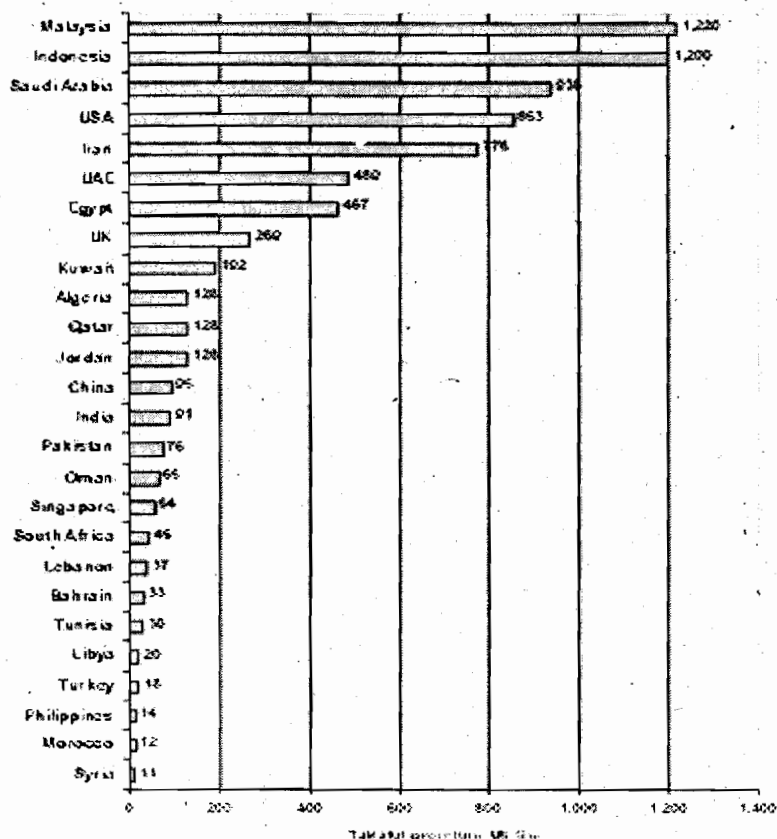


Takaful potential, year 2015

Takaful premium US\$7.4bn

Total insurance premium \$1.1trillion

Selected countries only



Twenty-seven countries were selected where most of the demographic and insurance statistics was available. It was estimated that the global takaful premium could be in the region of US\$7.4 billion in 15 years' time, growing at nearly 20% per annum. This is not an unachievable task when we have Malaysian takaful business growing at 60% pa and the Middle East at 10%. With concerted effort on part of the Takaful operators worldwide, a growth of 20% pa should be very much possible.

decades of misunderstandings created a mind-set amongst Muslims that did not help to develop life insurance to any great extent. And yet life insurance is so essential in providing the vital protection to the family. The insurance industry globally was US\$ 2.3 trillion in 1999 (up by 7.3% on 1998), with life insurance 61% of total. The size of the Middle East insurance market was US\$ 7.9 billion or 2.4% of world premium, and life insurance 31% of the market. Iran experienced strong growth at 25.2% for 1999, compared to average for the region of 5.2%. Life insurance in the region increased by around 3% in 1999 compared to 12.5% in Iran and 5.3% in Kuwait.

The takaful industry holds the key to unlocking this potential where life insurance can actually be provided through "family takaful" naturally acceptable to the masses. The demand for Islamic products is evident from the success of Islamic finance and banking that has now firmly established itself with a total of more than \$7 billion of capital, \$4.1 trillion of assets and more than \$120 billion of deposits.

The potential takaful volumes were estimated by taking into account the growth inertia that can be achieved through the introduction of family takaful and the following factors:

A greater awareness of Takaful system is achieved

- More Takaful companies are set up and run professionally
- More global coverage is secured through international companies' network and the use of modern IT technology
- Sale through banks
- Companies are well capitalized and demonstrate secure haven for the funds
- Retakaful capacity with triple A rating is available

Other factors were also taken into account such as literacy levels in each country and the take up rates for takaful products as opposed to conventional products.

groups, which has put greater pressure on limited resources and employment.

