



Potential for Takaful in China

As the Chinese New Year festival starts on February 18 this year, this month's takaful focus is on the huge Chinese market. **Mr Hassan Scott Odierno, FSA**, of Mercer Zainal Consulting, mulls over the scope for takaful business in China where Muslims form the largest religious group after Buddhists.

With Chinese New Year just around the corner, an interesting question is whether there is a future for takaful in China.

While the concept of non-Muslims being attracted to takaful plans for a variety of reasons is beyond the scope of this article (In Malaysia, a significant portion of takaful sales are to non-Muslims), we do give an indication of who the Muslims are and their current levels of insurance purchases.

Where Muslims in China are Found

The Muslims in China are dispersed mainly as follows:

- The Hui, or ethnic Chinese who are Muslims, in the Ningxia Hui Autonomous Region;
- The Uygurs, a Turkic group in the Xinjiang Uygur Autonomous Region;
- There is a significant minority of Muslims in Gansu Province;

- Various major cities such as Xi'an in Shaanxi Province, with the Hui ethnic group tending to be the Muslims there.

What is Size of the Muslim Population

Today, the number of Muslims in China is estimated to be between 20 million to some 200 million, according to unofficial counts. This disparity may stem from the existing census method, although it is worth noting that before the Communist liberation of the country in 1949, government estimates were already at 48 million.

Considering that the one-child policy is exempted for minority peoples in China (including the Muslims), this would imply that population growth for these groups since 1949 would be well above the national average.

Finally, with no known mass exodus of Muslims from China, a modest estimate of the number of Muslims in China would be 80 to 100 million.



A split of official population estimates of Muslims by type is as follows:

China: Muslim Population

(in '000) Group	Population 1990	Population 2000
Turkic		
1 Uyur	7,214	8,400
2 Kazakh	1,112	1,250
3 Kyrgyz	141	161
4 Salar	88	105
5 Uzbek	15	12
6 Tatar	5	5
Mongol		
7 Dongxiang	374	514
8 Baoan (Bonan) Iranian	12	17
9 Tajik	34	41
Chinese		
10 Hui	8,603	9,800
Total	17,598	20,305

Insurance in Muslim Areas

Currently there is little insurance sold in Muslim areas, as a proportion of total insurance sales:

China: Total Premiums (January to August 2006)

in RMB million

	Total	General	Life	PA	Health
Total					
China	382,095	99,890	248,029	10,187	23,990
Xinjiang	5,882	1,772	3,387	195	528
Gansu	3,814	1,040	2,494	90	190
Ningxia	1,268	411	641	40	176

(RMB1 = US\$0.128)

Source: CIRC website

Taking 50% of the insurance premiums for Gansu province and 90% of Xinjiang and Ningxia provinces, the total insurance premiums for Muslims (excluding sales to Muslims in the various major cities), is RMB8,342 million.

Although this is only 2.1% of total insurance premiums in China, over a one-year period this is over US\$1.6 billion in premiums (exchange rate of RMB1 to US\$0.128). This is not insignificant!



The Great Mosque of Xian, built in AD742
Sources: <http://flickr.com>; www.twip.org



Takaful Potential

For an existing takaful operator, this represents a huge potential if a licence can be obtained to operate in China.

For a conventional insurer already operating in China, this would also represent potential for several reasons:

- Sales of takaful can be done via a window solution, side by side with conventional sales. Multinationals have generally avoided entering into these Muslim provinces and, therefore, there would be little or no cannibalism with conventional sales.
- Sales of takaful in other major cities can be done via marketing as ethical insurance, with the specific features of takaful being presented to specific target markets such as at mosques or other Islamic associations.
- The high turnover of agents is a huge problem in China. If Muslim agents are hired to sell takaful, very low turnover can be expected, as it is unlikely for these agents to switch to conventional insurance sales.
- Being the only takaful provider, lapse rates can also be expected to be low as there is no competition for the policyholder's money. Similarly, due to lack of competition, a fair price can be charged for takaful, as opposed to the cutthroat competition and low profit margins in many major cities.

The Way Forward


Takaful can be bought either for protection or for savings. What distinguishes savings in takaful and other forms of savings is that like insurance, takaful requires regular and planned savings (in the form of regular premiums or "contributions").

It is usual that, prior to the introduction of takaful, there will be Islamic banks or at least Islamic windows in conventional banks established. This will provide one avenue for Chinese Muslims to save according to their beliefs.

It will be interesting to see which of the Chinese banks first sees the opportunity in Islamic finance. Once this is established, takaful would not be far behind.

In conclusion, we do believe there is a future for takaful in China, either for an existing takaful operator or for a conventional operator as a window solution, and tailored to the needs of the country as a distinctly Chinese solution to the needs of the Muslims in China.

The above does not factor in the potential aversion of Muslims to insurance currently, and thus the potential for much higher growth than that of China as a whole.

It also does not account for the potential for sales of similar products and services, such as the potential in the privatisation of pensions in China and the need for takaful solutions for the Muslims. 

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