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Thoughts on Retakaful Partner Selection

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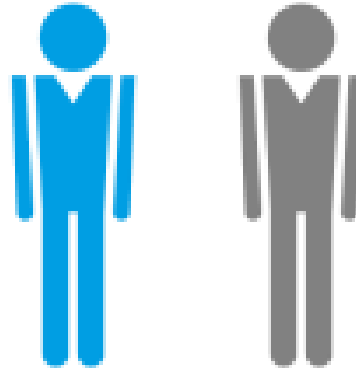
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Retakaful and Reinsurance

A Necessary Introduction

Are they the same?

similar but not the same



- ▶ Both retakaful and reinsurance serve the same risk management need.
- ▶ The basic difference is Sharia compliance.
- ▶ The contract structure is slightly different.
- ▶ The risk management impact is the same.
- ▶ There are few big players in the worldwide reinsurance markets.
- ▶ Several retakaful providers are affiliated with such groups.
- ▶ Other retakaful providers are affiliated with regional groups.

Selecting the Right Partner

Do you need to look further?

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Why is it important?

worst case scenario

- ▶ Recent large claims:
 - Steel factory: USD 273m
 - Sugar factory: USD 160m
 - Aluminum smelter: USD 235m
 - Bakery: USD 290m

- ▶ What if the retakaful operator is not able or *willing* to pay?
 - Impact: liquidity. Takaful operator must honour the claim anyway.
 - Impact: capital. What if it cannot? Would the shareholders step in?

- ▶ With the right retakaful/reinsurance partner, this situation should never happen.

Preventing the Worst Case Scenario

counterparty credit risk

- ▶ The worst case scenario highlights the importance of counterparty risk assessment.
- ▶ Solid financial strength rating
- ▶ Healthy, steady top line growth
- ▶ Strong retention
- ▶ More underwriting income than investment income
- ▶ Healthy, steady balance sheet
- ▶ Sufficient capital and technical reserves
- ▶ Liquid, conservative and diversified investment portfolio

* Financial Conduct Authority Handbook

Selecting the Right Partner

a few more thoughts - retakaful or reinsurance?

- ▶ Sharia compliance, do we give priority to retakaful?
- ▶ Sharia boards, accessibility, involvement, understanding of the business and cross-company dialog.
- ▶ Management experience and expertise in takaful and retakaful.
- ▶ AAOFI standards, how many retakaful operators utilize this standard?
- ▶ Transparency of financial reporting, how many retakaful operators publish financial reports?
- ▶ Pool structures, is a one-on-one pool still acceptable?
- ▶ Surplus distribution and profit commissions
- ▶ Brokers, are they Sharia-compliant?
- ▶ Regulation, is convergence and harmonization a possibility?

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Final Words

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- ▶ As our markets and business develops we need to pay close attention to our partners' ability and willingness to honor their obligations.
- ▶ The assessment does not end with financial aspects
- ▶ Sharia compliance and commitment to the industry is as important.



Thank you very much for your attention.