



22 June 2012

The Role for Takaful Companies

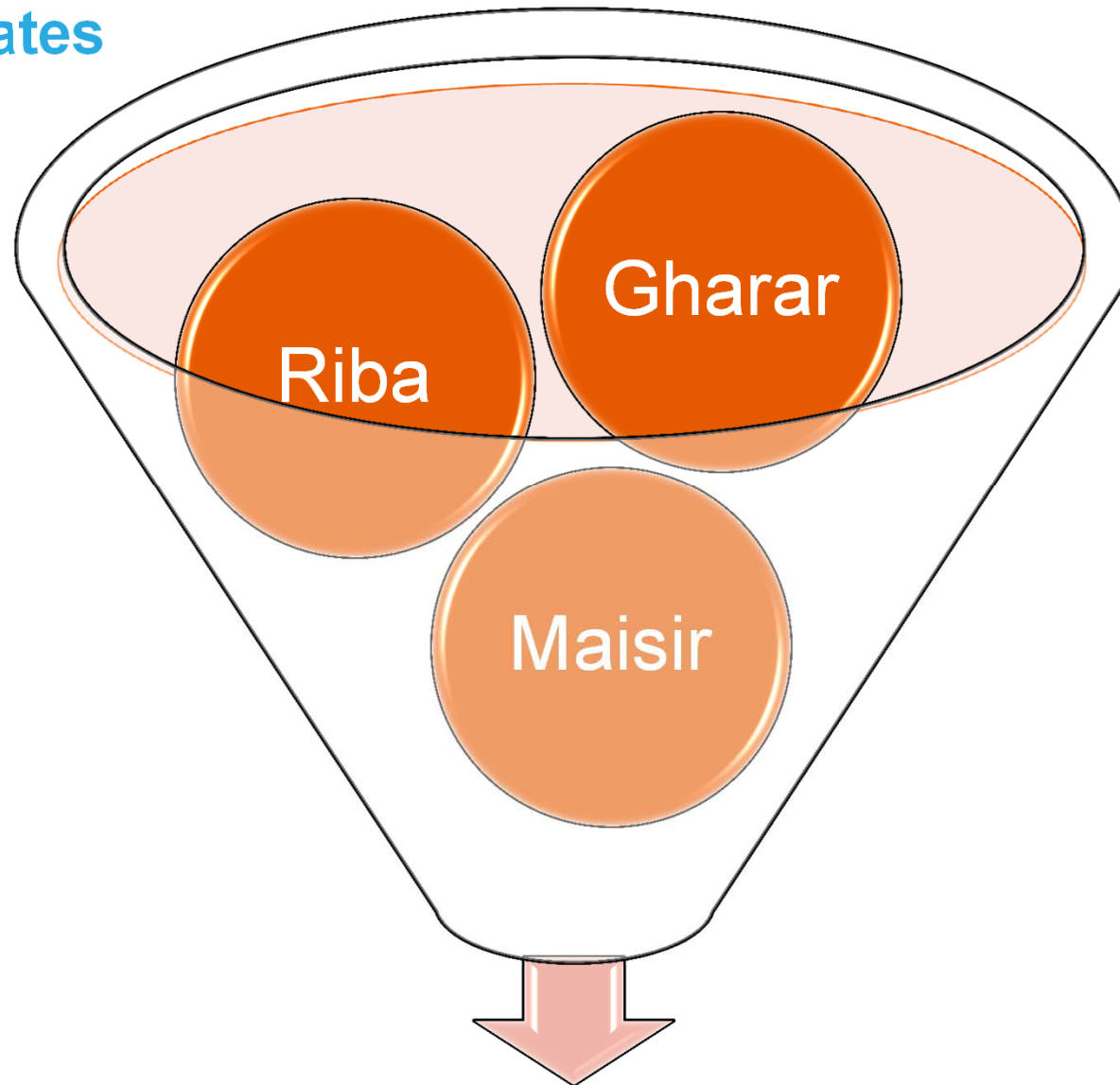
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Takaful is more than just “Muslim insurance”

