

The Pure Mutual Route to Takaful

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23 – 24 February 2016

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Knightsbridge, London

Recap My Slides Last Year...

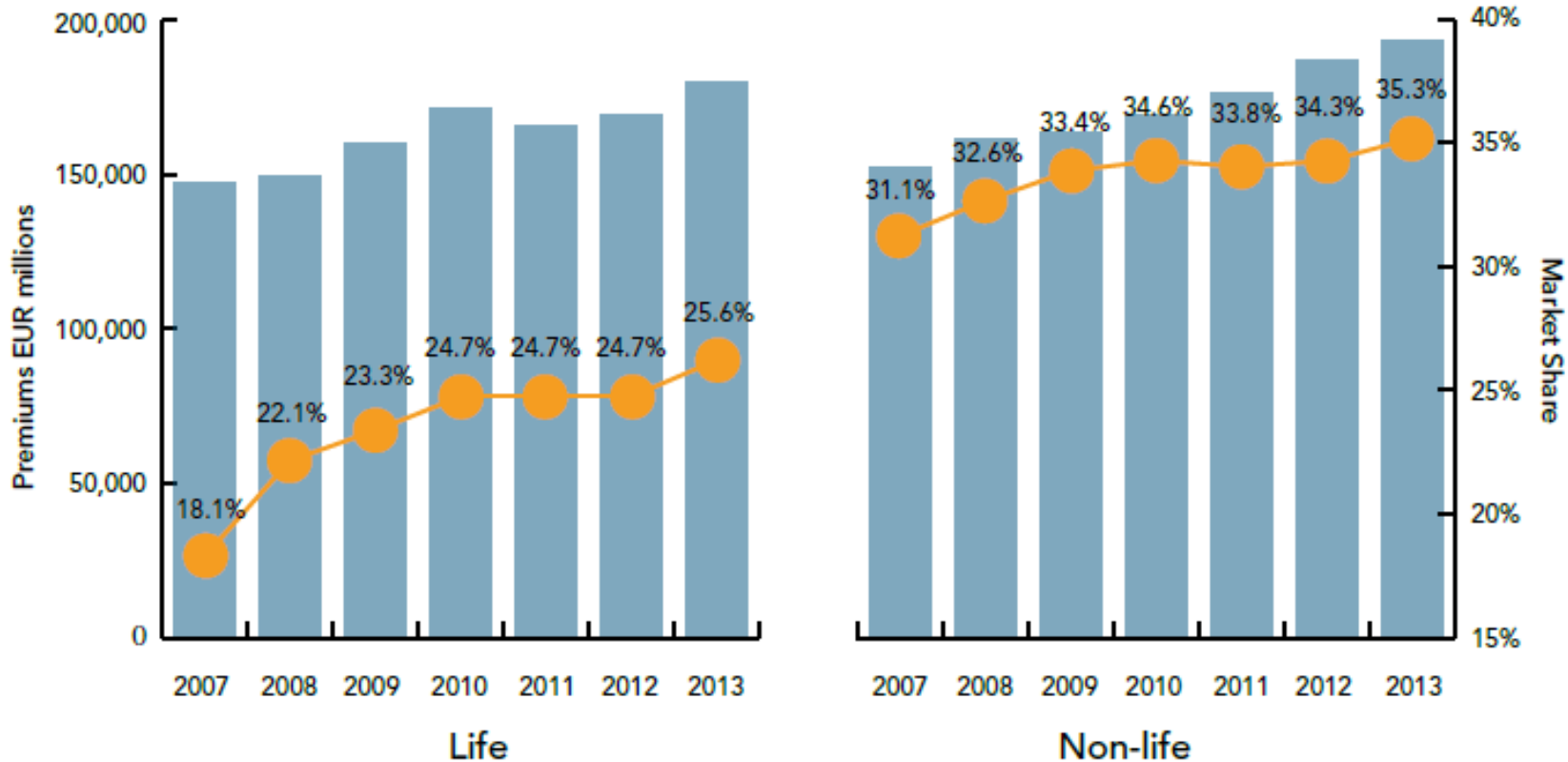
- Market share of mutuals very significant
 - USA 35%; Japan, France & Germany all > 40%
- Demutualisation ‘encouraged/enforced’ by regulators – IAIS ICPs
- Dark side of demutualisation

