

TAKAFUL INSURANCE IN THE NEW SHARED WORLD ECONOMY

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Purpose



This presentation has three purposes

1. The first is to explain the Sudanese Model of Takaful insurance and use United Insurance as an example of a company that after 23 years experience in Takaful Insurance has gone a major transformation and demonstrated the viability of this model.
2. The Second is to discuss Takaful in the Developing World and here I have an issue with the set name and will discuss Takaful Future in the World and not only in the developing world.
3. To get feedback from this forum and be able to contribute to the future growth of Takaful Insurance Worldwide

SUDAN TAKAFUL MODEL - HISTORY



- ▲ Sudan was the first country in the world that created a Takaful Company – Islamic Insurance Co an initiative of Faisal Islamic Bank that commenced operations in 1979
- ▲ All Respect must be given to the late Professor Sheikh Siddig Al-Darir who was the father of Takaful Insurance in the truest sense of the word, and established and developed the Sudan Takaful Model.
- ▲ In 1992 the First Takaful Law was created and all companies in Sudan converted to Takaful operations.
- ▲ In 2001 Second version of the law was implemented
- ▲ Currently under the direction of the Supervisory Sheikh Mohammed Musa a new version of the law is being discussed that will bring in the culmination of Sudan's 38 year experience of takaful insurance and to bring it in line with Sudan joining the WTO.
- ▲ Hopefully this new law be used as a reference for an International Takaful law that will govern and ease cross country interactions

SUDAN TAKAFUL MODEL - CURRENT



- ▲ Hybrid Model being implemented
 - ▲ The Takaful operation (TO) – is based on the Wakalah Model with management expenses charged as actual (Management costs should not exceed 15% of turnover).
 1. No Operational profits to be shared by the shareholders and all insurance Surplus is presented to Annual Policyholder meeting for their discretion.
 2. Operational costs to be maintained at less than 15% and shareholders are entitled to receive the difference as management / admin costs but are not entitled to any Investment Profits.
 - ▲ The Investment operation – is based on Mudarabah Model in which shareholders share profit and loss with participants. This is in the case the shareholders do not share in the Insurance Surplus and follow the first model listed above.

SUDAN TAKAFUL MODEL - CURRENT



- ▲ The Takaful model is a hybrid between a company and a Mutual in which the problem with a mutual in which capital can only be derived from its members here it has Shareholders. As stated by Swiss Re in their 2010 report “In a general sense, a takaful company could be seen as a commercial entity airing for profits rather than being a purely mutual fund.”¹
- ▲ The Sudan Takaful Model has created a new type of Company one that is almost a mutual but has shareholders to raise capital and needed funds rather than the participants, it is a complete investment company for profits in terms of its non-insurance business with shareholders rewarded for their commitment.

UNIQUENESS SUDAN TAKAFUL MODEL



Participation of Policyholders in Board of Directors

- ▲ In the book *Takaful Islamic Insurance : Concepts and regulatory issues* the authors Mr. Simon Archer and Rifaat Abdelkareem were addressing the issue of embodiment of Participants/ Policyholders interest in the Governance Structure were critical and said “Because of the separation of the *takaful* fund from those of the TO, the participants do not have any institutionalized influence on even the most crucial decisions of the TO. In the terminology of the principal-agent theory: the participants only have (at best) an “exit” but no “voice” option. The corporate structure of the takaful system does not reflect the ownership of the participants in any significant way.” They went on to say It seems the Sudanese Model is the only exception to this rule.
- ▲ “The Policyholders have the right to monitor the performance of the management through the Policyholders’ General Assembly. In this body, the policyholders:
 - a. approve the final accounts and directors’ report;
 - b. recommend to the BoD the surplus to be allocated;
 - c. appoint their representatives (one or two) to the BoD; and
 - d. comment on the performance of the company and all relevant matters and make recommendations to the shareholders and BoD.”²

UNIQUENESS SUDAN TAKAFUL MODEL



Surplus Distribution

- ▲ The net Surplus distribution is under the complete discretion of the Policyholders through their annual meeting.
- ▲ The shareholders can choose one of two models for their payment
 1. No investment profit and all admin costs including Shareholder dividends not to exceed 15% of turnover.
 2. No Shareholder dividend from any insurance activities but entitled to share of investment portfolio (based on prior agreements) which are not to exceed 15% of turnover.
- ▲ In either case the Policyholders will not pay more than 15% of turnover on Management expenses.
- ▲ Based on the company strategy the Shareholders choose which best model will work for them before the year commences and will address the Supervisory Authority.

