

# **The 12<sup>th</sup> International Takaful Summit 2018**

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## **Critical Role of Retakaful in Africa**



**By: Omar Gouda  
Managing Director  
Africa Retakaful**

# INTRODUCTION

- ❖ Islamic finance has flourished during the last century, as a result of the challenges that many Muslims faced in responding to the modern financial system.
- ❖ Africa is home to the world's first Islamic bank and takaful operator,
- ❖ The first Islamic bank, Mit Ghamr Bank, opened in 1963, in EGYPT.
- ❖ First Islamic Insurance Policy was later issued in 1964.
- ❖ followed by the establishment of the Islamic Insurance Company in Sudan as the first Shariah-compliant insurance company.

# INTRODUCTION

- ❖ Takaful has progressed in Africa at a slower pace than in other regions.
- ❖ The industry found most of its success outside the continent of its origin when spread to East Asia and the GCC.
- ❖ The takaful industry grew slowly in the continent, starting with Sudan in 1979
- ❖ Followed by South Africa, and gradually spread to many other countries including Egypt, Nigeria, Senegal, Tunisia, Libya, Tanzania, Mauritania, Kenya and The Gambia.

# General Overview of Global Takaful

- **GCC represents 77% share of Takaful companies**
- **South East Asia 15%**
- **Africa 5%**
- **Others 3%**
- **The World Takaful GWC US\$ 15b.**
- **Africa GWC was only US\$ 0.7b**
- **African Takaful Market is the fastest growing with 19%**

Milliman Global Takaful Report 2017

## Development of Takaful in Africa

- ✿ Sudan was the only African Country who has an Islamic Insurer since 1979 till 1989.
- ✿ Recently North Africa joined the Takaful industry where many new Takaful Operators started specially in Egypt, Libya, Tunisia and lastly Algeria.
- ✿ In addition to North Africa, now Takaful is done from Senegal, Nigeria, Gambia, Zambia, Tanzania.
- ✿ South Africa was the second African Country with Islamic insurers, but with success and failures.

# Opportunities of Takaful

- Takaful has big opportunity to penetrate many new markets which never buy insurance or have negative prospects towards the conventional markets. An example is the Muslim communities who believe that conventional insurance is Haram or not approved by Islamic law or Shariaa.
- Lower income people and small trades and industries are another example of the potential markets for Takaful which is mainly a solidarity concept rather than profit making.
- In addition, African economy is expected to be one of the fast growing as compared to the more developed economies.
- Those factors are opportunities for Takaful industry to expand and attract more customers

# Challenges of Takaful Industry

1. While attractive to policy holders, it may be a challenge for investors due to the distribution of underwriting profits to participants.
2. The limited number of qualified Takaful staff especially in Management and marketing.
3. The lack of proper regulations for Takaful industry.
4. The competition that the Takaful industry face from the conventional one.
5. Finally the lack of awareness of some Takaful operators of the unique concept of Takaful which is based mainly on solidarity, and the mix up with the marketing of conventional business.

# African Takaful & Operating Environment

## □ Market in Africa

- Early stage of Economic Development
- Insurance penetration increases faster than GDP/Capita in developing economies (Swiss Re)
- Proportion of Muslims in Africa-53.4% (Asia 30%; Europe (excl. Turkey:7.2%))
- The Takaful products, satisfy Muslims needs, however, it is also open to non-Muslims



# Africa-Takaful & Operating Environment

## ❑ Opportunities for Takaful Growth in Africa:

- Penetration potentials high in Algeria, Egypt, Morocco & Nigeria.
- Substantial Muslim populations
- Realization of Oil and Gas potentials for many African countries.
- Increasing Takaful awareness among Muslims communities.

