



POTENTIAL ROLE OF MUTUALS IN PROVIDING TAKAFUL SERVICES

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17-18 February 2015 - The Savoy Hotel - London



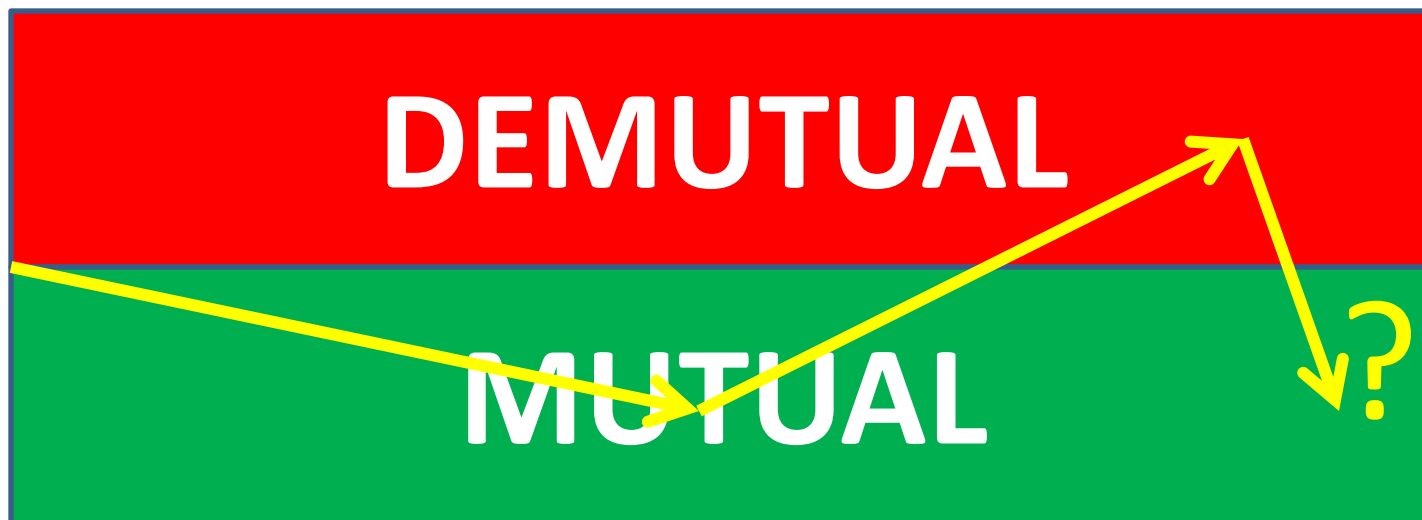
SOURCE : ICMIF



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The Trend





DeMutualisation

- 1990's
- Malaysia – Insurance Act 1996
- USA – 1992 started with various IC's and culminated in Gramm-Leach-Bliley Act 1999





Why demutualisation?

- better way to expand their business by raising equity capital as well as undertaking acquisitions or strategic alliances
- benefit existing policyholders who receive immediate tangible benefits in the form of cash, policy credits or common stock
- subscription rights to purchase a portion of the capital stock





The Dark Side...

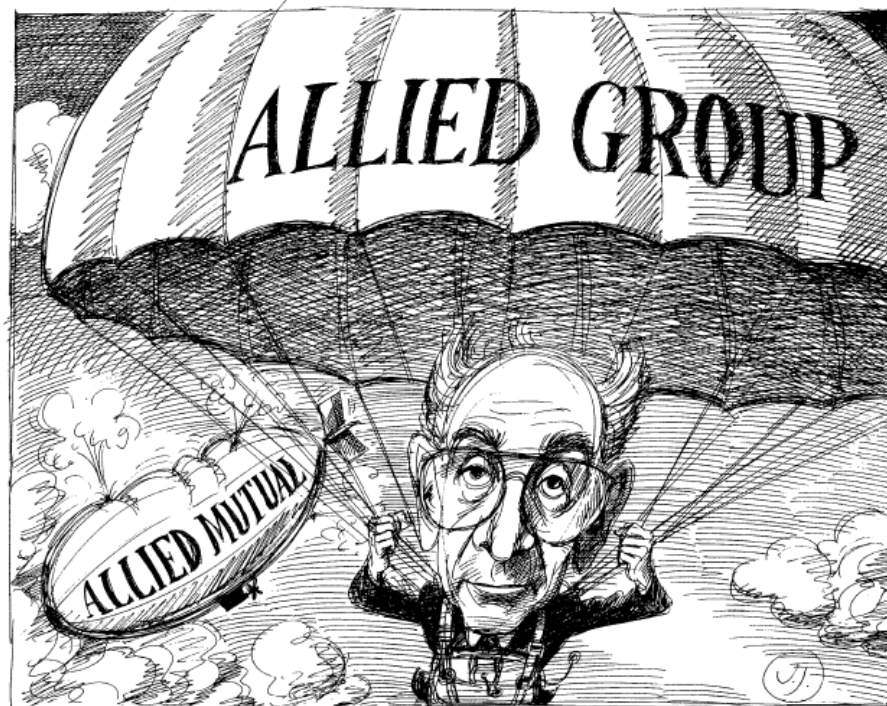
The Dark Side of Demutualization (or How to Make a Fortune From a Mutual Insurance Company)

