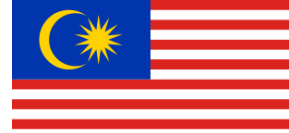




NEW PRODUCT DEVELOPMENT AND INNOVATION IN TAKAFUL

AZMAN BIN ISMAIL, MALAYSIA





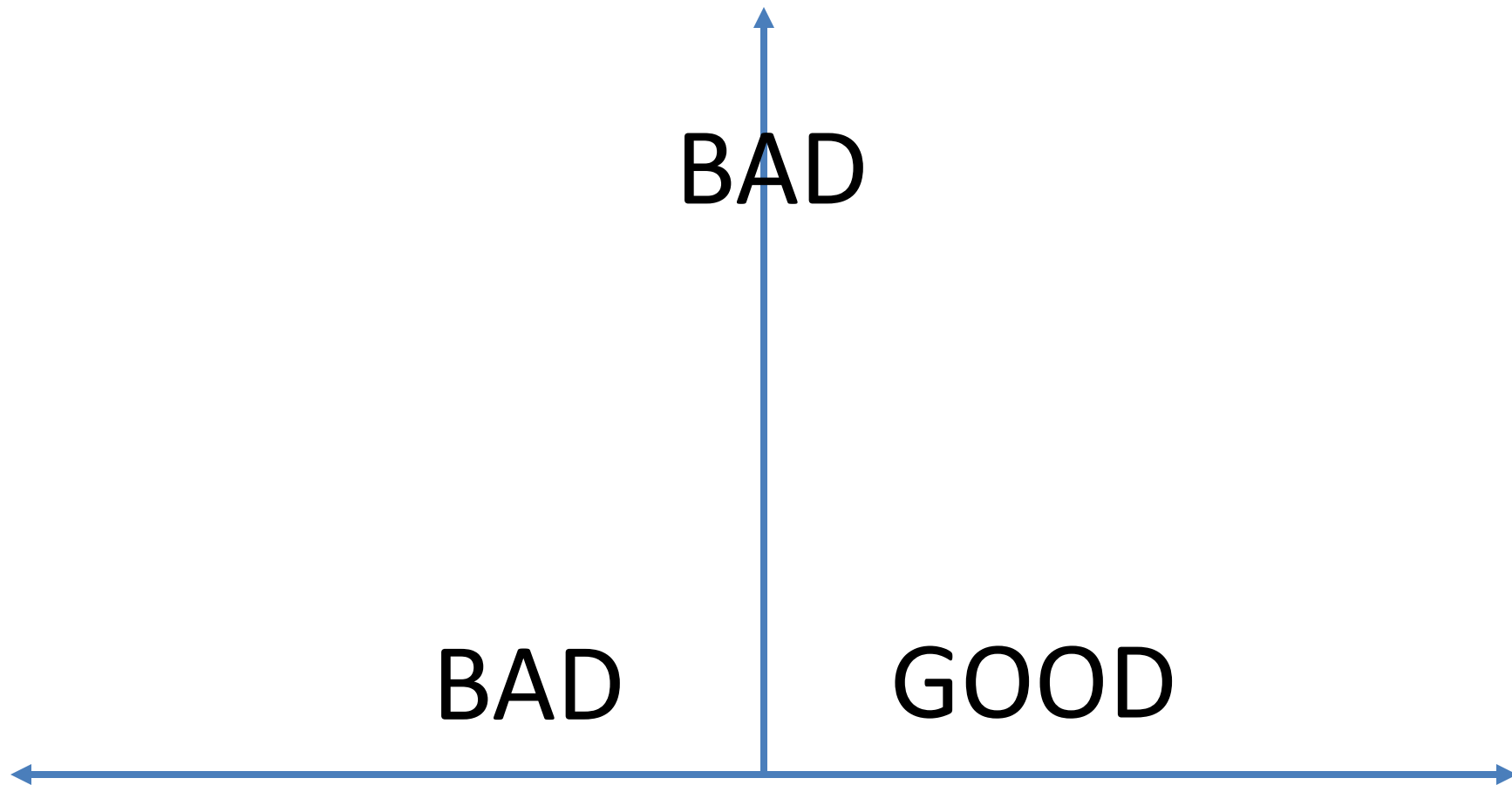
What Is Innovation?

- Merriam-Webster
 - the introduction of something new
 - a new idea, method, or device
- In Arabic (بدعة) – also means heresy
 - a belief, statement that disagrees with what a group of people believe to be right



Good Vs Bad Innovation?

بدعة محمودة مقابل بدعة مذمومة؟





Innovate Or Fail?



TECH COMPANIES
THAT STARTED
SOMETHING GREAT

> (And Then Went Bankrupt) <

WANG LABORATORIES, NAPSTER AND
3DFx MAY SOUND FAMILIAR.



