



Takaful and Poverty Alleviation

8th International Microinsurance Conference

Dar es Salaam, Tanzania
8 November 2012



Overview of presentation

- Why is conventional insurance not allowed?
- Takaful principles and practices
- Takaful today and future potential
- Opportunities for Microtakaful
- Microtakaful in practice

Why is conventional insurance not permissible?

- **Maysir (gambling)** – underwriting of risks by shareholders in anticipation of a profit is prohibited
- **Gharar (uncertainty)** – the insured pays premiums in exchange for indemnity against risks that may not occur
- **Riba (usury)** – the company engages in investments that derive their income from interest and/or prohibited industries

Principles of Takaful

- Solidarity and joint guarantee
- Self reliance and self sustaining for community well being
- Assist those that need assistance
- Community pooling system
- Shari'ah approved investments and products

“Bear ye one another’s burden”



In Principle Takaful is Mutual

“Principles of mutuality should permeate every aspect of takaful, and be practised within Takaful corporations.”

Syed Moheeb (President and CEO, Takaful Ikhlas)

“Takaful is a cooperative model, it is a mutual model based on solidarity, designed for community welfare, equity, justice and fairness, both cooperatives and Takaful share that.”

Hassan Bashir (CEO, Takaful Insurance of Africa)

“Takaful will never converge into the conventional model. If it is going anywhere other than the theoretical takaful model, it will be (towards) the mutuals”

Sheikh Dr Mohamed A Elgari



In Principle Takaful is Mutual

“The best form of Takaful would ideally be an existing mutual or cooperative insurer which invested its premiums compliant with Islamic principles.”

**Dawood Taylor
ICMIF Takaful & Mutuality Seminar, 2004**

Takaful in practice

- Separation of policyholder and shareholder funds
- Sharing of underwriting surplus
- System of **Tabarru** (premiums are donations)
- Pay defined loss from a defined fund
- Shareholder provides interest free loan in the event of underwriting losses
- Shari'ah Advisory Board

Takaful in practice

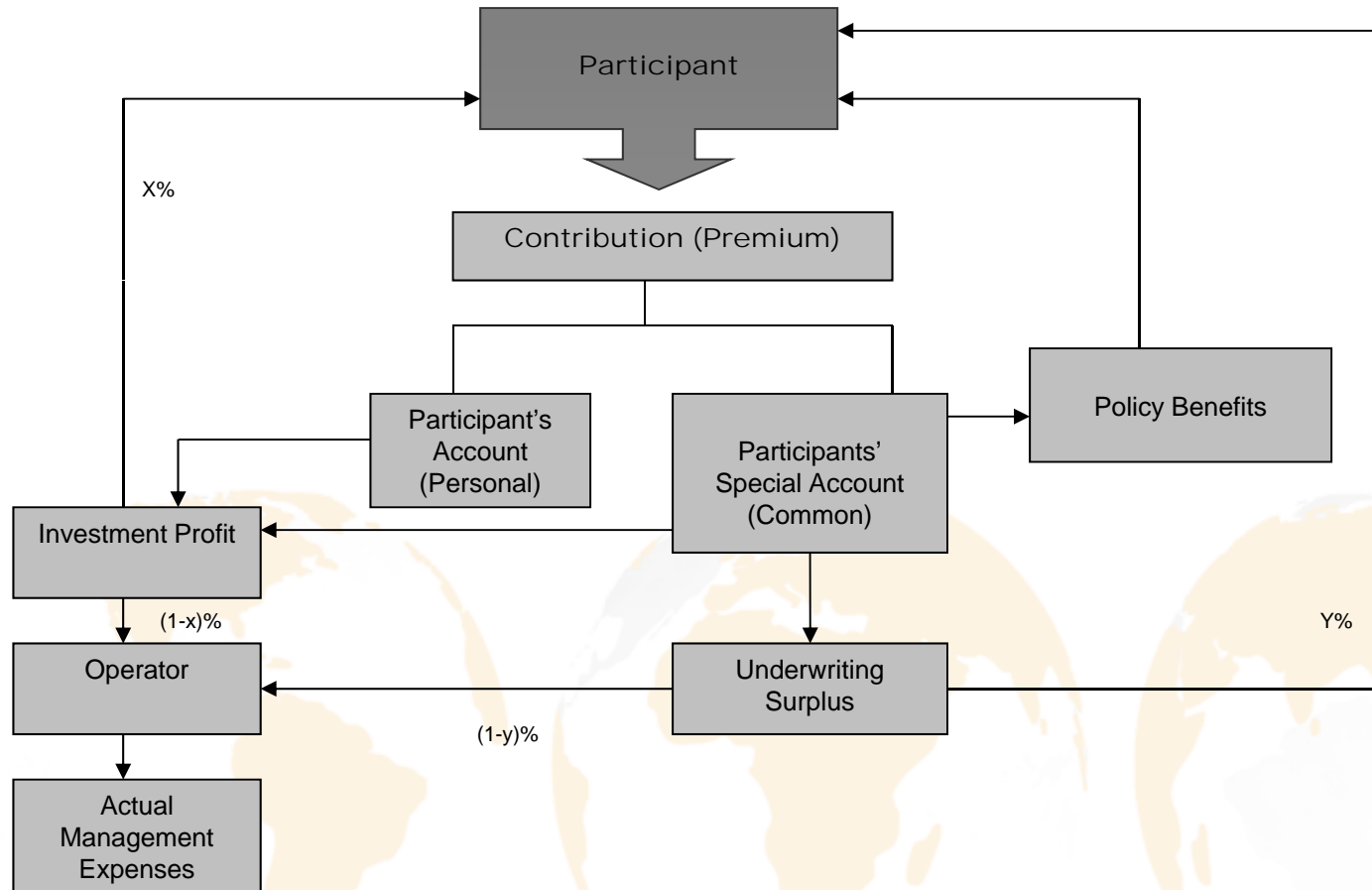
- Expense Risk – *Shareholders*
- Operating Risk – *Shareholders*
- Underwriting Risk – *Policyholders*
- Investment Risk – *Shareholders & Policyholders*
- Value of the business - *Shareholders*