The economic factors have kept insurance low in many of these countries. People may be aware of insurance needs but cannot afford to buy the required protection. The minority, who can afford, are either not convinced or are not interested. Poor marketing has been one of the contributory factors

Company Profiles

The status and type of activities carried out by takaful companies worldwide, is mainly based on data collected directly from the companies through a questionnaire sent to some 30 companies. All except Takaful USA are continuing to transact business. The position about Takaful USA is not clear as of March 2001.

The more successful Takaful companies in the Arab region managed a dividend of up to 8%. Nevertheless, they can do much better if the critical mass of business is built up. Lack of capacity to write different classes of business, low retention, limited product range and lack of good service have been the impediments of the past and these parameters are fast changing for the better, especially in Jordan, Bahrain and Qatar. New Takaful companies in Kuwait and the UAE are expected to add to this improving scenario for Takaful industry.

Signs of Change: Tracing For Takaful Potential

The world population in 1999 is estimated to be around 6 billion as per the Global Population Project based in the United States. The data on Muslim population is not readily available. It was estimated by using information contained in a publication entitled Islamic Beliefs and Teachings from India. Accordingly there may be around 1.5 billion Muslims making up for 25% of the total world population in 1999. As we look around throughout the Muslim world it is quite evident that people have not taken to life insurance in the same way as in most other countries.

The growth of insurance in Muslim countries was examined by looking at the past trends and taking a conservative view on future growth. This provided a consistent pattern of slower growth in mature markets and higher growth in many of the developing countries. Most of the Muslim countries have potential to at least double their insurance volumes.

One of the main reasons for low penetration of insurance in these countries is the under-development of life insurance. As stated earlier,

Market characteristics

The market characteristics of the Arab region are quite different from other regions. The main differences are in terms of the attitude to risk and lack of insurance awareness. The level of awareness is very low about financial protection amongst individuals. This is not the case for Malaysia, Indonesia and Brunei, certainly not to the same extent. This is illustrated by comparing insurance density and penetration of conventional insurance and Takaful aggregated.

The average ratio of capital to premiums for many Arab insurers is around 1, whereas the ratio should be in the region of 2.5 times.

The Middle East and indeed many of the Muslim countries are a mixture of some rich and some poorer economies. Insurance density and penetration in some of these countries show the low expenditure in life insurance in Saudi Arabia of \$1 per head and UAE of \$68. In comparison, the world average life premium per capita was \$235, the UK \$2,503, USA \$1,447 and Switzerland \$2,914 (highest). The GDP in many of these countries is high, such as Kuwait, Saudi Arabia and UAE, and yet insurance penetration is not commensurate with the high GDP. This reflects the indifferent attitude to risk in these countries.

The insurance penetration in the UK was 13.35% (life 10.30%), USA 8.55% (life 4.23%), and South Africa 16.54% (life 13.92%) the highest. Insurance penetration for the Middle East is very low at 1.6%.

Traditionally the reasons for low penetration for insurance in the Middle East, particularly in life insurance, used to be:

- lower disposable incomes, except for the Arabian Gulf countries.
- greater reliance on social welfare provisions
- extended family system
- attitude to personal risk

Nevertheless many of the classic parameters of old are changing, such as the extended family system. The pace of change has increased manifold due to urbanisation and industrialisation and the recent phenomenon of liberalisation and globalisation. Moreover, populations of many developing Muslim countries are skewed towards younger age

بین الاقوامی اسلامی فقہ اکیڈمی (جدہ) کے
پندرہ سیمیناروں اور فقہی اجلاسوں کی قراردادیں
اور سفارشات

اردو زبان میں شائع ہو گئی ہیں

ترتیب و تدوین ڈاکٹر عبدالستار ابوغده : اردو ترجمہ ڈاکٹر محمد رضی الاسلام ندوی
شائع کردہ: ماڈرن اسلامک فقہ اکیڈمی (مجلہ فقہ اسلامی پی او بکس 17777 کراچی)
ملنے کا پتہ: فریڈ بک سٹال اردو بازار لاہور ضیاء القرآن پبلی کیشنز گنج بخش روڈ لاہور
مکتبہ فیض القرآن { قاسم سنٹر اردو بازار کراچی } فون 2217776