Or you may never have heard of them. Each company changed the way we use computers. But not all fairy tales have happy endings—each fell victim to bankruptcy in the end.



Innovative Branding



FINGER LICKIN GOOD!
so good™

NOKIA
Connecting People

SONY

HSBC 
The world's local bank



xerox 

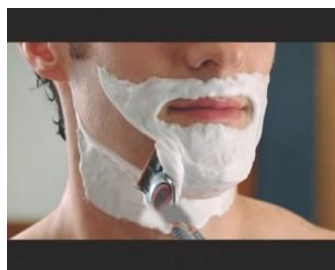
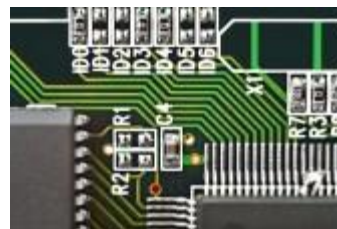
Kleenex®
BRAND

Google





Innovative products





Product Innovation In Takaful

Bad Innovation

- Too general - Did not consider market niche
- Too vague – what is the purpose?
- Copy for the sake of copy

Good Innovation

- Specific market
- Clear target – price, purpose, process
- Futuristic





Examples

Failed Takaful Products

- Takaful POS
 - Launched in fanfare in 1995
 - Expected # of cases -> 250 per day
 - Result < 250 per year
 - SPV to market
 - Cost RM 10 million
 - Project stopped after a year

Successful Takaful Products

- Ar-Rahn Takaful
 - No launching, just discussed with potential customer in 1995
 - Solved customer's problems
 - Secured business, second largest contribution
 - Coverage -> RM 30 million in 1995 to > RM 3 billion after 25 years. Expected to be > RM 8 billion in 5 years.
- Long-term HOT

