General Council for Islamic Banks and Financial Institutions

المجلس العام للبنوك والمؤسسات المالية الإسلامية

CIBAFI

15th ANNIVERSARY 2001 - 2016

CIBAFI Global Takaful Survey

Risk perception, growth drivers and the impact of technology

May 2018

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About The General Council For Islamic Banks and Financial Institutions (CIBAFI)

CIBAFI is an international organisation established in 2001 and headquartered in the Kingdom of Bahrain. CIBAFI is affiliated with the Organisation of Islamic Cooperation (OIC).

CIBAFI represents the Islamic financial services industry globally, defending and promoting its role, consolidating co-operation among its members, and with other institutions with similar interests and objectives.

With over 120 members from over 33 jurisdictions, representing market players, international intergovernmental organisations, professional firms, and industry associations, CIBAFI is recognised as a key piece in the international architecture of Islamic finance.

In its mission to support Islamic financial services industry by being the leading industry's voice in advocating regulatory, financial and economic policies that are in the broad interest of our members and that foster the development of the Islamic financial services industry and sound industry practice, CIBAFI is guided by its Strategic Objectives, which are 1) Policy, Regulatory Advocacy, 2) Research and Publications, 3) Awareness and Information Sharing and 4) Professional Development.

Contents

Acronyms

1.	IDB	Islamic Development Bank
2.	OIC	Organisation of Islamic Cooperation
3.	IFSI	Islamic Financial Services Industry
4.	GCC	Gulf Cooperation Council
5.	GIBS	Global Islamic Bankers' Survey
6.	GTS	Global Takaful Survey
7.	CEO	Chief Executive Officer
8.	IT	Information Technology
9.	ERM	Enterprise Risk Management
10.	DLP	Data Loss Prevention
11.	SE	South East
12.	USA	United States of America
13.	M&A or MA	Mergers And Acquisitions
14.	EU	European Union
15.	DLT	Distributed Ledger Technology
16.	ML	Machine learning
17.	AI	Artificial Intelligence
18.	CRO	Chief Risk Officer
19.	NGO	Non-governmental organization
20	IAIS	International Association of Insurance Supervisors
21.	IoT	Internet of Things
22.	GPS	Global Positioning System

Statement by the Secretary General

I am pleased to present the CIBAFI's inaugural Global Takaful Survey which was envisaged during the launch of the first Global Islamic Bankers' Survey in 2015.

As the voice of the Islamic finance industry, it is important for CIBAFI that we track and monitor all constituents of the Islamic financial industry. So this time, we take stock of the global Takaful industry and provide the industry's perspective on its current situation and on the future, both short and long term.

In July 2017, we sent a detailed questionnaire to our member and non-member Takaful and Retakaful companies. This covered their current situation, their forecasts for growth and other key parameters, and their degree of optimism about the business. We asked them to identify the top concerns and risks they are facing and what they foresaw as the main drivers of growth. We also asked them how they tackle their challenges, both general and in some specific areas of their business, and what opportunities they think are ahead of them in their respective jurisdictions.

Responses came in from 55 institutions from 24 countries including prominent Islamic finance markets, for example in the GCC and South East Asia (where Takaful is generally well developed), some nascent and emerging markets, for example in Sub-Saharan Africa, and some mixed Western markets (with characteristically secular outlooks and small Muslim populations). They covered both family and general Takaful, and also some Retakaful firms and intermediaries. Thus these global responses bring together different perspectives from the Takaful industry worldwide.

The results of the survey show that Takaful industry is optimistic for the future and expects good growth. Takaful companies in general believe that conditions in their markets will improve in the years ahead, and that they will be able to outperform their conventional counterparts. However, they face substantial risks and challenges, including attracting and retaining customers in highly competitive environments.

As in other areas of financial services, technology is likely to bring about a great transformation to the industry in the years to come. The final Part of this report therefore gives a focussed discussion on technology and its possible impact on the Takaful industry.

I firmly believe this inaugural Takaful survey will be a guiding force in providing much needed insights to the Takaful industry. The insights presented in the report will also provide important inputs to the industry in formulating success strategies, and hence will help strengthen the Takaful industry for the future.

The Secretariat is pleased to present this report to its stakeholders and to the larger audiences of the Islamic financial industry. I am grateful to all the institutions and individuals who have extended their support and contributed to the success of this report. We hope to repeat this survey in the future, thus allowing the industry to track developments over time. In the time to come, we also hope to cover other areas of the Islamic financial industry, which will help the overall Islamic financial industry to tread its future course of direction with confidence and informed judgements. Your comments to this survey are welcome and will provide us with feedback on how we can better develop our future industry research projects.

Abdelilah Belatik

Secretary General

Acknowledgment

The Secretariat would like to offer its sincere thanks to its member and non-member Takaful institutions who took part in the survey and provided their valuable inputs.

Additionally, we would like to express our gratitude to the individuals who have contributed in making the publication a success. We would like to appreciate Dr. Abdurrahman Yazici, Aziza Yarlaeva, Dr. Mahmoud Al-Homsi, and May Arshi from CIBAFI Secretariat, and Peter Casey, CIBAFI consultant for their contribution and efforts in different phases of production of this report. We are also thankful to Syed Ahmed, Lotfi Zairi, the Islamic Corporation for the Insurance of Investment and Export Credit, Ahmed M. Sabbagh, Islamic Insurance Co, Assoc. Prof. Dr. Younes Soualhi, ISRA, Andrew Cunningham, Darien Analytics and Assoc. Prof. Dr. Ahcene Lahsasna for providing valuable feedback and comments to the survey over the course of its preparation.

CIBAFI would also like to express its appreciation to the Islamic Insurance Company for its financial support in developing this report.

We trust that this publication will provide valuable insights to the Takaful stakeholders around the globe in identifying opportunities and countering challenges for their growth, and take the Islamic financial industry towards the path of success.

Abdelilah Belatik

Secretary General

CIBAFI's Inaugural Global Takaful Survey

CIBAFI’s Inaugural Global Takaful Survey

CIBAFI’s Global Takaful Survey 2018 demonstrates the present state of the Takaful industry, how it sees itself currently in the face of challenges and opportunities, and how it expects to face them in the future.

This inaugural Global Takaful Survey 2018 reflects the perspectives of the heads of 55 Takaful companies from 24 countries globally.

After two successive editions of the Global Islamic Bankers’ Survey (GIBS) in 2015 and 2016, capturing the pulse of the global Islamic banking industry, the Global Takaful Survey (GTS) 2018 now extends this approach to another important component of the Islamic finance industry. CIBAFI hopes in future to extend the scope of its surveys to include capital markets and other relevant areas of the industry.

This inaugural Global Takaful Survey 2018 which reflects the perspectives of the heads of 55 Takaful companies from 24 countries globally can be considered as a collective feedback on the risks, challenges and potential opportunities the sector holds. It reinforces CIBAFI’s commitment and its mandate to be the leading voice representing the Islamic financial industry globally, and provides a first-hand source of industry intelligence and information which identifies opportunities and challenges in paving the way for future growth and development of the Takaful industry.

The GTS 2018 specifically evaluates the industry from three important perspectives:

1. The global Takaful industry optimism level and top concerns
2. Key areas of risk and their mitigation
3. Main growth drivers of the Takaful industry

In addition, a fourth Part examines the possible future impact of technology on the industry.

The GTS 2018 questionnaire was sent to the CEOs/Managing Directors of both CIBAFI member and non-member institutions in July 2017. The responses were received till September 2017. The Survey thus represents the perspectives of the Takaful industry as they were over the early second half of 2017. The Survey questionnaire constituted both closed and open-ended questions, which provided companies an opportunity to fully express their opinions where relevant.

Respondents were asked to score the closed questions, generally on a scale of 1-5. For example, a score of 1 might represent a perception of ‘extreme pessimism’ and a score of 5 for a perception of ‘extreme optimism’ about some development.

The ‘open-ended’ questions asked respondents to highlight specific issues and corrective actions they take in order to tackle those challenges, for example, describing two key concerns, or two top risks they consider important or how they intend to increase the penetration rate of Takaful in their jurisdictions.

Responses were received from 55 companies, which for some purposes are divided into geographical groups using a standard classification. Their distribution is shown in Table 1.