USA

Rank	Group/company	Direct premiums written (1)	Market share (2)
1	State Farm Mutual Automobile Insurance	\$58,508,587	10.3%
2	Liberty Mutual	29,364,559	5.1
3	Allstate Corp.	28,892,088	5.1
4	Berkshire Hathaway Inc.	26,555,515	4.7
5	Travelers Companies Inc.	22,790,776	4.0
6	Progressive Corp.	20,056,860	3.5
7	Nationwide Mutual Group	18,935,862	3.3
8	American International Group	18,653,981	3.3
9	Farmers Insurance Group of Companies (3)	18,611,695	3.3
10	USAA Insurance Group	15,678,176	2.8

EUROPEAN MUTUAL GROWTH

Mutual life and non-life premiums and market share



'Old' Mutuals in the UK

- Shepherds Friendly Society - 1826
- The Equitable Life Assurance Society - 1762
 - *Equitable Life (Payments) Act 2010*
- **NFU Mutual**
- Liverpool Victoria - 1843
- Royal London Group - 1861

The 3 S of Mutuals?

- **S**urvive
- **S**ustain
- **S**ucceed

DEMUTUALISATION

- Prohibitive Legal Infrastructure for Mutuals

Why Demutualisation?

(last year's slides on this)

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

On the other hand..

1. Expansion alone is problematic -> rapid expansion contributes 20% of insurance failures overall
2. 'Immediate tangible benefits' against long term losses
3. 'subscription rights' – as above

Insurance failures (302 cases)

- Policyholder Obligations Larger than Anticipated
 - 214 in total
 - Inadequate Pricing - 86
 - Rapid growth – 64
 - Significant Change in Business – 26
 - Reinsurance Failure – 21
 - Catastrophe Losses
- Overstated Assets -30
- Alleged Fraud - 30
- Miscellaneous - 28

For Further Info...