**Takaful is a hybrid with a strong focus on
Transparency**

Takaful eliminates



Forbidden Activities

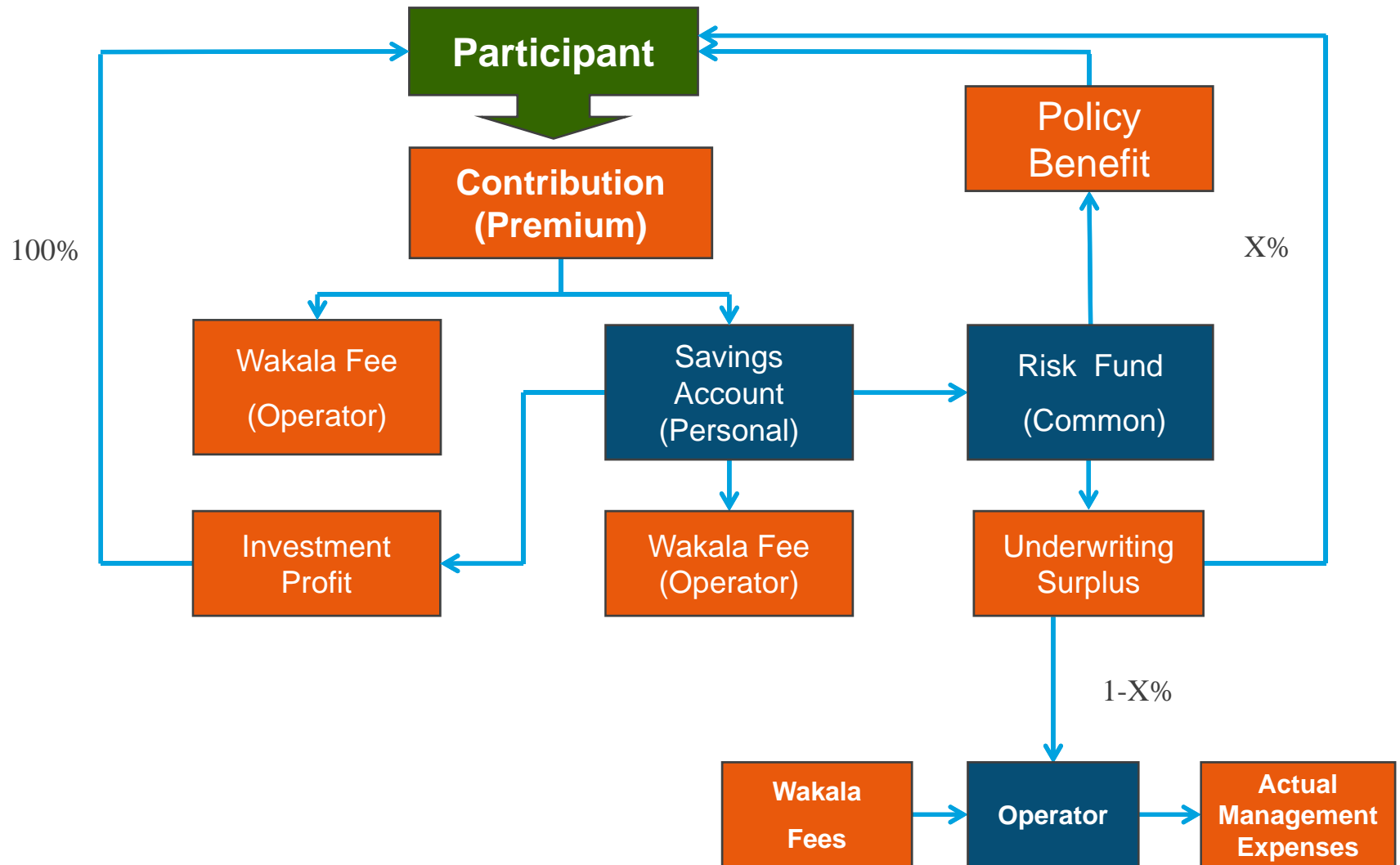
Takaful is managing risks



Receive fees for work performed

