

12 July 2012

Takaful

-Challenges of developing annuity products

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Takaful Summit 2012
London

Takaful

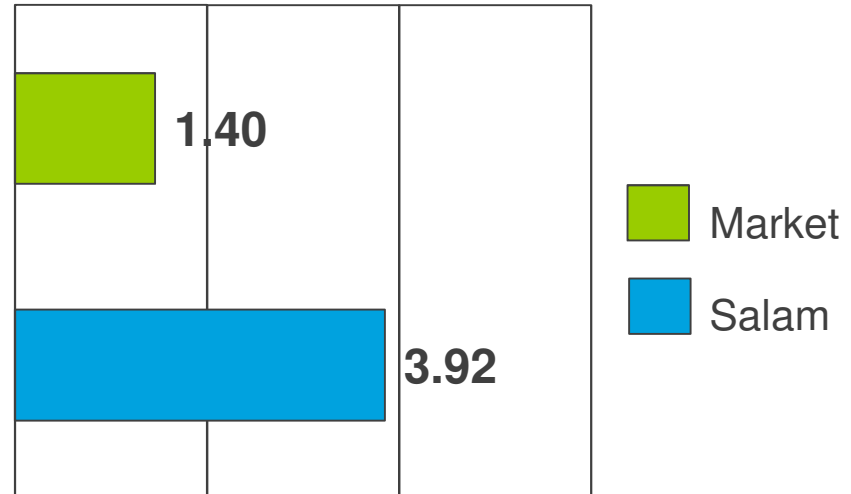
-Back to Basics

- Objective of Takaful is to benefit together, not benefit at the expense of others.
- Takaful Operators do not provide investment guarantees in the same way that Mutual Funds do not provide investment guarantee.
 - This has implications on product pricing in takaful, more so on wealth accumulation products
- Takaful participants are only bound by financial obligations and not by religious obligations.
 - What about Ethics?
 - What about the spirit of kinship among policyholders/participants in a takaful set up?
 - Should there be the same sense of belonging in Takaful as experienced by Friendly Societies of old?

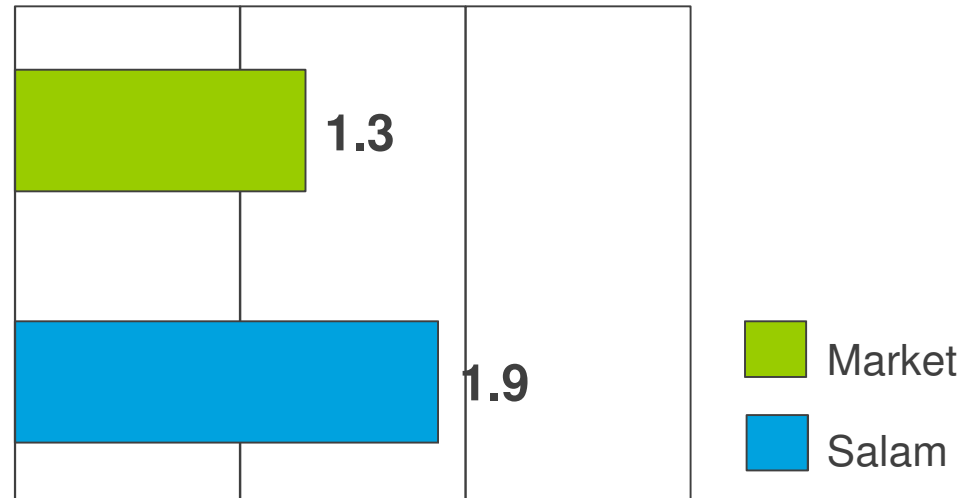
Salam insurance

-Claims metrics vs market norm

Third Party Personal Injury



Claimants per incidents



Source: Takaful in a Sceptical Market
ITS 2009
Bradley Brandon – Cross
CEO
Salaam Halal Insurance