Takaful in practice

- Mudharabah model
- Wakala model
- Pure cooperative model
- Waqf model
- Takaful window

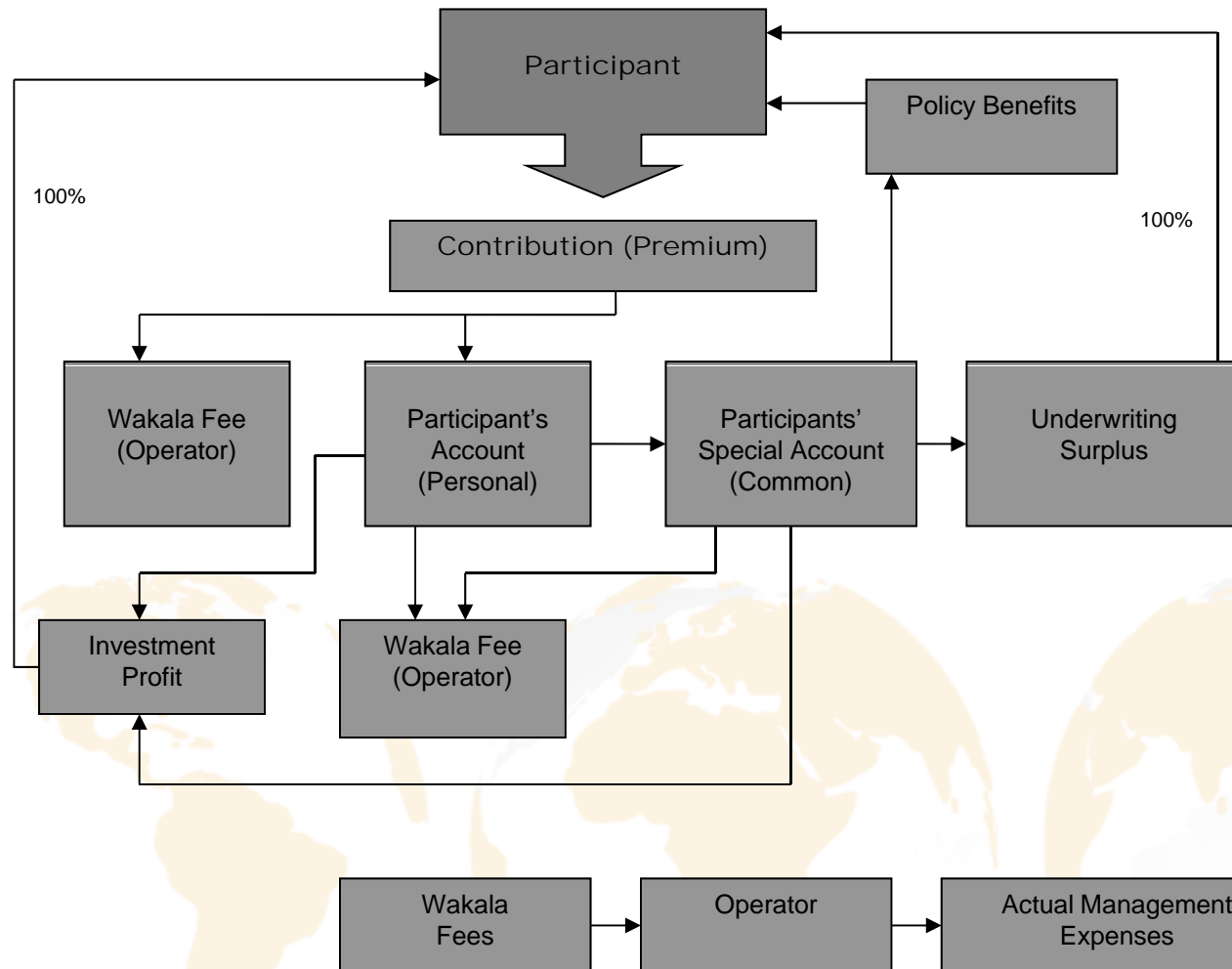


The Mudharabah model