Table 1. Respondents by regions and countries

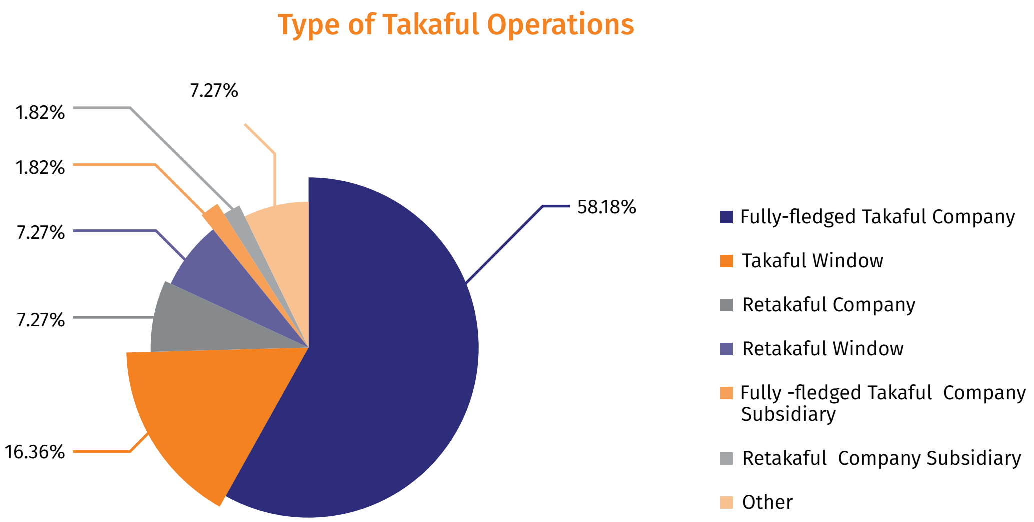
Group	Region	Countries from which Takaful companies responded	Number of Takaful companies in this group that responded
Group 1	GCC	Bahrain, Kuwait, Oman, Saudi Arabia, United Arab Emirates	12
Group 2	Middle East ex-GCC	Egypt, Jordan, Palestine, Syria, Yemen	8
Group 3	South East Asia	Brunei, Indonesia, Malaysia	7
Group 4	West, Central and South Asia	Pakistan	5
Group 5	North Africa	Libya, Sudan, Tunisia	11
Group 6	Sub-Saharan Africa	Gambia, Kenya, Nigeria, South Africa	5
Group 7	Europe, Turkey and others	France, Turkey, United Kingdom	7
Total number of countries and Takaful companies		24 Countries	55 Takaful companies

The jurisdictions from which respondents come are very diverse. Some have well-developed Islamic finance sectors; in others Islamic finance generally is only taking its first steps. Some have relatively high insurance penetration (both conventional and Islamic); in others it is much lower. Some have almost entirely Muslim populations; in others Muslims are a relatively small minority. Political and economic situations vary widely. The responses will inevitably, and rightly, reflect the different situations in which Takaful companies find themselves, and need to be read in this light.

58% of the companies that responded to the survey were fully-fledged Takaful companies; and 16% were windows of conventional insurance companies. The remainder included fully-fledged Retakaful companies, windows of reinsurance companies, subsidiaries of Islamic banks or Takaful/ insurance companies. Some of the companies were intermediaries (brokers) rather than undertakings which themselves assumed or shared risk.

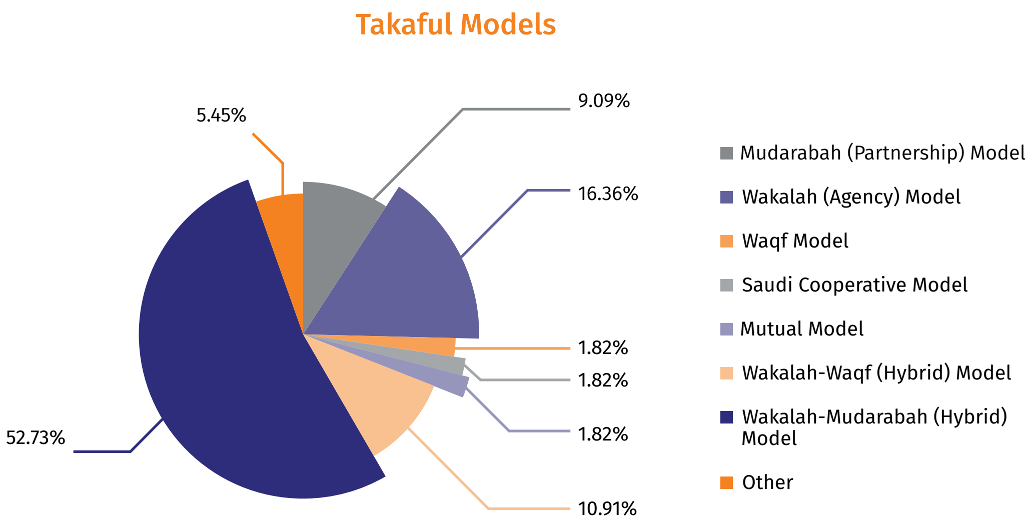
58% of the companies that responded to the survey were fully-fledged Takaful companies; and 16% were windows of conventional insurance companies.

Figure 1. Type of Takaful Operations



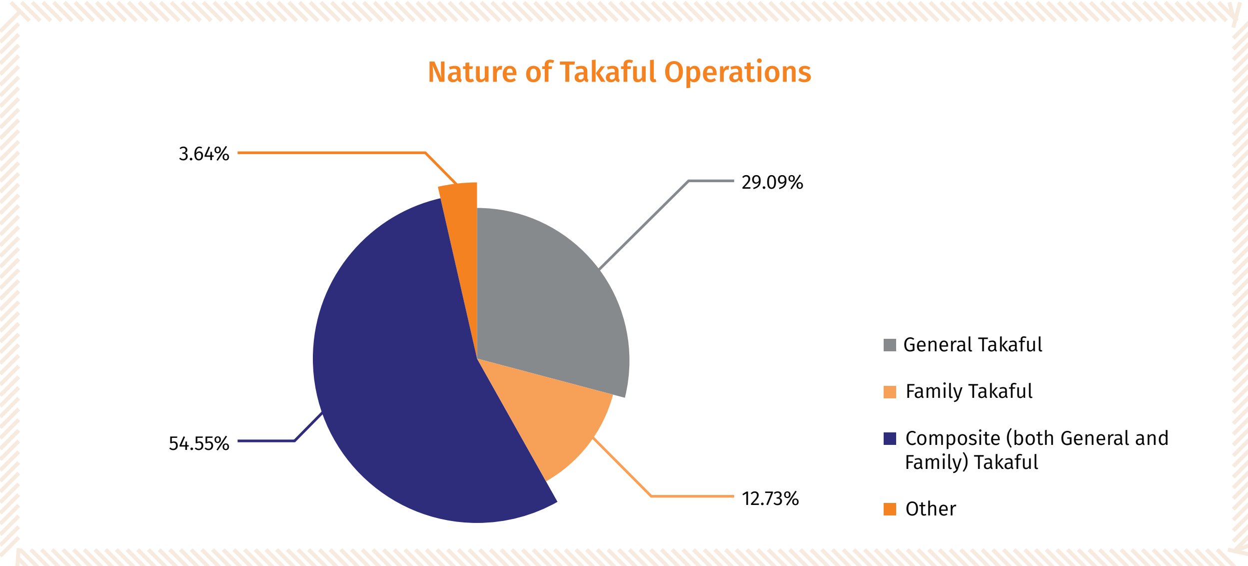
Respondents were asked which of the common Takaful/Retakaful models they used. More than half use the Wakalah-Mudarabah (Hybrid) model, one-sixth follow a pure Wakalah (Agency) model, while about 10% each adopt the Wakalah-Waqf (Hybrid) model or the Mudarabah (Partnership) model. The 'Other' responses will include the intermediaries, which will not adopt any of the standard models.