ISRA ISLAMIC FINANCE SEMINAR 2008

Fiqh Aulawiyyat' in Retakafulⁱ

- Between RBC (Risk-Based Capital) Standards and Islamic Institutionsⁱⁱ

Azman Ismail

Abstract

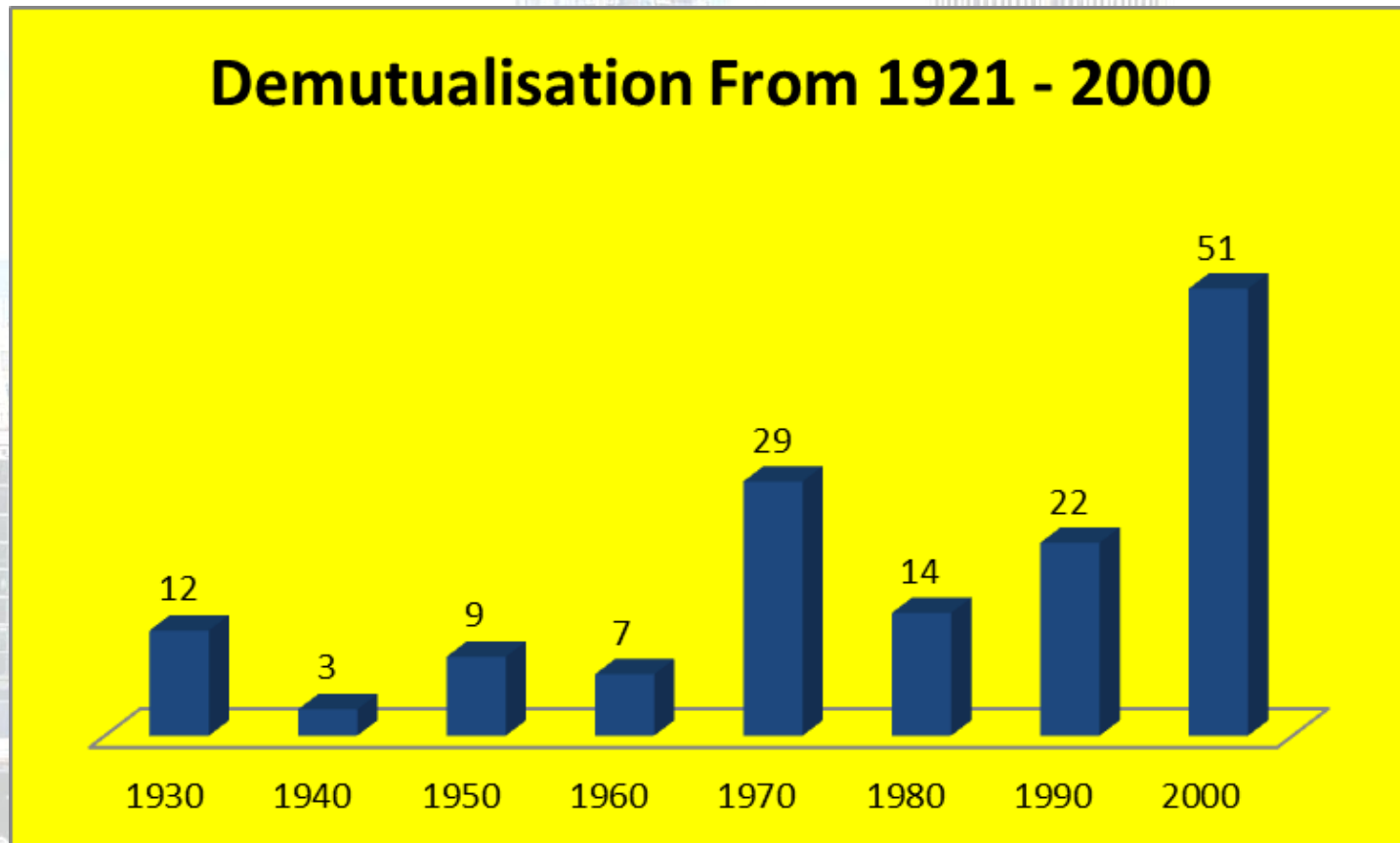
Fiqh aulawiyat, the science of priority jurisprudence, is very relevant in Islamic financial services, more so in *takaful* and *retakaful* whose principal purpose is risk management. Indeed there is a strong relationship between *fiqh aulawiyat* and risk management and the latter is inherent in *maqasid al-shariah* especially when viewed in the context of the various *mafasid* and *madhar*. This paper discusses the development of both *fiqh aulawiyat* and risk-based capital (RBC) and the application of the former in *retakaful* in the context of the latter and Islamic financial institutions.

Back To Issues...

- Reasons compiled by Battilani & Schröter
 1. Organizational isomorphism
 2. Cultural reasons
 3. Expropriation by managers
 4. Political reasons
 5. Inefficiency or lack of growth perspectives

Phases of demutualisation

- Lack of data on demutualization - overall



In Other Countries...

- Not necessarily insurance...
 - United Kingdom -> 1995-1999: 18 building societies and 4 farmer coops
 - Australia -> 1990-1999: 10 building societies and 60 general cooperatives (agriculture, taxi, stock exchange)
 - Japan -> 2000-2010: 39 life insurance

So, Is Demutualisation Good or Bad?



Continue...