Source: Hassan Scott Odierno; "Takaful as a Mutual Hybrid"

The Wakala model



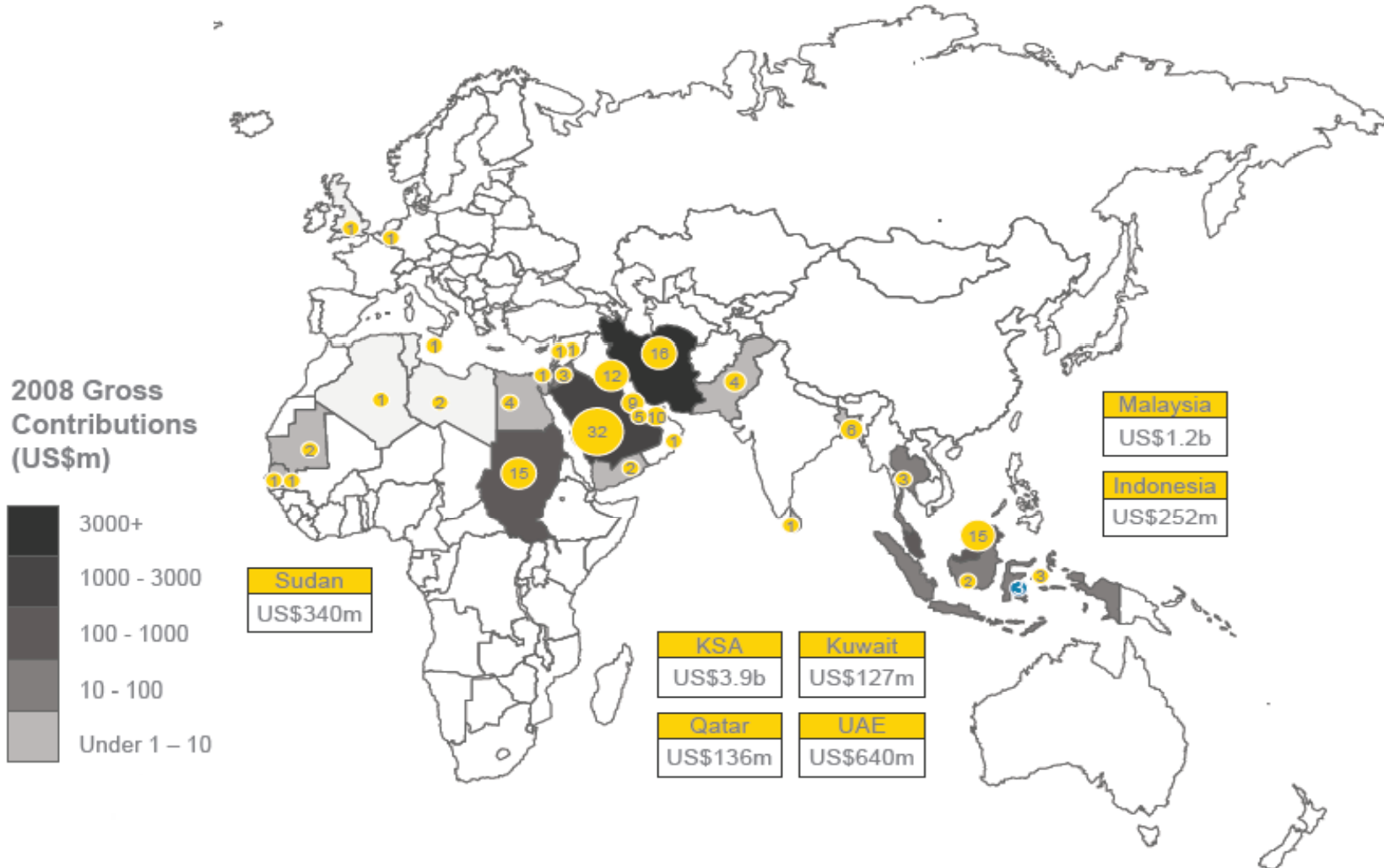
Source: *Hassan Scott Odierno; "Takaful as a Mutual Hybrid"*

