



somewhat  
different

# Retakaful Challenges

from a Practitioner's Viewpoint

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# Halal Industry

## A central question

- ▶ Halal industry is estimated at USD 5.7 trillion in 2016
- ▶ This incorporates food, recreation, finance and all other halal-branded business
- ▶ The share of takaful of this amount is less than 0.5%
- ▶ The question: why is it that we would not eat anything **but** halal, but are open to other options for our risk management needs?

# Challenge: Darura

## A loophole?

### ► Issue

- Darura is an *abnormal* state where *temporarily* breaking the rules could be forgiven.
- Permissible behavior under darura is to avoid greater harm *after* exhausting all possibilities.
- Darura is used as an excuse to use reinsurance as an alternative to retakaful

### ► Impact

- An existential threat to retakaful and takaful.

### ► Solution

- A clear definition of what constitutes darura and consideration of permissible cases

# Challenge: Leakage

Is there sufficient capacity?

## ► Issue

- Direct takaful contributions leak into the conventional reinsurance markets jeopardizing a sharia compliant value chain
- The market justification is the limited retakaful capacity
- The largest global reinsurance groups and many reputable regional reinsurers have dedicated retakaful operations

## ► Challenge

- It is not the lack of capacity, it is the lack of motivation and commitment on one side and the underwriting discipline and risk appetite on the other
- The sharia-compliant value chain is not a high priority

## ► Solution

- Either the regulator or the market participants should consider and codify a pecking order

# Challenge: Underwriting Discipline

Should we follow market trends?

## ► The issue

- Retakaful is part of the larger reinsurance market whether we like it or not
- Global reinsurance has seen a steady decline in pricing over the past ten years
- The expected hardening of the market after HIMM in 2017 did not go far
- While large and well diversified, reinsurers' incomes have suffered

## ► Challenge

- While retakaful is part of the reinsurance world, it is serving a “niche” and is by definition smaller and less diversified

## ► Solution

- Retakaful should diversify within the takaful markets and should maintain a clear underwriting discipline

# Challenge: Sharia Boards

Do they have what it takes?

## ► Issue

- In most jurisdictions, retakaful operators are required to have a sharia board
- The role of the board varies from “supervisory” to “advisory”
- While experts in matters of Islamic jurisprudence and in many cases well-versed in finance and many aspects of the financial services industry, it is difficult to find sharia scholars with reinsurance/retakaful background

## ► Challenge

- Many retakaful sharia scholars do not have much practical experience in retakaful and thereby draw parallels of little relevance from other financial services, which does not allow retakaful to capitalize on the wealth of expertise sharia scholars stand to offer

## ► Solution

- To bring theory and practice together, it is important for practitioners to share their experience with sharia scholars on the specific role and special nature of reinsurance and retakaful

# Challenge: Shareholders and Boards of Directors

Do they have what it takes?

## ► Issue

- The failure of many companies can be attributed to the disconnect between the board of directors and executive management
- It can also be attributed to actions by boards of directors that expect reinsurance/retakaful to function the same way their other businesses function

## ► Challenge

- Shareholders and board of directors want to have a successful retakaful operation, but they do not understand the mechanics of this business

## ► Solution

- It is necessary that at least some members of boards are reinsurance/retakaful practitioners



# Challenge: Regulatory Frameworks

Do they cater for the special nature of retakaful?

## ► Issue

- There are too many options available for a (re)takaful operator to function
- What is permissible in Malaysia is not necessarily acceptable in Bahrain
- Saudi Arabia, the largest market, operates a cooperative model that is significantly different from all others.
- But, do these models cater for the nature of retakaful?
- Most of the provisions of regulatory frameworks derive their logical basis from *direct* takaful. Sometimes this creates unrealistic requirements for retakaful operators.
- There are significant differences between the direct takaful and the retakaful markets, practices and processes.

## ► Challenge

- While providing for retakaful, regulatory consider first and foremost direct takaful.

