

Risk Management in the (Re)Takaful Sector

Wednesday 11th July 2012

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Lotfi Baccouche – Senior Partner

Lotfi is a seasoned Risk Management practitioner who brings over 20 years of in depth industry experience to Parker Fitzgerald where he is responsible for the firms Advisory and Enterprise Risk Management practice.

A former Chief Risk Officer of a major international insurance group, Lotfi has advised the boards of several of European Financial Institutions on key strategies in relation to risk, capital and performance management, governance and regulatory policy.

Over the course of the last 2 years Lotfi has worked with both the FSA and industry on the implementation of Solvency 2 and has been instrumental in the development of ERM and ORSA strategies for several General Insurers and leading Lloyds syndicates.

Lotfi holds a BSc in Industrial & Operations Engineering from the University of Michigan and a graduate degree in Operational Research (Master of Engineering) from Cornell University.

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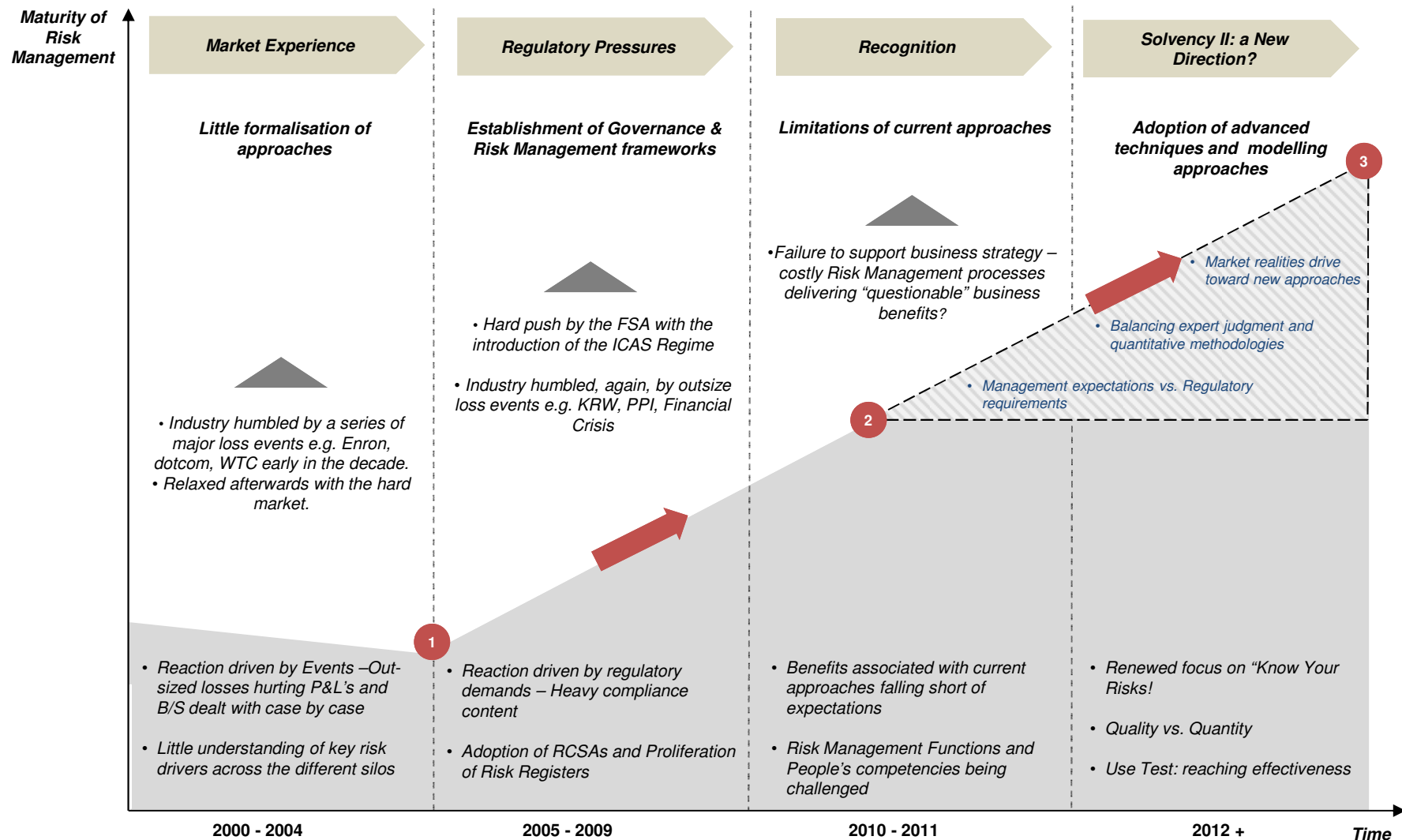
General Outlook: Challenges Abound!