The ALLIED Invasion

In theory a mutual insurance company is a wonderful thing: a collective where insureds pool their risk and resources for the common good. Because a mutual is not beholden to shareholders—it has none—its mandate is to serve its policyholders.

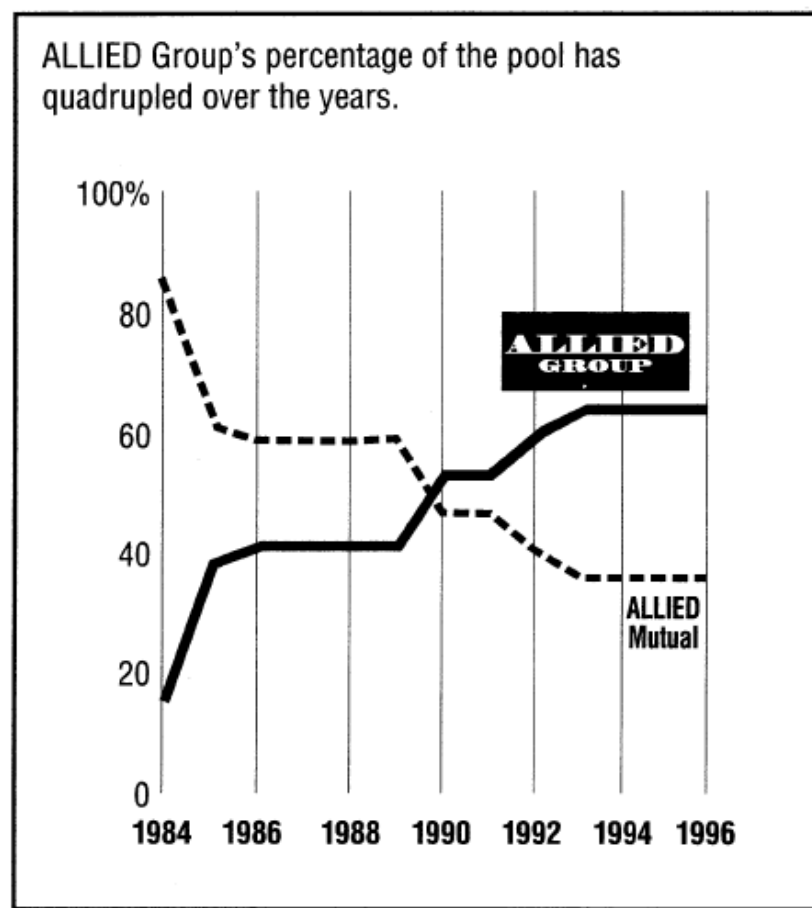
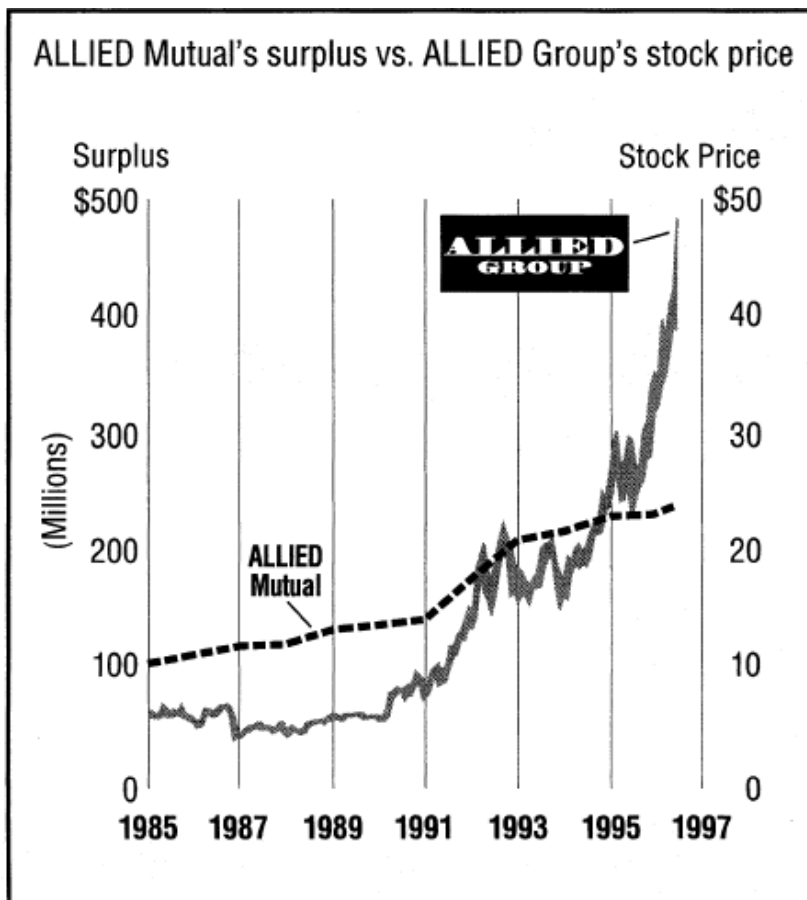
Mutual insurance has a long, noble tradition, and many mutuals are exemplars of prudence and success. One need look no farther than State Farm, America's largest insurance company, to see what has been accomplished under this form of ownership.

