

INTERNATIONAL TAKAFUL SUMMIT 2008

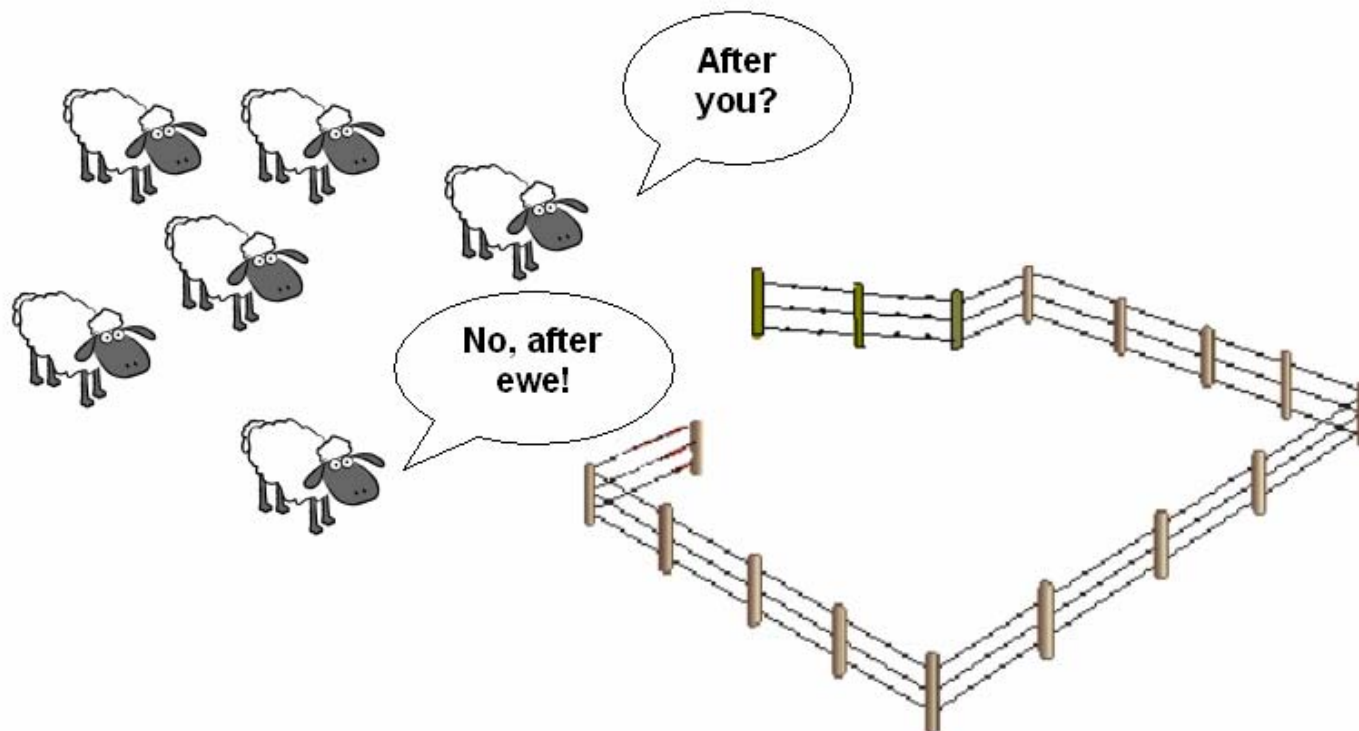
BARRIERS TO ENTRY TO THE UK MARKET FOR TAKAFUL PRODUCTS

-BRUCE GRAHAM

INTERNATIONAL TAKAFUL SUMMIT 2008

BARRIERS TO ENTRY TO THE UK MARKET FOR TAKAFUL PRODUCTS

WHO WANTS TO BE FIRST?