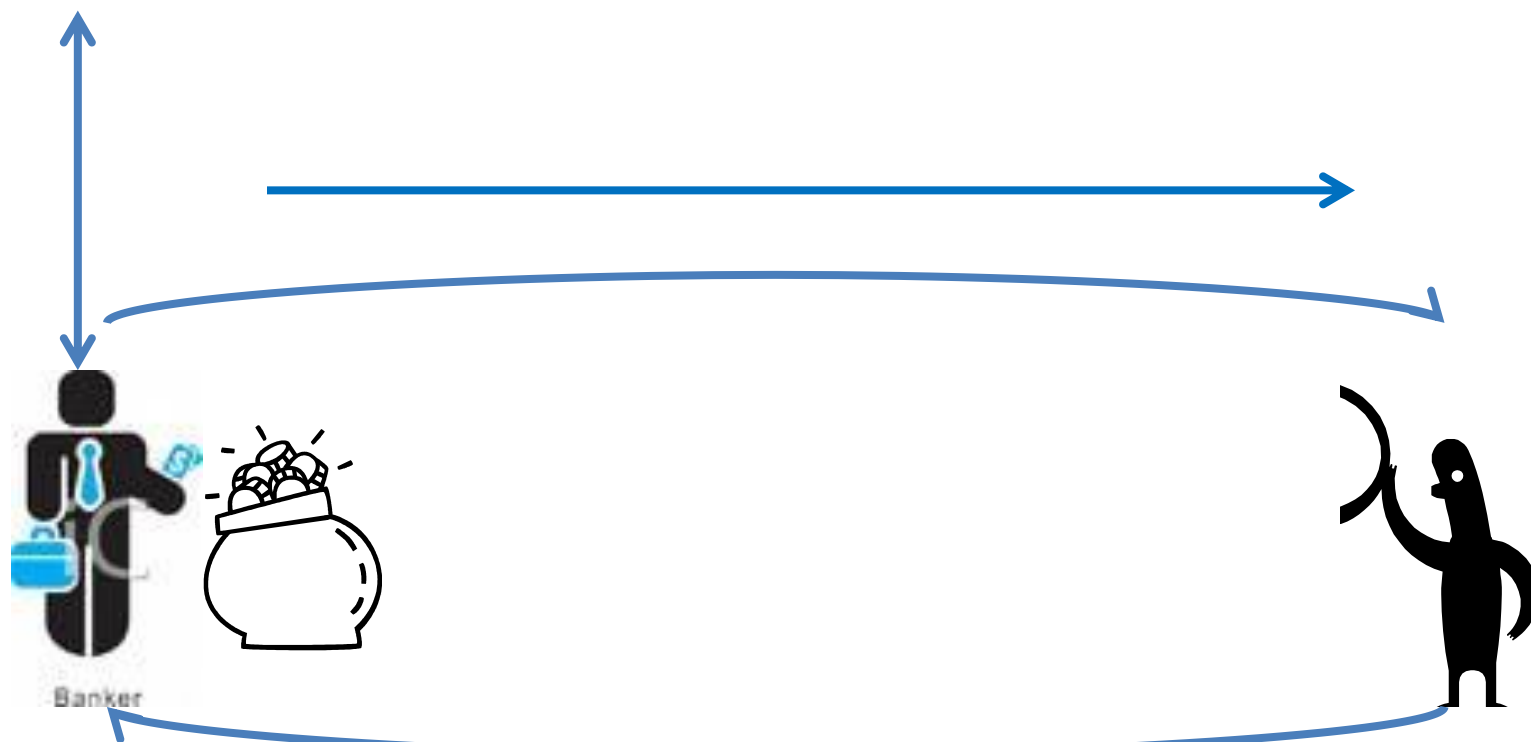


Ar-Rahn Takaful

تكافل الرهن

HOW DOES IT WORK?

