THE INTERNATIONAL TAKAFUL SUMMIT

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CELEBRATING 10 Years

The rise and decline of full-fledged Retakaful

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The rise and decline of the full-fledged Retakaful model

- *Retakaful Landscape; History and present;*
- *Is the present provision of Re-Takaful fit for purpose?*
- *Are there ways in which Re-Takaful provision can be improved in the light of the last two decades of experience?*
- *Conclusion*

Retakaful

- **2 Generations:**
  - ✓ **Before 2005***:*
    - *2 Retakaful, IIRCo., ITRCo., ARIL , today disappeared;*
    - *BEST Re, on run-off, since 2013-2014;*
  - ✓ **Since 2005***:*
  - ✓ *Takaful Re, full fledged currently on Run -off:*
  - ✓ *Hannover Re, growing ;*
  - ✓ *Swiss Re Takaful;*
  - ✓ *Munich Re Takaful (Family Takaful only)*
  - ✓ *MNRB Takaful; full fledged; on run-off currently*
  - ✓ *ACR Takaful SEA + Bahrain; currently struggling to survive*
  - ✓ *Al Fajr, currently Emirates Re*
  - ✓ *Windows:*
    - ✓ *Labuan Re;*
    - ✓ *Africa Re; special focus on African markets;*
    - ✓ *Tunis Re*
    - ✓ *Arab Re; very small portfolio;*
    - ✓ *Gen Re;*
    - ✓ *Malaysian Re Takaful; new window*

Types of Retakaful

- *Full fledged, writing Takaful business exclusively;*
  - *Hybrid model, mainly;*
- *Writing conventional "Halal" Business;*
  - *Hybrid or Waqf models;*
  - *Substantial capital;*
- *Subsidiaries of International Groups*
  - *Hybrid or Waqf models;*
  - *Benefit from parent expertise, capacity and/or capital;*
- *Windows of regional players*
  - *Benefit from parent company capital and expertise;*
  - *Most of them are regional to accommodate their existing clients;*

Retakaful Companies(1) (*)

	ARIL	BEST Re	Takaful Re	Hannover Re	Labuan Re Takaful	MNRB Takaful
Launching	1997	1985	Dec 2005	2006	Retakaful Division 2007	Dec 2006
Capital (millions $)	Paid USD14.1	100	125 paid	55 paid up 135 Authorized		(US 31m)
Shareholders	Syrikat Takaful IDB	Salama	Arig IDB	Hanover Re	Labuan Re	MNRB
Rating	Non	BBB+ (S&P) A- (AM Best)	BBB stable (S&P)	A+ stable (S&P)	AM Best A- Fitch IFS A- (stable)	A-
Takaful Model	*Mudharaba*	-	*Wakala policyholder's Mudharaba for investment*	Wakala/ Mudharaba	Pure Wakalah Retakaful	Wakalah, optional Mudharabah/
Business Model	*Takaful / Conventional Mix*	*Conventional / Takaful Mix*	*Takaful only Outsourcing Arig*	Retakaful only; Now doing also Conventional	Conventional + Takaful	Takaful Cos only in treaties. Fac conventional halal risks

(*) Extract form a 2009 ITS PPT; Companies in grey closed or in run-off

Retakaful Companies (2)

	ACR ME + SEA	AL FAJER Re Emirates Re	SAUDI Re	Tokio Marine
Launching	*2008*	*May 2008*	*2008*	*September 2004*
Capital Million $	*300*	*188 Now 120*	*267*	*Auth 170 Paid 17*
Shareholders	*Khazana + Dubai Group*	*GFH + Dubai Group*	*Al Ghosaibi, Jordan Islamic Bank (listed)*	*Tokyo Marine Holding*
Rating	*A- AM BEST*	*Al Fajer was "A-" Now "B++" positive outlook AM BEST*	*BBB+ stable S & P*	*AA S & P*
Takaful Model	*Wakala + Mudharaba*	*Wakala + Mudharaba*	*Cooperative*	
Business Model	*Takaful + Conventional*	*Takaful+ Conventional*	*Takaful+ Conventioael*	*Life*

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(*) Munich Re & SwissRe windows are not included

