

Widening the Appeal of Takaful to the Ethical / SRI Market in UK and Europe

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1. Bold Claims and Moderate Achievements

ethical claims:

- transparency
- solidarity
- mutuality
- fairness
- no haram/harmful investments

evidenced by (examples):

- comprehensible contract and fees
- risk pooling and sharing
- tabarru' (instead of exchange contracts)
- redistribution of surplus
- Shari'ah compliance of assets

1. Bold Claims and Moderate Achievements

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challenged by (examples):

- minimalist fatwas
- re-takaful (= very different risk pool)
- hybrid for-profit structure (CG issues)
- fees from gross contribution
- pragmatic softening of criteria

1. Bold Claims and Moderate Achievements

ethical claims:

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- solidarity
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- no haram/harmful investments

come up to expectations by (examples):

- more Shari'ah disclosure
- acceptance of takaful as commercial venture
- (or) fundamental change of legal form
- revised incentive structure for operators
- improved screening processes

1. Bold Claims and Moderate Achievements

ethical SRI expectation

- transparency
- solidarity
- mutuality
- fairness
- 'beneficial' investments

come up to expectations by (examples):

- additional SRI reporting
- acceptance of takaful as commercial venture
- (or) fundamental change of legal form
- revised incentive structure for operators
- adoption of SRI criteria/procedures

tackle an “ethics illusion”

2. Where Takaful has to Move (Quickly)

come up to expectations by (examples):

addressing corporate
governance issues

- additional SRI reporting
- acceptance of takaful as commercial venture
- (or) fundamental change of legal form
- revised incentive structure for operators
- adoption of SRI criteria/procedures

- ↓
- benchmark for investment strategies
 - role/composition of Shari'ah boards

3. Catching-up with “Conventional” Ethical / SRI Insurance

investment strategies of unit-linked savings plans in

	takaful	SRI insurance
focus:	investor’s financial needs	investor’s financial needs + investment’s impact on society
selection based on	<ul style="list-style-type: none"> exclusion (industry and financial ratios) 	<ul style="list-style-type: none"> exclusion (industry, labour conditions, corporate governance, etc.) central theme best in class engagement

practice:

takaful: financial performance as objective, non-financial criteria as constraint

SRI: non-financial criteria as objective, financial performance as constraint

typical takaful example (Malaysian takaful operator offering a choice of investment-linked funds):

- balanced fund = reasonable returns and capital growth opportunities
 - stable capital fund = relatively stable investment returns over medium term
 - growth fund = capital growth opportunities and dividend income
- } no reference to social impact at all

3. Catching-up with “Conventional” Ethical / SRI Insurance

Commitment (example):



An investor initiative in partnership with UNEP FI and the UN Global Compact

Guidelines and best practice examples for responsible investment in

- inclusive finance
- infrastructure
- private equity
- property
- commodities
- environment
- energy
- ...



globally 1000+ signatories,
but no “Islamic” company

Information services (example):



THOMSON REUTERS



provides objective, relevant and systematic environmental, social and governance (ESG) information based on 250+ key performance indicators (KPIs) and 750+ individual data points along with their original data sources

Products (example):



The McCabe
Natural
Investments SRI
Insurance Fund

is the first socially responsible private placement life insurance product in the United States. Offered through Prudential to accredited investors, this tax-free, non-registered life insurance policy invests the cash premiums in socially responsible investments selected in part by Natural Investments LLC.

3. Catching-up with “Conventional” Ethical / SRI Insurance

- Are takaful proponents aware of the rapid developments in the conventional SRI sector?
 - Western consumers are increasingly attracted by SRI products, and takaful is very often presented to a Western audience as “ethical insurance”. However, the actual takaful practice deviates in many respects from this ideal.
- **The rapid progress in the conventional ethical/SRI sector will become the benchmark for takaful [and not vice versa!].**
- SRI may take the “ethical lead” and induce a stiff competition among takaful and “conventional” SRI insurers – not only in the West but also in Muslim countries!

Takaful operators will have to

- develop products with more ethical/SRI substance
- revise their corporate governance structures (enhance the status of the takaful participants, reduce conflicts of interest, improve transparency, etc.) and the role and composition of Shari’ah boards

4. From Legal Formalism to Applied Business Ethics

mixed “ethical” records of Shari’ah scholars

- ❑ fairness, justice: the “early settlement” cases of long term (home) financing
- ❑ transparency: notorious brevity of fatwas, violations of international corporate governance standards (various conflicts of interest)
- ❑ social impact: approval of complex derivative structures and swaps with potentially huge negative impacts on society

- Shari’ah scholars can claim expertise in Islamic law, but
- only few have a formal education in economics and/or finance;
- they learned through intensive internal communication (with representatives of ‘their’ bank(s) and with other Shari’ah scholars), but were rarely open to external interaction with a critical public (media, academic, bank customers)

Shari’ah scholars (except, maybe, a very few) cannot claim any special expertise or competency for asset selection (beyond exclusion), portfolio management, ethical investment strategies, social/economic investment impact analyses, etc.

4. From Legal Formalism to Applied Business Ethics

transformation (or ‘widening’) of Shari’ah boards into “ethical guidance committees” as in SRI institutions by

- inclusion of people with competency in impact analysis (irrespective of their religion or knowledge of Shari’ah)
- translation of Arabic terminology into “plain English”
- explanation of the ethical/SRI qualities of particular products (that exceed the mere exclusion of haram businesses) in full detail
- selection of Shari’ah experts with only a reasonable number of other board memberships
- or – more radical – making Shari’ah scholars redundant through the use of standard Shari’ah contracts; the competitive advantage is not in the contract design but in the asset quality (within the universe of generally accepted Shari’ah compliant assets [lists provided by specialized information service providers]);
- employment of external Shari’ah consultancy firms for the (few) remaining product design issues and emphasis on portfolio management and impact analysis

In total: Participants in the Western ethical/SRI market can recognise familiar quality assurance structures (for products with SRI substance) and may appreciate the religious grounding of takaful as a signal of additional credibility – this enhances the appeal of takaful in the ethical/SRI segment.

References

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