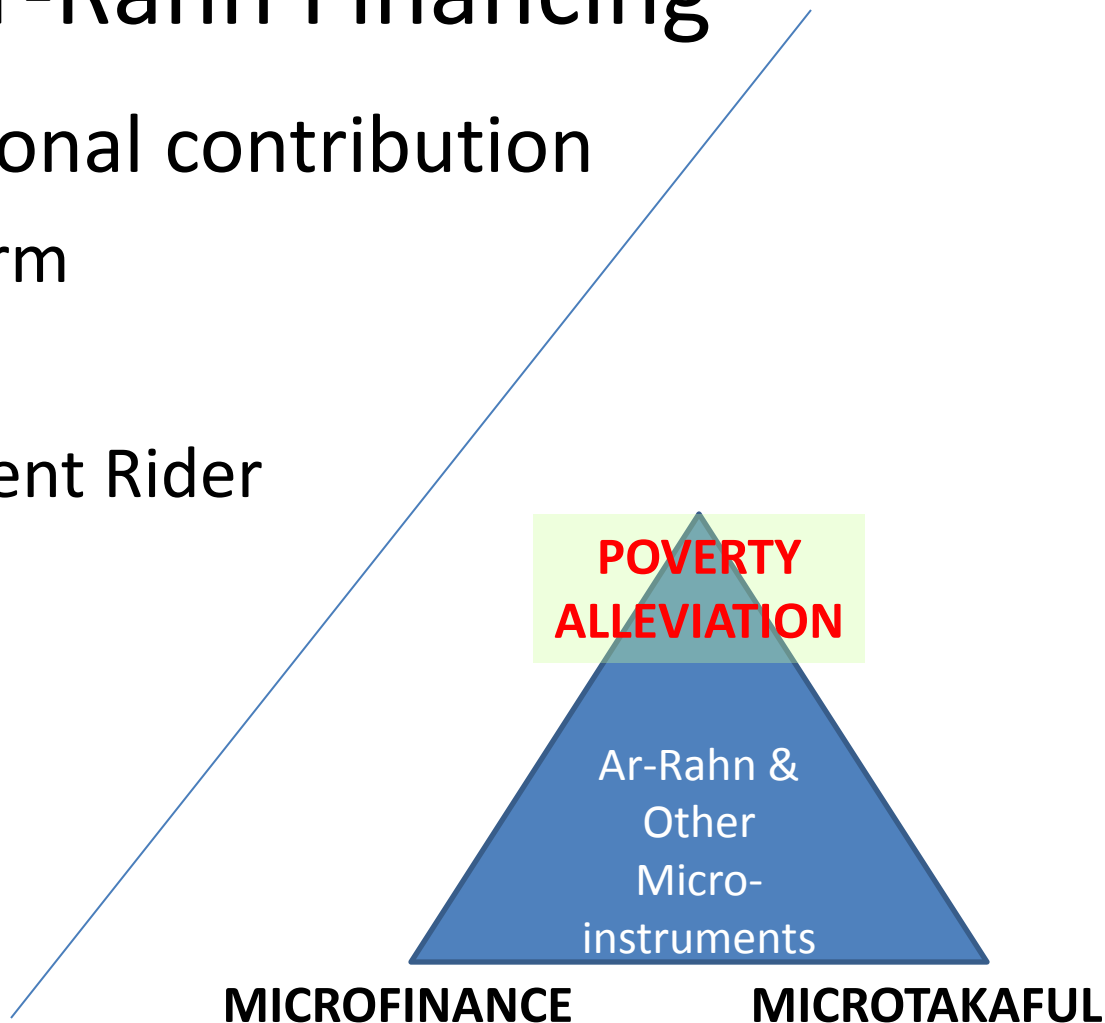
تكافل

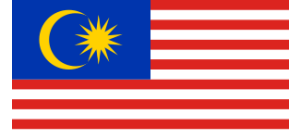




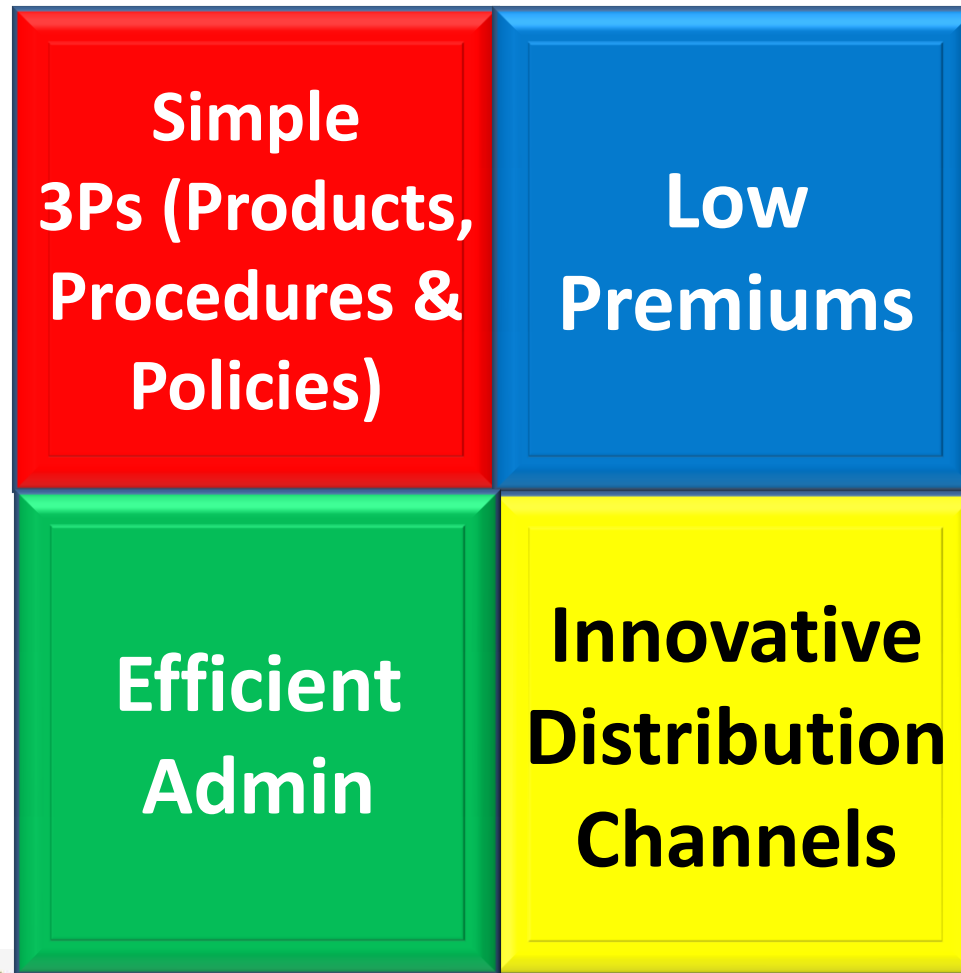
Additional Takaful Products For Ar-Rahn Financing

- For small additional contribution
 - Basic Credit Term
 - Term Rider
 - Personal Accident Rider
 - Burial Benefits





Microtakaful can be effective...





Cheap coverage

- Annual Contribution = 3 days salary or $< 1\%$ of annual salary
 - Term cover for death and permanent disablement of a year's salary.
 - Personal accident cover for death and permanent disablement of a year's salary.
 - Fire takaful cover of financed assets for an amount of a year's salary.

However, agriculture and livestock cover is more risky for the microtakaful provider and a government pound for pound subsidy would be enough to cover the financing amount for agriculture and livestock losses.





Additional cheap covers...

- A reducing credit term cover
- An increasing level contribution term cover for the breadwinner
- A term cover for the spouse
- A lower term cover for the children

E.G. TAKAFUL IN THE WEST



S

The Telegraph

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Council graveyard 'charges Muslims less for burial plots'

A council-run graveyard is selling Muslim burial plots £500 cheaper than those for non-Muslims, to the anger of local residents.

7:30AM BST 24 Jul 2010

Christian churchgoers have complained about the "discriminatory price" of burial plots in the Greenlawn Memorial Park cemetery in Warlingham, Surrey.

The cemetery – which is managed by Croydon Council – offers Muslims a graveyard plot for £2,383, but charges non-Muslims £2,927 – a hike of £544.

Kevin Pilkington, the head of bereavement services at the council, said: "The difference between the plots is that the Muslim graves are only used for one burial, whereas the other graves can be used for up to three people and for cremated remains." He said that the price of a non-Muslim grave "decreased" with each additional person added to it, meaning that "adding a body" to the grave would only cost £886 extra.