Although mutuals have done quite nicely for more than two centuries, the concept itself has been called into question of late. A small number of mutuals have gone so far as to demutualize, abandoning the cooperative form altogether. Equitable Life and UNUM are notable examples. It is ironic that, in an industry awash with capital, the most common objection to



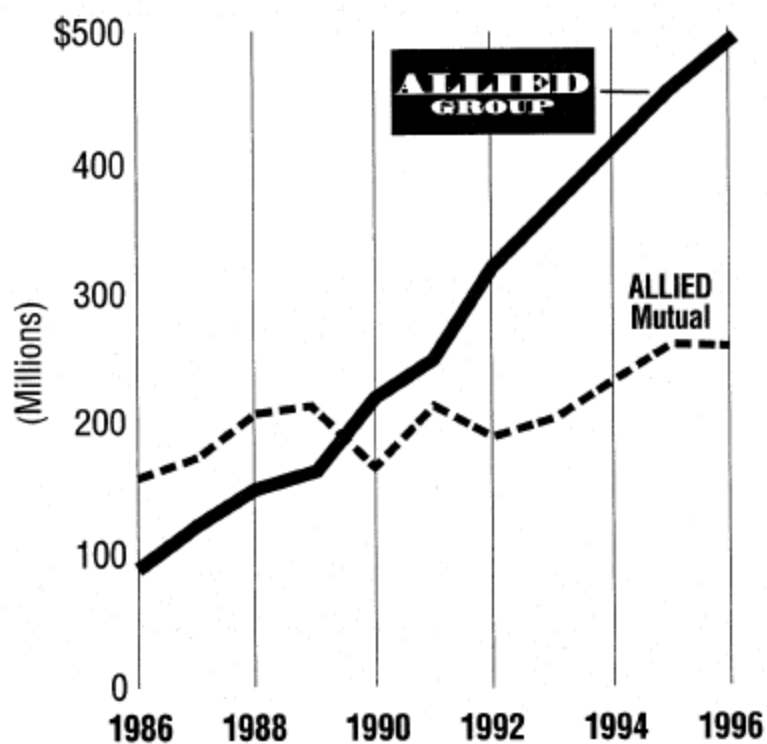


The Case Against Mutuals

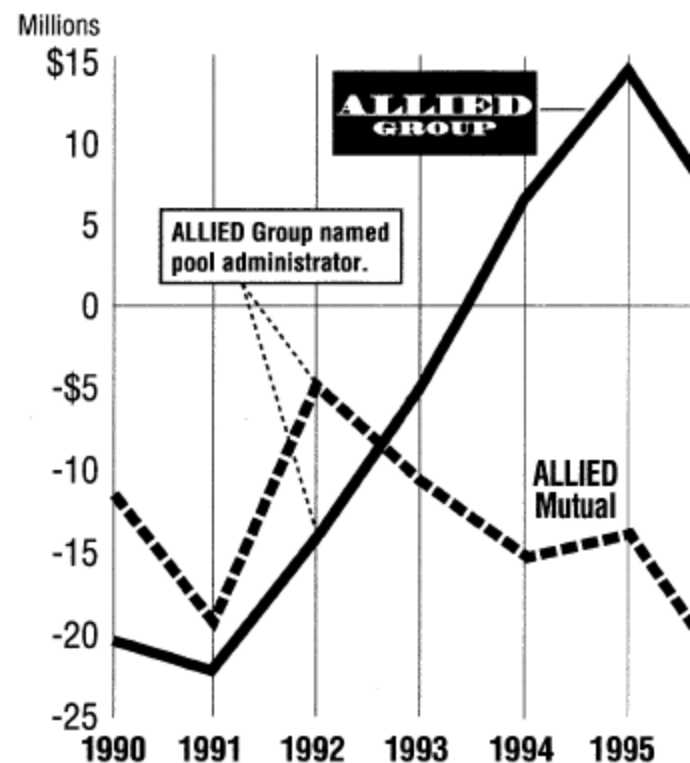




Premium Volume:
ALLIED Group has left ALLIED Mutual in the dust.



Allied Mutual and Allied Group were once equal participants in the Allied pool. That changed in January 1993, when AMCO (an Allied Group subsidiary) named pool administrator. Since then Allied Group has recorded underwriting profits from the pool while Allied Mutual has reported increasing losses.



Source: A. M. Best



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Public Co. Shareholder Transactions

1997



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The IAIS

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

AND

MICROINSURANCE NETWORK



Issues Paper on the Regulation and Supervision of Mutuals,
Cooperatives and other Community-based Organisations in increasing
access to Insurance Markets

OCTOBER 2010



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IAIS ISSUES PAPER ON MCCO's

