

# **APPROACHES TO PRUDENT MANAGEMENT OF TAKAFUL CONTRIBUTION POOLS**

## **DIVERSIFICATION: YESTERDAY'S STORY? OR REBOOTING YOUR YIELD?**

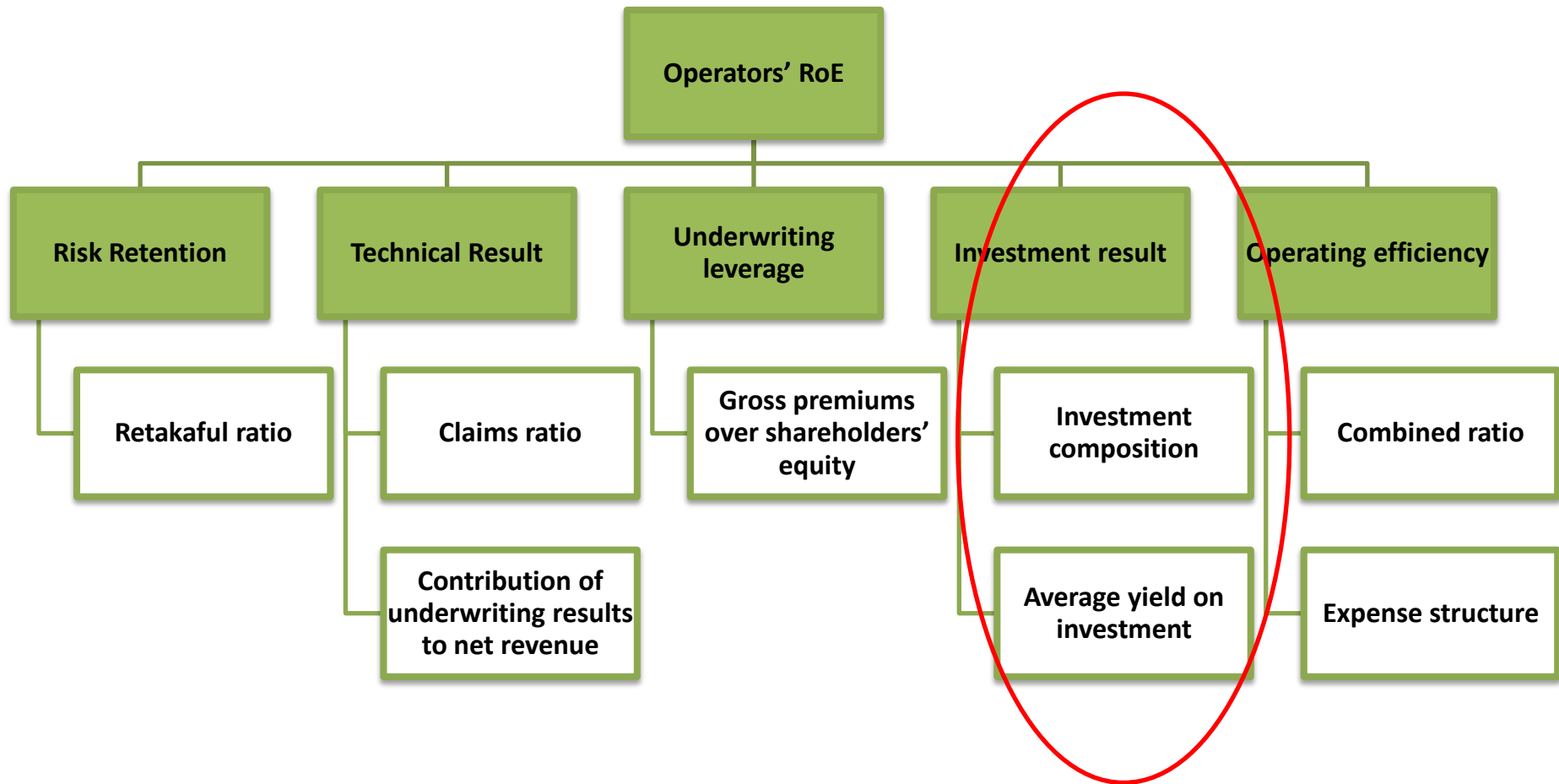
**The international Takaful Summit  
London, 18<sup>TH</sup> FEBRUARY 2015**

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# Agenda

1. Protecting Contributors' Funds
2. Diversification: Asset Classes
3. Diversification: Geographical
4. Solution: Trusted Investment Partners

# Takaful operators generate shareholders returns through a number of key drivers:











# Prudent Management? Asset Allocation - Typical Conventional Insurance & Takaful

Typical Asset Allocation of a mature Insurance & Takaful

Asset Class	General Industry / General Takaful	Life Insurance / Family Takaful
Liquid	10-15%	5-15%
Debt Instruments	70-80%	50-60%
Equities	10-20%	15-25%
Alternative	0-5%	0-5%

**Conventional Insurance Asset Allocation has been tried & tested for 100+ years**

**What it is..... (based on EY Report)**

EY Report	GCC Takaful	Malaysian Takaful
Deposits (Liquid)	26% 	20% 
Sukuk (Debt Inst)	31% 	57% 
Equities	38% 	20% 
Real Estate (Alternative)	5% 	3% 

# **Diversification: Fundamental Change in Asset Allocation Decision.**


Because:

1. Convergence in 2 areas: Global investment market structure AND investment approach.
2. Demographics of ageing population towards retirement.
3. Investors buy and hold approach.