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Other Potential Family Takaful Products

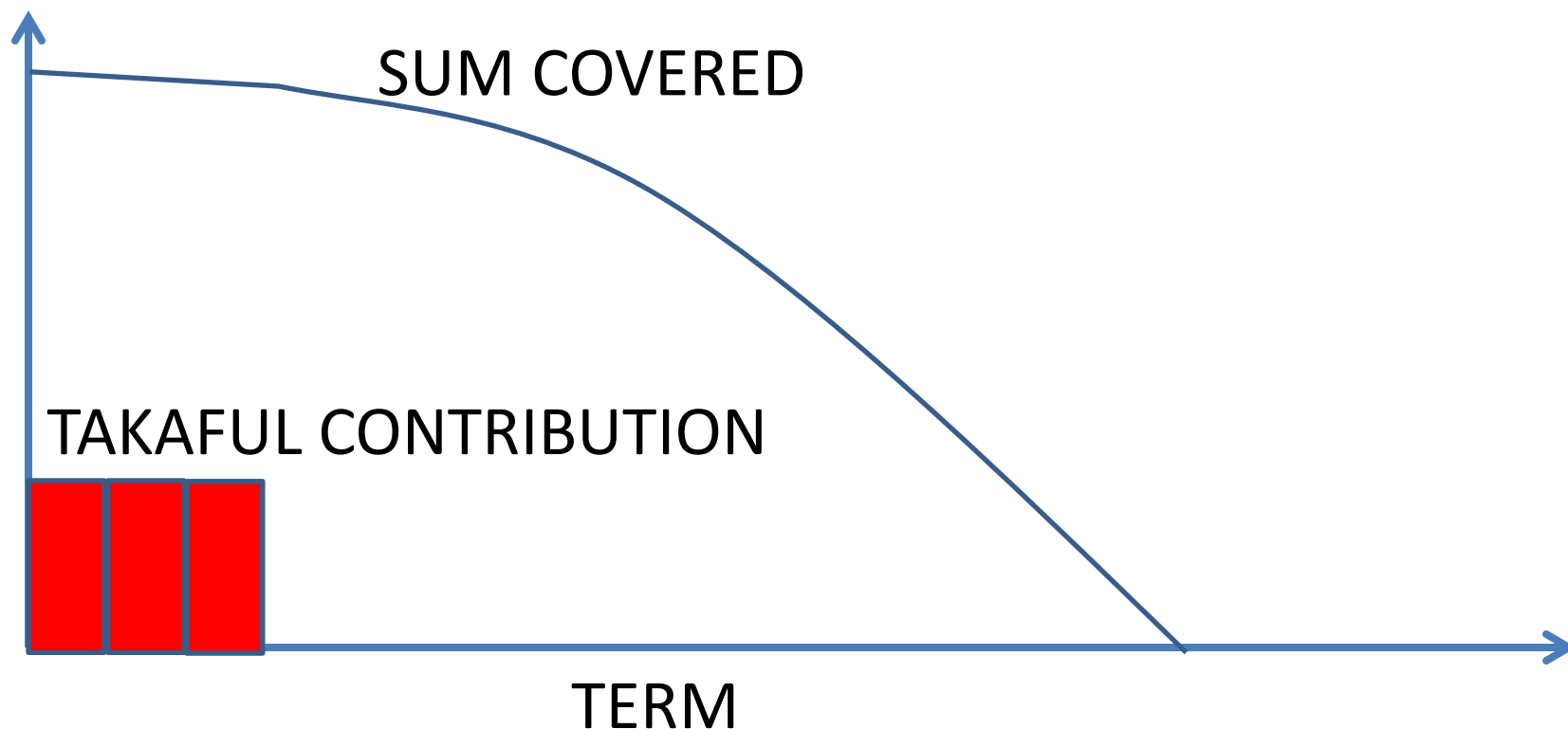
- Takaful Waqf (As A Product)
 - Waqf is of the most significant socio-political instruments in the modern world
 - Al-Azhar University based on Waqf
 - From Misr to Malaysia, from Andalusia to Indonesia, the *waqf* institution has not only helped the faithful in general but the inopportune sectors of the *ummah* such as the poor and uneducated, the orphan, the ailing, the wayfarer, the bachelor and spinster, as well as unwanted animals have benefited greatly from it.





Other Potential Family Takaful Products...

- Regular contribution MRTT

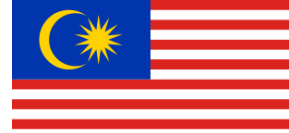




Other Potential Family Takaful Products...