Evolution of Takaful

- Marine Insurance – Early second century (9 A.D.) – mutual fund to cover robberies and mishaps
- 1979 first Takaful operator established
- 1984 first Mudharabah model
- 1990s Wakala model established
- Multinationals enter the market
- Large reinsurers commence Retakaful

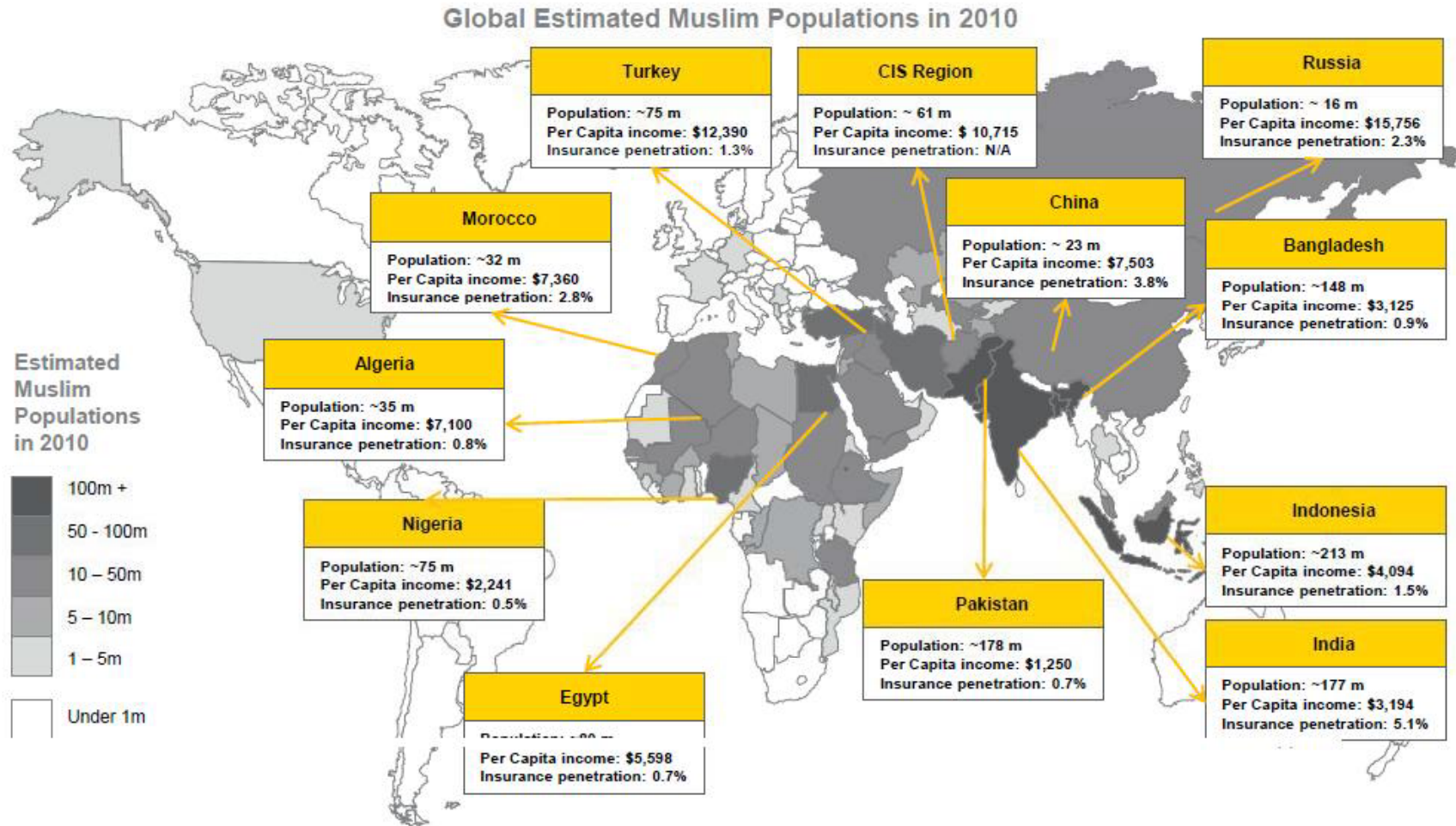


Global Takaful Operators (2008) and Contributions (2009)