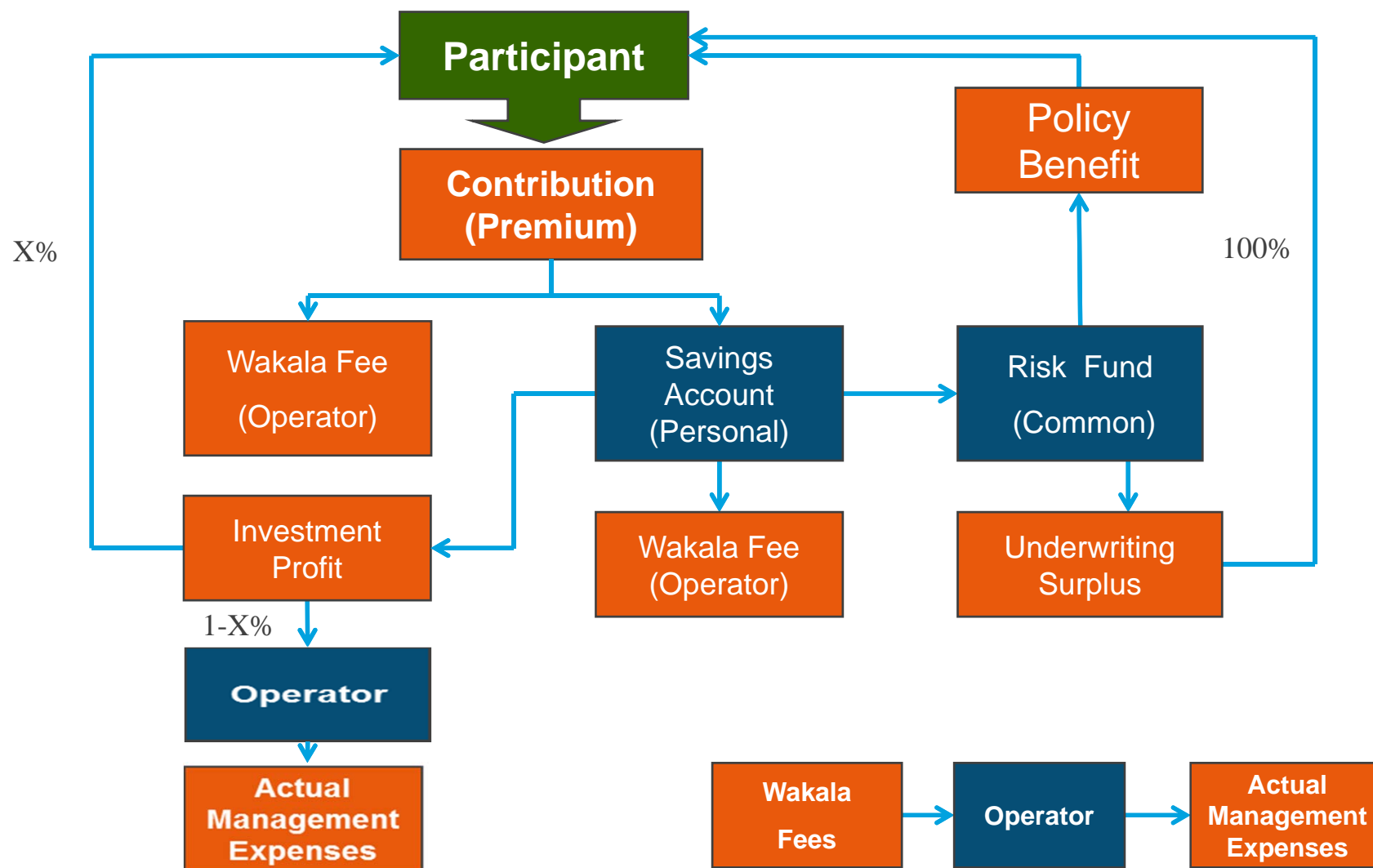
Major Takaful Models

Wakala – Drip with incentive compensation



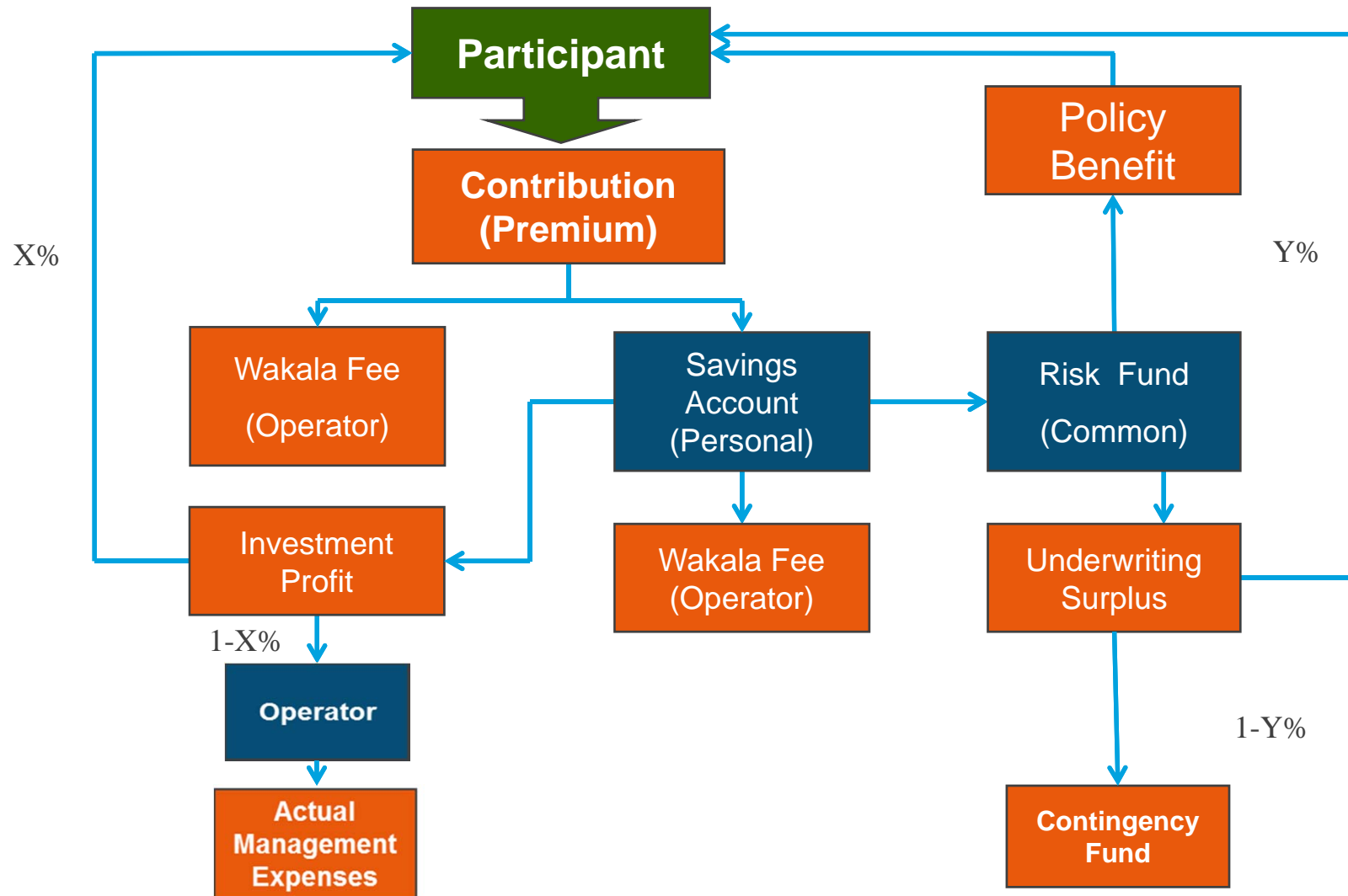
Major Takaful Models

Wakala With Mudharaba - Drip