Figure 2. Takaful Models



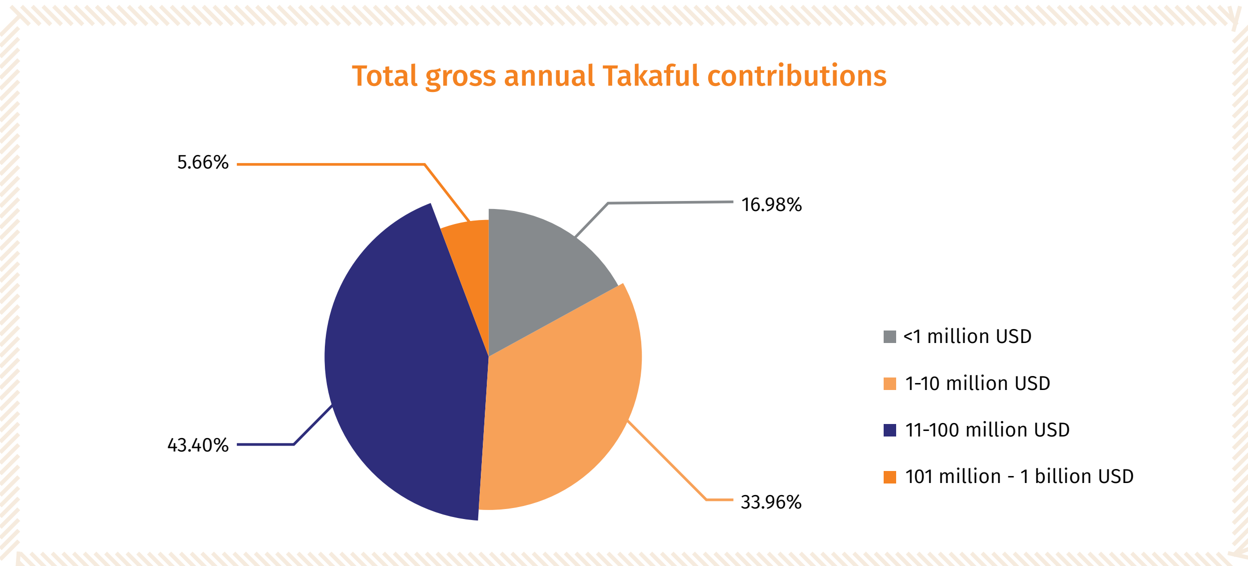
With respect to the nature of Takaful operation/business, more-than-half of respondents have Composite (both General and Family) Takaful businesses, while nearly one-third have only General Takaful, and one-eighth have only Family Takaful businesses.

Figure 3. Nature of Takaful operations



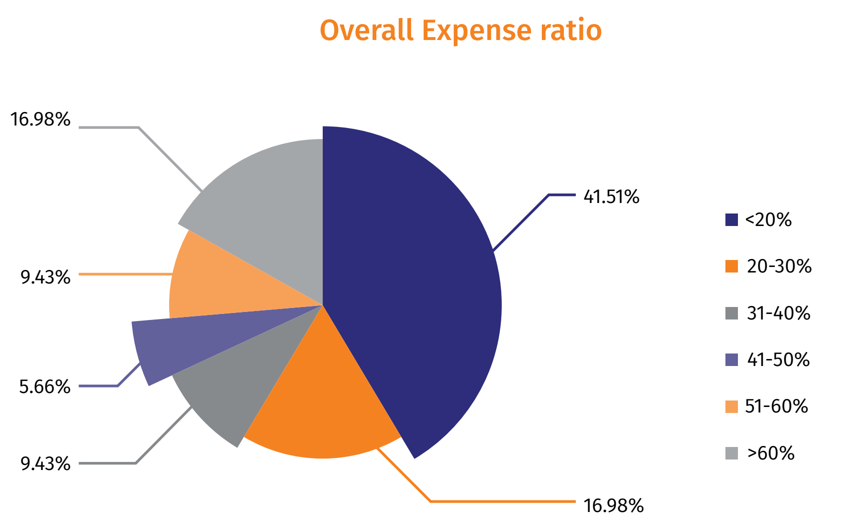
In terms of size, more than 40% of the respondents had gross annual Takaful contributions in the range of US$ 11 million to US$ 100 million, and one-third ranging from US$ 1 million to US$ 10 million. Takaful companies with gross annual Takaful contributions less than US$ 1 million accounted for nearly one-sixth, while companies that had gross contributions in the range of US$ 101 million to US$ 1 billion were less than 10%.

Figure 4. Total gross annual Takaful contributions



Respondents were also asked to reveal their overall expense ratios (a measure of profitability calculated by dividing the expenses associated with acquiring, underwriting and servicing premiums by the net premiums earned). More than 40% of respondents said they had expense ratios of less than 20%, and a further 17% between 20% - 30%. It was, however, striking that a further 17% claimed expense ratios of more than 60%.

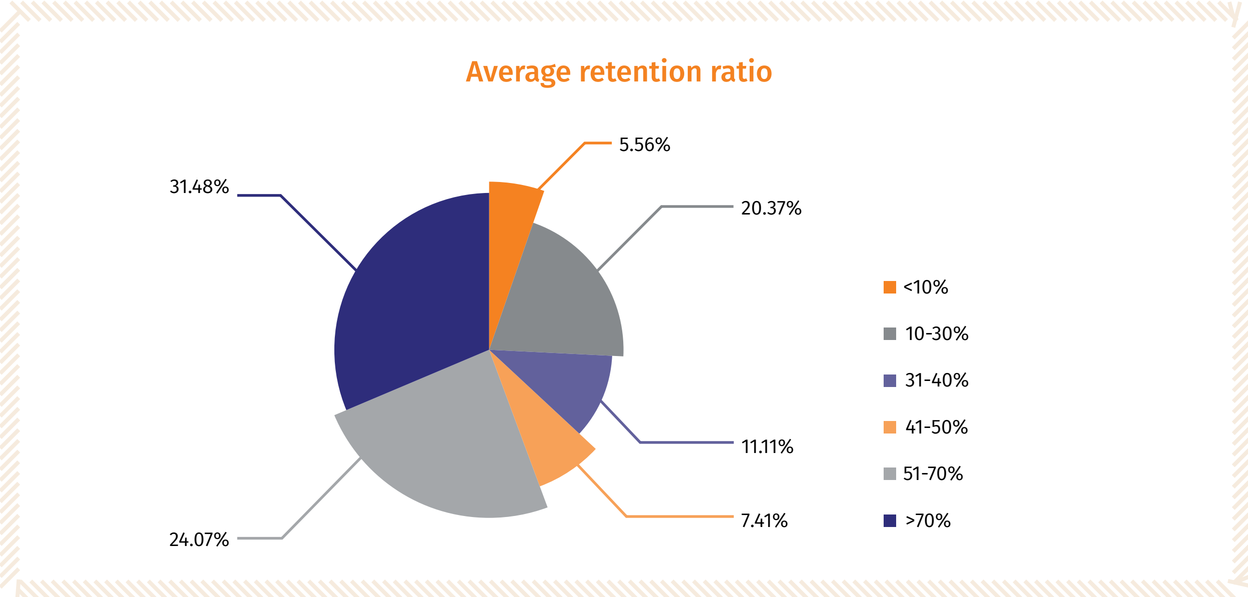
Figure 5. Overall Expense ratio



The survey additionally asked Takaful companies about their average retention ratios, that is net written contributions divided by total gross contributions. This is a measure of how much of the risk is being carried by a Takaful company rather than being passed to Retakaful/reinsurers. However, investment-based Family Takaful products will typically have very high retention ratios, because a substantial part of each contribution is for investment purposes rather than to cover mortality risk[1]. Even within General Takaful, the retention ratio will depend on the capital resources available to the company, and also on the volume and volatility of the business being written. Nearly one-third of the respondents indicated their retention ratio to be over 70%, and about a fourth of them had 51%-70% of their gross contributions retained. There were, however, significant numbers of respondents with very low risk retention ratios.

[1] Because a significant number of the respondents are composites, it has not been possible to separate General from Family Takaful within the data presented.

Figure 6. Average retention ratio



The remainder of this Survey report comprises four sections:

I. CIBAFI Takaful Confidence Index

II. CIBAFI Takaful Risk Dashboard

III. CIBAFI Takaful Growth Monitor

IV. Financial Technology and its Impact on Takaful

The survey results are presented and explained for each of these sections together with short descriptions and analysis.

Part I

CIBAFI Takaful Confidence Index

Part I. CIBAFI Takaful Confidence Index

This section reveals the perspectives of Takaful companies on six main issues: (i) their level of optimism about the insurance industry overall, (ii) their level of optimism about Takaful specifically, (iii) their primary concerns/challenges, (iv) their revenue expectation, (v) their expectation on underwriting surplus/deficit, and (vi) how they intend to increase Takaful penetration rates in their jurisdictions.

Overall, all regions show a fairly high level of optimism and confidence on the future of the Takaful industry.

Overall, all regions show a fairly high level of optimism and confidence on the future of the Takaful industry. Perhaps surprisingly, Takaful companies in Egypt, Jordan, Palestine, Syria and Yemen (Group 2) display the highest levels of confidence and optimism, and none of the regions state that they are pessimistic on the future of Takaful in their home markets.