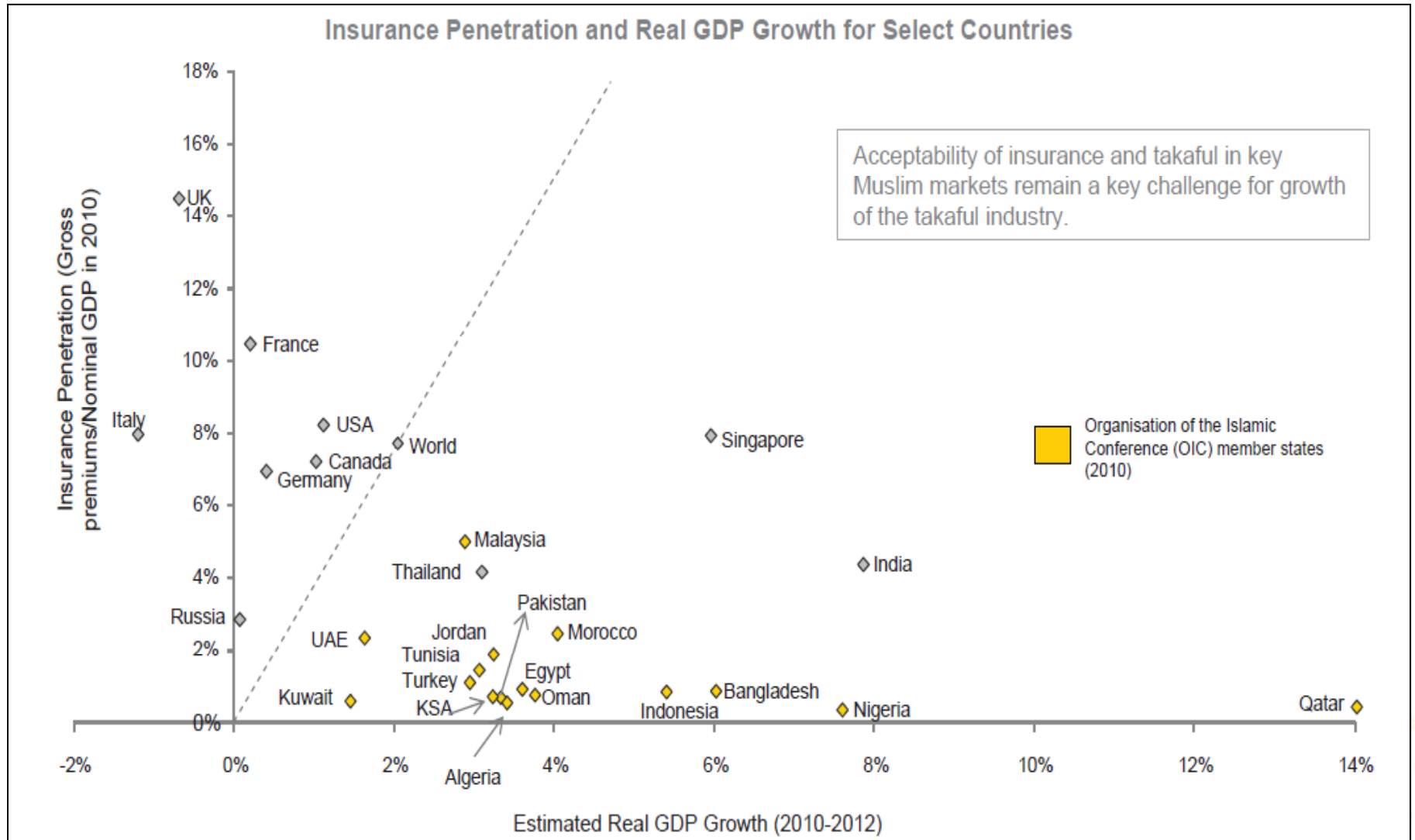


Source: Ernst & Young's World Takaful Report 2011

Potential Takaful markets



Source: The World Takaful Report 2012, Ernst & Young



