



Retakaful

Dear Brothers and Sisters

My views on the retakaful market are from a pure broker point of view and I would be discussing the market in general terms and will be more focused on the fundamental reasons for the market presence and its present state of affairs and how the market can change. To understand retakaful we have to first understand Takaful and the need for Takaful. We have to be very clear that retakaful is totally dependent on Takaful as it is a secondary market.

Mans desire for security, his wish to provide against future uncertainty, is as old as the human race itself. At first, he could only try to satisfy this need by helping himself as well as he could; later he found support in the family, the clan and tribe. It is this idea – the notion of community one for all and all for one – that is very basic for insurance. In the modern world with the change of economic system from agro based economy to industrial, production based specialized economy the support of the family and clan was eroded and the mankind went back to its basic state of individualism.

The states in the start tried to fulfill the gap created by the industrial revolution by promoting the concept of welfare states but could not carry this heavy support burden on their own as the tax money was needed for more pressing functions and the human support needs were diversified beyond the scope of the states. Many states irrespective of their religion enacted laws that made insurance compulsory for certain situations. The need thus became so imminent and pressing that the sharia scholars had no option but to analyze the existing insurance system and come up with their opinion and solutions. The entire exercise was done to meet one human need that could not be avoided. The difference in insurance and Takaful is none when we compare the end product as they are targeting to meet the same human need. The difference comes when we study the financial models behind the products. It's the way the premiums are handled, the way losses, the investments and the profit and loss are handled and distributed.

If we look at the Islamic economic thought it is focused on one basic principle and that is the concept of justice, and Islam does not reject any thing if it is based on ADAL and does not come in conflict with the basic principles of Islam.

The Takaful movement started in the late seventies and is now more then 30 years old. During this time various schools of though have provided various

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models and concepts and today the intention here is not to debate on these models. As far as I am concerned all these models, as long as they comply with the basic rules, are correct and a development to handle a new situation or a point of view.

If I look at the Takaful movement I listen that it is growing more and more. When I see the percentage of growth over the last years it is very impressive. When I see the growth in real dollar terms it is not that impressive. The people who want to defend this situation point at the infancy of the movement but I do not agree with this.

The conventional insurance as we can see has grown a lot during this period. Though slow in percentage as compared to Takaful but faster in terms of real dollars.

To understand the reasons we have to focus on the main stake holders in the market. The concepts only sell when there is clear economic benefit for people and the people truly believe in them.

The Islamic system has clear economic benefit over the conventional system as it is devoid of exploitation and based on justice. The debates that are being done till today are targeted on the Islamic financial models not the market economics.

The market economics dictates that the Takaful companies should have retakaful and retakaful companies should get Retro Takaful for their needs. Unfortunately this need still remains unfulfilled. The oldest & largest Islamic reinsurance Company writes a reasonable size of premium but most of that premium comes from conventional companies and conventional premiums.

The companies that decide that they will only do retakaful have stunned growth and some are forced to start writing conventional business to survive and grow. All the retakaful companies have to resort to conventional companies for their retro needs in majority of the cases.

Why the first Takaful syndicate was sold. The only reason was that there were not enough premiums to support the capital and keeping the Takaful syndicate going was economically not viable. So when I see at one part that the Takaful industry is facing problems because there this no retakaful and retakaful is not growing as it should be because there are not enough premiums from the Takaful operations. I feel that we are in a situation that has no answer. I keep wondering how we can come out of this situation how we can have a pure Takaful sector.



Today the Takaful operators if they need retakaful have very limited choices. The retakaful players can be counted on finger tips. This is stated as a big dilemma by the Takaful operators and I daily have to face questions from the Takaful operators that how I can find some more Takaful capacity for them.

The need for retakaful generates from the similar reasons as reinsurance. The Takaful operator need retakaful to balance their portfolios, they have to maintain homogeneity of risks and have to avoid taking unbearable exposures on their portfolio and capital. They also need reinsurance so they can avoid rapid fluctuations in the economic results of their portfolios. Same is required by the retakaful operators also. They need enough premiums and spread so they can balance their own portfolio but all this does not exist.

