WHY DON'T MORE CUSTOMERS CHOSE TAKAFUL?

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The panellists for this session were four C-Level takaful practitioners:
Ajmal Bhatty, Chakib Abouzaid, Frederik Bisbjerg and Jihad Faitrouni
The panellists collectively represented in-depth knowledge and experience of managing takaful and retakaful businesses with vital skills of risk management, corporate governance and digital acceleration.

It is no surprise that this topic is on our minds as to "why don't more customers chose takaful?" The delegate feedback during and after this session was all about what are we not doing as an industry to better promote takaful to attract more customers.

In the last 25 years I have been on both sides of the fence; as a manager of takaful businesses striving to meet the expectations of customers and shareholders alike, and as an actuary, evaluating takaful in compliance with Shariah and statutory requirements.

As an industry, we have been debating the issues such as this for years. My overall assessment out of the years I have spent knowing and learning the Why's and How's of takaful and what works and doesn't work, is that takaful got lost in translation from its real essence of Shariah principles into the straight jacket of insurance, applying short cuts wherever needed to comply with Shariah rules.

Takaful was supposed to be the disruptor in insurance as it has all the goodness of mutuals and yet it is not deprived of capital (unlike mutuals); it has that cushion of capital needed to maintain solvency for writing different types of risks in commercial as well as personal lines.

Takaful started in 1978[1] with great promise and excitement as ***the*** answer to tackling low insurance penetration in most Muslim countries, with great many companies getting established in the late 80's and 90's. This was also the time when Islamic banking was developing and growing, and in fact it grew at a faster rate with sustained growth. Meanwhile new takaful companies soon faced market realities of having to compete with established conventional players who had stronger customer connectivity and established risk management programs. These new start-ups found themselves in a dilemma of Shariah compliance alone not being sufficient to generate larger volumes at adequate pricing and got into the quagmire of competitive pricing (mostly at cut throat rates) to generate necessary volumes in order to gain market share. The rest is history, bringing us to where we are now; over 324 takaful companies as of 2018[2] in the Middle East, Asia and Africa and only handful of these achieved sustained growth and consistency in distributing surplus to participants and dividends to shareholders. These companies were strong in customer connectivity including captive connections within their segments and stakeholder universe. Others have been warped into Qard spirals as a result of inadequate pricing, poor underwriting and high wakala fees resulting in broken promises of surplus sharing.

Takaful, which was supposed to be the disruptor in insurance, still can be that disruptor, with correct use of latest technology advances of artificial intelligence and IOT. Through this,

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1 A.M. Best Report 2015

2 Thomson Reuters Report (2018)

Takaful’s mutuality can work perfectly by ring fencing the Takaful Pool from shareholders capital, managing it at minimum of wakala fees and achieving faster and better connectivity with customers, giving them that vital real feel of takaful, the DNA of mutuality.

Pricing can be based on real time customer risk profiling in addition to historical experience through machine learning processes and algorithmic AI applications that bypasses cumbersome and expensive process of traditional sales and marketing.

There were four main questions asked from the panellists. My response to these is covered next.

1. **What is the key driver of the takaful purchasing decision**

   The fact that takaful is different from insurance beyond providing financial protection should be its key driver ... Takaful’s mutuality and cooperative nucleus on holistic industry-wide basis; It should be the aim of takaful stakeholders to shape and drive the financial system towards the good of society, economy and environment through channelling funds that are not interest based, investments that are asset backed and the ethos to invest in businesses and propositions good for society and environment, irrespective of religion.

   In practice, price is the main driver while Shariah compliance is handy as it appeals to smaller segment of customers to whom price is not important.

2. **Is the concept adequately promoted and understood?**

   There is a lot of talk about the concepts but customers, agents, brokers and even the staff of takaful companies cannot quite explain the goodness of takaful. When we meet in conferences such as this, we start explaining the concepts to ourselves; this doesn't take us anywhere as we already know that and Customers don't. We simply need to stop talking and start putting our plans, risk management programs, distribution strategies, processes, structures and systems into a shape that can do justice to these concepts.

   The Middle East did not have takaful regulations despite having takaful companies established as far back as 1978, and therefore had statutory compliance similar to conventional insurance. Specific regulations are essential for the growth of takaful. UAE issued takaful regulations only in 2010. Malaysia introduced these in 1984 with the government providing supportive infrastructures for takaful development and thought leadership. They adjusted the regulatory environment to facilitate all of this. As a result, Malaysia had a clear path to follow in developing takaful, but the companies in the Middle East tried to cope within the conventional insurance regulations and hence behaved much like conventional insurance. We come to hear that Malaysia’s Muslim population is 60% of total population, but customers of takaful companies collectively are 60% non-Muslim. Some non-Muslim customers in Dubai have shown preference for takaful because they find takaful has dual compliance, that of Shariah for its ethical qualities and statutory compliance for its viability.

