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Takaful

- Are we on the right path?

The Discretionary Mutual
alternative

Zainal Abidin Mohd. Kassim

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Afflictions affecting takaful operators

- Start up challenges
 - talent
 - system
 - distribution
- Regulatory challenges
- Intense competition
 - from conventional insurers
 - from other takaful operators
- Unrealistic shareholders' expectations.
- Unrealistic consumer expectations.

Are the existing takaful models the 'right' Model?

- Consumers preference for 'guaranteed' benefits. Is this a realistic expectation for a takaful policy given the limited capital available?
- 2013 OIC Fiqh Academy ruling resolves the issues surrounding using tabarru' but is it implementable?
- For shareholders and management of takaful operators can the problems facing takaful today be attributed as a Model issue or it actually a "mindset" issue?

The questions we need to ask ourselves

- Takaful is about risk sharing as opposed to risk transfer, can some of the current problems faced by takaful operators be resolved by moving closer to the Mutual model? Is the Mutual model more sustainable over the long term?
- Currently there are conflicting sharia compliant takaful models. This can be confusing to the public. Uniformity is an asset when talent, system and distribution needs are considered.
- How can we make takaful attractive to investors (reasonable profit, long term sustainability) and consumers (differentiated consumer outcome from conventional insurance, greater financial inclusion).

Discretionary Mutual

- The basis of a new takaful model?

- Discretionary Mutuals are operational in the United Kingdom(e.g. Military Mutual) and Australia(e.g. Unimutual).
- A Discretionary Mutual pays claims at the discretion of its Board. It is not an insurance company and therefore it is not subject to insurance supervision. Most importantly there are no requirements to maintain any explicit solvency margin.
- Claim payments are not guaranteed, however claimants can expect sympathetic claims handling and response.
- As for all intents and purposes as there is no contractual obligation to pay claims, the premiums paid can be considered as a donation to the Discretionary pool.

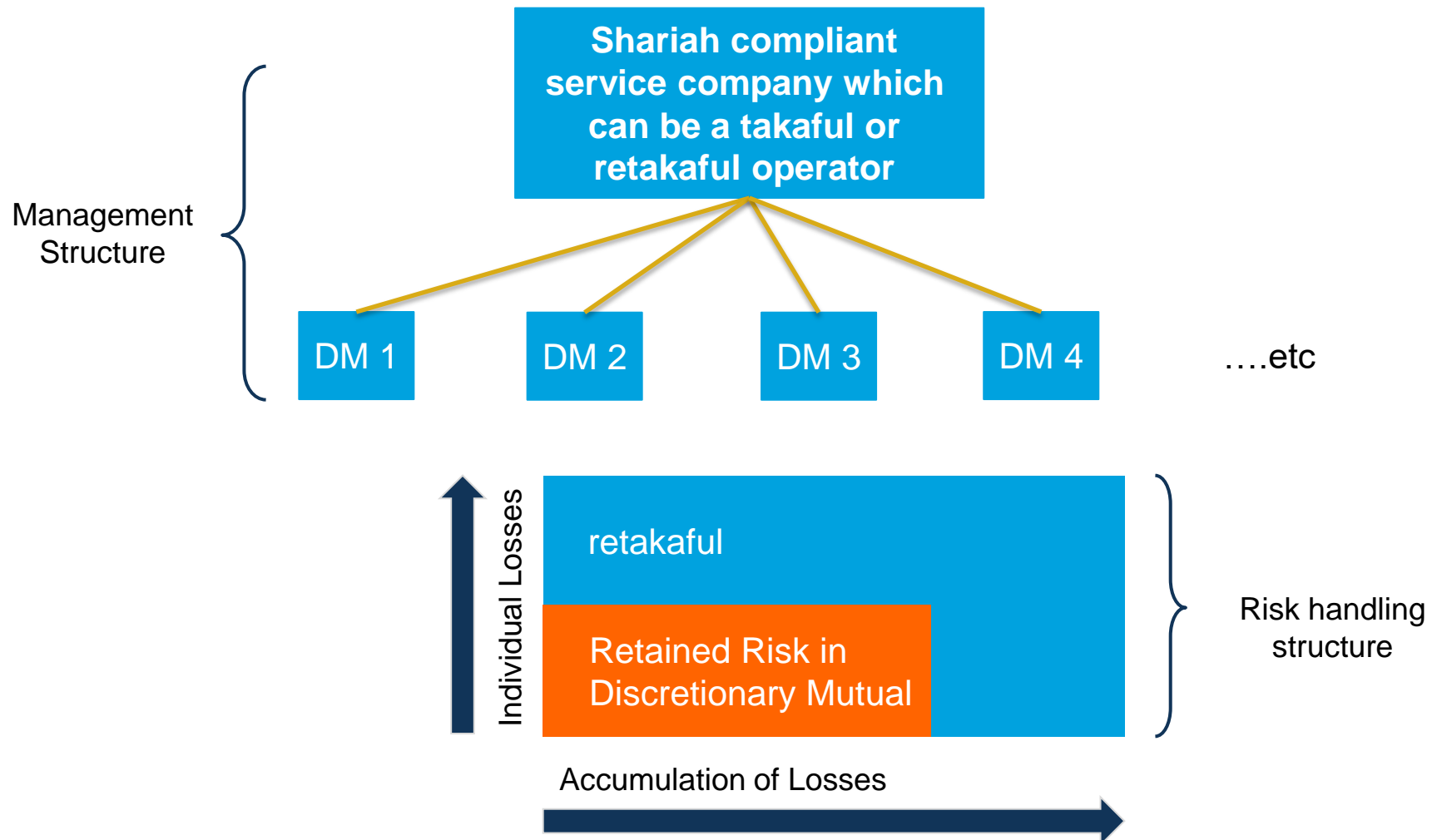
Who manages a Discretionary Mutual?

- Independent service companies (e.g. www.rmml.com) services Discretionary Mutuals. These service companies are responsible for:
 - Underwriting
 - Claims processing
 - Policy documentation
 - Sales and marketing
 - Regulation and accounting
 - Risk Management
 - Legal services

Who manages a Discretionary Mutual?

- The Board of the Discretionary Mutual executes a contract with the service company where the Discretionary Mutual pays pre-determined fee to the service company for the services provided. As the service company is external to the Discretionary Mutual the Board can replace the service company if unsatisfied with the services provided.

Business Structure



Conclusion

- Can we afford to continue on the current path?
- Governments should allow the establishment of Discretionary Mutuals and establish suitable legislations to ensure these are managed professionally.
- Existing takaful/retakaful operators should be given first preference to be “service” providers to these Discretionary Mutuals. This will allow takaful operators to quickly establish scale and ensure their financial sustainability.



Actuarial Partners Consulting Sdn Bhd
Suite 17.02 Kenanga International
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel +60 3 21610433 Fax +60 3 21613595
www.actuarialpartners.com