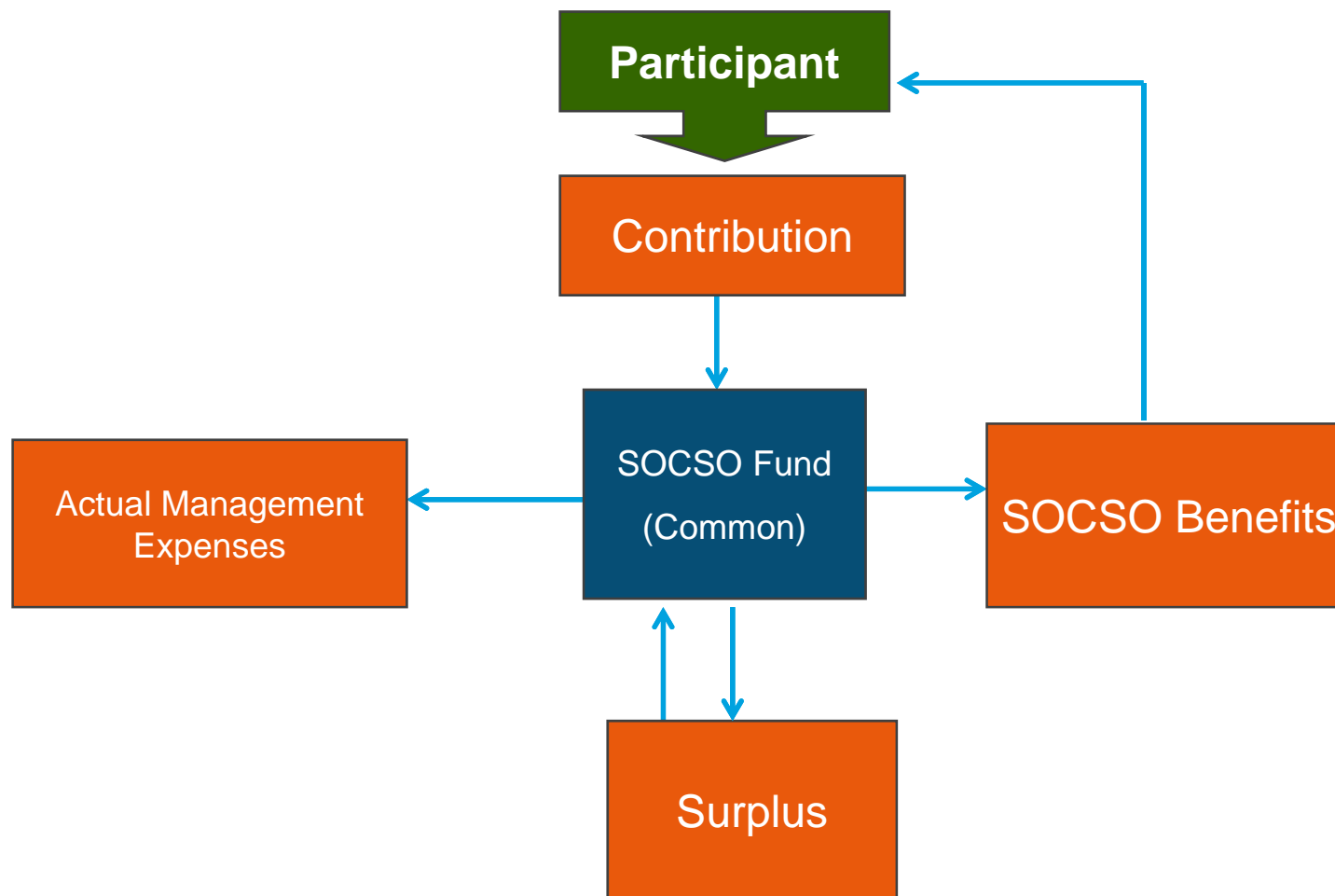
Major Takaful Models

Wakala With Mudharaba - Drip contingency fund



SOCSCO as a Takaful model

Pure cooperative model



Example: Samaritan Ministries (U.S.)

