

# ***Ways to manage Takaful Assets to address Longevity Risks***

***Presented By Faizal Manjoo, Lecturer at  
Markfield Institute of Higher Education***

***International Takaful Summit,  
London, 24.02.2016***

# *Outline Presentation*

- Problems of generating long term investment assets
- Demand Islamic Moral Economics
- Proposed Model for Longevity risk
- Emerging Islamic finance hubs with long term projects

# ***Problems of generating long term investment assets***

- ***Why long term investment asset?***
  - Life takaful
  - Pension
  - Stability of return on capital for takaful shareholders
  - Regulatory issues on class of assets for Investment aiming at fiscal and financial stability.
- ***Problems in generating these assets***
- Fiqhi issues as we are dealing with financial instruments which demands its own modern legal and fiqhi construction.
- Risk associated with these instruments, IIFM's TMA - waiver clause.
- Instruments are mutations of conventional products because mind-set is not really to achieve maqasid al-shariah but profit optimisation. Short term investment to see profit.
- Capital /cash locked up
- **Paradox**
- Demand for long term investment asset v/s liquidity risk and low rate of return

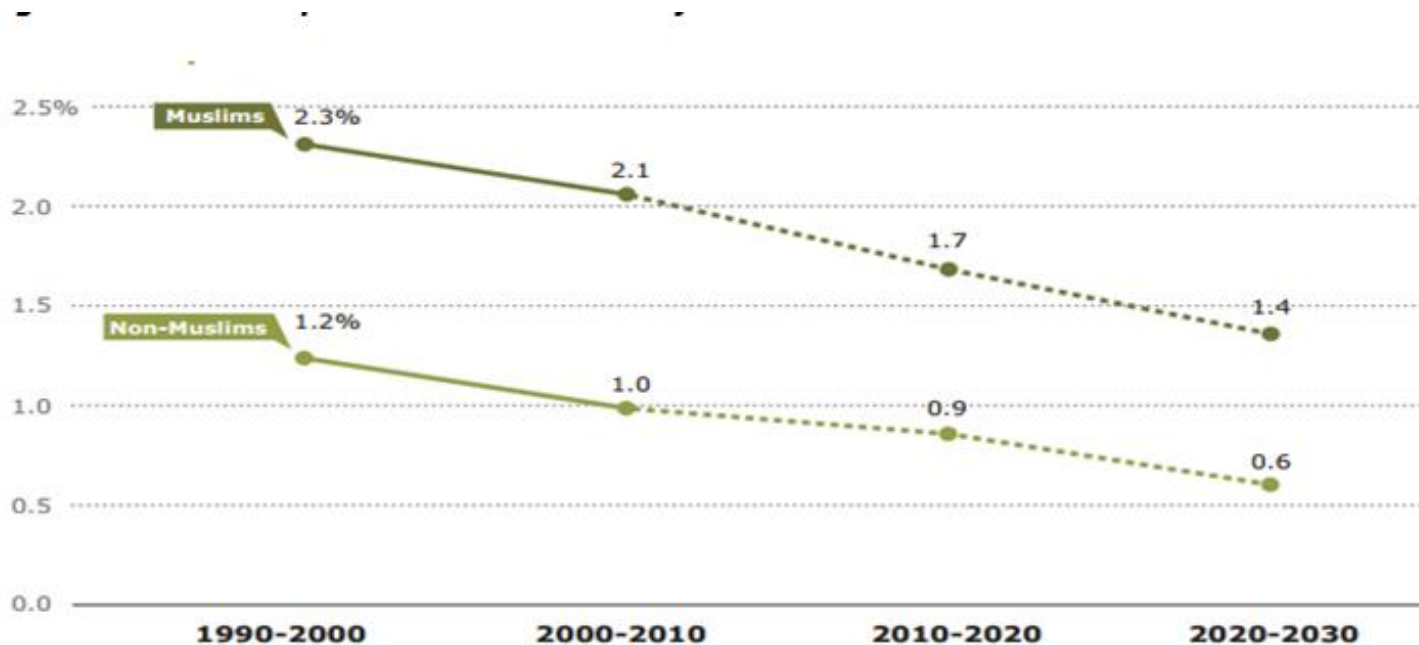
# ***Failure to meet the demand of Islamic Moral Economics***

