Review of Regulatory Changes in Takaful

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ITS 2016, London

Regulatory Landscape Takaful 2016

Key Updates

Key Gaps

Key Updates

The GCC

Takaful Regulatory Updates

KSA: Review of Regulatory changes

- Cooperative Laws 2003
- Shariah compliance is outside the regulatory domain
- Companies need not have Shariah Advisors

- Since 2013, SAMA has been pro-active, most effective of GCC regulators
- From 2014, Pricing & Reserving measures were put in place with Actuarial Reports and Reviews, Role of actuaries was strengthened

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- Customer complaints and Whistle Blowing taken very seriously
- Inefficiencies in life sales / bancassurance, bank-agency model

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- General Committee of Insurance has been very pro-active
- The committee closely works with SAMA

- SAMA VISION 2022: Customer and Staff Education, improve Insurance profile, make Industry structurally sustainable and profitable

UAE: Review of Regulatory changes

- Revised Insurance and Takaful regulations introduced in 2015
- Refers to AAOIFI for Shariah compliance rules
- Takaful windows are not allowed
- Composite licenses to be split into two

- Minimum guarantee fund and minimum solvency capital rules introduced. Breaches to be reported alongwith recovery plan
- More risk management requirements introduced
- Stress Testing framework to be implemented + regular stress testing
- Investment rules: Real estate 30% has been an issue for companies

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- Compulsory independent actuarial reviews + FCR (can be ad hoc)
- Internal controls strengthened through better governance
- Enhanced reporting requirements
- Retakaful operator in the DIFC is required to comply with the applicable Shariah requirements.

- Implementation is slow
- Regulatory supervision still to catch up to SAMA standards

Other GCC: Review of Regulatory changes

Bahrain	Takaful regulations refer to AAOIFI rules. A new and enhanced framework being drafted for takaful / retakaful to strengthen solvency, operational efficiency and safe-guarding stakeholder interest.
Qatar	No specific takaful regulations. Takaful Windows only for off-shore companies in Qatar Financial Centre, regulatory supervision needs to be strengthened
Oman	Draft takaful law issued in 2015, No windows permitted, takaful companies publicly listed with general intention of local insurers and investors to invest in takaful providers. Shariah compliant equities index launched
Kuwait	A new insurance law drafted to feature a separate code for takaful, but it is yet to be presented to parliament (as of 2014 information)

GCC: Overview

2014		UAE	KSA	Qatar	Kuwait	Oman	Bahrain
Total Premium	USD mn	**9,105**	**8,128**	**2,183**	**1,007**	**1,035**	**688**
Total Insurers / reinsurers		**60**	**35**	**33**	**30**	**23**	**32**
Takaful Premium		**1,314**	**8,128**	**384**	**208**	**??**	**155**
Takaful as % of total		**14%**	**100%**	**18%**	**21%**	**??**	**23%**
Takaful insurers / reinsurers		**10**	**35**	**5**	**9**	**2**	**6**
Density USD per capita							
Life		235	8	29	55	24	135
Non Life		186	269	950	235	242	402
Penetration % of GDP							
Life		0.5	0.0	0.0	0.1	0.1	0.5
Non Life		1.7	1.0	1.0	0.5	1.2	1.5
Population mn		9.4	29.4	2.2	3.5	3.9	1.3
GDP	USD bn	411	752	212	179	82	35
GDP / Capita	USD	43,723	25,578	96,364	51,143	21,026	27,344
Inflation rate %		2.30	2.70	3.00	2.90	1.00	n/a

Key Updates

Pakistan

Takaful Regulatory Updates

Pakistan: Review of Regulatory changes

- 2005: Specific takaful rules introduced
- Windows were not allowed initially, but allowed since 2014
- Stand alone takaful companies challenged the decision in court

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- More formal risk management and rating procedures are in place for takaful operators.
- Separate solvency requirements for each participant fund.
- The establishment of Central Shariah Board still awaited