There is a new trend in the insurance market that we can not place any risk with a retakaful operator unless it is not rated by any international rating agency. It is known factor that these agencies do not provide rating unless a certain capital requirement is not met and the operator has not shown results for a certain period of time. Now if the retakaful operators increase their capital to meet the rating requirements they do not get enough portfolio to support the capital and become investment companies and if they keep their capital low to maintain profitability with small premium base, that they end up seeing, then they do not get any rating.

Now no body is trying to understand one argument that we have to see an insurance company in view of it s assets / liability position and the exposure it is taking. Now even if we see a few more retakaful operators coming in the market they may not have any rating for the first few years of their operation and it will be really difficult for them to survive as they will be barred from writing a lot of business that they can handle genuinely and the benefit of this snag will go to the conventional reinsurance operators that have been in the market for quite sometime under the need doctrine.

The million dollar question is how we can solve this chicken and egg situation. I think we all have to take an overall view of the situation and all the stake holders in the process have to do something to help each other to bring this sector on economically viable stage without ignoring the spirit of the concept and without violating the basic principles of Islam that are the hull mark of Takaful movement.

The basic stake holders in the market are

The Insuring public
The Regulators
The Takaful Operators
The Retakaful Operators.
The Brokers

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Ummah has various segments and we all know the fact that the segments of Ummah that need Takaful most can afford the same least. The Insurance penetration rate is the indicator of the insurance reach. We have to see how the Takaful movement is affecting the lives of the people in the society. I will not go in the debate of the how the per capita income is related to the insurance penetration rate but will only say that the correlation is positive. They both grow together. The Takaful operators could have gained a lot of volume by devising the Takaful products geared to meet the requirements of the segments of Ummah that can not buy insurance, not because they do not want to buy insurance but, because they can not afford to buy insurance. The Takaful movement is still focused on the commercial lines of business that is more capacity dependent then the personal lines products that effect the lives of the common man, We have to focus on these classes by developing products that can meet their price criteria and thus increase the volumes and homogeneity of our portfolios and needing less retakaful.

It is very easy to enact law that relies on general rules but specific situations need specific laws or adjustments to the laws. The regulators have to come out of their stand on Security rating in case of the retakaful companies and have to judge these companies on the basis of their individual merits. We have to develop a separate set of rules for the placement of the retakaful business. This will allow the Takaful operators to write for each other on reciprocal basis thus helping each other get better spread and volume.

The Takaful operators have to be innovative in designing their retakaful programs they have to stop acting as post offices and have to expose their capital to calculated risks. We do handle some retakaful programs for the Takaful companies and our sad observation is that the main focus of some operators is to maintain very small retentions and to book more profit by commission income that they get from their retakaful program. They have to change their underwriting approach so they should have more non proportional programs to support them and increase their net retained accounts thus increasing the risk bearing capacity of their fund. They have to stop following the business approach of a traditional and conservative conventional company so that they can cum up with new products that can attract more clients and premium thou this will need a lot of skill and research.

The retakaful operators should promote the use of pools and ART products to increase their capacity for providing additional support and innovative products to the Takaful operators so that they can come up to the demands of the public and generate enough volume for them. They can cooperate and support each other in various regions where they have less penetration to increase their penetration in various segments of the society and the markets.



The brokers can also play their traditional value addition role by helping the operators in streamlining their products in line with the front end Takaful market consumers and the back end capacity providers.

The conclusion is that the Takaful movement has to prove itself in every arena be it Takaful or retakaful and my opinion is that we have to focus on the need of the people who are the real consumers of Takaful products because without them the primary market will not grow and without primary market the retakaful market will also not grow. I think if we do not follow the true spirit of Islam and philosophy of justice the Takaful movement will be reduced to a brand that is created to develop a niche market for some. We have to be very careful in our deeds and have to make sure that we deliver what we are talking about as our argument of infancy will not last long. We have to prove to the customers that we are not just riding on their religious sentiments but we are delivering. We have to prove to them that we are efficient managers of their money and the funds we manage for the policy holders are not orphan property even if the owners don't sit on our boards and are too weak to ask questions.