حضرت علامہ مفتی محمد جلال الدین قادری کی کتاب

احکام القرآن

کی

پانچویں جلد شائع ہو گئی

﴿سورہ یوسف سے سورہ الکہف تک﴾

نہایت عرق ریزی سے مرتب کردہ اردو زبان میں اپنی نوعیت کی منفرد کاوش جس
سے اردو اہل طبقہ بآسانی استفادہ کر سکتا ہے۔ طلبہ علوم اسلامیہ و علماء کرام کے لئے
یکساں کارآمد۔ حوالہ جات سے مزین تحقیقی انسائیکلو پیڈیا۔

☆☆☆

شائع کردہ: ضیاء القرآن پبلی کیشنز لاہور کراچی

US\$m	Life Takaful	General Takaful	Total Takaful	Total Market	Takaful Share of Market
	1.3	60	61	781	* 8%
	1.1	12	13	815	2%
	-	6	6	153	4%
	-	5	5	134	4%
	0.4	27	27	33	83%
	0.3	6.3	7	141	5%
	3.1	116	119	2,057	6%

* Takaful share for Saudi Arabia increases from 8% to 36% if NCCI's premium is included above.

Table 3: Takaful business in the Arab Region - 1999

Takaful business has generally grown at a higher rate than the total insurance business in each of these countries. Growth rates reflect the increasing market share of Takaful business over the same period, 1995 to 1999 for these countries:

Reinsurance or Retakaful

Reinsurance of takaful business on Islamic principles has been an area of much debate. Reinsurance on Islamic principles is known as retakaful. The problem has been one of lack of retakaful companies in the market. This has left the takaful companies with a dilemma of having to reinsure on conventional basis, contrary to the customer's preference of seeking cover on Islamic principles. The Sharia scholars have allowed dispensation to takaful operators to reinsure on conventional basis so long as there was no retakaful alternative available. Takaful companies therefore actively promote co-insurance. A number of large conventional reinsurance companies from Muslim countries take on retrocession. Still there is a lack of capacity within the Takaful industry worldwide. A certain proportion of risk is placed with international reinsurance companies that operate on conventional basis. The retrocession from Takaful companies ranges from some 10% in the Far East where Takaful companies have relatively smaller commercial risks (so far), to the Middle East where up to 80% of risk is reinsured on conventional basis.

the Arab region for Takaful, writing 72% of the non-Arab takaful business. A geographical spread of takaful business is as follows.

These are estimated figures	Takaful	% of total
	\$143m	27%
	\$50m	9%
	\$6m	1%
	\$340m	63%
	\$538m	100%

Table 1: Geographical spread of Takaful business - 2000

The growth in Takaful business in Malaysia has been impressive. Starting from a low base in 1994, the annualized average growth used to be in the order of 92% in Family Takaful and 34% in General. Since 1998, the growth rate has slowed down to around 30% in Family Takaful and 17% in General. In Family Takaful the products sold were individual and group term and savings products, mortgage policies and pension plans. In General takaful all classes of business were sold.

US\$m	Family Takaful	% Increase	General Takaful	% Increase	Total Takaful	% Increase
	55.0		36.6		91.6	
	70.0	27%	42.7	17%	112.7	23%
	93.2	33%	49.8	17%	143.0	27%

Exchange rate RM2.43 to \$ (1997 prices)

Table 2: Growth of Takaful in Malaysia

Takaful in Arab Countries

To illustrate the penetration of takaful in the private sector, the following table provides a picture of business written by companies in the Arab countries excluding NCCI in Saudi Arabia. This company's business is mainly generated from government sources and its exclusion from the figures provide a better measure of how takaful companies are doing in the market place where they compete with conventional insurance companies.