- ‘Licenced To Steal’
- In the context of demutualisation, ‘the license to steal’ is open – case of Allied Group

License to Steal

Al Stewart

He walks into the room
He's got a briefcase like a bomb
A smile on both faces
And he calls it aplomb

He wants a bite of your apple
Hands you back the peel
He's fresh out of law school
He's got a license to steal

When he offers his advice
You can guarantee
For several hundred dollars an hour
He will see just how many complications
Your life will reveal
He's fresh out of law school
He's got a license to steal

Meanwhile, IAIS concedes...

- Existence, Strength and Robustness of the particular qualities - **Member ownership**, Democracy, **Solidarity**, Purpose, **Entitlement to Profit**
- Relief from an obligation ⇔ imposition to formalise processes

Are The Arguments of Demutualisation Valid?

- Accessing additional capital – this is the main issue in line with ICP 23: CAPITAL ADEQUACY AND SOLVENCY
- Other ICP's easily (fairly) adoptable by Mutuuls

RBC/Solvency Issues

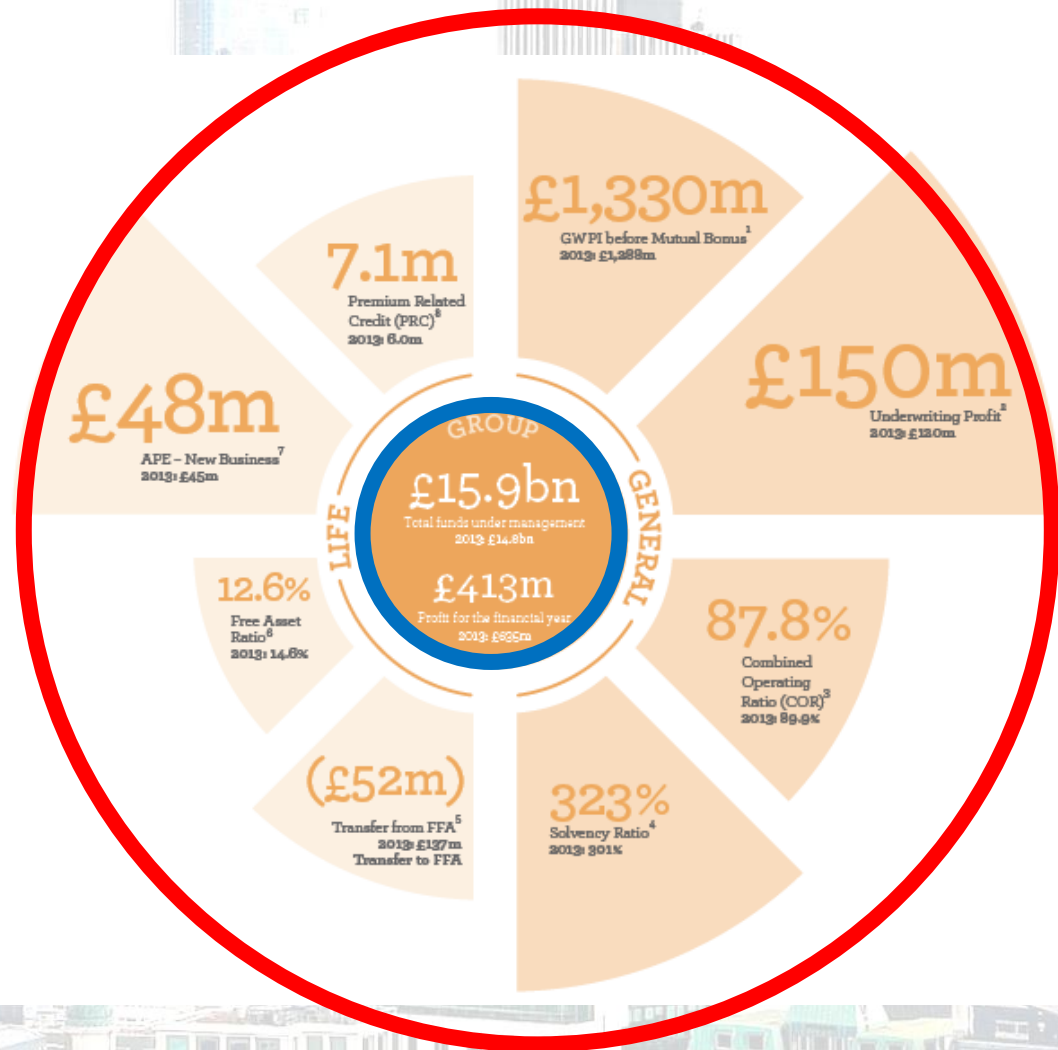
- Catastrophic Losses
 - Reserves
 - RI support -> Cat, XOL, Stop loss
 - Ultimate support from commercial insurers/reinsurers