THE UNITED EXPERIENCE



A quick snapshot of my history and relationship with United Insurance

- ▲ My late father Dr. Khalil Osman Mahmoud was one of the founding fathers with almost 25% stake in United Insurance in 1969.
- ▲ I joined the Board of Directors in 2001 the company had a turnover of \$ 3.9 million and shareholder profits of \$ 0 with the Board getting the most benefit of about \$60 K.
- ▲ In 2015 we made a turnover of over \$ 11 million or over \$15 million as our accounts are in SDG and we have a large difference between official rate and market rates.
- ▲ Shareholder profits of over \$240,000
- ▲ Distribution of over \$ 250,000 or more than 50% of net surplus of Insurance activities by our Policyholders directive.
- ▲ We have been selected as the Best Takaful Company in Sudan for 2015 awarded at the Takaful Summit held in London, Feb 2016.

PERSONAL EXPERIANCE



- ▲ As a major shareholder and no profits and coming from a business background I hated Takaful Insurance and thought it was the biggest sham of all.
- ▲ This 15 year experience has not come smoothly and it with the utmost respect and guidance of my mentor Mr. Mohammed Abdin the General Manager of United Insurance for the past 20 years and our Board of Directors as well as employees we have become the leading provider of quality insurance products in Sudan.
- ▲ My first 10 years I gave my GM a very hard time and only when attended a conference in Sudan in 2010 that was called “Setting up a Takaful Company” that I started noticing the potential.
- ▲ But I really believe that it was my pushing for shareholder rights and Mr. Mohammed Abdin’s belief in Takaful Insurance that allowed us to find the balance that
- ▲ we would like to share a quick view of our story and its role in Takaful Insurance.

HISTORY



- ▲ 1993 United Insurance converted to complete Takaful System
- ▲ 1997 Mohammed Abdin became General Manager with new ideas for making takaful work for shareholders by focusing on Investment portfolio as well as growing our core insurance business
- ▲ 2002 The company decided to invest in a 13 Floor Office Building that will serve as the Company's HQ, so started creating reserves
- ▲ 2002 First investment internationally in Zep- Re PTA Reinsurance Company based in Nairobi, Kenya
- ▲ 2005 Construction of HQ starts and is completed in exactly 2 years
- ▲ 2006 Invested in Prime Health and became the first Health Insurance provider in Sudan
- ▲ 2009-11 Serious disagreements on ownership of building between shareholders and policyholders – ROI was completed in 3 years and now HQ was bringing in decent profits

RECENT & FUTURE



- ▲ 2012 First Partnership agreement between shareholders and policyholders creating a new investment model – all previous investments only followed a mudarabah model, opening the way for different models for the future.
- ▲ 2012 Elected our First policyholder member who was not a Shareholder or affiliated with any shareholder (Stopped Hijacking the System)
- ▲ 2015 Created a new position of Managing Director with main focus on managing the Investment Portfolio as well as Strategy of the Company
- ▲ 2015 Focused on Corporate Governance and created two new committees Audit & Remuneration as well as Investment Committees
- ▲ 2015 Created job descriptions for all Company starting with Chairman of the Board until our drivers
- ▲ 2016 Held our first company retreat to readdress and clarify our Vision, Mission, Strategy and objectives
- ▲ 2016 Establishing a UAE bases company to increase our international investment portfolio
- ▲ 2018 expanding to region with Insurance business.

TAKING IT FURTHER AT UNITED



- ▲ It was our acceptance of United Insurance in 2012 of the Takaful model by the Board of Directors and Shareholders as well as due to Mohammed Abdin efforts in creating a solid investment backbone that served as an alternate to Insurance income for Shareholders.
- ▲ At United Insurance we have taken the extra step of developing our Corporate Governance and are in the process of developing guiding bylaws to govern all meetings and to ensure all Policyholders rights and responsibilities.
- ▲ We started with the first free election at the Policyholder Assembly who really added valuable insights and development for the Board of Directors
- ▲ We have created an Audit and Remuneration Committee that is led by our GM with the Policyholder Representative a full member
- ▲ We have created an Investment committee that is led by the MD with the Policyholder Member a full member.

CONVERGENCE



- ▲ During the past 15 years United faced many challenges and it is through disagreements, success and failures we have grown stronger and stronger.
- ▲ The takaful industry although started in Sudan faced many challenges from Shareholders who were not convinced; to economic factors in Sudan that went from catastrophic in the 1990's; to our biggest economic boom in the 2000's, and now almost finishing the 2010's can be categorized as very transitional.
- ▲ It was all factors pulling together from Shareholders to Policyholders to the industry development in the country has led to a convergence that if utilized correctly has vast potential.
- ▲ At United Insurance we have understood on the triangular relationship between Shareholders, Policyholders and Employees and that if enhanced as through takaful model it is an unstoppable force.

PROBORTUNITY



- ▲ Every problem is an actual opportunity so many look at Sudan and say that working in one of the most unstable political and economic country in the world is a no go especially in a field like insurance.
- ▲ We would like to say that going to a country like Sudan is the real reason insurance exists in a country where so many things can happen the people working there need our help the most to mitigate their risks and that is what Takaful is about – SOLIDARITY.
- ▲ We see the factors that makes international analysis on Sudan so negative can be addressed and can change from a problem to an Opportunity.