- The insurance sector, generally, faces 3 main challenges:
 1. Escalating private and public debt crises ravaging the western world with contagion risk threatening the rest of the world
 2. Low yields reflecting economic weakness, austerity measures and fiscal tightening impacting Europe and the western world primarily
 3. Prospects of further asset bubbles as investors desperately seek higher yield or safer havens
- Limited growth prospects driven by
 1. Macroeconomics
 2. Demographic pressures e.g. health, pensions, etc.
- High volatility is expected to continue!

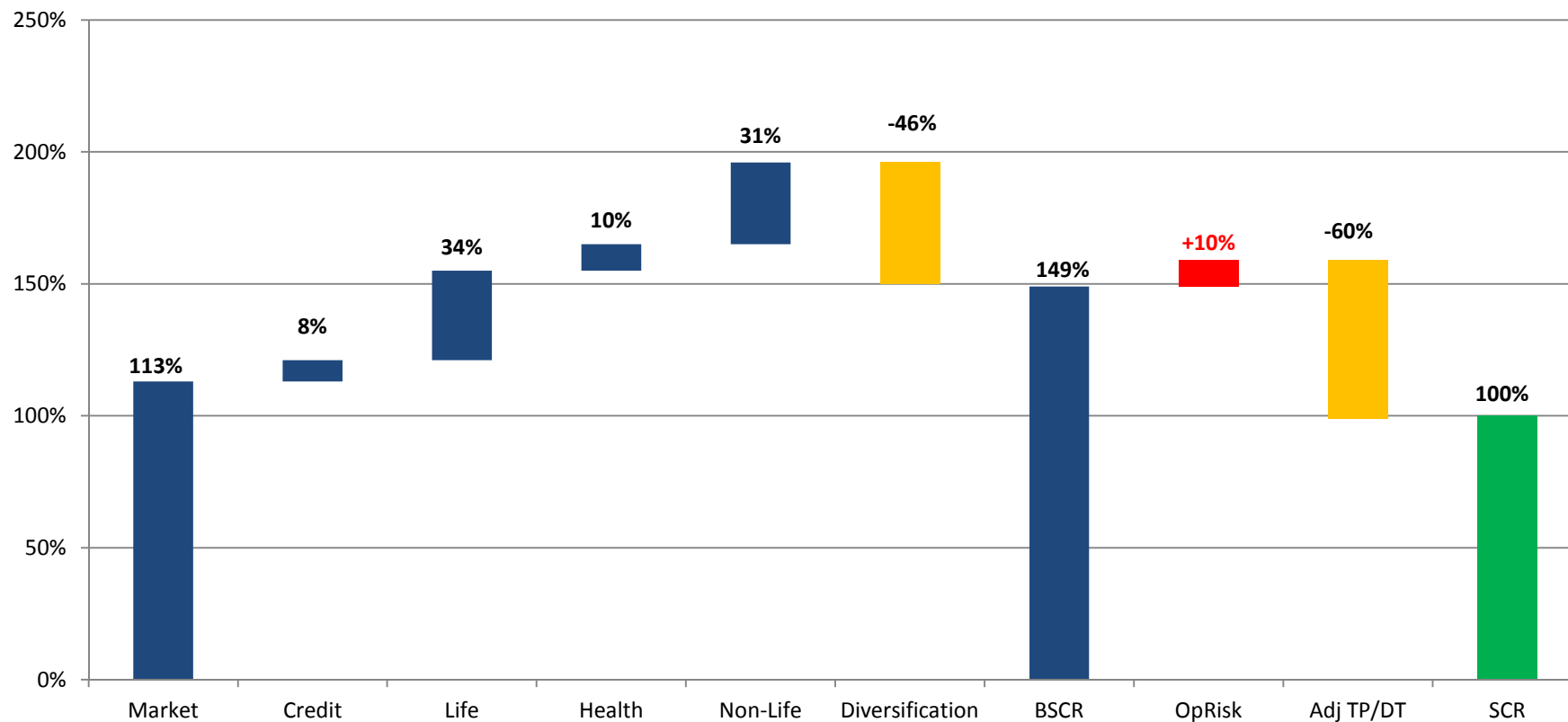
Takaful Market Outlook: How Different?

