Challenges of inclusive insurance in the Arabic/Islamic world

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Islamic World Definition

- Constitutional Definition
- Demographical %
- Membership of the Organization of Islamic Cooperation (OIC)
- *De facto* approach
Insurance Inclusion Challenges

- Lack of Financial Resources
- Religious Preference
The Socially Marginalized: Demand vs. Supply

- 50% of the World's poorest people live in the Islamic World.
- Every 1 in 5 Muslims lives in extreme and chronic poverty.

**Gross Contributions**

US$ 28 bn

**CAGR (2009-2014)**

CAGR of around 11% during 2021-2026.

25%

1.9 billion

Takaful Density = 14.7 per capita
The Socially Marginalized: Demand vs. Supply

**Demand**
- Unemployment vs Informal economy
- Poor skills (specially IT)
- Low income
- Poor housing
- Poor health conditions
- High crime rate
- Religious preferences
The Socially Marginalized: Demand vs. Supply

Supply

Cherry picking underwriting strategy
Opportunity cost of capital
Shari’ah compliant products
Why Takaful

Major objections: (inherited within an insurance contract itself)
- Riba (usury)
- Gharar (ambiguity)
- Maiser (gambling)

Minor objections: (related to insurance companies guideline and market practices)
- Life insurance contractive Mawarid (Islamic inheritance rules) in distributing policy’s benefit among the beneficiaries.
- The investment policy of an insurance company is an interest-bearing one.
- Few insurance products includes Maiser (prize-indemnity insurance).
- Ghabn (fraud or deception): Exploitative profits and moral hazards.
Core Components of Islamic Financial System

- Islamic Banking
- Takaful
- Islamic Capital Market
- Islamic Money Market
Right Modus Operandi

- The Basic Mutual Model (Non-profit)
- The Pure Wakalah Model
- The Modified Wakalah Model
- The Pure Mudarabah Model
- The Wakalah-Mudarabah (hybrid) Model
- The Waqf Model
Right Modus Operandi

Takaful Operator

Management Expenses

Mudarabah Profit Share

Wakalah Fees x %

Investment

Investment Income

Policyholders Account

Gross contributions paid by policyholders

Policyholders risk fund (mutual insurance pool)

100 - PSR %

100 - X %

X %

Claims paid + Reserves + Operational expenses

Underwriting Supplies
How?

Rising Awareness & Education

Improving Access

Promoting Affordable Insurance
MicroTakaful distribution models

- A Full-service model: Takaful operators develop their products with an affordable premium that the poor can afford. (Avoid mimic the conventional products)

Alternatively

- A Partnership model: Takaful operators with the right products pair with Islamic microfinance institutions and others to provide microTakaful in the low-income markets.
Thanks