



Bridging the Gap **Mutual Insurance /Takaful**

Takaful Summit-London

Serap Oguz Gonulal

July 11-12, 2012

The World Bank

Email;

soguzgonulal@worldbank.org



Why the World Bank is focusing on Takaful

- Recent World Bank econometric research has demonstrated the positive role of insurance in economic development but also highlighted the inhibiting effect of some cultural settings on access to traditional insurance products.
- The work is a response to these findings and is primarily intended to explain in some detail the current state of development of Takaful insurance



Corporate models for insurance service

- The principal historic corporate models for delivering insurance have been
 - the joint stock company and
 - the mutual or cooperative model
 - The takaful model has now emerged as a third leading structure.



Takaful; an innovation?

- The latest and most important innovations emerge either from the financial markets or from their advisers ; here we have the Islamic world innovating *Takaful*, a successful alternative mechanism for delivering insurance.

This new structure is not just an innovation, but a promising development, with remarkable growth rates.



Where did these innovation come from

- The demand for insurance products that are compatible with Islam has been growing strongly for many decades throughout the Muslim world. For long periods, Muslim concerns with the treatment of ;
 - *Gharar* (*uncertainty*)
 - *Maysir* (*speculative risk*)
 - Takaful strictly means ‘cooperative’ but in practice is primarily intended to deal with three prohibited or ‘haram’ practices under Islam, including the payment of interest (‘riba’), the existence of uncertainty in a transaction (‘gharar’) and gambling (‘maysir’).
Traditional insurance structures have caused huge numbers of Muslims to shy away from entering into any kind of insurance contract.



The starting of Takaful structure

- In 1979, the first takaful insurer was founded. This landmark event was followed in 1985 by the Islamic Fiqh Academy's clarification of three basic principles of takaful insurance, which made it possible for takaful to develop dynamically in many Muslim and other countries.



Developing of Takaful/ a tool access to insurance

- Uneven or not, the importance of the ability to deliver insurance solutions cannot be understated. Insurance is a dynamic factor in strengthening stable economic development. The untapped demand, as we have seen, is enormous, and its potential has only started to be observed as the “takaful world” is unfolding.
- The underlying intent of this relatively recent entry to world insurance markets is to provide a core service to Muslims and others that have religious or ethical issues with conventional commercial insurance models. A secondary intent is to develop a model that deals with the capital challenges that have faced mutual insurers in the West and the subsequent relative decline of this business model.



Has Takaful reached its potential

However this is from a low base and a number of challenges exist to prevent its rapid penetration to potential markets. These include various interpretations of the intent of Sharia law as it relates to the different Takaful structures that have emerged in Asia and the Middle East, dealing with partner /agent incentive issues inherent in the underlying Takaful business model (which separates the insurance risk bearing fund and the management company), designing suitable prudential (including governance) requirements for Takaful insurers and establishing adequate consumer protection mechanisms for Takaful contributors.



The World Bank involvement

- The work, while not attempting to take on a role belonging to Sharia lawyers and regulators in Islamic countries, does provide a comprehensive overview of mutual insurance structures (including Christian and Jewish examples) and other hybrid models so as to provide a broad overview of the universe of operating models and to present possible ideas for moving forward.



Mutual and Takaful approach

- There are valuable lessons to be learned from the mutual and cooperative insurers, which have existed and practised for much longer than takaful. There are also many important regulatory and corporate governance questions to be raised, debated, and resolved. It is especially important to reach out to governments and regulators, to make transparent the unique qualities of takaful, and to show the importance of developing a regulatory environment that is supportive as well as a wise and prudent one.



Promoting takaful

- So a healthy, open debate is vital for enabling takaful to grow in a strong manner that will best serve the interests of all stakeholders. Takaful products are acceptable where traditional insurance products are not, so fostering an understanding of takaful is of high importance.



Next Step; International Conference in Istanbul

You are invited to the World Bank conference on:

Mutual Insurance and Takaful in a Changing World

November 5-6, 2012

Istanbul, Turkey



Takaful and Mutuality: Bridging the Gap

- The conference will provide an overview of mutual insurance structures (including Christian and Jewish examples) and other hybrid models, with the goal of presenting feasible ideas for moving forward with Takaful structures. During the conference, we will be launching a new World Bank book entitled “Takaful and Mutuality: Bridging the Gap.”
- The conference will bring together global players in the insurance industry, and will aim to provide a framework for regulatory and supervisory bodies of countries who would like to adjust their regulatory and legal framework to facilitate the establishment of Takaful operations.

We look forward to your participation!



Building up the Agenda

Email; soguzgonulal@worldbank.org

Telephone

202 458 1548