PESTAL ANALYSIS



Political

Negatives

Volatile and Political Instability

War & Hyperinflation

Positives

Lack of stability will reduce competition and no International Appeal

Developed and dedicated to development of Takaful Insurance

Economic

Negatives

US Sanctions and Banking issues

High inflation and devaluation

Positives

Knowing and forecasting with previous experience can make better strategic decisions to mitigate risks

Can create local remedies for example keeping accounts in USD \$ to maintain value in devaluation as well as keeping real estate assets vs deposits to balance and preserve real value

Potential of creating an international branch that can mitigate risks as well as facilitate international transactions

Potential of finding creative solutions via investment portfolio but in new and different products investments

PESTAL ANALYSIS



Social	Negatives
	Massive unemployment and brain drain
	Unskilled workforce with cultural inhibitions
	Positives
	Potential for training and development
	Changing attitudes to work – Don't Copy Paste but create a unique system
Technological	Negatives
	Lack of collaborative behaviors and support
	Positives
	Developed infrastructure & world is becoming a village
Environmental	Negatives
	Absolutely no responsible government supervision or guidelines
	Positives
	Ethical standards of entity will lead way for change
Legal	Negatives
	Semi-Government operations/ Monopolies
	Positives
	Clear understanding of the 'local rules of the game' and can create strategic relationship

CHALLENGES



- ▲ Different takaful models in the world
- ▲ Regulatory development in creating the right laws and regulations for each region and unifying with international standards
- ▲ Development of required staff
- ▲ Development of Corporate Governance without straining innovation
- ▲ Development of Shariah based decisions for changing situations that is robust and flexible but in no way takes away from its authenticity
- ▲ Development of Islamic Reinsurance
- ▲ Islamophobia

OPPORTUNITIES



- ▲ Worldwide Takaful growth at over 15% annually
- ▲ Viability and growth of Islamic banking, finance and businesses from Islamic tourism to Hallal foods will ensure a vast potential of ready customers as without takaful insurance their products can not be 100% Shariah compliant.
- ▲ Penetration of Insurance philosophy in Muslims as well as non - Muslim in developing countries almost non – existent, for example in Africa insurance penetration is less than 2% (Excluding SA).
- ▲ Awareness and different marketing on takaful not only being a product for Muslims but for all people as an alternative to conventional insurance.
- ▲ Growing takaful insurance in providing different products by nurturing the relationship with its policyholders to provide new and different products.
- ▲ Development of takaful Insurance with NGO's, Donors and new Philanthropy groups to be able to provide insurance services to the most that need it in the world.

TAKAFUL FOR THE WORLD



- ▲ In advocating why Takaful is for the world and not only the developing or Muslim World I will not get into the details but focus on the main concepts.
- ▲ I will start by asking a simple question who in this audience, who is not involved in Insurance business, likes Insurance Companies or has a positive image of them? Who likes paying their insurance payment and thinks its fair or at the end of the year when he has no claims and has to pay next year payment?
- ▲ Well takaful Insurance is conventional insurance with a twist. Its exactly conventional insurance but with more corporate governance and rules to abide with, rules that are focused on Policyholder rights rather than Shareholders.
- ▲ Shareholders have no direct interest in not paying claims as they do not make profits from the insurance side
- ▲ Policyholders are involved in all strategic decisions of the company via the Board of Directors or through distribution of Surplus at the end of every financial year.
- ▲ By just issuing an insurance policy you have become a shareholder of the company for that years Profit & Loss with all Surplus up to your discretion.
- ▲ This is a game changer in terms of changing the fundamental dynamics between customers and insurance companies in which from one of feeling abused to becoming an active positive participant of your insurance provider.

THE REAL MEANING OF TAKAFUL



- ▲ This is the embodiment of the ‘taburu’ concept that Takaful Insurance is based on.
- ▲ It is a system that in this modern day world of Corporate Greed and profit maximization The Takaful Model creates some form of balance between customers and the profits companies can make in the field of Insurance.
- ▲ To put in each individual terms you have the right to attend you Insurance provider annual meeting and decide if you are happy or not, not only do you make your “voice” heard you get to reward or punish the company by your choice of what to do with the Surplus.

TAKAFUL & THE NEW SHARED WORLD ECONOMY



- ▲ In the new shared world economy one that is led by Uber the largest car operating company in the world which owns no cars or Airbnb the largest room operator in the world that owns not one room.
- ▲ The Insurance market has not changed in the past 100 years and if correctly applied Takaful insurance can be a major developer of the insurance landscape in the future
- ▲ The Takaful Model adopted in Sudan is truly a unique and different way of looking at companies in the 21st century.
- ▲ We at United Insurance are committed to expanding at home and internationally and promoting the Takaful experience
- ▲ It is not perfect and we are hoping you will have questions, remarks or comments that can lead to the development of strategic partners to help United Insurance in providing a better insurance service

Q&A



Thanks for your time