# African Takaful-Success Factors

## ❑ How to accelerate Takaful Growth in Africa

- Appropriate legal framework.
- Investment in Infrastructure/Support institutions
- Promote/develop products to meet expectations of wide client base, thereby,
- Increasing insurance penetration rates
- Establish body to coordinate companies in Africa
- Building relationship b/w market players & Govt.
- Shariah compliant manpower-education, training R&D.
- Public awareness of concept- seminars, forums etc.
- **Supportive Retakaful market providing necessary capacity.**

# The Retakaful in Africa

- **National Reinsurance Company in Sudan was the first company to adopt Islamic Shariaa principles following the transfer of the whole economy to be sharia compliant.**
- **Africa Retakaful was the first, and only, full fledged regional retakaful operator in the continent.**
- **Some conventional regional African reinsurers established Retakaful windows.**
- **Retakaful in the continent lack strong support and technical assistance, except from Africa Retakaful.**
- **Except Africa Retakaful who enjoys the rating support of its holding group, the retakaful windows lacks such strong position.**

# The Retakaful Dilemma

## Expectations:

- Provide capacity for large risks and new products,
- Provide high level of training to assist in bridging the gap of shortages of human capital, technical calibers and expertise.
- Enhance market research and statistics buildings
- Play Active role in improving the collaborations between the market operators and different stakeholders.
- Contribute to increase the Takaful awareness specially in the Mulsims majority countries.
- Taking active part of Social responsibility as a major basis of the takaful and Islamic insurance principles.
- Allocate profits, for an industry usually in the negative technical side for the direct players.

# The Retakaful Dilemma

## Challenges:

### **Retakaful: struggling to gain a foothold**

As for the Takaful, Retakaful also has similar challenges, specially tha Retakaful providers are competing with conventional reinsurers.

But, are receiving little support from direct takaful operators.

“There is a fierce competition with conventional reinsurers and we find it very hard to convince takaful operators to accept a full retakaful panel. Still, relationships direct the business and it’s unfortunate for great majority of retakaful companies, in Africa and elsewhere.”

Even when a Retakaful Operator is on the panel, it is the same reinsurance conditions to be applied, i.e. reinsurance commission, retained reserves, etc.

**Unfortunately, many Retakaful operators couldn’t continue for many reasons, and in core of them the lack of market support.**

# The Retakaful Dilemma

## Retakaful: struggling to gain a foothold

In Africa, it is even more difficult:-

- Recently established and weak Takaful operators.
- Volatile economies with high possibility of deteriorated local currencies, high inflation which usually leads to eroded income and investments.
- Absence of reliable sharia compliant investment channels.
- Eroded technical margins due to the implementations of profit commissions, retained reserves, and very competitive terms.
- The old connectivity and connections to the old conventional reinsurance markets,
- Tendency to form Retakaful windows with the direct effect on the sharia compatibility of the operators and complete segregations of the Participants and the Operators shareholders funds.

**How can the African Retakaful  
Operators beat the challenges  
and meet the expectations??**

# The Retakaful Operators Success Factors

- ❖ For a retakaful company to succeed it needs a strong backup from its parent group, as the case with Africa Retakaful being affiliated with Africa Reinsurance Corporation (Africa Re).
- ❖ Despite that this has been also demonstrated with many retakaful operators, many of shareholders needs to adopt also the Sharia higher concepts and apply reasonable management fees.
- ❖ Also a strong and dedicated support from its only small direct markets and from other stakeholders.
- ❖ However, Retakaful Operators are also required to work hard to meet the expectations of their core markets, either for capacity or other kinds of technical support.
- ❖ Being the example of full compliance with Shariaa principles



# Is It Easy??

As for Insurance, Africa remains a virgin territory and insurers/takaful operators need to grow their local presence.

There is a dire need for local actuaries, loss adjustors, consultants and other experts. Presently such professions are dominated by foreign experts and there is a lack of local talent.

Moreover, insurance laws need to be developed so that there will be a suitable infrastructure for the insurance industry to progress.”

Overall, demand for insurance is still in its infancy stages but there are vast opportunities in the future for sure.

## A LONG ROAD AHEAD

# **Africa Retakaful is the African Retakaful Operator**

- **Africa Retakaful** (Wakala & Mudaraba) models.
- The Takaful operations-based on Wakala model with management expenses charged as actual.
- No operational profits to be shared by the shareholders
- The investment model-the Mudaraba, is applied to shares returns on investments.
- Africa Retakaful is fully Shariah compliant operator.
- Fully committed to the Takaful Industry

*Thank You*