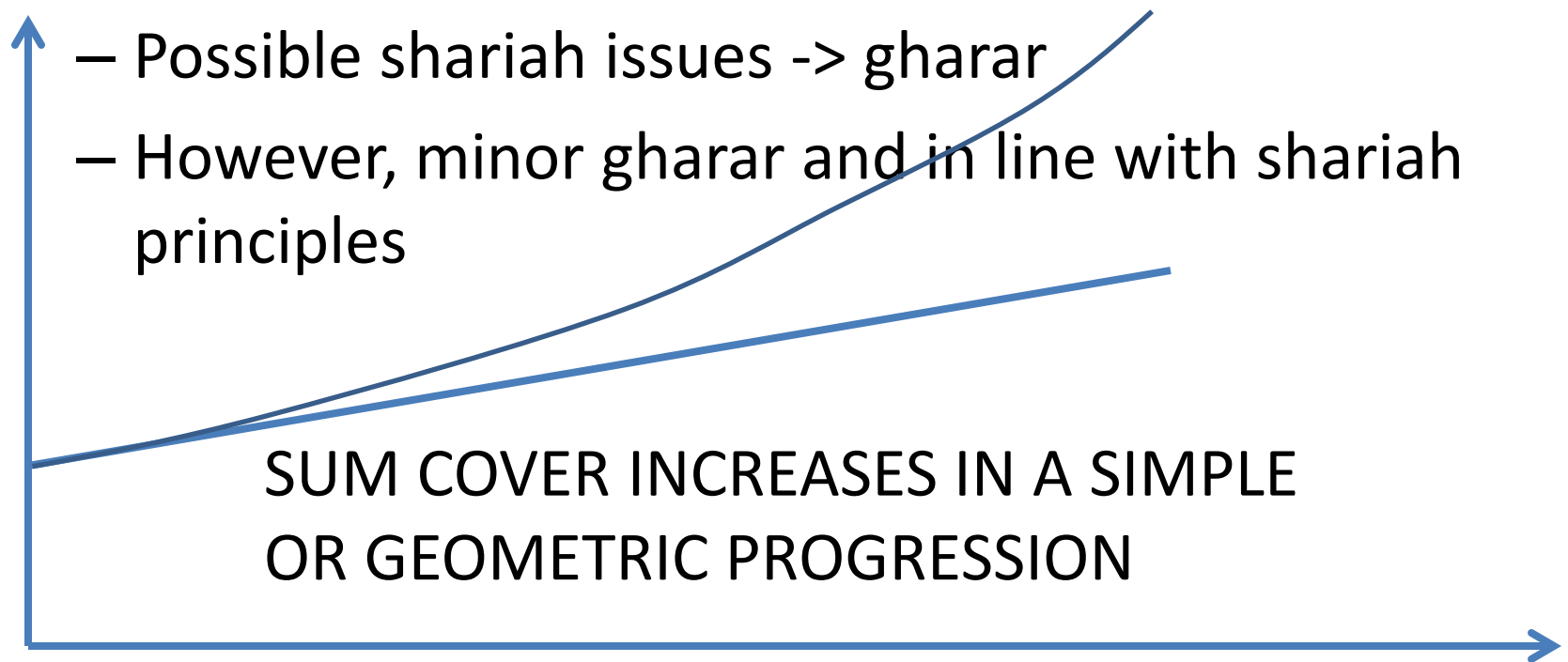
- Joint Term (not necessarily MRTT)
 - Whoever dies first, whether father or mother
 - Shariah compliant because of maslahah, applicable only in some jurisdictions

لا ينكر تغير الأحكام بتغير الأزمان



Other Potential Family Takaful Products...

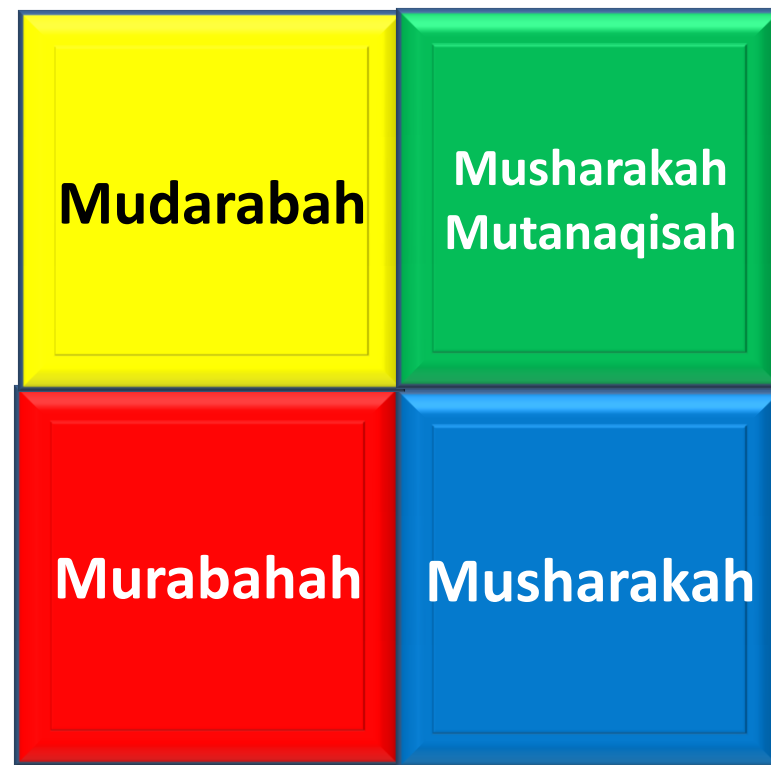
- Inflation-busting Term
- Inflation-busting PA Rider
 - Possible shariah issues -> gharar
 - However, minor gharar and in line with shariah principles