Takaful companies are 'fairly optimistic' on the future of the insurance sector in their respective jurisdictions

The first question of the survey asked Takaful companies about their overall level of optimism about the insurance industry in their respective markets. Takaful companies were asked the question:

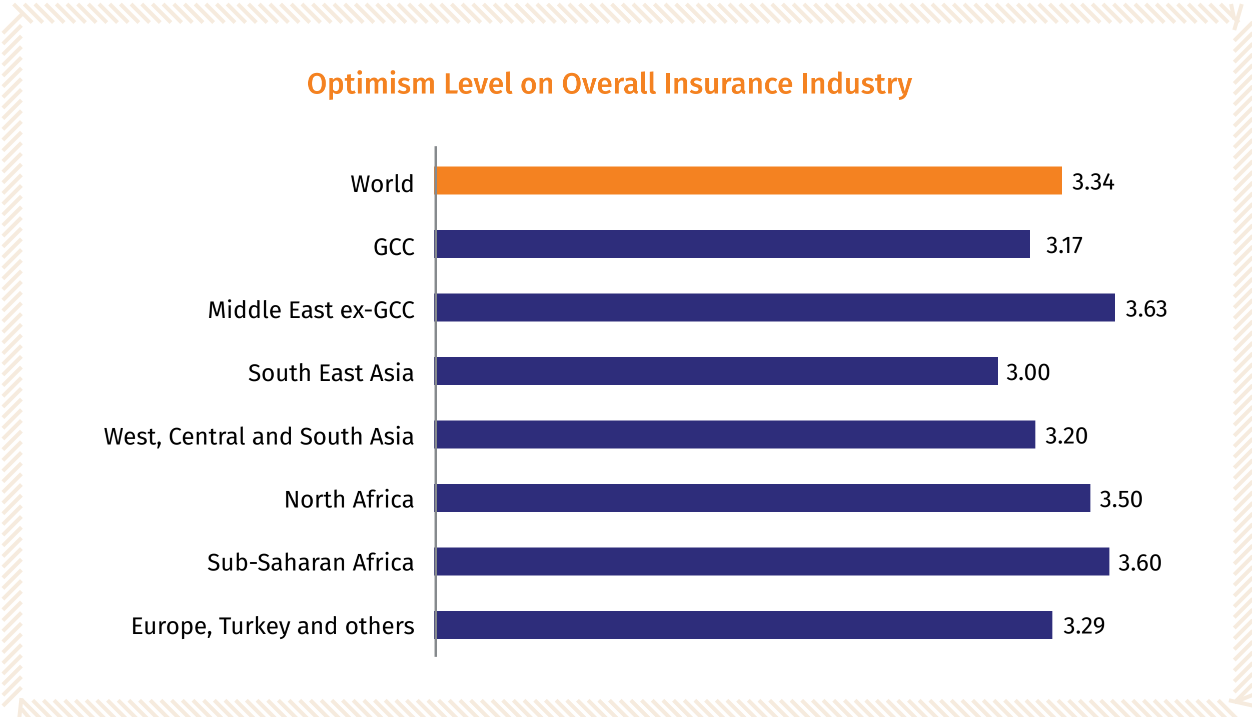
> *How optimistic are you about the insurance market in your jurisdiction this year?*

The global score of 3.34, indicates that Takaful companies are 'fairly optimistic' on the future of the insurance sector (Figure 7) with 62% saying they are fairly optimistic and 36% very optimistic. All seven groups, individually too, were either 'fairly optimistic' or very optimistic. No company in any group said it was extremely pessimistic.

Middle East ex-GCC Takaful companies were the most optimistic with 62% saying they are extremely optimistic, closely followed by Sub-Saharan Africa and North Africa. The South East Asian Takaful companies were least optimistic of all groups.

Takaful companies are 'fairly optimistic' on the future of the insurance sector.

Figure 7. Optimism Level on Overall Insurance Industry



1. Extremely pessimistic; 2. Very pessimistic; 3. Fairly optimistic; 4. Very optimistic; 5. Extremely optimistic

Takaful companies are also 'fairly optimistic' about the prospects for Takaful

The second question of the survey asked Takaful companies about their level of optimism on the Takaful industry itself with reference to the level of optimism they had in the industry in the previous year. They were asked the question:

> *Score your optimism level in the future of the Takaful industry in your jurisdiction today compared to your confidence level in 2016.*

The global score of 3.46 for all 55 respondents indicates that Takaful companies are 'fairly optimistic'. This indicates that Takaful companies are more optimistic about their own sector than they are about the insurance industry as a whole. Similar to the response in the first question, Takaful companies in the two African groups displayed high levels of optimism with scores of 3.8 and 3.6 respectively. In the Sub Saharan group 80% were very optimistic. The second highest optimistic region is Middle East ex-GCC (Group 2) with 63% of respondents being 'very optimistic'.

Takaful companies are more optimistic about their own sector than they are about the insurance industry as a whole.

The least optimistic region is Group 1, GCC, comprising Bahrain, Kuwait, Oman, Saudi Arabia and the United Arab Emirates where regional political conditions have deteriorated in the middle of 2017, and where the low level of oil prices is a significant economic factor.

The Islamic Insurance Company ..
Security and Prosperity Since Inception

The Islamic Insurance Company is the first Islamic insurance company in Jordan. It was established in 1996 with a capital of JD 15 million. It was established on the basis of the cooperative insurance which was approved by Fiqh councils as an alternative of commercial insurance. The Islamic Insurance Co. is a financial company that manages its funds in accordance with the principles of Islamic Shari'a law and on the basis of Wakalah with a known wage.

The Islamic Insurance Company has achieved continued successes since it was established. It participated in establishing many Islamic insurance and reinsurance companies in: Yemen, Lebanon, Saudi Arabia, Tunis and recently Algeria.

Moreover, many books on the Islamic Takaful Insurance were published making it the pioneering Islamic Takaful company and a symbol to follow by all Takaful Insurance companies locally and internationally.

The Islamic Insurance Company has received many awards and recently received the Excellence and Innovation Award in developing Takaful Services for the year 2017. In addition, it achieved the ISO 9001:2015 certificate for Quality Management in 2017.

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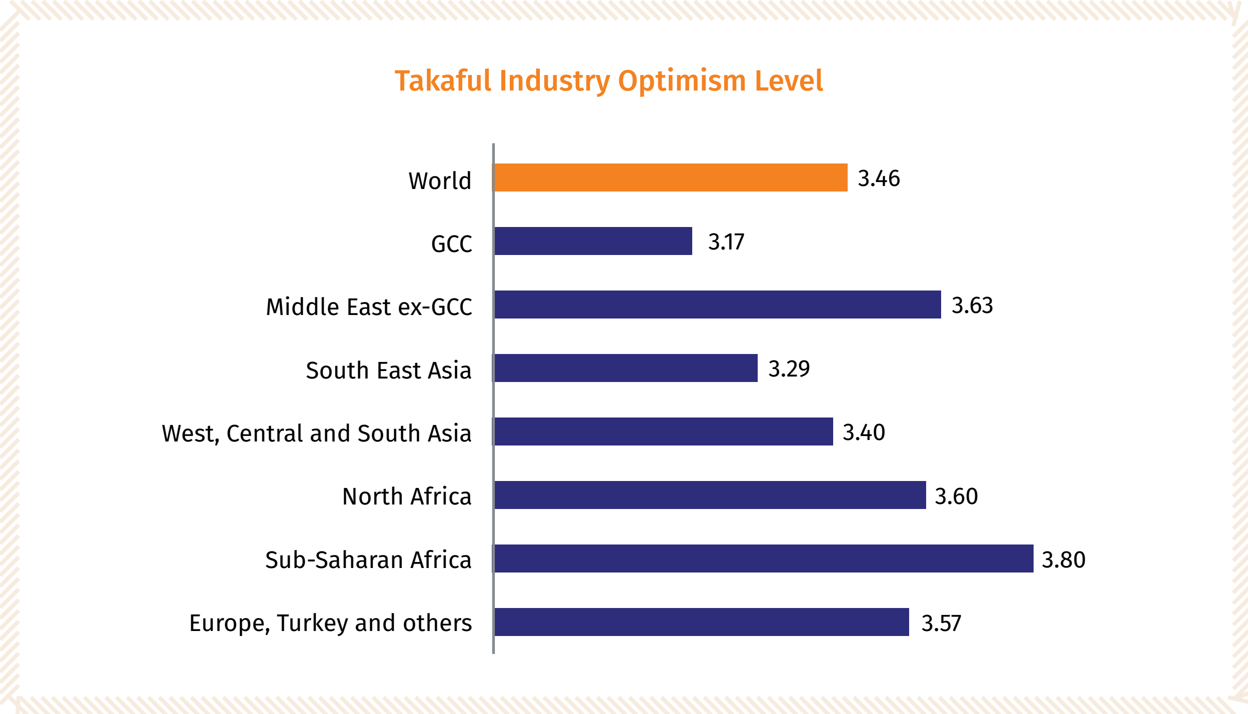
Figure 8. Takaful Industry Optimism Level