Example of a Christian Health sharing network

Members join together to pay each others medical bills

Donations are used rather than premiums, with coverage not being guaranteed

As coverage is not guaranteed there are no regulatory requirements

Under deficit conditions donations for several months will be grouped together, or benefits reduced proportionately

Members must certify that they are Christian, go to church regularly, do not smoke, do not drink to excess and do not have extramarital sex

Idea: Solidarity between Members

The Samaritan Ministries has a process whereby donations for coverage are paid directly to members claiming, not to the company. This makes a direct connection between participants. Along these same lines a newsletter is put together monthly highlighting the people claiming so prayers can be given

How can solidarity be encouraged in takaful? Organization of Umrah trips (at a discount) for the participants of a particular region or area?

Example: Christian Super (Australia)

- Christian Super has a statement of core principles which allows them to go beyond simply accepting whatever is not forbidden, but to actively promote 'doing the right thing':

'The earth is the LORD's, and everything in it, the world, and all who live in it' – Psalm 24:1
(Bible: NIV)

There are more than 2,000 references to money and possessions in the Bible, and in most it is made clear that they really belong to God. Therefore, what we do with the money and possessions that God entrusts in our care requires the utmost deliberation and care

Our time, our money, our possessions and our liabilities belong to God, so one day we will answer to Him what we did with the portions entrusted to us while on earth

Can something similar be done for Takaful?

High Risk Pools

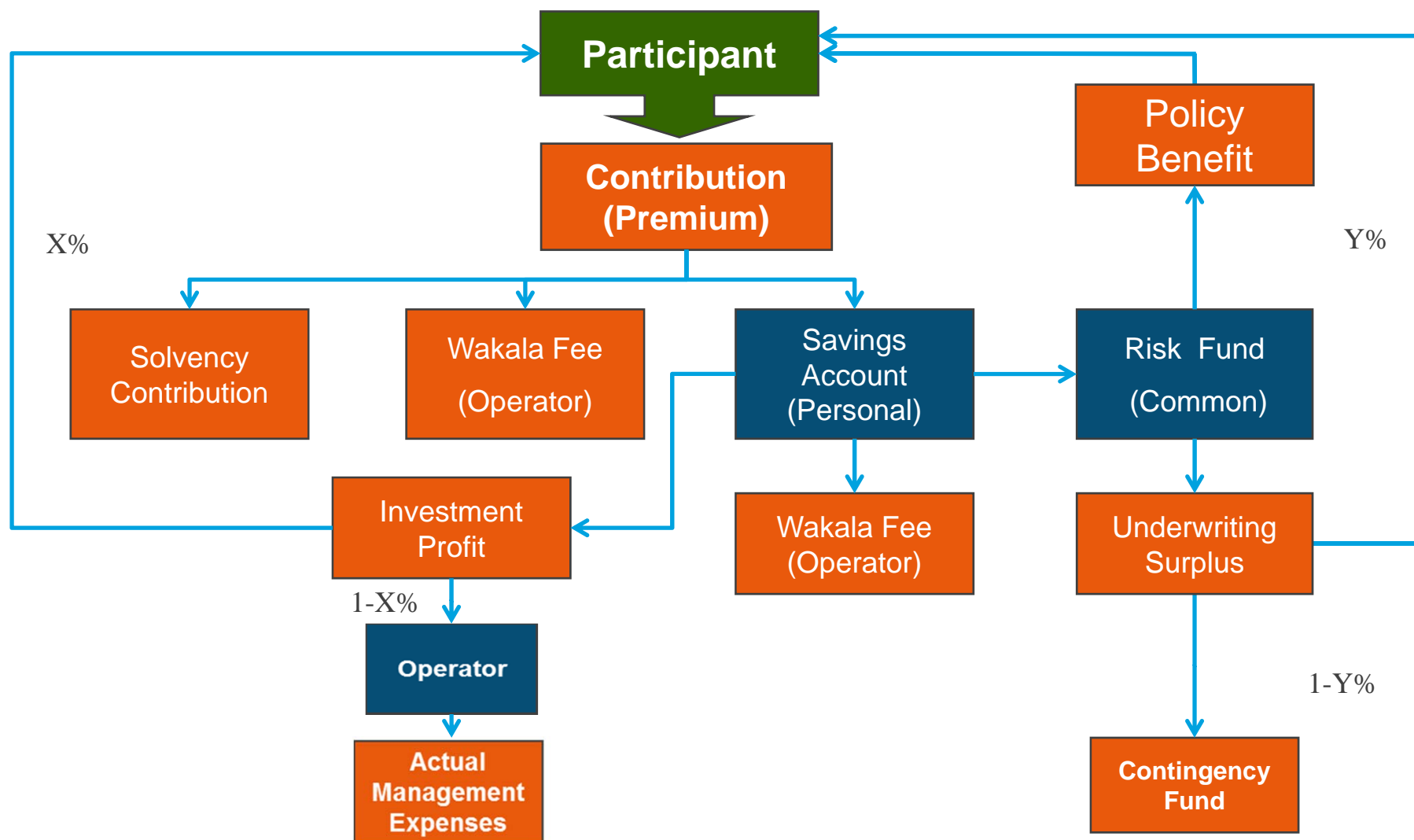
If we only manage risks then riskier products can be developed