Remutualisation?

- Problematic, but mutuals have following advantages:
 - no conflict of interest between shareholders and policyholders
 - provide insurance at cost
 - long-term view in running the business
 - **treat policyholders equitably**
 - provided better value to policyholders (NFU example)

A Case For Pure Mutual?

- NFU Mutual



NFU Mutual



Example

Annual report on remuneration

(Audited by PricewaterhouseCoopers LLP)

The following table shows the breakdown of total remuneration for Executive Directors.

	2014 £						2013 £					
	Base Pay	Benefits	Company Pension Contribution	STIP ²	2012 - 2014 LTIP Payment	2014 Total	Base Pay	Benefits	Company Pension Contribution	STIP	LTIP	2013 Total
Lindsay Sinclair	499,987	71,425	74,998	473,108	388,900	1,508,418	482,000	70,853	72,339	443,388	653,431	1,722,011
Kim Arif ¹	309,121	10,739	44,585	201,044	159,122	724,611	300,419	10,283	43,330	159,102	273,106	786,240
Steve Bower	212,786	13,144 ³	40,667	143,747	113,679	524,023	207,821	9,483	54,400	114,191	188,538	574,433
Nick Turner	206,667	13,401	31,000	140,731	75,786	467,585	196,667	11,614	29,500	109,088	35,171	382,040
Ian Leech	-	-	-	-	63,155	63,155	133,333	5,194	35,300	72,725	155,218	401,770

Legal Maxims

- Tempora mutantur, nos et mutamur in illis -
Times change, and we change with them
- Lex necessitatis est lex temporis i.e. instantis -
The law of necessity is the law of time, that is time present

Access to Capital

- Not impossible but slower
- Builtup of Reserves (only those already mutual)
- Other sources – crowdfunding?

Crowdfunding

- $F = ma$, $E = mc^2$
- Debt-based and donation-based
- Legal and regulatory issues
- Securities Commission, Malaysia

Crowdfunding Example

木

tree

林

woods
(two trees)

本

foundation
(plant below a tree)

呆

idiot
(mouth above a tree)

Crowdfunding Example

門

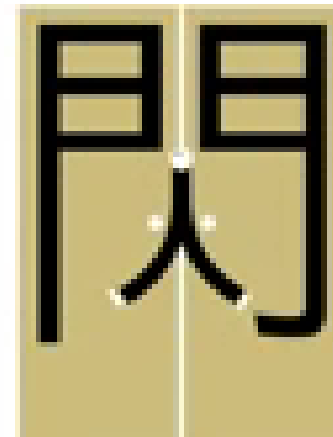
door

門

door bolt (plank inside a door)

問

asking a question (mouth inside a door)



evading

(person inside a door)

Crowd Funding?