1. Extremely pessimistic; 2. Very pessimistic; 3. Fairly optimistic; 4. Very optimistic; 5. Extremely optimistic

Takaful companies expect performance similar to that of their conventional peers in terms of revenue growth

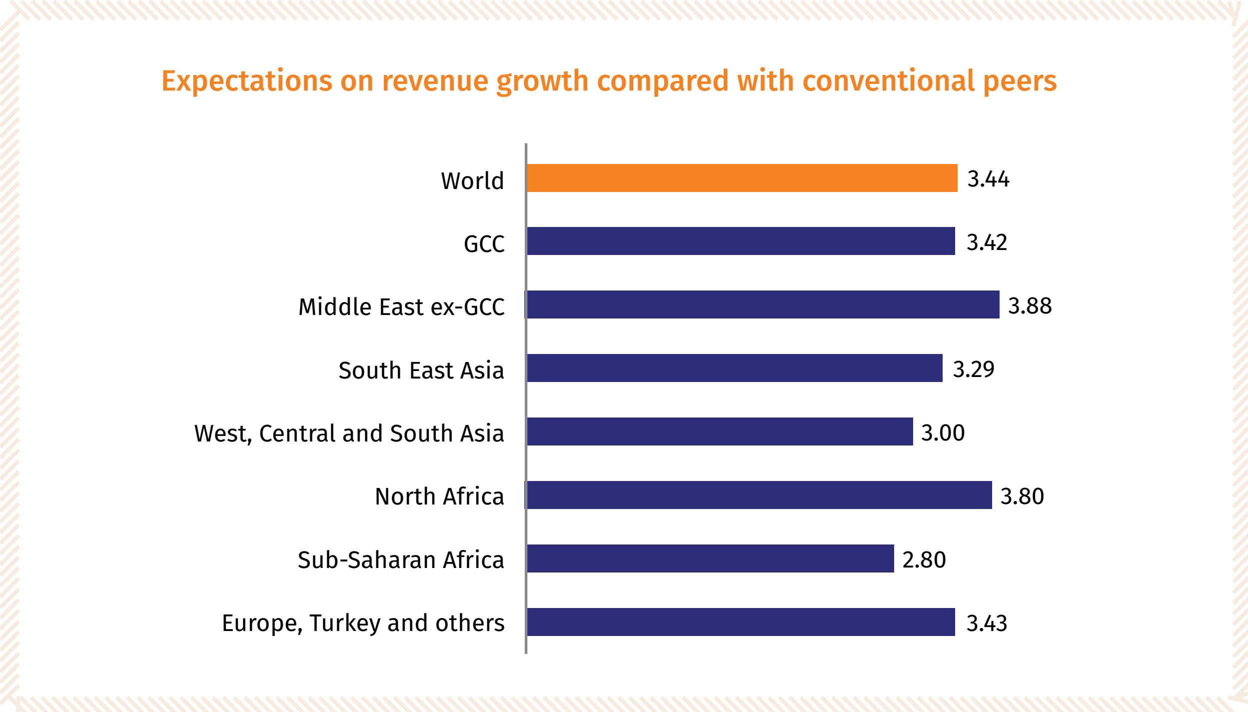
The third question of the survey asked Takaful companies about how their revenue growth would compare with that of their conventional counterparts. They were asked the question:

> *What is your expectation on the revenue growth of your institution relative to conventional insurance companies within your jurisdiction?*

Eighty-seven percent of respondents in the Middle East excluding GCC say that revenue growth will outperform conventional peers.

Taken as a whole, they expected slightly better growth levels than those of their conventional peers with a score of 3.44. Eighty-seven percent of respondents in the Middle East excluding GCC say that revenue growth will outperform conventional peers, leading to the highest regional score of 3.88 as against the global score of 3.44. There was a similar level of optimism in North Africa. In contrast, Takaful companies in Sub-Saharan Africa (Gambia, Kenya, Nigeria, and South Africa) are the least optimistic, with 40% of them saying they will underperform; this is a little surprising given the generally high levels of optimism from this region in other respects.

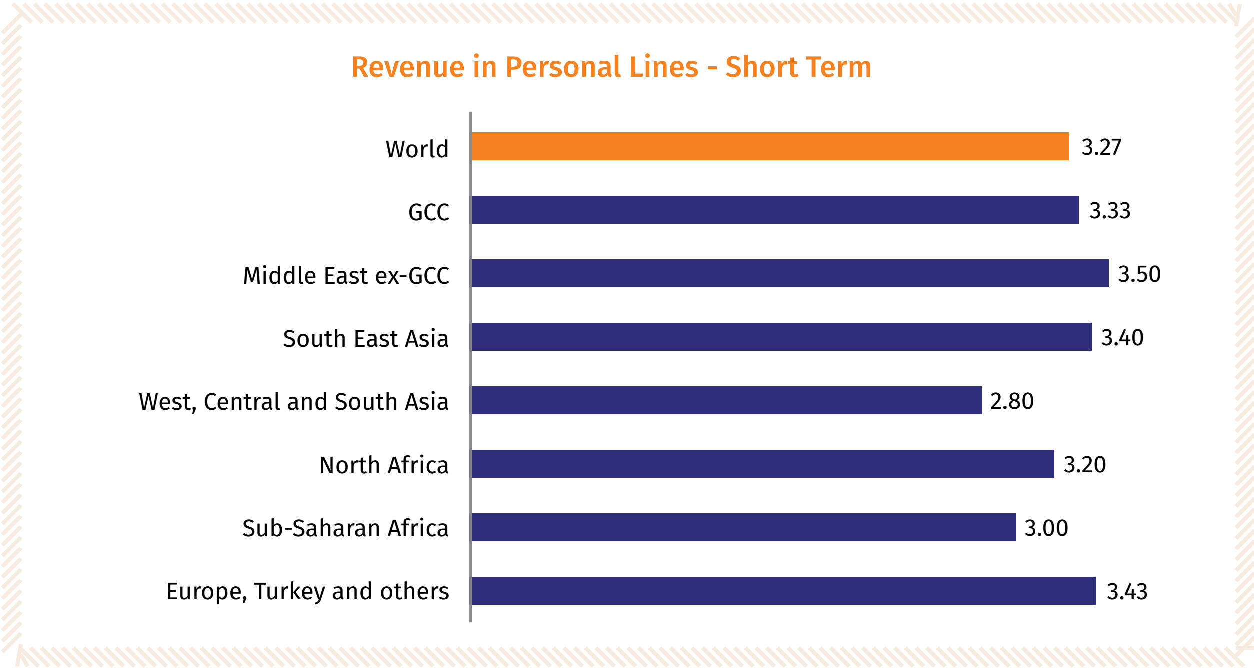
Figure 9. Expectations on revenue growth compared with conventional peers