- **DEFINITION OF MUTUALS, COOPERATIVES AND OTHER COMMUNITY-BASED ORGANISATIONS (MCCOS)**
- **THE ROLE OF MCCOS IN PROVIDING ACCESS TO INSURANCE SERVICES**
- **ICP REVIEW - SPECIFIC ISSUES THAT ARISE ON REGULATION AND SUPERVISION**





ICP REVIEW

- ICPS 1 TO 5: SUPERVISORY ARRANGEMENTS
- ICP 6: LICENSING
- ICP 7: SUITABILITY OF PERSONS
- ICP 8: CHANGES IN CONTROL AND PORTFOLIO TRANSFERS
- ICP 9: CORPORATE GOVERNANCE
- ICP 10: INTERNAL CONTROL





ICP REVIEW ...cont

- ICP 11 TO 17: ON-GOING SUPERVISION
- ICPS 18 TO 23: PRUDENTIAL REQUIREMENTS
- ICP 23: CAPITAL ADEQUACY AND SOLVENCY
- ICPS 24 TO 28: MARKETS AND CONSUMERS
- ICP 24: INTERMEDIARIES
- ICP 25: CONSUMER PROTECTION
- ICP 26: INFORMATION, DISCLOSURE AND TRANSPARENCY TOWARDS THE MARKET





RELATION BETWEEN TAKAFUL AND MUTUAL

- The root word of *takÉful* is *kafala* which means 'he was, or became, responsible, answerable, accountable, amenable, surety, or guarantee'
- It also means to feed, to support, provide for, to vouch, answer, go bail, be or to stand sponsor, be liable, to be legal guardian, to secure, to warrant, ensure, to cover, to admit as security, to bail, to obligate on something, to pledge on something, to undertake, to take upon something, to vouch for each other, guarantee each other.
- Thus, *takÉful*, variant of *takÉfala*, means mutual or joint responsibility, solidarity or mutual agreement.