Pension

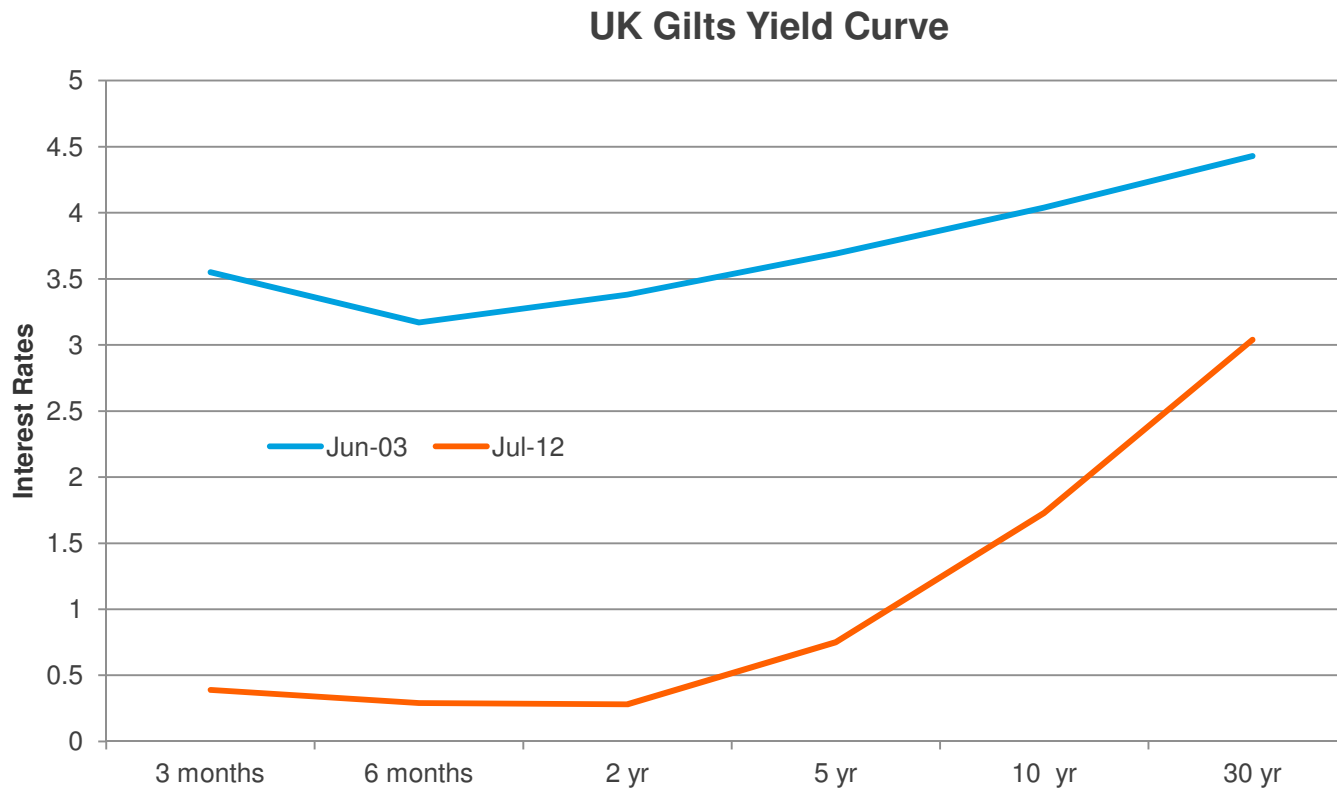
- the global move from Defined Benefit to Defined Contribution

- Defined Benefit Scheme
 - Members pay a predetermined contribution, employer tops up as necessary. Investment, longevity and expense risks all borne by employer/sponsor.
- Defined Contribution Scheme
 - Sponsor and members pay a predetermined contribution. Investment, longevity and expense risks all borne by individual members.
- The reality
 - Most Defined Contribution Schemes are unlikely to provide adequate post retirement income.

The 'price of annuity'

-conversion factor "cash to income"