- Generally, insurance penetration is still very low in Muslim countries:
 - For example: GCC: 1.3% vs. 6.9% worldwide average
- Strong growth prospects predicated on favourable fundamentals but may take time due to multiple drivers:
 - Market fragmentation
 - Divergent operating models
 - Evolving regulatory requirements
 - Maturity of Islamic finance
 - Lack of subject matter expertise and adequate methodologies
- Pressure on underwriting performance in light of volatile investment income in the future
- Increasing Re-Takaful capacity

Review: a number of key market events over the last 12 years have driven the evolution of Risk Management in the Insurance Sector



Conventional Insurance Risk Profiles



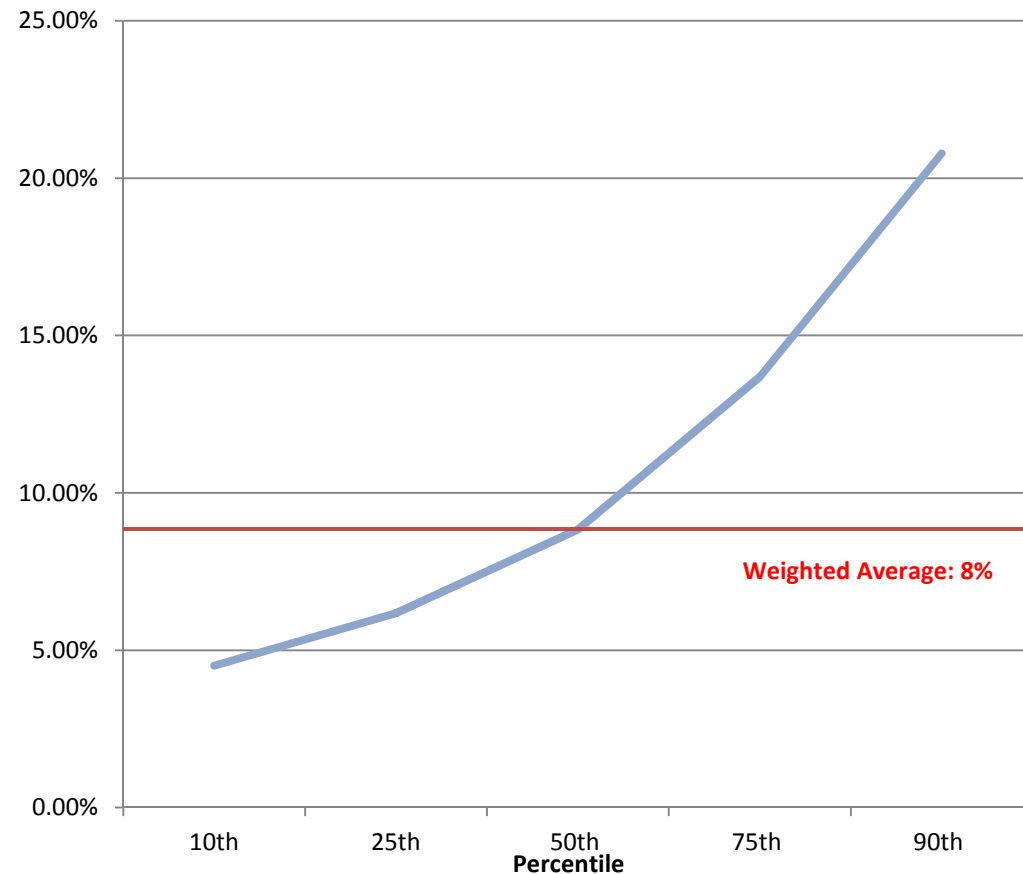
Source: EIOPA – QIS5 Results

Risk Assessments: Wide Variability!

Risk Management: Science or Art?

- Profiles are driven by a high variety of business models
- Assessments are increasingly dependent on sophisticated models and stress and scenario testing techniques
- However, parameterisation is largely based on expert judgment or standard formula factors.
- Reliable risk data and benchmarks are not always readily available

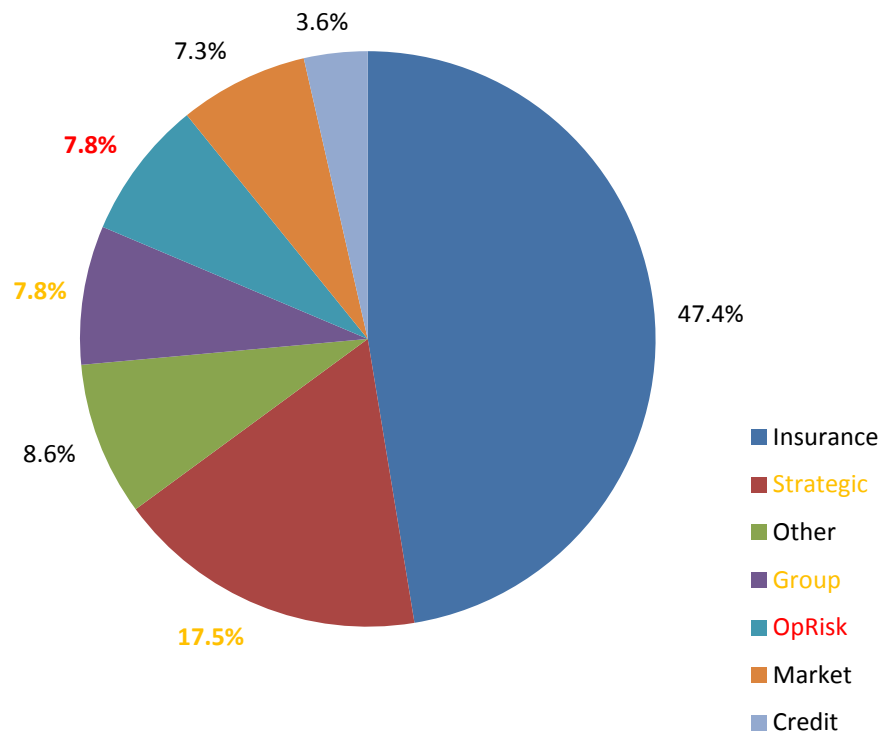
Example: OpRisk as % of Solvency Capital