   Islamic banking has done much better than takaful in being more successful because it had the ability to create awareness and brands that differentiated themselves from conventional banks. Of course there is also the fact that insurance is a hard sell due to its intangible nature compared to banking.

The value proposition of takaful must be understood properly and delivered correctly. The standard response to what do you understand about takaful is that it is Shariah compliant as this helps to easily draw the line between takaful and conventional insurance supported by the feature of surplus distribution as this helps to attract customers. Customer disillusionment sets in when expectations of receiving surplus remain unfulfilled due to the way the system works out in practice; participant funds showing losses under continuous burden of Qard and high wakala fees, while the shareholders continue to receive dividends.

3. How are obstacles in takaful supply and delivery being overcome?

As long as takaful companies act and behave like conventional insurance companies, the obstacles for them in reaching out to customers will remain just the same or even harder than conventional companies. Established conventional competitors comparatively have lower transactional costs per unit of sale.

Some of the ways of overcoming the obstacles are

a. Takaful companies ought to strengthen their distribution strategies with Islamic banks. After all, the bank customers have already chosen Shariah compliant path, and takaful would be preferable to them with suitable products.

b. The AI and IOT applications are ideal for takaful. At one level, these applications enable faster connectivity with customers, something that is common to both takaful and insurance thereby reducing the cost of doing business. At another level, these applications are a game changer for takaful as these can enable takaful’s mutuality and cooperativeness to work seamlessly. The simplest example of this is where participants join in as members for a certain fee according to the type of protection and benefit needed, thereby getting a sense of mutuality. The cooperative solidarity comes in (in personal lines) when any one claim arising in the pool is paid out and its cost spread over the membership, thereby reducing the cost of cover to a much lower level than the traditional ways of determining insurance premium.

4. Should the industry be more ambitious?

Takaful USP offers us everything that should make us feel ambitious, but we forget its vital ingredients. The USP is its Mutuality, Profit Sharing and Responsible Investing, all of which is good for society and environment.

The industry needs to be pragmatic and ambitious in trying out ways that are different, new and innovative. The mind-set needs to change from takaful is Shariah complaint insurance to how takaful is demonstrably different from insurance and is good for everyone for its mutuality, ethics and social goodness, and for its investment ethos for the good of society and environment.

One example of a pragmatic and ambitious approach is Afghanistan. The country is in the process of introducing takaful law where insurance companies will be allowed to write takaful business and over a period of time for them to move fully to become takaful entities. This is no different from some of the other markets. But what makes a difference is that the shareholders are recognised to play the vital role of setting up mutual platforms and be rewarded for their support in setting up mutual businesses by getting a share of underwriting surplus as a performance fee. It is expected that companies will be encouraged to use IOT and AI platforms to promote takaful and make it easier for customers to connect.

CONCLUDING REMARKS

Takaful has all the goodness of Mutuals, but it is not deprived of Capital. It has the triple bottom line DNA that harnesses the goodness for People, Planet and Profit. To make takaful an insurance disruptor, the industry needs to be Pragmatic, Ambitious and have a mind-set away from the straight jacket of insurance. We need to stop talking as talking has not taken us anywhere so far. We need to address questions such as the following:

1. How to make consumer know and feel the Mutuality?
2. How to demonstrate in what we invest is People and Planet friendly?
3. How to make customers and entrepreneurs / shareholders feel the cooperative spirit where shareholders are enablers of mutuality and not exploiters for profit?

The quest for more customers to choose takaful lies in modernising takaful. Some of the ways to achieve this involves the following:

1. Seek to apply new technologies of IOT for better customer connectivity
2. Use AI and machine learning for real time pricing thereby making takaful more affordable for customers;
3. Develop App-to-App connectivity, making takaful purchases both seamless and less intangible. App-to-App connectivity means embedding takaful in Apps for customer needs and preferences such as travel, wellness, health, entertainment etc.
4. All of the above would lower the cost of doing business; this goes a long way in managing qard better, meeting customer expectations of surplus sharing and secure better prospects of reasonable returns for shareholders.

Ian Hughes, CEO of Consumer Intelligence in his extremely motivating opening keynote presentation talked about how the modern technological advances of AI, IOT and Machine Learning is bringing humanity together like never before. Applying these technologies to takaful would very much enable takaful to strengthen this chain of human connectivity.