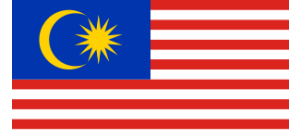




Other Potential **Family Takaful** Products...

- Special Purpose Investment-Linked
 - Linked to productive financing
 - Spur economic growth





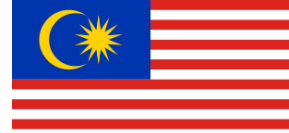
Other Potential Family Takaful Products...

- Short-Term Murabahah Term
 - For short term financing
 - For either productive or consumptive financing



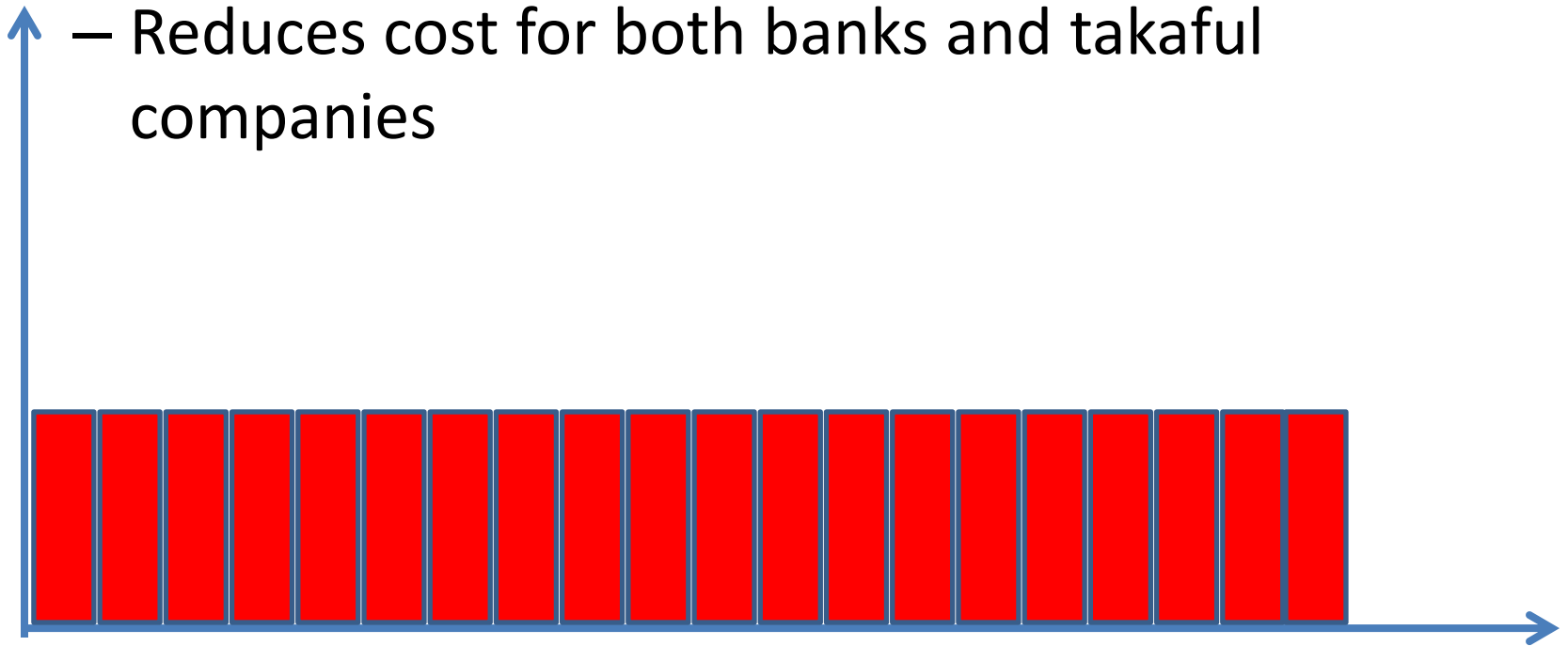
Other Potential Family Takaful Products...