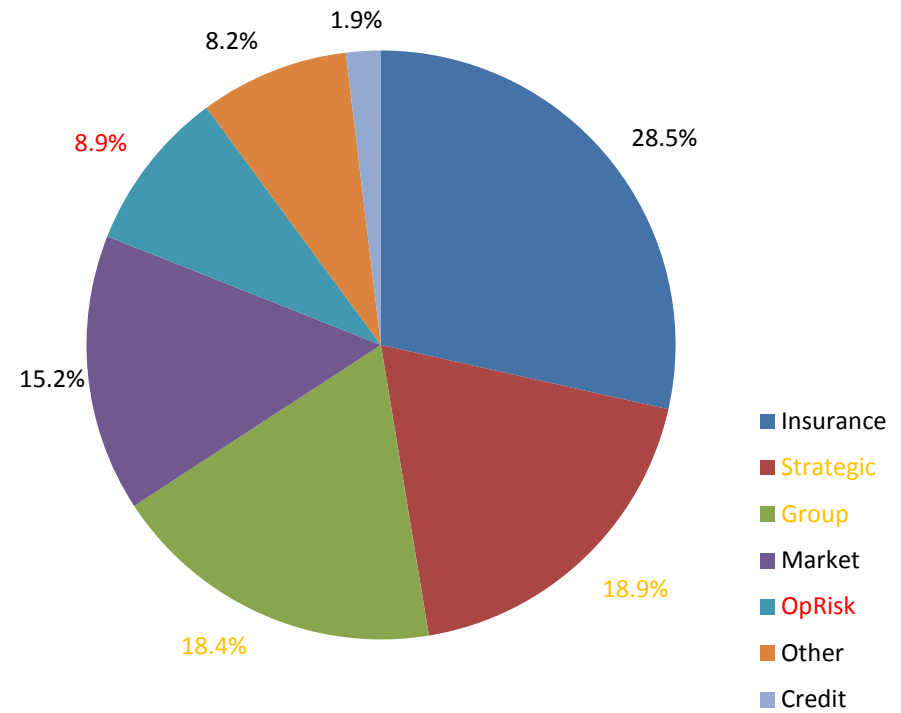
Source: EIOPA – QIS5 Results

Forward Looking vs. Experience

P&C Impairments 1969-2010



L&H Impairments 1976-2010

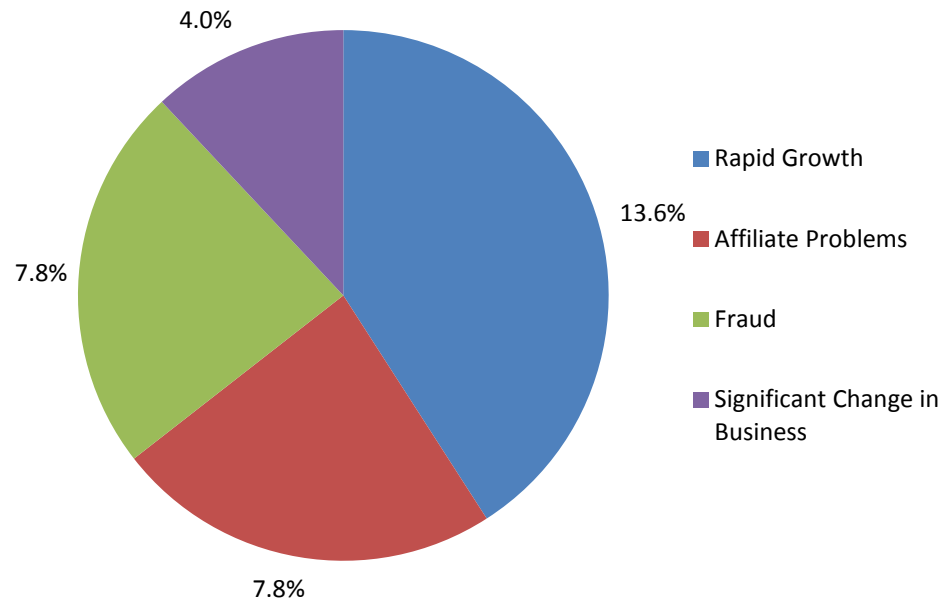


➤ Going “bust” is rarely the result of a single risk event. OpRisk, in its broadest sense, always features at the top.

