



THE ISLAMIC CORPORATION FOR
THE INSURANCE OF INVESTMENT
AND EXPORT CREDIT
(Member of the Islamic Development Bank Group)

Keynote Speech

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“New Opportunities for Takaful-Trade and Export Finance”

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بسم الله الرحمن الرحيم
الصلاة والسلام على سيدنا محمد وعلى آل بيته الطيبين الطاهرين

Ladies and Gentlemen.

السلام عليكم ورحمه الله وبركاته

Let me first express our deepest gratitude to the organizer Mr. M Iqbal Asaria for having invited ICIEC to deliver the Keynote Speech on “**New Opportunities for Takaful-Trade and Export Finance**”.

Let me also warmly welcome the imminent invitees of this Summit and I am quite sure that their in-depth insights and interactions will continue to inspire and drive the growth of Takaful in the global arena.

Ladies and Gentlemen

From climate change crises, to global political shifts; from threat of trade wars to trade opportunities such as the ‘belt and road initiative’; from block-chain, AI and other technology led industry disruptions, to socio-development challenges and opportunities, the world is evolving at a dizzying pace, requiring innovative risk mitigation support for continued economic growth and prosperity of nations.

Most of these challenges and opportunities are acutely pronounced within the core source markets of Takaful – the OIC member countries that represent a total GDP of \$18.3 trill in 2016, and a population of 1.6 billion.

Before I present my views on key new opportunities for Takaful trade and export

finance, allow me to introduce you to ICIEC so you may have some context of our experience and perspective.

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) established in 1994 is a member of the *Islamic Development Bank Group*, a multi-lateral development bank representing 57 members mostly Muslim-majority countries. ICIEC has been given the mandate to

- (1) provide Trade Credit Takaful services in order to support the exports of its member countries as well as intra trade activities; and
- (2) to provide Foreign Investment Takaful in order to support the inflow of Foreign Direct investment into its member countries.

Since its inception, ICIEC has insured close to USD 50 billion of business, of which USD 40 Billion is related to Trade Credit Takaful. In 2017, ICIEC had insured USD 7.5 Billion of business including USD 5 Billion related to Trade Credit Takaful. As part of its industry ecosystem development role, ICIEC has also created “Aman Union”, which is a Union of credit and political risk insurers operating in Arab and Muslim Countries. Its membership has so far reached 25 full members and 10 associate members.

Given that ICIEC is the only multilateral export credit and investment insurance Corporation in the world that provides Shariah Compliant insurance and reinsurance solutions, we are indeed in a unique position to support the further development of Takaful industry – especially in supporting trade and export development across member countries. However, the reality is that the gap in the reach and need of Takaful across the 57 OIC member countries is massive and we are keen to support the development and growth of private Takaful entities and Banks engagement with

Takaful trade services as well. It is in fact part of the mandate of ICIEC to develop the Islamic finance and Takaful industry.

Let's also recognize the relative low current penetration of the Takaful offerings.

Globally, conventional insurance penetration was at 6.3% relative to global GDP in 2016 according to E&Y, yet general Takaful penetration in its biggest market, Saudi Arabia, was a mere 1.44%. While the Takaful industry has developed during the last few years at double digit rates on average on annual basis, compared to overall conventional trade credit insurance industry, it is just a drop in an Ocean.

Global credit and political risk insurers reported a business insured of USD 2.2 Trillion for trade and export credit compared to estimates of USD 20 bill in the overall global takaful industry.

Ladies and gentlemen.

I strongly believe that in the markets where General and Family Takaful have developed there is a sufficient room for the development of Trade Credit Takaful. I will now share with you three key areas of Takaful trade & export opportunities:

- 1) Various trade growth trends driving Takaful trade & export opportunities,
- 2) Socio-developmental impetus of Takaful and related opportunities, and
- 3) Technology led innovation opportunities.

Before I elaborate, I would like to highlight that ICIEC is ready to extend its support, knowhow and network with Takaful companies willing to expand their business to trade credit Takaful.

Ladies and Gentlemen

The first area of opportunity is in supporting trade development within Organization of Islamic Corporation (OIC) member countries. The world trade of the OIC countries decreased from 3.4 trillion USD in 2015 to 3 trillion USD in 2016 i.e. a 12.7% decline according to Islamic Centre for the Development of Trade (ICDT) 2017 Report. This represented a trade share of the OIC Member States accounted for around 9.3% in 2016 against 10.3% of world trade in 2015, i.e. a 10% decline.

Takaful trade and export services can counter this decline. According to the latest study conducted by ICDT, difficulties faced by OIC exporting companies include pre-financing, insurance / export guarantee and payments.

I believe the Takaful Industry should explore beyond common and easier mandatory products such as auto or mortgage and expand seriously into trade credit insurance and related risk management services. Again, we are here to support.

Similarly, other trade developments within OIC markets should be looked at as serious opportunities. China's 'belt and road initiative' touches many OIC member countries. The China Pakistan Economic Corridor (CPEC) part of this initiative through Pakistan itself is estimated at over \$45 billion.