1. Extremely underperform; 2. Underperform; 3. Fairly similar; 4. Outperform; 5. Extremely outperform

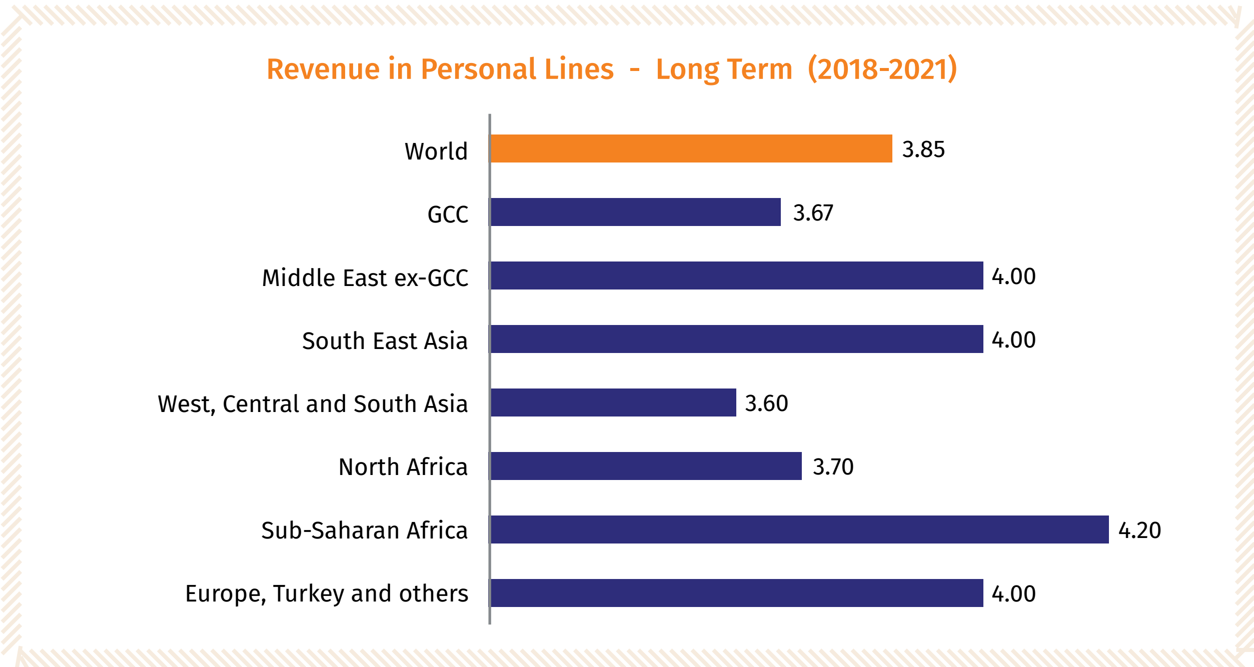
Respondents were asked about their short-term and longer-term (2018-2021) expectations for revenue growth in both personal and commercial lines, as compared with the most recent completed year. In personal lines, the short-term expectation was only marginally for faster growth, with the Middle East excluding GCC the most optimistic, and West, Central and South Asia the most pessimistic. However, for the longer term respondents are markedly more optimistic, with every region expecting faster growth, and Sub-Saharan Africa particularly optimistic.

Figure 10. Revenue in Personal Lines - Short Term



1. Growth will be much slower; 2. Growth will be somewhat slower; 3. Growth will continue at about the same pace; 4. Growth will be somewhat faster; 5. Growth will be much faster

Figure 11. Revenue in Personal Lines - Long Term (2018-2021)



1. Growth will be much slower; 2. Growth will be somewhat slower; 3. Growth will continue at about the same pace; 4. Growth will be somewhat faster; 5. Growth will be much faster

In commercial lines of business, the expected revenue growth in the short term does not deviate much from the recent past, and the regions are relatively closely clustered, with the GCC the most optimistic and sub-Saharan Africa the most pessimistic. Again, however, the level of optimism for the longer term is markedly higher, led in this case by Sub-Saharan Africa. Regional patterns are a little different from those for personal lines, but it is difficult to speculate with any confidence on the reasons, given the small sample sizes in some regions and the different mixes between General and Family Takaful.

In commercial lines of business, the expected revenue growth in the short term does not deviate much from the recent past, and the regions are relatively closely clustered.

Figure 12. Revenue in Commercial Lines - Short Term

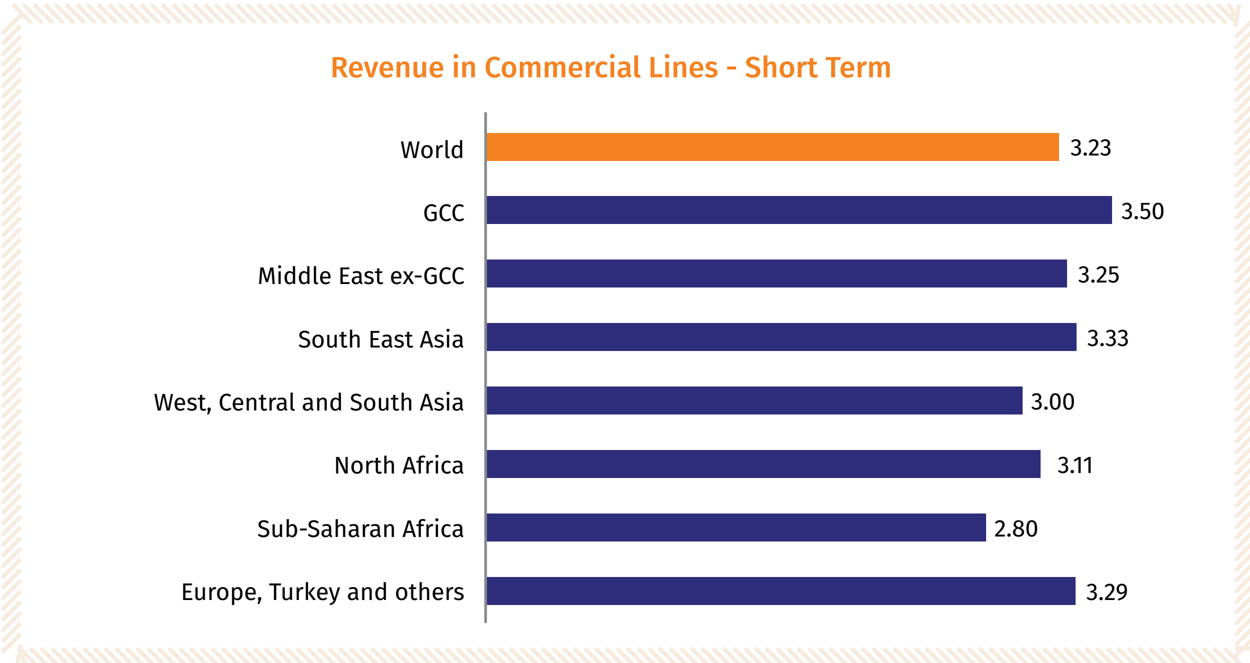
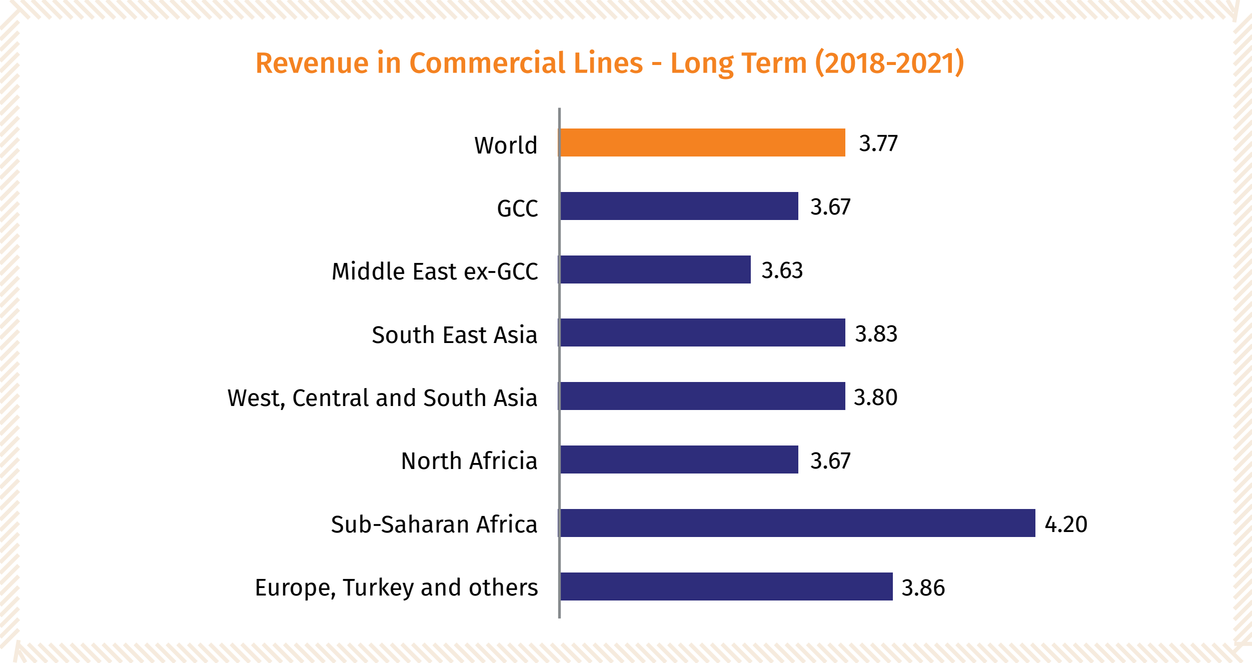


Figure 13. Revenue in Commercial Lines - Long Term (2018-2021)



Both Family and General Takaful expect 'moderate surplus'