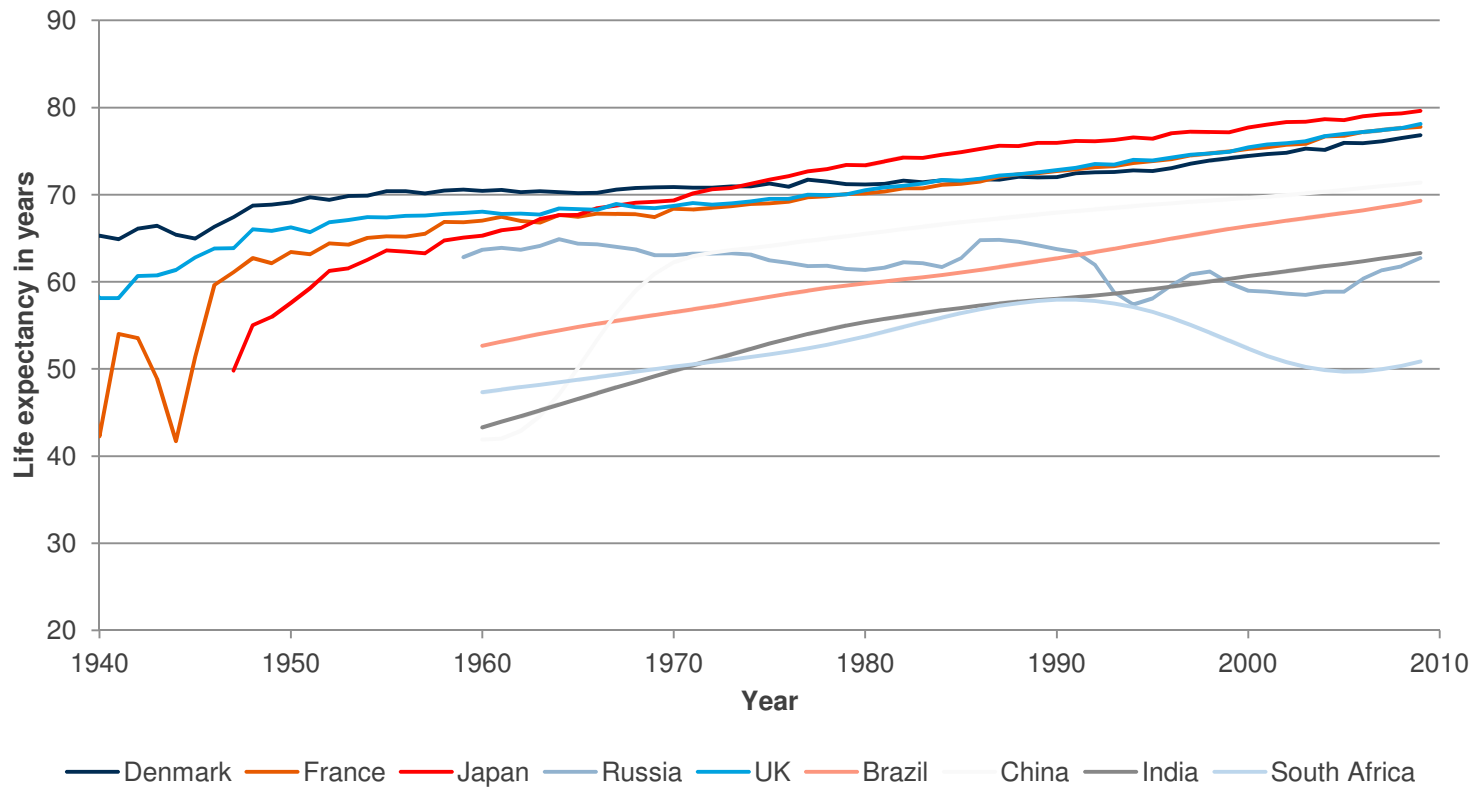
- Historically low conversion factors evident recently due to
 - Low interest rates on bonds



The 'price of annuity'

-conversion factor "cash to income" (contd.)

- Expectations of annuitants living longer



Source: Human Mortality Database and World Bank Database as compiled by Professor Steve Haberman

- Effect of new solvency requirement under Solvency II – more capital required to be set aside to 'guarantee' annuities are paid.

What do we want from a 'takafulized' annuity?

- Guaranteed benefits?
 - But Sharia says no return without risk
- Benefit payable for life?
 - We cannot have risk transfer in takaful, only risk sharing.

**Should we be realistic
as to what takaful can provide?
Are these limitations 'bad'?**



building value together



Conditions for takaful annuity to work

- Annuitants cannot expect benefit guaranteed for life.
- Annuitants must embrace the concept of kinship among other annuitants and be willing to pool the longevity risk among members.
- ‘Price’ of annuity has to be kept as low (through a high conversion factor) as possible so as to be attractive and more inclusive.
 - Benefit cannot be guaranteed as this attracts punitive Solvency Capital.
 - To the extent possible ‘selection’ to be kept to a minimum:
 - Justified if a ‘basic’ pension is being considered i.e. variation in the size of the annuity does not vary significantly among annuitants.
 - Cost is kept lower.

The Sharia challenges

- Sharia challenge as to the appropriate contract suitable for annuity
 - An annuity providing cash leaves open the concern of ‘disguised’ riba when cash payout exceeds price of annuity.

Malaysia’s sharia solution to this
SSC ruled that the tabarru’ fund can pay out other than benefits on death or disability on the condition that the contributors of the takaful fund are all in agreement. This is justified on the basis of tabarru’ and ta’awuni.

A Suggested Route for Sharia Compliant Annuities:

- Instead of an income stream, a takaful annuity will buy a 'time share' in a retirement community. Family members can 'drop off' their aged parents for half day/full day care depending on the scheme chosen. Time share effective whilst 'annuitants' are alive.
- The failure of Southern Cross Healthcare last year was partly due to high 'gearing'. Demand for care home will only increase given the expected aging of the population and the continuing reduction in fertility rate.
- Back to basics for Takaful, not "cash for cash" but cash for deferred goods and services!



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