

The Ethics of a Friendly Takaful Society

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Taking a fresh look

How **would** or **should** takaful companies operate in markets where for friendly societies and mutuals their concepts, operational structures and regulatory environment are well known?

Quick definitions

- A mutual **insurance company** is an **insurance company** owned entirely by its policyholders. Any profits earned by a **mutual insurance company** are rebated to policyholders in the form of dividend distributions or reduced future premiums.

Quick definitions

- A **friendly society** is a mutual association ... composed of a body of people who join together for a common financial or social purpose.

Quick definitions

- **Takaful** is a co-operative system of reimbursement or payment in case of loss, paid to people and companies concerned about hazards, compensated out of a fund to which they agree to donate small regular contributions, managed on their behalf by a Takaful Operator.

Takaful Principles

Takaful principles, based on the commercial laws of the Shariah (Muamalat) are designed to provide just reward, encouraging the distribution of wealth through savings and insurance protection based on

- equity,
- justice and
- fair play.

Question

- If takaful system is so supportive of the social goodness, why is then takaful still a small subset of the insurance industry?
- If the ethical aspects of Mutuals have worked well for them, then why is it that even stronger socially, environmentally and economically driven ethics of takaful are not doing the same for it?

Question

- Retakaful Dispensation: will it be another 30 years, or perhaps more, or never, before the industry can do away with this dispensation?
- can the industry find ways much faster and earlier to overcome the issues impeding its growth in attaining the self-sufficiency it needs?

Roadblocks

1. Terms, definitions and processes that can be confusing or misleading
2. Expectations misaligned with the “Substance” of underlying concepts
3. Complacency to adhere to ***form*** over ***substance***

Moving Forward

... the mathematics of cooperation

- To recognize that participants and shareholders are two pieces of the same string
- Cooperative principles to embrace both the participants and shareholders as one body of cooperation.
- to re-examine models and processes to bring about changes in ways that would break the shackles that are impeding the growth of takaful.

Moving Forward

... the mathematics of cooperation

- Aligning the interests of participants and shareholders without upsetting the core values of Takaful.

Moving Forward

... the mathematics of cooperation

- The shareholders' role as lender of last resort needs to be recognized within the juristic realm as an obligation.

Moving Forward

... the mathematics of cooperation

- Wakalah fees to be geared mainly to cover expenses for running the business, with shareholder returns linked more to variable source of surplus or deficit of the business in the spirit of risk and reward

Moving Forward

... the mathematics of cooperation

- The performance incentive fee for the shareholders recognized as a just reward for the risk taken by them

FRESH LOOK ... CHANGING OF MIND SETS



1.6 BILLION

V

7 BILLION

Thank You

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