Source: Ernst & Young's World Takaful Report 2011



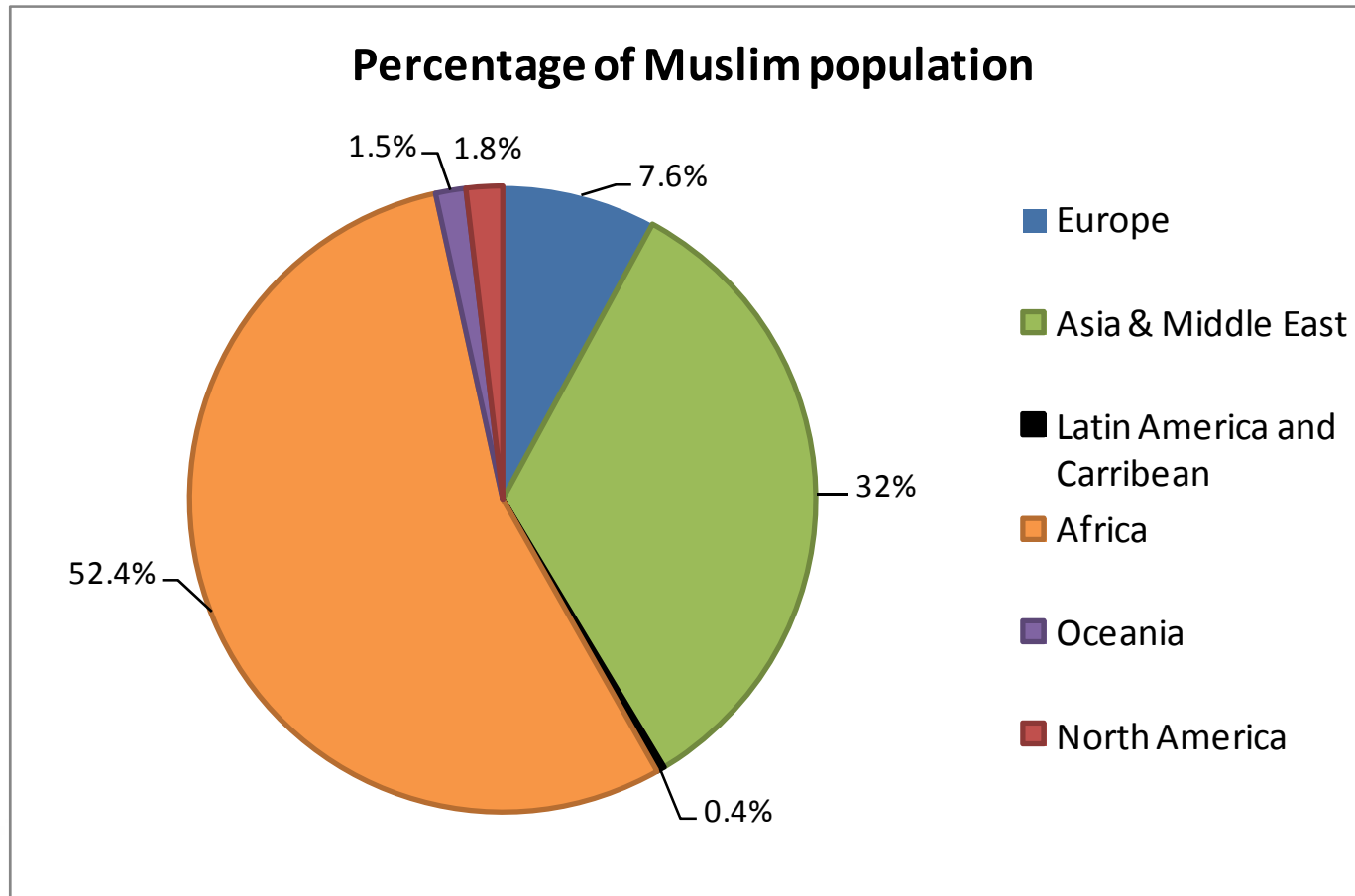
Lack of insurance penetration in Muslim countries