There are huge unknowns
involved in long term care
costs; passing these costs
onto individual consumers is
not the answer

Long Term Care Example – Work Performed



Long Term Care example

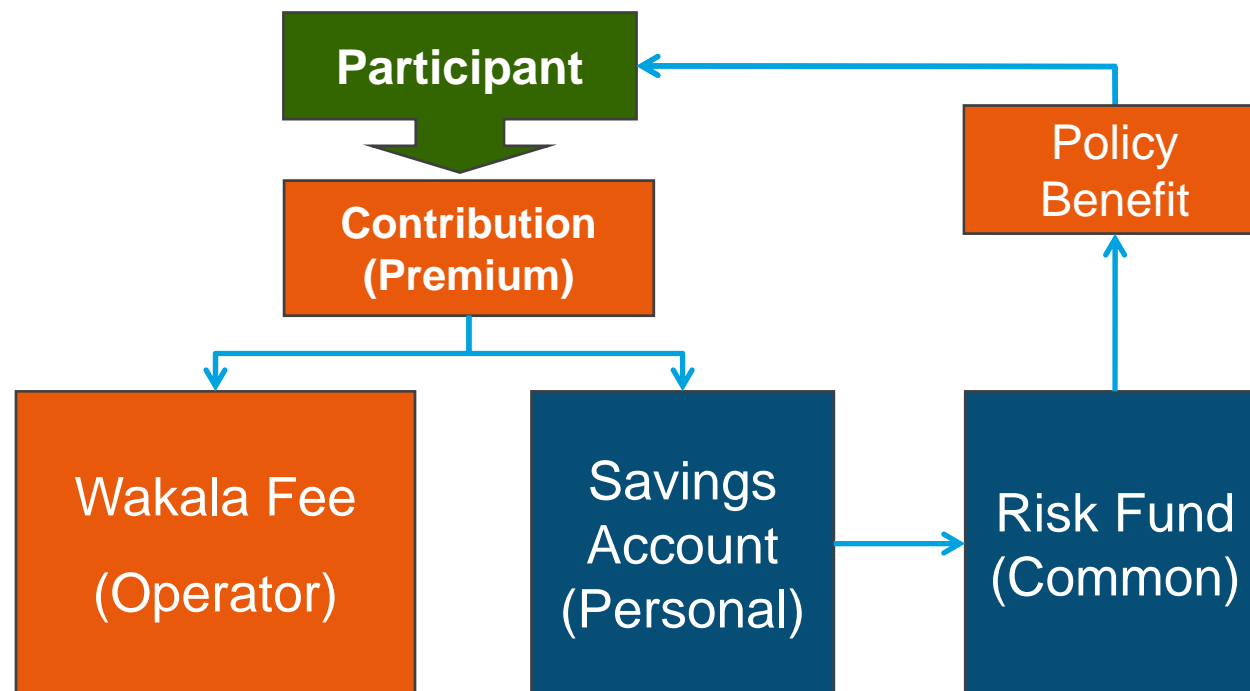


Regulatory capital (RBC) takes into account the risks of the Takaful operation. In this case it should account for **who** holds the risk