Weakness of Retakaful

- *Shareholders short term strategy; opportunistic approach, looking for returns, mainly for investment;*
- *The current size of Takaful markets; without Iran, total GWP 14.7 in 2014, including KSA (50%);*
- *Ceded business is around 30% or less, because companies are mainly Motor & medical;*
- *Leakage of business from Takaful to conventional reinsurers till now;*
- *Underlying Takaful business is not performing well;*
  - *Takaful: new entrants, writing mainly Motor, Medical and under priced LOB;*
  - *Very competitive markets, especially in MENA;*
- *Rating: without an "A" rating, Retakaful cannot lead Treaties, and therefore are penalized by different terms and additional commissions;*
- *Structure of portfolios: 80% + proportional treaties; 20% Non-Proportional treaties and Facultative;*
- *Underwriting bouquets across the Board i.e. they cannot have a selective approach;*

Weakness of Retakaful

- *Unbalanced Portfolios, volatility and insufficient reserves to face CAT-NAT or severe losses;*
- *Limited geographical spread, with concentration in MENA and SEA*
- *High losses frequency in Motor and Medical impacting the Net L/R*
- *High Wakala; makes de-facto the C/R> 100*
- *Regional players lack of expertise, in comparison with international players;*
- *Impact of 2008 financial crash: very low interest rates; Sukuk returns and;*
- *Sanctions on Iran, Sudan and Syria closed these three markets to Retakaful;*
- *Regulation: in very competitive markets, lack of regulation is not helping Takaful, and therefore Retakaful to achieve technical profits; in KSA, actuarial pricing is a "blessing" for the market;*

From the Retakaful experience, adopting a full- fledged model, with current market conditions is not the "recipe for success";

Strengths of Retakaful

- **International reinsurers***:*
  - ✓ *Positive brand impact: Swiss Re, Munich Re, Hannover;*
  - ✓ *Economies of scale; and from advantageous treaties conditions;*
  - ✓ *Low operating cost, implies very low Wakala and ability to generate surplus or at least to break-even;*
  - ✓ *Huge capacities; reduced retrocession cost; pricing and leading programs;*
  - ✓ *Expertise in Life and sophisticated LOB;*
  - ✓ *Long term strategy;*
  - ✓ *Diversification; less accumulation from same territories;*

- **Regional reinsurers:**
  - ✓ *Conventional business;*
  - ✓ *Portfolio diversification;*
  - ✓ *Close and knowledge of their markets;*
  - ✓ *Progressive portfolio build-up and operating cost reduction;*

Is the present provision of Re-Takaful fit for purpose?

- *Full fledged, writing Takaful business exclusively;*
  - *This model is not working, as the volume an quality of Takaful business are not "good enough" to make it profitable;*
- *Writing conventional "Halal" Business;*
  - *Can be successful; however, the experience needs time and volume to prove the model superiority;*
  - *Need for diversification: Life, Industrial and Commercial risks;*
  - *Need for regional diversification;*
- *Subsidiaries of International Groups:*
  - *Family Takaful: the experience appears positive*
  - *General Takaful: after a period of negative performances, a real improvement has been observed;*
- *Windows of regional players:*
  - *We do not have enough data, therefore, regional players should publish their "stand alone" FS to assess their performances;*

Are there ways in which Re-Takaful provision can be improved in the light of the last two decades of experience?

- *Retakaful should be part of an international reinsurer;*

and/or:

- *Have a large portfolio diversification;*
- *Act a leader with an "A" rating;*
- *Accept conventional business;*
- *Have a long term strategy;*

Remaining positive…

Retakaful was a missing link in the Takaful chain; therefore, it still needs to be developed and encouraged; multiple reasons for being optimistic;

- *Muslim world young population;*
- *Existing potential for Takaful; insurance / Takaful steady growth in MENA and SEA;*

To succeed, Retakaful should:

- *Adopt a Takaful mindset and comply with Shari'a, even when accepting conventional;*
- *Geographical and by LOB diversification and improve their underwriting performance;*
- *Avoid accumulated deficits by writing-off any Qard; or no surplus, no dividend;*

Thank you;

(Regulated by DFSA)

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