Be part of Singapore's 1st Shari'ah-Compliant Private Investment Club



The Community

As a group, benefit from:
Business Funding Profit-sharing
Overseas Property Development
Networking & Business matching



Opportunities

Be part of projects, with:
\$1,500 for Business Funding
\$20,000 for Overseas Property

Singapore based startup **Club Ethis** may be the world's first Shari'ah compliant crowdfunding platform and according to information provided by the portal it is growing fast. Club Ethis is guided by 2 in-house Islamic scholars. Ethis believes it has shown that Islamic Finance, crowdfunding and real estate development are complementary

In Malaysia...

www.sc.com.my/post_archive/sc-invites-submissions-from-prospective-equity-crowdfunding-operators/

BIBLES, LANG ETC MATHS EDUCATIONAL TOO... ISLAMIC OTHERS ARABIC DICTIONARY Google HTTrack Website Co... WinWSD WebSite D...

Suruhanjaya Sekuriti
Securities Commission
Malaysia

HOME CLIENT CHARTER LODGE COMPLAINTS CONTACTS

ENGLISH shariah

ABOUT US
An Overview of SC

LEGISLATION & GUIDELINES
Acts, Regulations, Orders and Guidelines

LICENSING
Licensing Application, Intermediaries and Examination

ENFORCEMENT
Enforcement Actions and Alerts

DATA & STATISTICS
Capital Market Data and Statistics

NEWS & MEDIA
Press Release, Speeches and Events


NEWS & MEDIA

CAREERS
Employment, Internship and Graduate Programmes

Speeches and Articles

Press Release

The Reporter

 **Press Release**

Kuala Lumpur, 10 April 2015

SC invites submissions from prospective equity crowdfunding operators

The Securities Commission Malaysia (SC) announced today that operators interested in establishing and operating an equity crowdfunding (ECF) or **Shariah**-compliant ECF platform can now submit their application to the Securities Commission Malaysia.

On 10 February 2015, the SC released the revised Guidelines on Regulation of Markets under Section 34 of the Capital Markets and Services Act 2007 (Guidelines) which introduced requirements for the registration of ECF platforms. These platforms will enable start-ups and small and medium enterprises to obtain capital through small equity investments from relatively large numbers of investors, using online platforms.

[illegible]

Crowdfunding Initiatives for Malaysian NGOs

The Digital Malaysia B40 Social Crowdfunding programme aims to facilitate the community's contribution towards social development programmes, by having digital platforms that supports the deployment of the programmes by multi-stakeholders. The outcome of the project is :



Time Travel...

- “I think there is a world market for maybe five computers.” - Thomas Watson, Chairman of IBM, 1943
- “There is no reason for any individual to have a computer in his home.” - Ken Olsen, founder, Digital Equipment Corp., 1977, in a speech to the World Future Society
- “I predict the Internet will soon go spectacularly supernova and in 1996 catastrophically collapse.” - Robert Metcalfe, founder of 3Com, inventor of Ethernet, 1995.

Continue...

- “Apple is already dead.” - Nathan Myhrvold, former Microsoft CTO, 1997
- “Within five years, I predict [the tablet] will be the most popular form of PC sold in America.”
-- Bill Gates, in a 2002 speech at Comdex introducing the Windows Tablet PC and its (required) stylus
- “Two years from now, spam will be solved.” - Bill Gates, founder of Microsoft, 2004

Issues Facing Regulators

- Regulators dare not take risks; when things are good they don't get credit, but when things go awry, they will be blamed.
- Going with the 'majority', but the 'majority' are the 'minority'.

What Next? - Possible Options

In Jurisdictions Where No MCCO's Exist

- Where Takaful Regulations Exist
 - Needs government support
 - For regulations, integrate IAIS' guidance on MCCO's + Takaful
- Where Takaful Regulations Do Not Exist
 - Mutuels may not be appropriate under current regimes

In Jurisdictions Where MCCO's Exist

- Where Takaful Regulations Exist
 - Easy Integration
- Where Takaful Regulations Do Not Exist
 - Adopt IAIS Guidelines on MCCOs Modified for 'Takaful-friendly'

Conclusion?

- Pure Mutuals Would Be Ideal
- Better for the economy, minimal leakages
- Regulation not conducive for mutuals
- Regulators need to review policies so as not to disadvantage mutuals.