# Prudent Management: Protecting Contributors Funds.

1. Each asset class  Regulatory “Risk Charged”  
(depending on volatility of Asset Class)

Asset Class	Risk Charged Domestic Asset	Risk Charged Offshore Asset
Equity	16%	16% + 8%
Sukuk	7%	7% + 8%
Risk charged being % of Asset Under Management (AUM)		

2. Federal Deposit Insurance Corp (FDIC)  
 Protection of Insured Deposits

# Prudent Management: Investment Income Shared with Contributors

What does the operator do with surplus of investment income?



Saving Account



Share Investment Income with Contributors

Y%

X%

Kept by  
Operator (As  
incentive)

Save/share with  
contributors (As  
benefits)

**It's time to Rethink.**

Prudent Management?

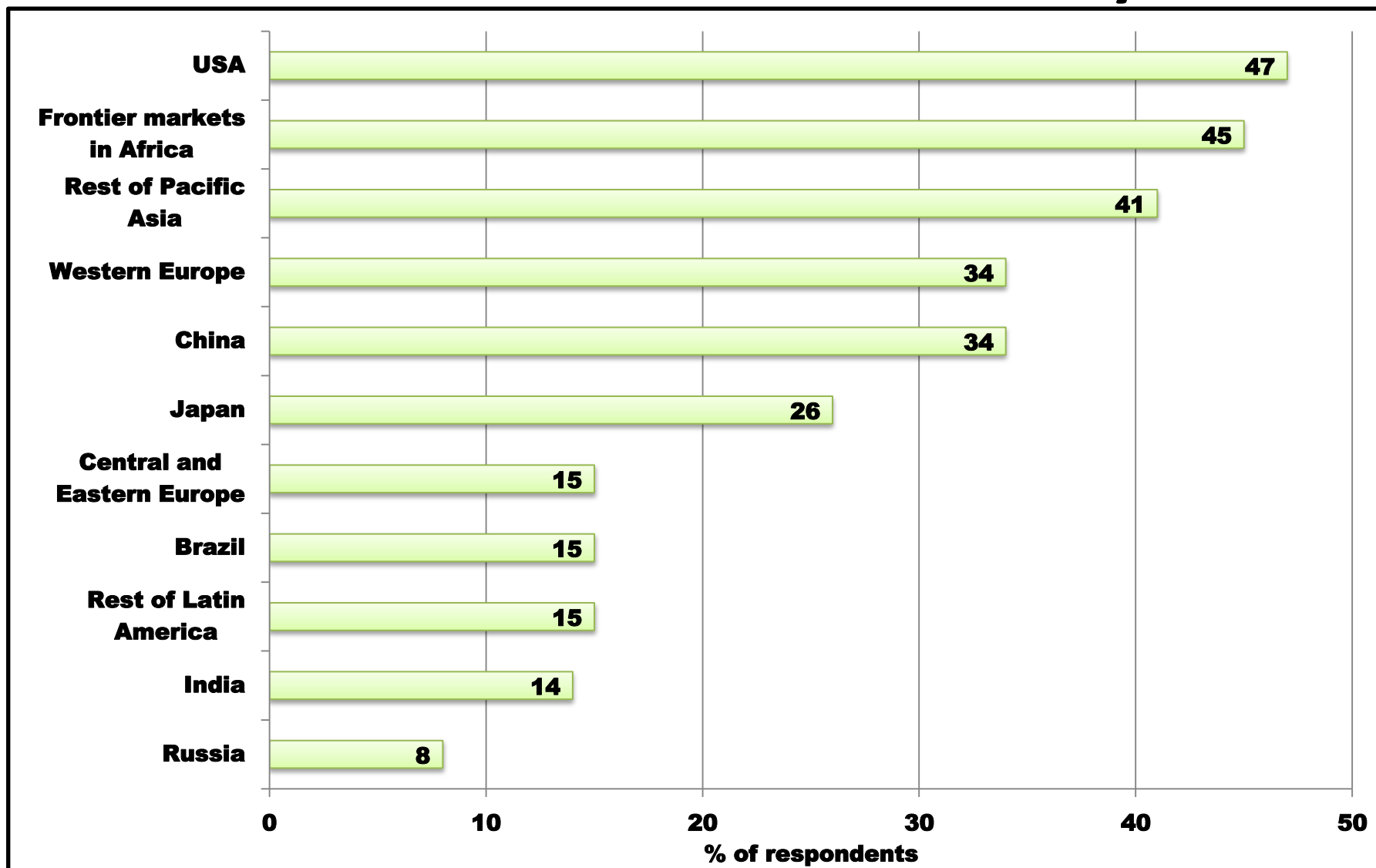
- In 1990s → We underestimated the weakness of Takaful (in investment).
- In 2000s → We overestimated their investment strength.