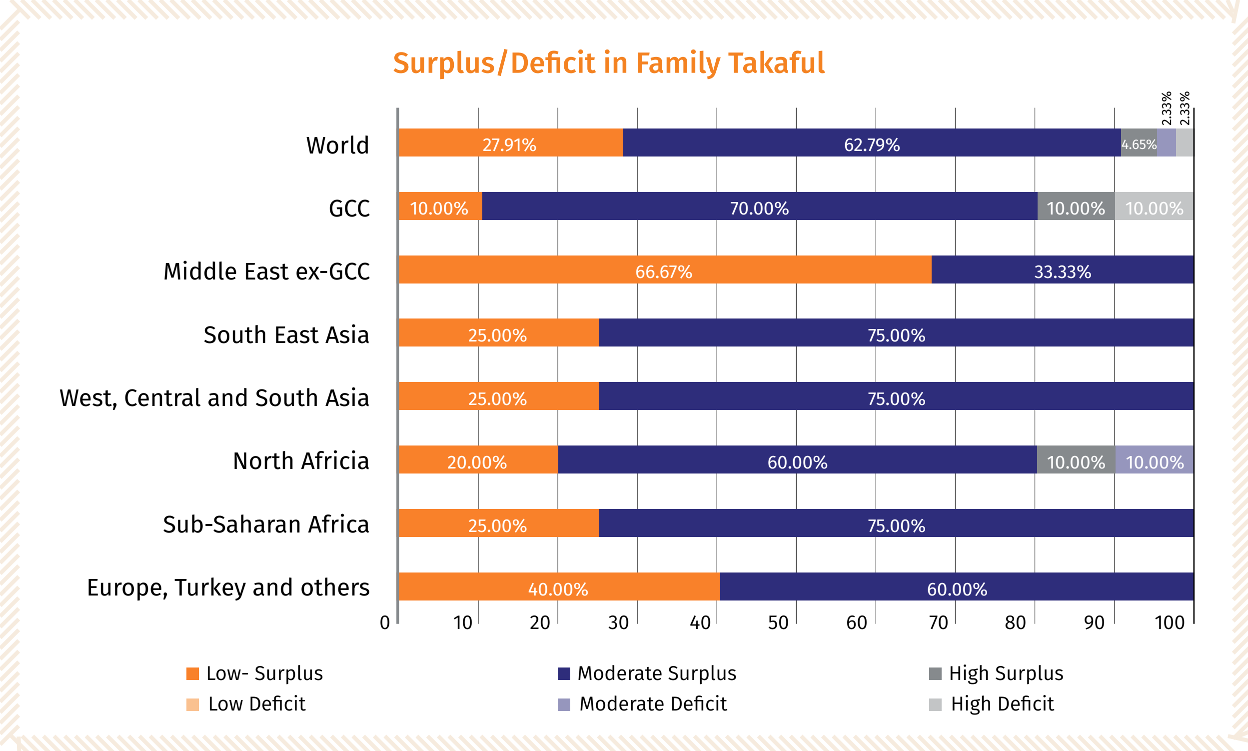
The Survey asked Takaful companies about their underwriting surplus/deficit positions, both in Family and General businesses. They were posed the question:

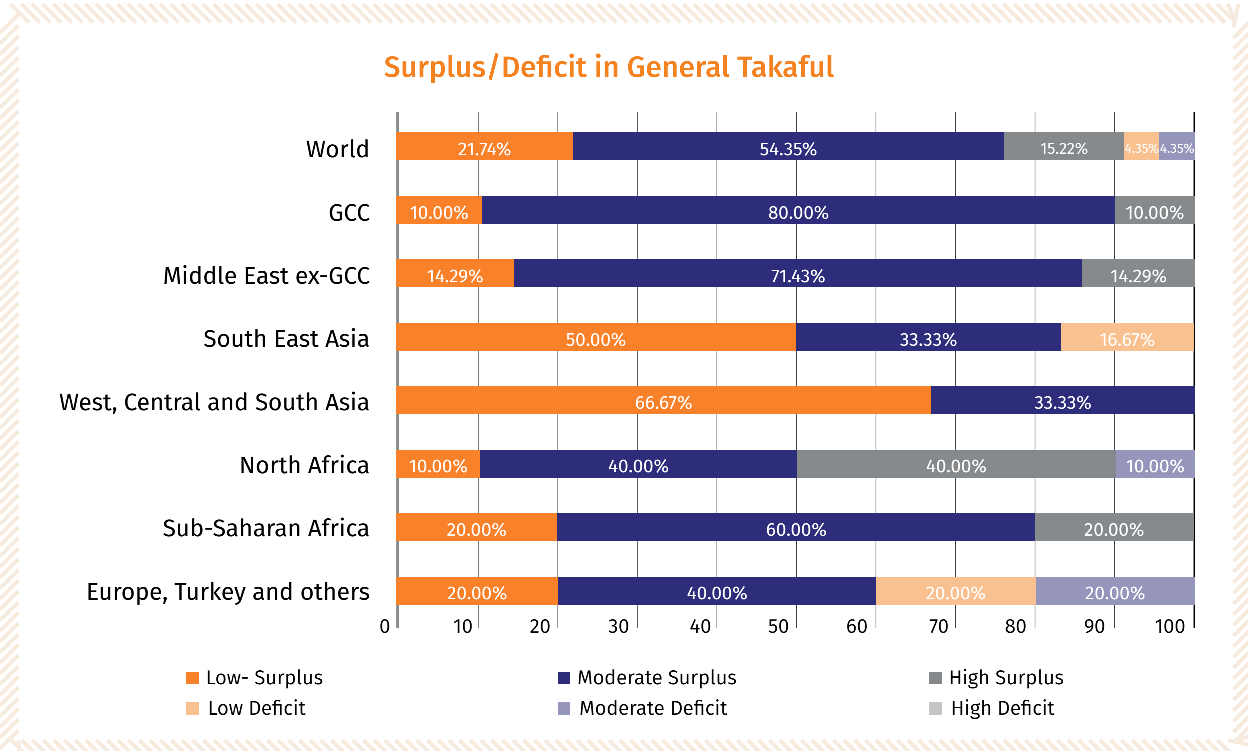
> *What do you expect your underwriting surplus/deficit in Takaful pool to be and for which line of business?*

63% of companies responding in respect of Family Takaful business say they expect 'moderate surplus' and 28% say they have 'low-surplus'. Only about 5% expect a high surplus, with a roughly similar number expecting a deficit. This is unsurprising, given the relative predictability of mortality rates, absent major disasters or epidemics.

In General Takaful, 54% expect moderate surpluses, and 22% expect low surpluses. Less than 10% of the general Takaful respondents expect underwriting deficits. This may again reflect the current concentration of Takaful on personal lines, which are generally high-frequency, low-severity, and therefore relatively predictable.

Figure 14. Surplus/Deficit in Family Takaful and in General Takaful





IT Technology to achieve cost efficiency and productivity remains a key concern of Takaful companies

The survey presented Takaful companies with a list of 30 different challenges/concerns, and invited them to say how significant each would be over the next 1 – 3 years. Each Takaful company was asked to:

> *Score your institution's main concerns regarding various issues and challenges facing your institution over the next 1-3 years.*