- Islamic finance is a value oriented discipline at least in theory. Focus on maqasid, infaq sector etc.
- Social failure – micro takaful at an embryonic stage, lack of appropriate any financial inclusion to take the industry at a higher long term level.
- Investment instruments are not focused on real economy, e.g. asset-based sukuk 90% market share.
- Lack of engagement at ummatic level to have a longer period of investment. Marketing 0.3 and 0.4 of Philip Kotler

# *Longevity risk issue*

- The possible consequences of longevity risk (the risk of someone living longer than expected) came to public prominence in December 2000, when the world's oldest life office, the Equitable Life Assurance Society (ELAS), was forced to close to new business. (Blake, Cairns and Dowd, 2006)
- Financial modelling firm Risk Management Solutions estimates that US and European pensions with \$10 trillion portfolios are at risk of losing \$1 trillion in a once-in-100-year event that causes the average pensioner to live five years longer, such as the discovery of a wonder drug. (Burne, 2013)
- How takaful and Islamic pension companies will meet these liabilities?

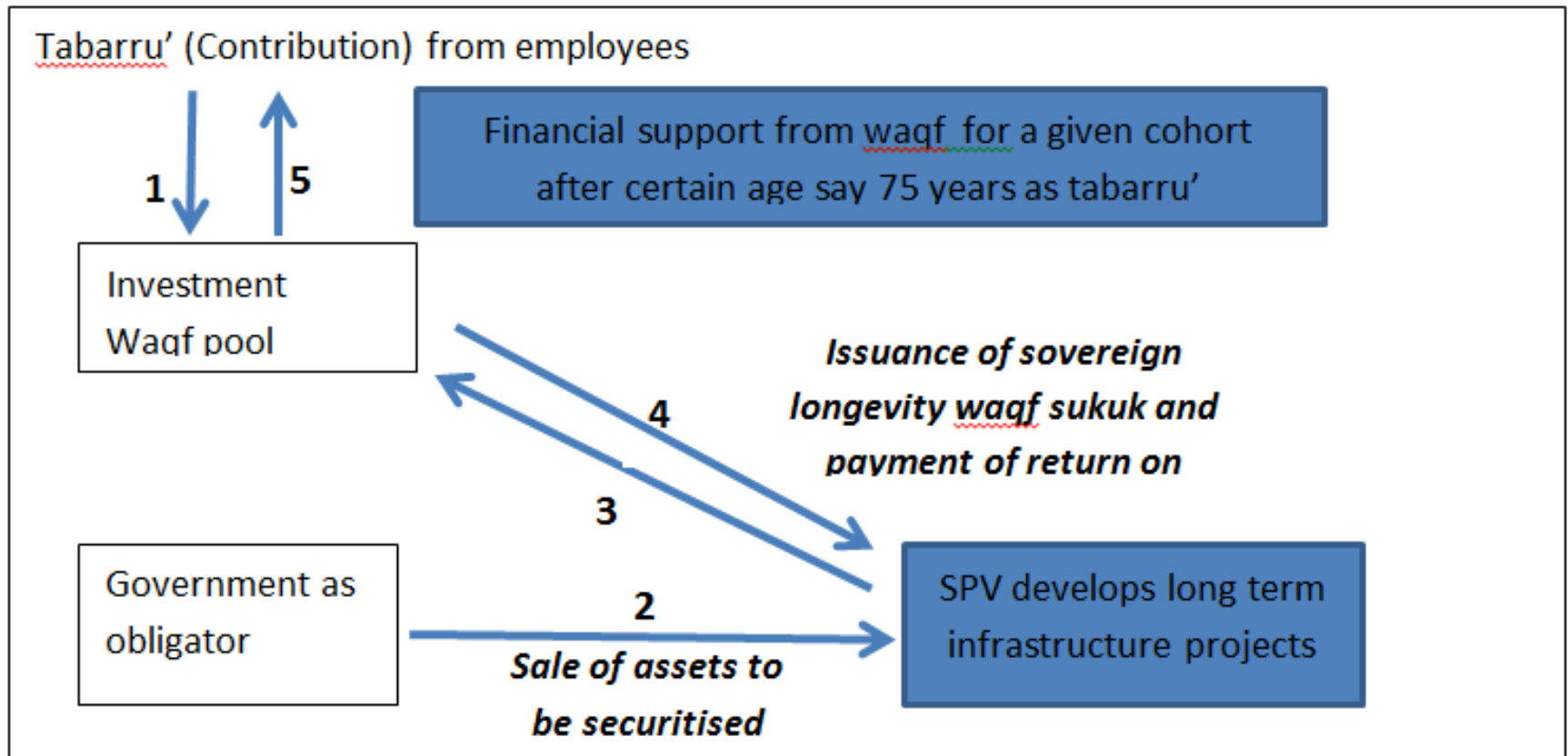
# Annual Population Growth Rates for Muslims and Non-Muslims