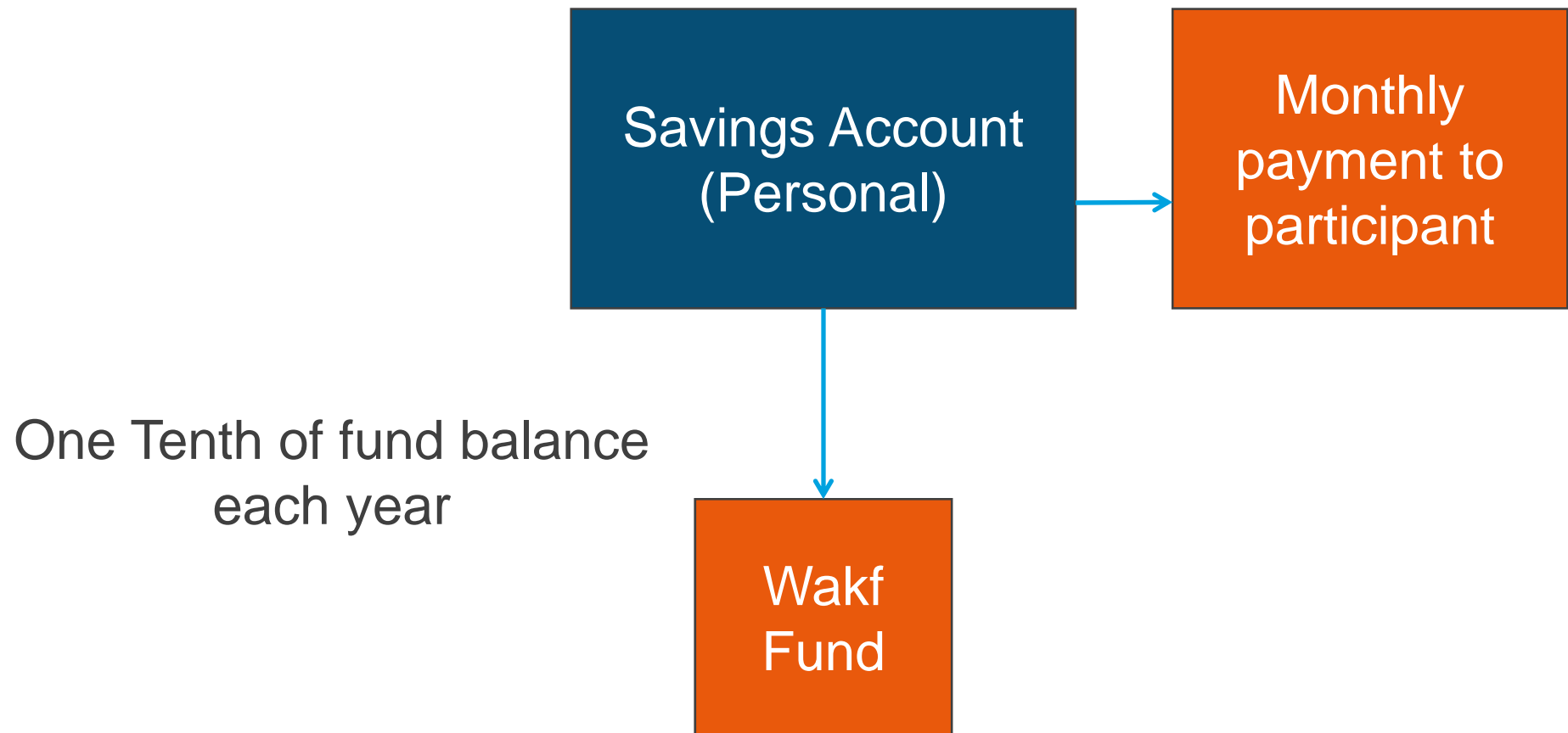
Annuities

If we can solve the model issues for annuities this has huge potential as the population ages

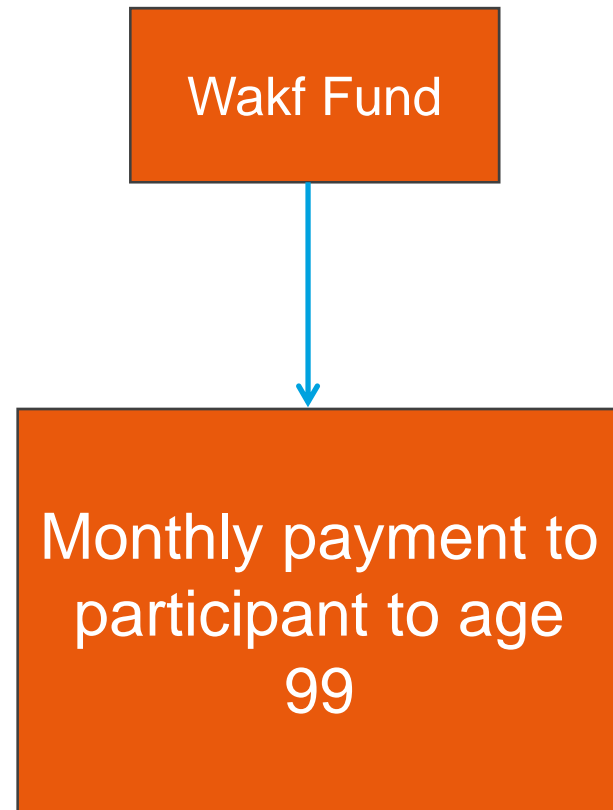
SATK before age 55: Accumulation Phase



SATK age 55 – 64: Guarantee Period



SATK age 65 onwards: Annuity Payout Period



SATK Shariah concerns

- In a Wakf contract the principle amount must not decrease
- There is the potential for perceived riba, for instance RM1000 paid into Wakf fund and RM2000 in annuity payments eventually paid out
- Contract term must be a fixed length