ISSUES FOR EXISTING INSURERS

- Difficult to isolate from existing business
- Need new product design, processes and routes to market
- A lot of issues to consider for what is a relatively small market share
- Already insure the target customers on a conventional basis

ISSUES FOR BANKASSURERS

- May have routes to market (target customers may already be clients)
- Difficult marketing message if you business is heavily dependent on interest earnings
- HSBC Amanah home product may have been driven by push for mortgage sales

ISSUES FOR NEW INSURERS

- NEEDS:
 - Competent management team
 - Administration and support staff
 - Complex management information systems
 - Distribution channels
 - Regulatory capital

MANAGEMENT TEAM

- Chief Executive
- Chief Underwriter
- Finance Director
- Pricing Actuary
- Claims Manager
- Compliance Officer
- Marketing Director
- I.T. Director
- Non-Exec. Directors
- Shariah Board

Annual Cost £1m+

OTHER OPERATING COSTS

- ANNUAL RUNNING COSTS
 - Support staff £0.75m
 - Management Information Systems £0.50m
 - Accommodation £0.25m
 - Professional fees £0.25m
 - General expenses £0.25m
 - **TOTAL** **£2.00m+**
- FORMATION EXPENSES
 - Professional fees & initial staff £0.50m
 - Design of systems and processes £1.00m+
- PRICING ANALYSIS £0.50m

MORE ISSUES?

- WHAT DISTRIBUTION CHANNEL?
 - Brokers (costly)
 - Telesales (ditto)
 - Aggregators (nothing to compare with)
 - Internet (long lead in?)
- CAPITAL
 - Minimum £50m (US\$100m)?

THE REAL PROBLEMS

- Need to share/spread risk to achieve aims
- Need risk control (reinsurance)
 - *1 claim could cost £10m+*
- Need volume for spread
- Need to grow slowly to validate business model

BUT ARE THE REWARDS WORTH IT?

THE REWARDS - MOTOR

	2007	2006	2005
• Net Claims ratio	85%	82%	81%
• Reserve releases	(12%)	(10%)	(7%)
• Net expense Ratio	29%	29%	28%
• Net Operating Ratio	102%	101%	102%
• Excluding reserve releases	114%	111%	109%

Source: AM Best, Deloitte Interpretation

THE REWARDS - HOUSEHOLD

	2007	2006	2005
• Net Claims ratio	80%	57%	57%
• Reserve releases	(3%)	(4%)	(5%)
• Net expense Ratio	42%	40%	41%
• Net Operating Ratio	119%	93%	93%
• Excluding reserve releases	122%	97%	98%

Source: AM Best, Deloitte Interpretation.

CURRENT TREND TO EXIT THE MARKET

- Royal Bank of Scotland (Market Leader) selling:
 - Direct Line
 - Churchill
- Insurance Australia Group selling:
 - Equity Red Star (5th largest Motor Insurer)
 - Hastings Direct (5th largest broker)
 - Only bought 2 years ago!

CAN TAKAFUL BE VIABLE IN THE UK?

- Positive features:
 - Ethical values may deliver lower claims ratio
 - Fraudulent claims reduced
 - Acquisition costs lower (in time)
 - Customers easy to access
 - High sales conversion ratio
 - Younger demographic may increase internet sales

DEPENDS ON UK MUSLIM RESPONSE

CURRENT UK TAKAFUL PROVIDERS

- HSBC Amanah
 - Home Property & Contents
- Principle Insurance
 - Commence in second half of 2008
 - Motor initially, range of products to follow
- New entrant September 2008 – Mutual Trust
 - Subject to final legal/regulatory clearances

INTERNATIONAL TAKAFUL SUMMIT 2008

BARRIERS TO ENTRY TO THE UK MARKET FOR TAKAFUL PRODUCTS

- INITIAL PRODUCTS
 - Property
 - Mosques, Community Centres, Schools
 - Property Owners
 - Commercial
 - Retail & Industrial
 - Restaurants
 - Travel
 - Pilgrimage/Haj



INTERNATIONAL TAKAFUL SUMMIT 2008

BARRIERS TO ENTRY TO THE UK MARKET FOR TAKAFUL PRODUCTS

PARTNERS



- : Holman's – Product design/administration
- : Quest Group – Distribution and services
- : Afkar – UK marketing
- : Lovells – Legal & structuring
- : Yasaar – Shariah validation

CONCLUSION

- Three product providers
 - Important that they thrive
- Will the herd follow?
- Dependent on response from Muslims

THANK YOU