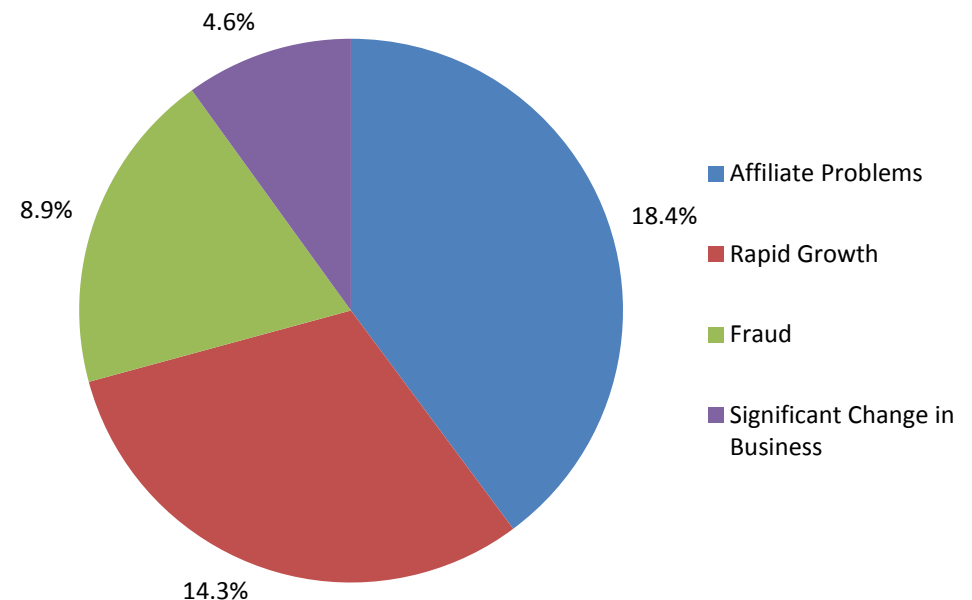
Source: A.M. Best

Key OpRisk Drivers

P&C Impairments 1969-2010



L&H Impairments 1976-2010



➤ Historical experience suggests that Extreme Events in OpRisk are more concentrated around Management and Business Strategy!!

Source: A.M. Best

Risk Management: (Re)Takaful vs. conventional Insurance

Is Takaful safer?

- Joint risk-taking and mutual assistance
- Segregation of policyholders and shareholders funds
- Governance & Supervision
 - Shari'a Compliant

How Different?

- Conceptually, Takaful could be “perceived” as better risk-managed. But is true?
- Business models differ. Profiles, therefore differ. But fundamentals of Risk Management are the same.
- The financial crisis has put Risk Management fundamentals and practices to task in both camps.

Risks to Watch Out for...



Geo-Political risk:

1. “Arab Spring”
2. Europe & US
3. Emerging



Inflation risk

1. Austerity vs. Growth
2. Commodities: short term vs. long term



Market risk: Volatile financial markets



Insurance risk

1. Natural catastrophes
2. Reserving adequacy
3. Longevity



Regulatory reforms and evolving supervisory approach (e.g. Solvency II)

Risk Management...Going forward



Risk Management is on the spot light: it has to reinvent itself!

In Summary

- *Risk Management should play a major role in Takaful business.*
- *Current approaches are inadequate.*
- *The profession needs to re-focus on things that matter!*
- ***There is no 2nd chance!***

About Parker Fitzgerald;


Established to provide Financial Institutions with a compelling alternative to traditional consulting and resourcing models; bridging the gap between the contractor market and larger consulting firms

Business led by industry practitioners, all of whom are directly engaged on strategic client engagements

Agile business model utilising a global network of over 160 practitioners and technical experts with significant expertise across our core disciplines

Cross sector (banking and insurance), horizontal service offering focussed on the key transformations facing Financial Institutions in tomorrows market:

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