Solving Shariah concerns

One likely solution is to use an asset structure as is done in Islamic assets such as sukuk, in particular the use of a reverse mortgage type structure with rent being paid

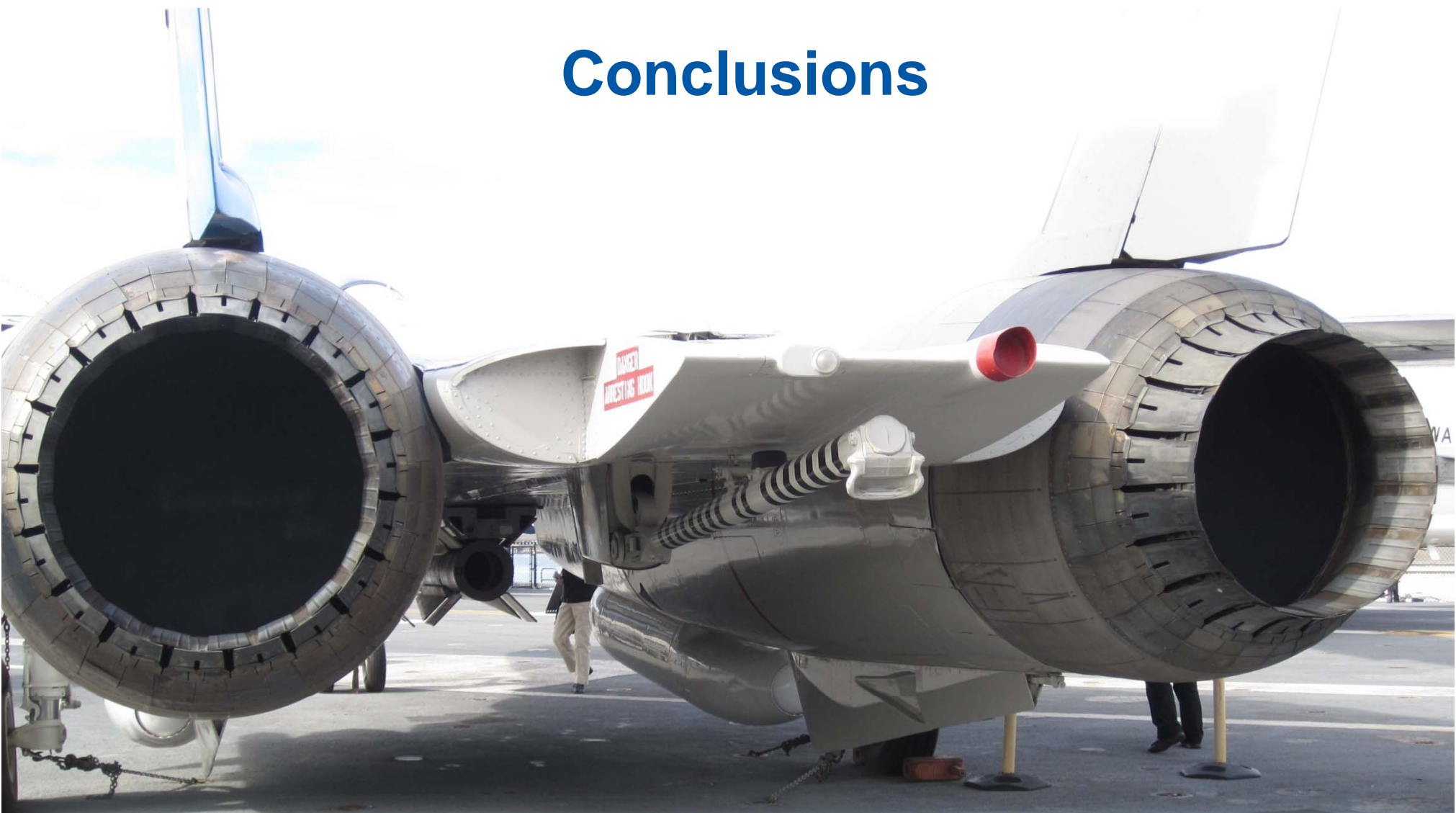
Solving RBC concerns

- All appearance of guarantees can be removed and benefits paid dependent on ability of fund to pay
- Reserving needs to be solved for this type of plan (with no guarantees how is GPV performed?)

Other concerns

- Less of an ALM issue due to the non-guaranteed nature of the plan
- Reputation was less of an issue for SATK, so just need to keep expectations very clear

Conclusions



**With some creativity, research and effort Takaful
can be used to solve many of the concerns of
social security and old age**



Questions

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