



Takaful in Europe: How Real is the Opportunity?

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Takaful insurance structure vis-à-vis conventional insurance

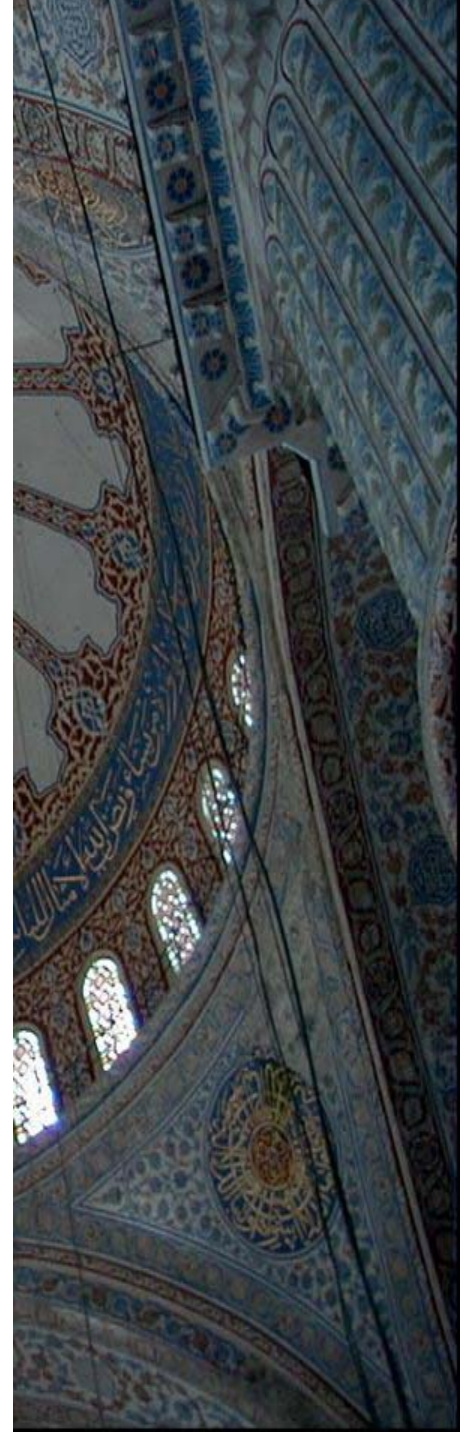
Takaful opportunities in Europe

Challenges to expansion in Europe



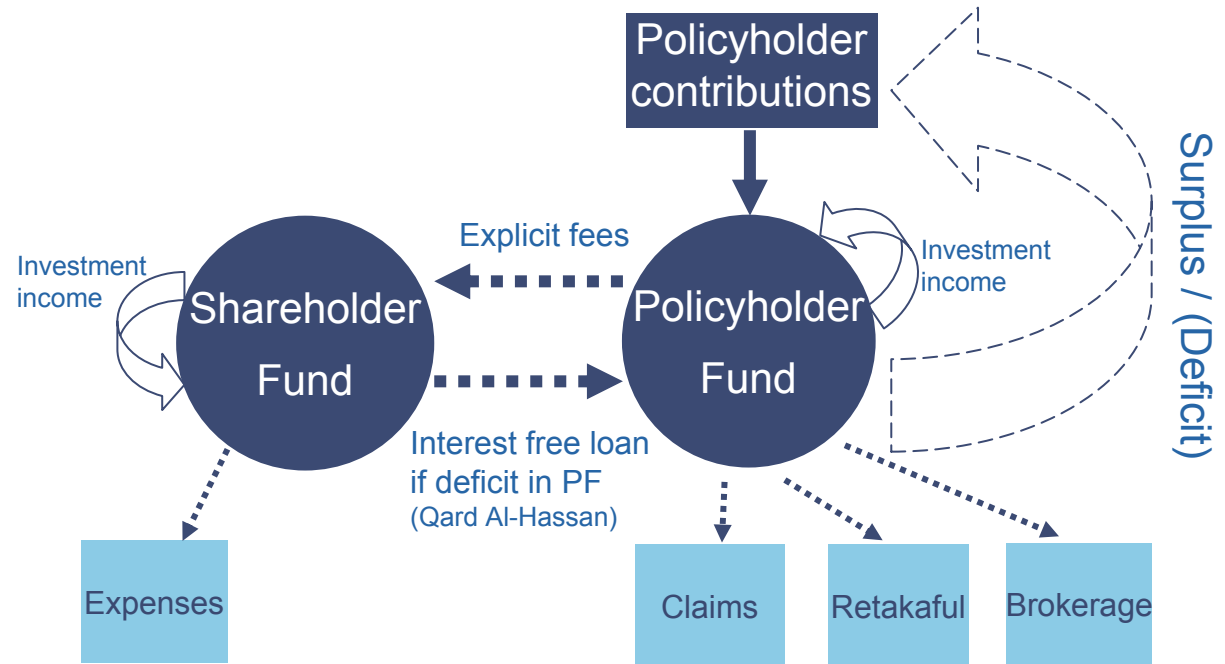
Takaful opportunities in Europe

- Takaful insurance industry is currently growing at 15-20% globally per annum versus 5-10% for conventional insurance
- With over 20 million Muslims, Europe presents a largely untapped target market
- Nascency of market in Europe means “first-mover” advantages still exist
- Wider appeal than just Islamic insurance – Takaful as a price-competitive ethical product



Takaful insurance structure vis-à-vis conventional insurance

Akin to the mutual insurer set-up commonly seen across Europe...



...but within a shareholder wrapper

Mudahraba model
(profit & loss sharing)

Management fee +
percentage share of surplus

Wakala model
(agency)

Fixed fee applied to either
contributions or investment income

Other common variants include:

Musharakah model (joint venture approach)

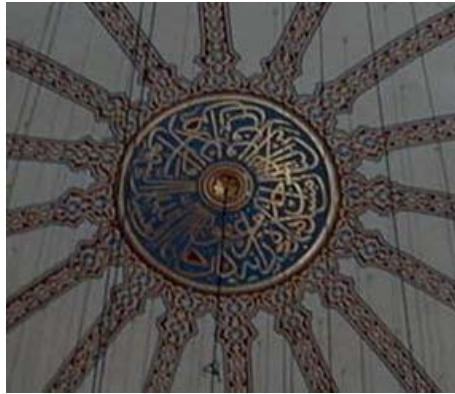
Ju'alah model (commission)

Challenges to expansion in Europe

- Critical mass
- Marketing to non-Muslims
- Shariah compliance
- Regulatory and accounting challenges
- Shortage of skilled resources
- Investment compliance
- Limited Retakaful capacity

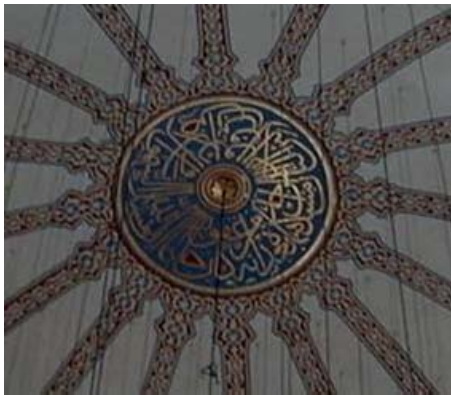


Critical mass



- Muslim population is fragmented across Europe
- Highest proportion in France, UK, Germany and Spain although still only 10% or less
- Mix of backgrounds/descent of Muslims varies between EU states, each with potentially different propensity to buy insurance products
- Low awareness of Takaful among Muslims within the EU

Marketing to non-Muslims



- Traditionally most successful in countries with a high proportion of Muslims
- To be economically viable products would need to appeal to both Muslim and non-Muslim customers