HDI rank 2011	Country	Human Development Index (HDI) value 2011	Gross National Income (GNI) per capita 2011 (PPP USD)	Insurance density Premiums per capita 2010 (USD)	Insurance penetration Premiums as a share of GDP 2010 (%)
Top 3 HDI countries					
1	Norway	0.943	47,557	3,736	4.5
2	Australia	0.929	34,431	3,369	5.9
3	Netherlands	0.91	36,402	5,845	12.4
Top 3 HDI Muslim Majority countries					
30	UAE	0.846	59,993	1,248	2.1
37	Qatar	0.831	107,721	618	0.8
42	Bahrain	0.806	36,402	527	2.8

Source: Human Development Report 2011 & Sigma (2011) World Insurance in 2010



Muslim population in the world



Source: www.muslimpopulation.com



Standard of living in Muslim majority countries

HDI rank 2011	Country	Human Development Index (HDI) value 2011	Gross National Income (GNI) per capita 2011 (PPP USD)	Population below income poverty line (PPP \$1.25 a day) %	Satisfaction with water quality (% satisfied)	Adult literacy rate (% ages 15 and older)
Top 3 HDI Muslim Majority countries						
30	UAE	0.846	59,993	/	84.4	90
37	Qatar	0.831	107,721	/	79.6	94.7
42	Bahrain	0.806	36,402	/	85	91.4
Bottom 3 HDI Muslim Majority countries						
181	Burkina Faso	0.331	1,141	56.5	39.4	28.7
183	Chad	0.328	1,105	61.9	34.9	33.6
186	Niger	0.295	641	43.1	63	28.7

Source: Human Development Report 2011 & Sigma (2011) World Insurance in 2010

Can it make a difference to the take up of microinsurance?

“Cultural and religious values (also) affect the demand for microinsurance in Africa. When people believe that their fortunes are in God’s hands, they might not realize how insurance can help them take control of their lives”

(Landscape study of Microinsurance in Africa, 2010)

Microtakaful – the need

- Large sectors of poverty in many Muslim countries
- Almost half of world's lowest developed countries have a majority Muslim population
- Increasing inequality in Middle East and Gulf countries and between Muslim countries
- Low penetration of insurance
- Religion plays a fundamental role in the lives of the poor
- In line with the teachings of Islam and principles of Takaful

Microtakaful – the possibilities

- Establish informal microtakaful schemes
- Education of government and donor agencies
- Involvement of Takaful sector
 - Technical expertise
 - Financial assistance
 - Partnerships with microinsurance providers and existing institutions working with the poor