These figures are average compound annual growth rates over the 10-year periods shown. Compounding takes into account that the population base for each year includes growth from the previous year. Percentages are calculated from unrounded numbers. Data points are plotted based on unrounded numbers. Dotted lines denote projected figures.

*Source: Pew Research Center's Forum on Religion & Public Life, The Future of the Global Muslim Population, January 2011.*

# *Proposed Model for Sovereign Longevity risk*



*Source: Author's own*

# *Stages*

- 1. The Government creates an investment waqf for people who want to be participants in a sovereign longevity waqf sukuk
- 2. The government securitises assets for long term infrastructure financing. The SPV then issues the sovereign longevity waqf sukuk.
- 3. The waqf enters into a contract with the state to purchase the longevity sukuk. with a long term infrastructure financing such as toll road. Ensuring consistent cash inflow. The sukuk structure can be a musharakah, istisna' or various hybrid formats.
- 4. The investment return goes into the waqf,
- 5. The waqf then manages the payments to the cohort similar to a longevity bond.

**NB. Underlying asset is indirectly for the ummah in a Muslim majority state. By making the assets more accessible to people rather than just corporation their will be an ummatic engagement. The waqf brings in the element of infaq sector.**

# *Emerging Islamic finance hubs with long term projects*

- Azerbaijan
- Morocco
- Dubai
- Saudi Arabia
- Pakistan
- India

# *Examples of Future Mega Constructions for 2020*



From left to right: Azerbaijan Tower; Kingdom Tower ; and Suzhou Zhongnan Center,  
image via Gensler

# ***World's largest solar energy plant in Morocco***



# *OECD: dialogue with investors and financial authorities, 2013/2014*

- Development of the G20/OECD High-level Principles on Long-term Investment Financing by Institutional Investors, endorsed at the G20 summit, St Petersburg;
- G20/OECD High-level Roundtable on Institutional Investors and Long-term Investment, Paris, 28 May 2013;
- OECD/Euromoney Infrastructure Summit, Paris, 29 May 2013;
- APEC/OECD Seminar on Institutional Investors and Infrastructure Investment, Palembang, Indonesia, 29 August 2013;
- Significant contributions to different G20 initiatives such as the OECD report on the pooling of institutional investors' capital, the OECD survey on large pension funds, the work on the High-level Principles, and developing a checklist for self-assessment by governments of their long-term investment initiatives;
- Data collection on institutional investors and practical research on issues relating to long-term investment. Data is already being collected from 86 large investors who in total manage nearly USD 10 trillion in assets.

## ***3 Main Trends for the longer-term developments in global asset allocation***

- (i) a gradual broadening of the distribution of assets across countries, implying a globalization of portfolios with a slowly declining home bias;
- (ii) a long-term decline in the share of assets held by pension funds and insurance companies in favour of asset management by investment companies; and
- (iii) the increasing importance of the official sector in global asset allocation through sovereign wealth funds and managers of international reserves.

# *Features of Long-term investment*



Source: WEF 2010.

# *Suggestions*

- Establishment of a forum to analyse global long-term projects
- Negotiate with bodies like OECD to have specific Islamic investment shares
- Take into account the IME and meeting the maqasid of Shariah.
- Need to provide alternatives for the feature of long-term investments

# *References*

- G20/OECD high-level principles of long-term investment financing by institutional investors
- Franco Bassanini (2011), The new financial regulatory framework and the long-term investment
- Mehmet Asutay (2012), Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs the Realities of Islamic Finance
- Faizal Manjoo (2016), The ageing population crisis from an Islamic financial perspective

***Thank You***

***faizalmanjoo@yahoo.co.uk***

***+447907128005***