Takaful figures estimated, Market figures from Sigma SwissRe & Arig

some prominent Islamic scholars in the Arab countries. The search was on for an acceptable alternative ever since, and not until the 1970's the debate took sufficient momentum to reach a consensus. In 1985, the Grand Counsel of Islamic scholars in Makkah, Saudi Arabia, Majma al-Fiqh, approved takaful system as the alternative form of insurance written in compliance with Islamic Sharia. It is outside the scope of this presentation to explain how the takaful system works except to say that it is a concept of protection for the good of society, a concept that was never an issue in Islam in the first place. The Grand Counsel approved this system as a system of co-operation and mutual help but the exact method and operation was left to Islamic scholars and insurance practitioners to resolve, develop and implement.

Takaful industry is still not past its formative years and there are many areas unresolved, especially in life insurance. The key areas to resolve are the global standardization of takaful terminology, the development of an acceptable form of life insurance (family takaful) especially for countries in the Arab regions and a common consensus for a system to determine profits (or surplus) distributable to participants and shareholders.

The very first Takaful company was established in 1979 - the Islamic Insurance Company of Sudan. Today there are some 28 registered Takaful companies worldwide writing takaful directly and 10 more as Islamic windows or marketing agencies placing insurance risk with conventional and takaful companies. In fact the number of takaful companies is higher as all insurance companies in Sudan are deemed to operate in accordance with Islamic Sharia principles. In addition, new takaful companies have been established recently in Sri Lanka and Tunisia. At least four more Takaful companies are under formation in the Middle East (viz. Kuwait, UAE and Egypt). Several other Takaful companies are being contemplated in various countries such as Pakistan, Australia and Lebanon. It is also understood that interest is shown in Takaful in South Africa, Nigeria, and some of the former states of the Soviet Union.

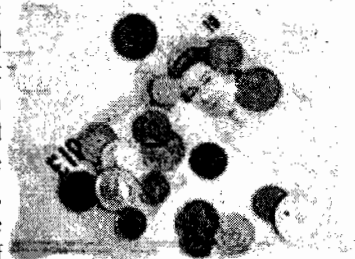
Takaful industry in the Middle East is under-developed compared to other markets such as Malaysia. The more successful companies in the Middle East have grown at 10% p.a. whereas in Malaysia the rate of growth has been 60% p.a.

A broad estimate of the total Takaful industry in 2000 is approximately US\$550m for both life and non-life business, of which around \$193m pertains to Asia Pacific. Malaysia is one of the largest markets outside

ISLAMIC INSURANCE.

(TAKAFUL)

The concept of takaful, or Islamic insurance, where resources are pooled to help the needy does not contradict Shariah. The concept is in line with the principles of compensation and shared responsibilities among the community. It is not a new concept, in fact it had been practised by the Muhajrin of Mecca and the Ansar of Medina following the hijra of the Prophet over 1400 years ago. It is generally accepted by Muslim Jurists that the operation of conventional insurance does not conform to the rules and requirements of Shariah.



Conventional insurance involves the elements of uncertainty (Al-gharar) in the contract of insurance, gambling (Al-maisir) as the consequences of the presence of uncertainty and interest (Al-riba) in the investment activities of the conventional insurance companies which contravene the rules of Shariah. Takaful is an alternative form of cover which a Muslim can avail himself against the risk of loss due to misfortunes.

The insurance providers in year 2001 and beyond should find Takaful sector an exciting sector of insurance to be in. This presentation focuses on growth potential that exists in Takaful with great many opportunities for innovative development of unique products, techniques and systems needed to fill gaps in insurance penetration in many of the markets around the globe. This paper presents an insight into the size of the current takaful industry worldwide and sketches the signs of change that may lead to realization of the potential that exists in this sector.

Overview of takaful

The takaful brand of insurance is a classic example of consumer-driven response to their needs. For generations, Muslims around the world have grown with a mind set that insurance (especially life insurance) is taboo because it contravenes some of the Islamic tenets. Life insurance as sold in conventional way was declared unacceptable in 1903 by