Besides this, the fast-growing global Halal trade opportunity (covering food, pharmaceuticals and cosmetic products) centered around OIC source markets is another area of trade Takaful support. The OIC is a net importer of food and beverage products, importing \$190 billion in aggregate while exporting \$120.7 billion in 2015. According to DinarStandard, the global Halal certified food market was estimated at \$415 bill in 2016 and growing faster than the conventional counterpart. Takaful services for the Halal trade and export is indeed another key

area of unique opportunity for the industry.

Another aspect of developing opportunity is the risk of trade wars globally. Given increased trade risks, Takaful services can be expected to have increased demand especially addressing cross border trade risks.

Ladies and Gentlemen

The second key area of opportunity I would like to present relates to social development impetus of trade and export takaful services. Takaful as we all know is underpinned by its purpose of community support and development. One of the key aspects of global opportunity is the United Nations led 17 Sustainable Development Goals (SDGs) through 2030, that seeks to remove global poverty, and touches sectors of education, health, renewable energy and others. SDGs have galvanized not only the social developmental sector worldwide but also the private sector. According to United Nations Conference on Trade and Development (UNCTAD), the SDGs present \$12 trillion of new market opportunities in food, cities, health and well-being. Ironically, OIC member countries are facing the most acute SDGs challenges.

I am proud to share that ICIEC has been focusing significantly on SDGs and our core activities are contributing efficiently to 6 SDGs. As an examples, for the SDG 2 relating to “End hunger, achieving food security and improving nutrition and promoting sustainable agriculture”, ICIEC has insured business in related agriculture sector amounting to \$148 million in 2017. For SDG 3 relating to “Ensuring healthy lives and promoting well-being for all”, ICIEC has insured health sector related projects amounting to \$197 million. For SDG 9 relating to “Building resilient infrastructure, promoting sustainable industrialization and fostering innovation”,

ICEIEC has insured projects amounting to \$553 million.

I invite you to view our Annual Development Effectiveness Report (available on our website) to see the framework, complete data analysis and examples of ICIEC's social impact through job creation, improvement of infrastructure such as water and power supply, enhancement of financial systems, ensuring tax revenues, transfer of technology and know-how, and utilization of environment-friendly resources.

Another social development area of opportunity for Takaful trade services in servicing the large areas of waqf, sadaqah and potentially zakat as well in supporting takaful coverage for the poor. This area of potential innovation was highlighted last March by Malaysia's Central Bank Governor, Mr. Muhammad bin Ibrahim during his address to the Malaysian Takaful Industry.

Lastly, SME support is another key area of Takaful opportunity in social development. There is no debate that development of our economies depend a lot on the development of SMEs, whose needs are continuously evolving. This calls for Takaful companies to develop innovative products to support SMEs. Trade Credit Takaful is among those products that help to fill a protection gap that SMEs are facing when they plan to expand their sales locally or across borders.

Ladies and Gentlemen

Allow me to now share with you the third area of Takaful trade & export services opportunity, which relates to Technology led innovation opportunities. The conventional insurance market is in the midst of major revolution led by technology based innovation that is disrupting its operational models, marketing, cross-border

services and bringing operational, marketing and cost efficiencies. E&Y has estimated that there were US\$2.3 bill in InsurTech investments in 2017 that had grown 45% from previous year. Key areas of technologies impacting insurance industry are robotic process automation (RPA), Artificial Intelligence (AI), Blockchain and Internet-of-things (IoT).

Blockchain is already being deployed as the key transparent and efficient global trade enabler, is already developing as the next generation insurance infrastructure platform. Blockchain smart contract systems being developed, are expected to bring all parties in the insurance value chain together on one platform resulting in seamless processes reducing documentation, checks and faster settlements. E&Y estimates 90-95% savings from a blockchain based network versus a traditional data center model.

Similarly, RPA and IoT are disrupting various aspects of insurance business model, Indeed, there are clear implications for these technologies growth opportunities in Takaful services for trade and exports.

Ladies and Gentlemen

Besides the three key areas of opportunities presented, there are indeed major hurdles and challenges for the growth of Takaful trade & export services. The challenges for Trade Credit Takaful are quite different in nature from those faced in the General and Family Takaful. The set of skills, the IT infrastructure and the risks associated with trade takaful business lines are very similar to those related to commercial banks when dealing with credit risks of their counterparties. The underwriting approach is very similar to the credit assessment approach done as well

by commercial banks.

However, the opportunities presented are too big to be ignored and will help widen the market share for the Takaful industry. Most importantly it will also serve to support the socio-economic development of our communities, countries and Ummah. Questions is, will Takaful Operators take the lead in addressing the opportunities in trade finance takaful development in OIC markets and grow their market share? Or will they wait till conventional counterparts take the lead and maintain or further grow their significant market advantage. ICIEC stands with the industry to develop these opportunities together.

Going forward, and on the basis of the expertise gained over the last 25 years in this field, ICIEC will continue with its partners to work hard, allowing the Corporation to carry out its developmental mandate towards its 44 Member Countries in a sustainable manner.

I am confident that building on its robust performance, ICIEC will remain well placed to play its role of a catalyst in promoting trade and foreign direct investments in our member countries.

Let me finally wish the august audience fruitful deliberation.

Thank you all.

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