Pakistan: Market Overview

2014		Life	Non-life	Total
Premium	USD mn	1,255	819	2,074
Total Insurance Companies		9	34	43
Takaful Companies		2	5	7
Penetration	Ins % GDP	0.50	0.30	0.80
Density ins / Capita	USD	7.00	4.00	11.00
GDP	USD bn			251.0
Population	mn			185.1
GDP per capita	USD			1,356
Inflation rate %				7.2

Key Updates

Malaysia, Indonesia

Takaful Regulatory Updates

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Malaysia

- 2012: Takaful Operating Framework, revised 2013
- Objectives: to enhance business efficiency, ensure sustainable takaful funds, safeguard participants interests

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- 2013: Separate entities for family and general takaful. Existing companies have 5 years to comply.

- 2013: Framework issued for Life Insurance and Family Takaful for Everyone (LIFE) covering wide range of areas: operating flexibility, product disclosure, delivery channels, market practices

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- 2014: Takaful Risk Based Capital rules introduced
- Capital adequacy requirements with takaful specificities

Indonesia

- ★ Initially windows allowed for conventional insurers
- ★ Most conventional companies “tried” to develop takaful, but many did not succeed in building viable business

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- ★ 2014: new law requires conventional companies to convert their takaful windows to separately capitalised businesses within a period of 10 (?) years.

- ★ The regulator is keen to encourage companies to increase the use of local reinsurance / retakaful, and plans to help set up new local reinsurance / retakaful capacity.

Market Overview

	Malaysia	Indonesia
Premium USD mn		
Life	10,231	10,159
Non-life	5,633	5,148
Total	15,864	15,307
Takaful Premiums	3,024	964
Takaful share	19%	6%
Takaful Cos + windows	12	5 + 37 W's
Density USD per capita		
Life	338	40
Non Life	186	20
Penetration % of GDP		
Life	3.1	1.1
Non Life	1.7	0.6
Population mn	30.2	253.2
GDP USD bn	328	890
GDP / Capita USD	10,861	3,515
Inflation rate %	2.50	6.40

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Other Markets

Status of Regulations in other Takaful Markets

Sudan

- ★ 1992: Regulator required all insurance companies to operate on Shariah principles.
- ★ Takaful regulations being updated as of 2015

Nigeria

- ★ 2013: Introduced operational takaful guidelines.

Kenya

- ★ 2015: Introduced draft takaful regulations.

Turkey: a "potential" rapid growth market

- ★ Windows allowed. Has two participation insurance Co's.
- ★ Regulations being drafted to facilitate stand alone takaful
- ★ By 2023, Govt aims to triple share of Islamic banking (100th anniversay of the republic).

Key Gaps

Related to how the role of the regulator and the industry can improve the future development of Takaful and Islamic Finance

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Key Gaps

Lack of Regulatory Uniformity

- ★ Takaful regulations across markets remain fragmented
- ★ Profitability of takaful companies threatened not just by undifferentiated strategies but also by the lack of uniform regulations to ease operating across different models.

As per E&Y Takaful Report

The Need for Promoting Ethical Dimension

Key Gaps

- Takaful USP needs better promotion.
- Customers have no real feel of why takaful differs from insurance.

- Takaful USP needs vibrant ethical investment choices with emphasis on green initiatives, options that are good for society and environment.
- A cohesive global think tank can spearhead growth, development and promotion of ethical and mutual aspects of takaful / Islamic finance.

- Since 1997, Malaysia's central Shariah Advisory Council (SAC) has provided oversight to Malaysian takaful industry (+ Islamic banking). It validates all takaful products to ensure Shariah compliance.
- Quasi-supervisory committees are in place in other markets, providing some form of limited oversight.
- UAE and Pakistan are working to set up Central Shariah Body, similar to Malaysia.

Final Thoughts

Is Takaful a robust and sustainable industry for all its stakeholders, including shareholders, committing capital with commercial considerations?

Do Mutual Structures embrace all in Society ... Customers and Shareholders alike?

….. a more pro-active role in addressing this?… a question for IFSB, AAOIFI, Regulators, IsDB and the Industry.

Thank You

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