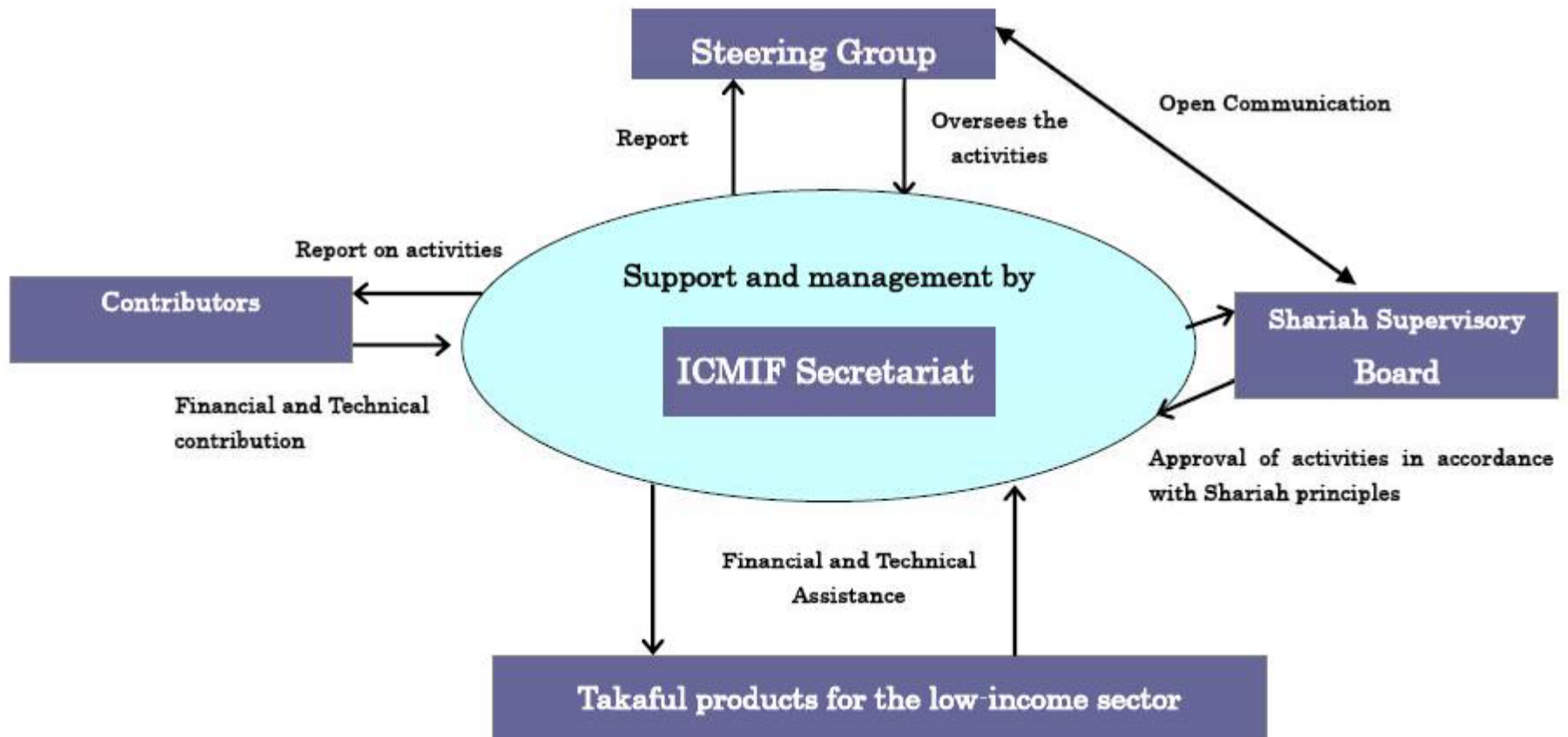
COLOMBO DECLARATION

23rd November 2011, Lakeside Cinnamon Hotel, Colombo, Sri Lanka

Following the first FOITC,GTG, ICMIF Takaful Network Seminar hosted by Amana Takaful the three associations have agreed to join efforts and resources towards the promotion of Takaful (Islamic Insurance) and Mutuality (cooperative and mutual insurance) worldwide. Further, the Joint committee have highlighted the following objectives:

- **To improve access to Takaful in emerging countries and underserved markets.**
- **To facilitate cooperation and collaboration between Takaful/Retakaful operators and associations from across the globe.**
- **To raise awareness and understanding of Takaful values and principles worldwide.**
- **To effectively represent the Takaful movement to all stakeholders and supervisory authorities.**
- **To strengthen and reinforce the mutual values at the heart of Takaful.**

The structure of the ICMIF Microtakaful Support Centre (MSC)



Microtakaful

By utilizing the mutual principles and philosophy at the heart of Takaful whilst addressing the religious concerns of the community, microtakaful can be an effective and efficient vehicle to provide protection for the poor and enable achievement of sustainable poverty alleviation



Microtakaful – in practice

Amana Takaful (Sri Lanka)

Working with Muslim Aid to provide affordable protection to the low income population whilst catering for their religious requirements



A Global reach for local strength

Thank you

www.icmif.org

www.takaful.coop

www.microinsurance.coop