## ► Solution

- Specific consideration of how retakaful operates should be given.

# Challenge: Market Structure

65% Saudi Arabia

## ► Issue

- Global takaful is estimated to be in excess of USD 15 billion
- Saudi Arabia accounts for close to two thirds of this amount
- The Saudi cooperative model operates differently from all other models
- The model does not require sharia-compliant reinsurance

## ► Challenge

- If half the global takaful market does not have a requirement for sharia compliant reinsurance, the future of retakaful should not be dependent on the traditional takaful markets

## ► Solution

- Retakaful should consider expansion beyond the traditional borders

# Challenge: Data

It is impossible to judge the viability of the market

## ► Issue

- Considering their legal forms, retakaful operators are not required to provide public disclosures on their performance
- Most retakaful operators are consolidated within the financials of their parents without any comment on individual results

## ► Challenge

- Discussions of the viability of the retakaful is based on less than optimal input

## ► Solution

- Retakaful operators should be encouraged to make public disclosures on their financial performance and standing; or industry organizations should consider a global data collection initiative specific to retakaful.

# Challenge: Staff

## Caliber is hard to find

### ► Issue

- Retakaful operates in and from emerging market posts. These markets face a continuous challenge of acquiring and retaining talent.
- Retakaful requires a significant body of knowledge in both traditional reinsurance and sharia compliance matters
- Both areas are fairly complicated and require dedication and significant effort and suitable aptitude

### ► Challenge

- How can retakaful find, cultivate and retain talent

### ► Solution

- Retakaful's effort in creating awareness of the industry as an attractive employer has been limited. The industry needs to consider the next 20 years. Cooperation with academic institutions and creating awareness among the students should pave the way to a sustainable inflow of talent

# Challenge: Stakeholders

Expense management is a survival matter

## ► Issue

- Insurance companies have two sources of income and five venues of outgo
- The income: underwriting and investment
- The outgo: shareholders, creditors, tax authorities, brokers, and overhead
- Retakaful operators have the same areas.
- Outgo to shareholders, creditors, tax authorities and brokers are directly related to the business operations. Overhead expenses are not.

## ► Challenge

- With a relatively small size and a “niche” market, retakaful operations cannot survive without the ability to maneuver in different market conditions. This ability is directly impacted by the level of fixed expenses the operators face.

## ► Solution

- Keeping expenses in check and setting clear threshold a retakaful operator cannot allow itself to exceed

# Challenge: Rating Agencies

Retakaful remains regional, but is rated on a global scale

## ► Issue

- Without a doubt financial strength of a risk carrier is essential to protect the interest of the public
- Rating agencies' opinion has long been the most widely accepted view on financial strength and ability to meet commitments
- While the agencies have development specific criteria to assess takaful and retakaful, the rating scales still considers global factors that are outside the scope of retakaful

## ► Challenge

- Retakaful operators are categorically “punished” for the fact that takaful market is concentrated in certain regions

## ► Solution

- Rating agencies should perhaps lay more value on the specifics and operations of the individual retakaful operation considering the extensive and privileged internal information they have access to.

# Concluding Remarks

Now what? How are you doing it?

- ▶ Hannover ReTakaful started in 2006 to serve the sharia compliant reinsurance market
- ▶ How has Hannover ReTakaful been successful for almost 12 years:
  - Diversification:
    - establishing a well-defined diversification strategy across regions (Middle East, Southeast Asia and elsewhere), business segments (general and family), and lines of business
  - Staff
    - Investment in training and development to attract and retain caliber is a top priority
    - 50% of the current team holds ACII designation 10% FCII
  - Shareholders
    - Hannover Re Group understands the business model and supports it
    - Board of directors are all career reinsurers
  - Expenses, Expenses, EXPENSES.
    - Hannover Re Group and Hannover ReTakaful realize the threat of undisciplined expense management

# Thank you for your attention

Questions?