- Musharakah Mutanaqisah Coverage
 - Calculation of amount at risk different from constant rate of return (CRR) or sum of digit (SOD)
 - Slight change in computer system for outstanding amount at risk
 - Suitable for entrepreneurs



Other Potential General Takaful Products

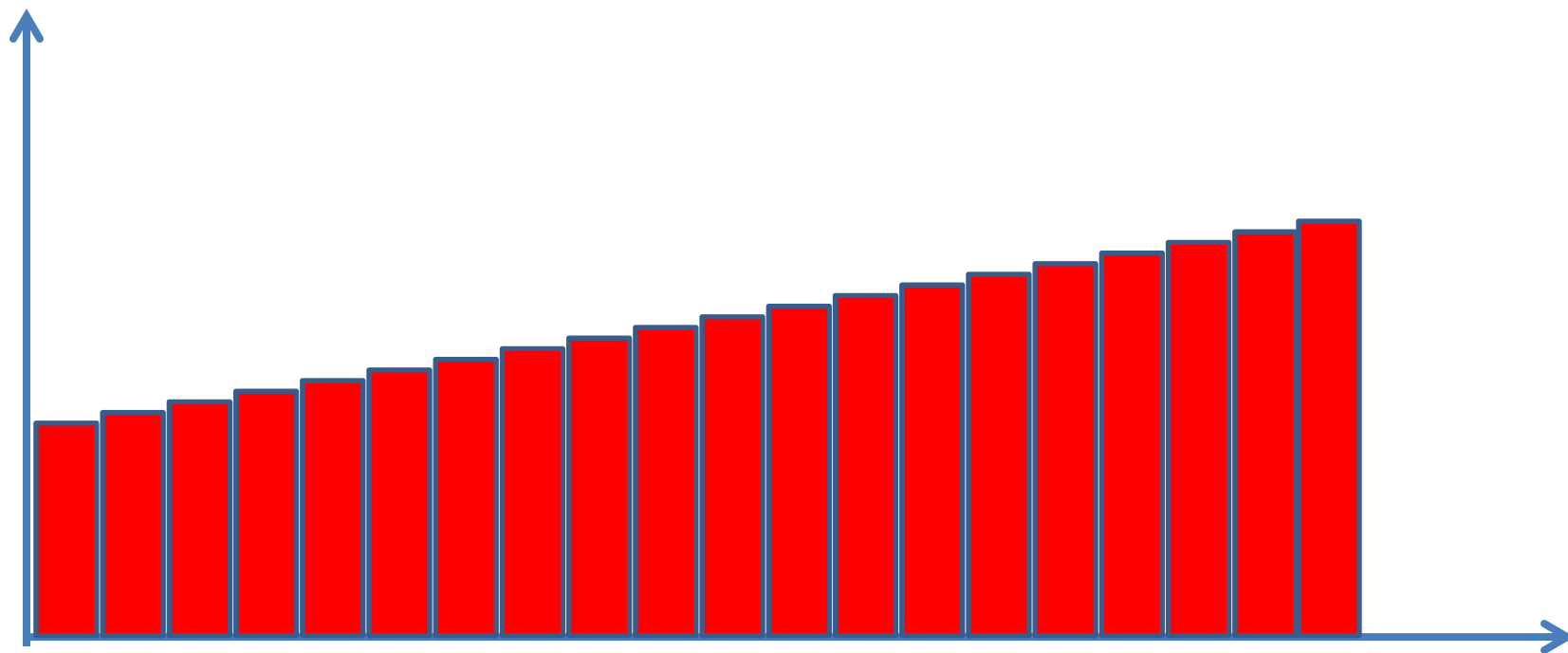
- Parallel Financing Period (PFP) Fire & HOT
 - Period of cover follows period of financing
 - Reduces cost for both banks and takaful companies





Other Potential General Takaful Products

- Inflation-indexed PFP Fire & HOT
 - Similar to above, but considers inflation





Other Potential General Takaful Products

- Back-to-Back Cat Cover,
 - Especially livestock and agriculture
 - Developing agro-industry
 - High risk, so now still not possible in some jurisdictions but feasible in others
 - Government support needed for back to back
 - Processes in place to prevent moral hazard



CONCLUSION

- Many innovative takaful products can be offered immediately in most jurisdictions whilst some can only be implemented in certain jurisdiction after a certain time



About Azman Ismail...

- ***Azman Ismail**, has been in the islamic finance and takaful industry since 1985. He has been providing training and consultancy services to companies in Malaysia, Singapore, Indonesia, Saudi Arabia, Qatar and Brunei*
- *He is an external lecturer for the Master in Islamic Banking and Finance, Institute of Islamic Banking and Finance, IIUM. He is also a Member, Board of Studies and Course Consultant at the Institute. He has also been by the International Centre for Education in Islamic Finance (INCEIF) and the International Shariah Research Academy (ISRA). He is also a Member, Shariah Committee, Munich Retakaful.*