# **Diversification: Geographical**

**The Gravitation Pull in Key Asset  
Classes Will Guide Investors to the  
West.**

# Which regions are most likely to offer the best returns over the next three years?



# What positive and negative factors will drive asset values in developed markets over the next 3 years?

Improved prospects for economic growth	74%
The end of the Quantitative easing programs in Europe and the USA	60%
Easing of the Euro crisis	40%
Reforms of the public finances	31%
No resolution to the debt crisis	26%
No resolution to Euro crisis	23%
Continuing political paralysis	22%
The drive towards energy self sufficiency	18%

**Not All Emerging Markets Are  
Created Equal.**

# What positive and negative factors will drive asset prices in the key emerging and frontier markets over the next 3 years?

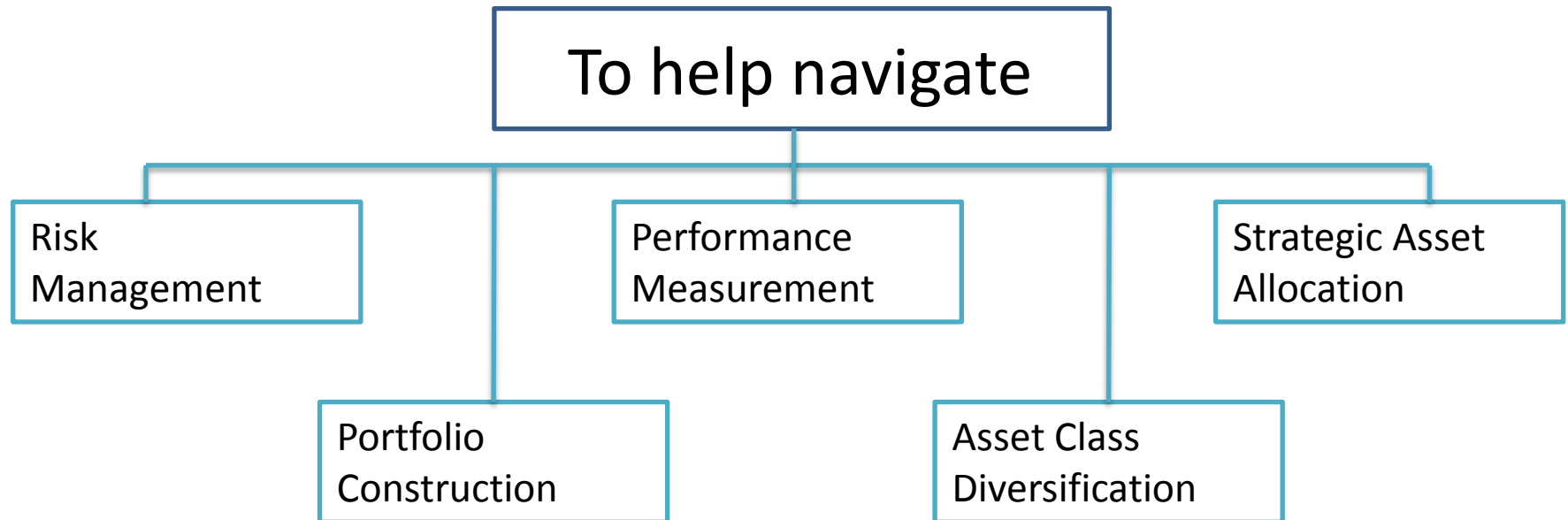
Slower economic growth	62%
The end of the quantitative easing programmes in Europe and USA	53%
Emerging urbanization and the rise of middle class	43%
Economic rebalancing from foreign trade or investment to domestic consumption	41%
Liberalization of domestic controls and capital flows	34%
Social unrest in the face of growing inequalities and fewer job opportunities	23%
Less opacity in governance practices at national and corporate levels	18%
Currency wars	18%
Shift from a savings (or trading) culture to an investment culture	14%
Hard landing sparked by a debt crisis	13%
Prospective inclusion of Chinese A-shares in the MSCI Emerging Markets Index	12%
Dismantling of state subsidies to state-owned enterprises	11%

# **Navigate Contribution Pools to Capture Benefits of Diversification.**

# Rapidly changing investment opportunities: Fear being left out?

Reboot to....

- Trusted Investment Partners - Outsource
- A Long – term investment strategy
- Disciplined execution.



*“Adde parvum pervo magnus acervus erit”*

A famous Latin quote:

“Add a little to a little and there will be a great heap”

**THANK YOU**