Channels*

Q18 - What options were given by the company in case you are dissatisfied with the company services:		
Options	Frequency	Percent
Complaints to the Company	35	11.7
Quit the Company	90	30.0
I don't know	112	37.3
The company didn't inform me of any quitting options	63	21.0
Total	300	100.0
Q19 - Which of the following can you refer to in case of dispute between you and the company:		
Arbitration	8	2.7
Court	64	21.3
Ombudsman	13	4.3
I don't know	215	71.7
Total	300	100.0



## *Participants' Preferences*

- Preference on Sharia'h Compliance*
- Preference on T.Os Key Personnel*
- Preference on the reason to use takaful policy*
- Preference on claims and underwriting surplus*

## *Participants' Preferences for Shari'ah compliance*

Q20 - I would like to have an opportunity to select the SSB		
Strongly Disagree	1	.3
Disagree	26	8.7
Neutral	94	31.3
Agree	159	53.0
Strongly Agree	20	6.7
Total	300	100.0

## *Participants' Preferences on TOs' Key Personnel Power and Activities*

Q21 - Participants should have the right to refuse shareholders activities on the participants' fund		
Options	Frequency	Percent
Strongly Disagree	0	0
Disagree	11	3.7
Neutral	84	28.0
Agree	193	64.3
Strongly Agree	12	4.0
Total	300	100.0

## *Preference on the reason to use takaful policy*

Q22 - Why do you use <i>takaful</i> insurance		
22-2) To make a future plan that can benefit me and my family		
Options	Frequency	Percent
No	44	14.7
Yes	256	85.3
Total	300	100.0
22-3) To help other participants in their needs		
No	296	98.7
Yes	4	1.3
Total	300	100.0
22-4) To obey the government mandatory order to carry an insurance policy		
No	299	99.7
Yes	1	.3
Total	300	100.0
22-5) Because of <i>Shari'ah</i> compliance		
No	193	64.3
Yes	107	35.7
Total	300	100.0

## *Preference on claims and underwriting surplus*

<b>Q23 - When I make claim I still want to share Underwriting Surplus with other participants</b>		
<b>Options</b>	<b>Frequency</b>	<b>Percent</b>
<b>No</b>	<b>81</b>	<b>27.0</b>
<b>Yes</b>	<b>219</b>	<b>73.0</b>
<b>Total</b>	<b>300</b>	<b>100.0</b>
<b>Q24 - When other participants make a claim, do you think they deserve to share Underwriting Surplus with other participants?</b>		
<b>No</b>	<b>76</b>	<b>25.3</b>
<b>Yes</b>	<b>224</b>	<b>74.7</b>
<b>Total</b>	<b>300</b>	<b>100.0</b>

## *Conclusions*

*The TOs shows a shortage in disclosing participants benefits in the fund such as underwriting policy and procedures, past and present investments return, different fatwa about the takaful fund, claims and indemnities procedures, BoDs decisions about the fund*

*Respondents show a limited knowledge and awareness about the principles of the takaful products. This implies that pertinent information of the products was not explained to customers properly.*

*Participants have a high preferences which reflects their need and wants, as customer preference is an individual realization of a need, which is a perceived lack.*

It is important to realize that participants are contributing to the *takaful* fund as a reason of the expected financial return and there is no effect at all for religious motivation

# *Recommendations to Enhance TOs Disclosure System*

**TOs to launch a disclosure framework, the framework should adhere to the following instructions :**

- Framework to disclose more information to public as per IAIS (2011) core principles, ICP 20 (Public Disclosure) which require insurers to disclose relevant information on a timely basis.
- The framework should inform the *takaful* participants of their rights and obligations in the fund (IFSB, 2009).
- Framework to disclose fund's asset allocation, claims information, encountered expenses, fees and other relevant aspects of the operations of the *takaful* fund, including methods applied, assumptions used, and the accounting and actuarial policies (IFSB, 2008).
- Framework to disclose the *takaful* model in their annual report and on their website for better understanding of *takaful* products , the model shall includes all participants benefits in the fund (the distribution of investment return and underwriting surplus, fees and expenses, source and level of remuneration, fund charged expenses and fees, *etc.* (IFSB, 2010).

## *Recommendations to Enhance TOs Disclosure System Contd.*

- The framework should disclose the basis applied for determining incentive remuneration (AAOIFI, 2010)
- The framework shall present the *Shari`ah* board annual report which include:
  - Ex-post and Ex-ante of the internal *Shari`ah* audit/review report.
  - An annual *Shari`ah* compliance report (IFSB, 2009)

*In Other Words TOs shall Recognize that*

**Customers want 24/7 access to their information which means availability of server access 24/7.**



## *Recommendations to Enhance Participants Knowledge*

- knowledge and awareness of products and services is the utmost prerequisite to gain customer loyalty, hence TOs shall:

- Educate their customers on how they are different than others insurers, *i.e.* in their products, marketing and advertising campaigns, management styles, clients focus, traditions, beliefs and values.

-TOs should not treat their IT systems operations as a separate functions but they must realize that IT systems should be a central to operations with a strong combination of underwriting expertise and a sophisticated risk modeling systems, with the ability to manage broker-based distribution network.

-It's preferable to sell the takaful product via the operator itself as the Intermediaries or the brokers might not have enough knowledge about different aspects of the TOs products and services or they might have a limited knowledge about different *Shari'ah* issues.

Insurance regulators to simulate FSA Financial Capability Steering Group, to examine the approach to consumer education (FSA, 2003).

## *Recommendations for better treatments of Participants Preferences*

TOs should distinguish themselves from the conventional insurers, TOs should serve as.

- A listening channels to hear what customers have to say about them,
- A dissemination channels to enables them to communicate with customers about their feelings and observations.
- A transmission channel to makes it clear to the customers that what they said is being heeded and acted upon.
- TOs should formally or informally develop means of scoring participants satisfaction which will alert them to quality problems so as to respond promptly to such threats.

# *Remember*

*“It takes years to win a customer and only seconds to lose one”*



Thank You

Q & A

[hashem\\_nemer@yahoo.com](mailto:hashem_nemer@yahoo.com)