- Religious complexities could potentially deter non-Muslim customers. Marketing, packaging and distribution must be creative to highlight other benefits apart from Shariah compliance

Shariah compliance

- Shariah board usually consists of at least 3 economically educated Islamic scholars
- Resourcing issues currently faced due to shortage of those who understand intricacies of Shariah law and complexities of modern finance
- Potential concerns over who regulates the Shariah board members



Regulatory and accounting challenges



- Potential conflict with EU reporting standards - IFRS requires reporting at a combined corporate entity level (i.e. Policyholder Fund and Shareholder Fund are combined)
- Potential comparability issues with those insurers using the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards
- Solvency and capital implications of Solvency II and IFRS Phase II

Shortage of skilled resources



- Lack of skilled technical resource in underwriting, claims, finance, actuarial and reinsurance functions in Middle East



- EU shortage is different – it lacks Islamic finance specialists and intricacies of how takaful insurance business operates



Investment compliance



- Takaful businesses should invest their funds in Shariah-compliant assets (eg. No arms manufacturers, alcohol producers, gambling institutions etc.)



- Many investments preferred by EU regulators (eg. bonds) are not Shariah compliant
- Lack of alternative Shariah-compliant investments within the EU



Limited Retakaful capacity

- Full Shariah compliance requires a retakaful programme to be placed with a retakaful insurer
- Currently only 3 retakaful companies with A- or higher credit rating
- Takaful companies may be forced to use conventional reinsurance unless capacity increases



Questions?

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Questions?

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