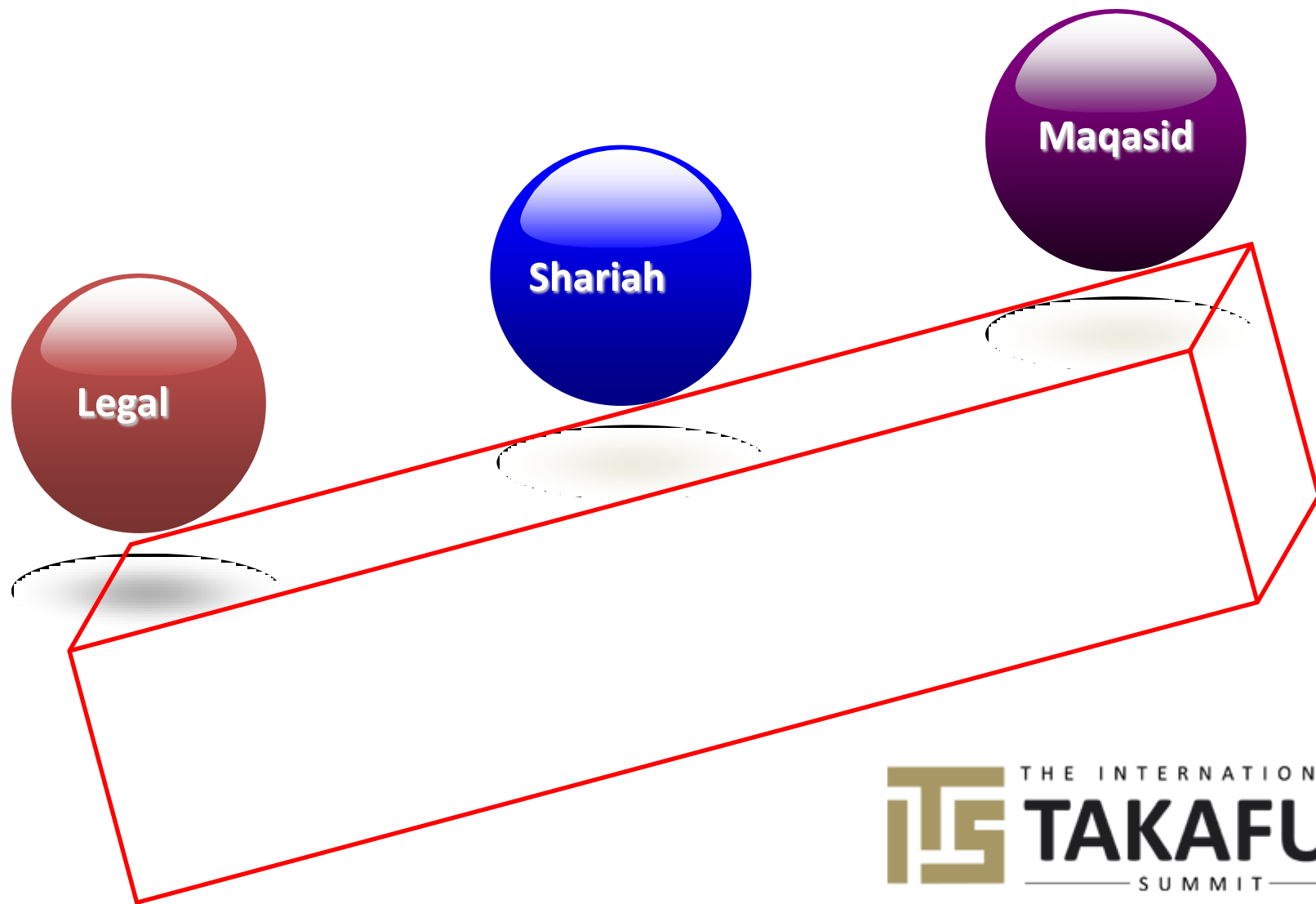


Shariah issue?





How?





Example

- **RECOMMENDATIONS**
 - **Suggested changes in legislation**
 - Capital requirements
 - Licensing
 - Actuary
 - Treatment of surplus
 - Shariah governance
 - Coverage





About Azman Ismail...

- *In the Islamic finance and takaful industries **since 1985**.*
- *Has provided services in **17 countries**.*
- ***External lecturer** for the Master in Islamic Banking and Finance, IIBF, IIUM.*
- ***Shariah Advisor** to Munich Retakaful and several retakaful operations.*
- ***Written six** books and **translated three** books.*
- *His latest written book, '**Islamic Legal Maxims**' is a **recommended textbook** in several universities in Malaysia.*