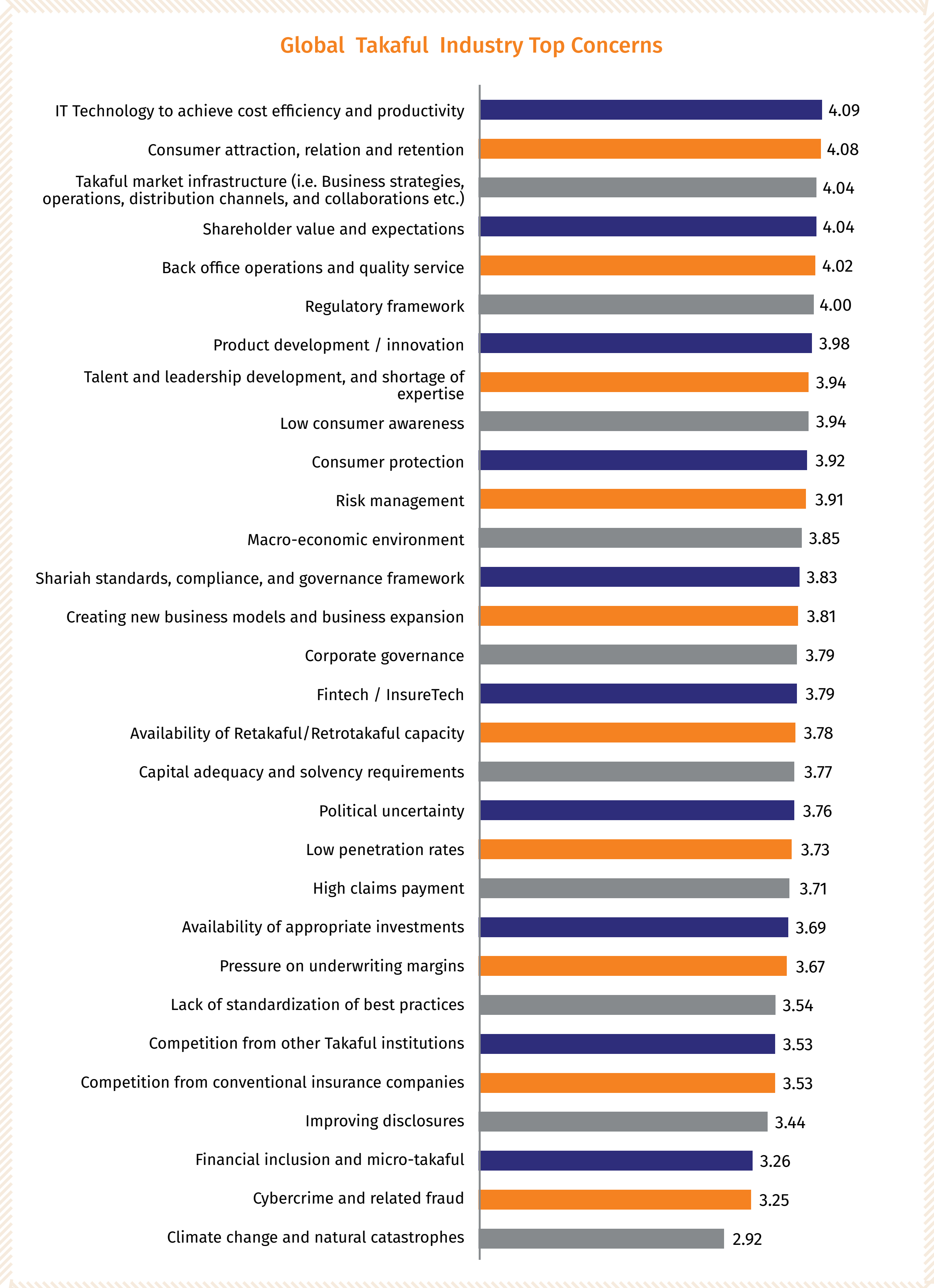
The respondents scored the issues and challenges on a scale of 1 to 5 where 1 was 'Not important at all', 3 was 'Fairly important' and 5 was 'Extremely important'.

The issues and challenges presented covered a very wide range, including the use of IT to achieve cost efficiency and productivity, customer retention, shareholder expectations, regulatory framework, product innovation, awareness, high claims payments, pressure on underwriting margins etc.

Technology to achieve cost efficiency and productivity was ranked the most important concern, with a score of 4.09, closely followed by 'Consumer attraction, relation and retention' (4.08). Takaful market infrastructure, Shareholder value and expectations stood joint third biggest challenges with a score of 4.04, with Service quality (4.02), Regulatory framework (4.0) and Product development/innovation (3.98) close behind. Contrary to some common beliefs 'Availability of Retakaful/Retrotakaful capacity' scored moderately (3.78) as a seventeenth biggest concern. Other surprises were that 'Availability of appropriate investments' came relatively low, while competition from either conventional insurance companies or Takaful counterparts (3.53) was fifth from bottom in the list of concerns. In later questions these issues seemed to be more prominent, and it is not at first sight easy to reconcile the answers. Another surprise, given its prominence in international discussions, was the low priority given to financial inclusion and microtakaful.

Technology to achieve cost efficiency and productivity was ranked the most important concern

Figure 15. Global Takaful Industry Top Concerns



1. Not important at all; 2. Not very important; 3. Fairly important; 4. Very important; 5. Extremely important

The concerns did, however, vary considerably by region. In the GCC region, they were dominated by commercial issues such as consumer protection, consumer attraction and shareholder value and expectations (Table 2). Not surprisingly, the Middle East Ex-GCC put forward political uncertainty as one of the two biggest concerns, along with consumer protection issues. The open-ended answers elaborated by the individual Takaful companies varied widely with price competition, back office challenges and quality of services, product development & reach, and regulatory resolutions and changes among the major individual challenges. Political uncertainty was also a significant issue in North Africa.

It is striking that four of the seven Groups including South East Asia, Sub-Saharan Africa, North Africa, and Europe, Turkey and others indicated technology related issues as among their top concerns. However, Fintech and InsureTech scored much lower, as did cybercrime, which suggests that the concerns may be less about cutting-edge developments than about issues of efficiency. More light is thrown on technology issues by later questions, and relevant Fintech developments are discussed in Part IV.

It is rather remarkable that despite a general perception of difficult macro-economic conditions, including low oil prices, only two groups (North Africa and Europe) have indicated this as among their main concerns.

The Middle East Ex-GCC put forward political uncertainty as one of the two biggest concerns, along with consumer protection issues.

Table 2. Major concerns of Takaful companies across regions

Geographical breakdown of top concerns*		
Group	**Top Concerns**	**Score**
Group 1 *GCC*	► Consumer attraction, relation and retention ► Risk management ► Consumer protection ► Shareholder value and expectations	4.25 4.18 4.17 4.17
Group 2 *Middle East ex-GCC*	► Political uncertainty ► Consumer protection ► Back office operations and quality service	4.13 4.13 4.00
Group 3 *South East Asia*	► IT Technology to achieve cost efficiency and productivity ► Talent and leadership development, and shortage of expertise ► Low consumer awareness	4.67 4.50 4.50
Group 4 *West, Central, and South Asia*	► Competition from conventional insurance companies ► High claims payment ► Shariah standards, compliance, and governance framework ► Availability of Retakaful/Retrotakaful capacity	5.00 4.80 4.60 4.60
Group 5 *North Africa*	► Political uncertainty ► Back office operations and quality service ► IT Technology to achieve cost efficiency and productivity	4.60 4.50 4.50
Group 6 *Sub-Saharan Africa*	► IT Technology to achieve cost efficiency and productivity ► Low penetration rates ► Lack of standardization of best practices	4.80 4.75 4.75
Group 7 *Europe, Turkey and others*	► Regulatory framework ► Macro-economic environment ► Takaful market infrastructure (i.e. Business strategies, operations, distribution channels, and collaborations etc.)	4.00 3.86 3.71
Global	► IT Technology to achieve cost efficiency and productivity ► Consumer attraction, relation and retention ► Takaful market infrastructure (i.e. Business strategies, operations, distribution channels, and collaborations etc.)	4.09 4.08 4.04

*For every group, the top three risks are identified, including all risks with the same score, even if that means that more than three are listed in total.

Takaful companies face a wide variety of challenges, depending on their individual circumstances

After scoring the concerns on issues presented by CIBAFI, Takaful companies were asked to describe the two biggest challenges that they were facing and to describe what they were doing to overcome those challenges. Takaful companies were asked to:

> *Describe the two main challenges faced by your institution (the top two challenges that you choose from the above table), and your institution's strategic initiatives to overcome those two challenges in the next 1-3 years*

There is a clear diversity in the responses given by the Takaful companies across regions. All the 30 concerns presented by CIBAFI were raised by one or more of the 55 responding Takaful companies. The concerns described are often specific to the environment where a Takaful company is operating or to the state of development of Islamic finance markets in the respective country.

Across most groups of respondents the open-ended responses highlight the competition from conventional insurance companies.

Across most groups of respondents the open-ended responses highlight the competition from conventional insurance companies. This is perhaps surprising, given its overall low ranking in the closed-ended question. Some companies said they have strategies in place to collaborate and forge agreements with main reinsurance providers and benefit from the reinsurance market. For example, a GCC-based company pointed out that in tackling the competition from conventional insurance companies it tries to forge strategic alliances and combine the effort of governments, Shariah boards and other decision makers to improve the service offerings and the degree of Shariah compliance across the whole insurance value chain. Another, highlighting the same issue, also noted the pressure on underwriting margins. The theme of competition from conventional insurance companies continued across other geographies, including South, West and Central Asia, where competition from Takaful windows was also noted. In some comments, respondents also noted limited awareness of Takaful, weakening their position in this competition; this too is a theme that recurs later.

The macroeconomic environment was another common concern, particularly in the Middle East outside the GCC. One Retakaful company there mentioned low growth and the depreciation of local currencies, exacerbated by funds transfer restrictions in some countries. In addition, some Government or semi Government institutions were unable to pay their contribution balances to Takaful companies, impacting on the Takaful operators' ability to pay Retakaful contributions. The company was following an aggressive policy to collect the balances, and also needed to open local bank accounts, and diversify the investment of the local currencies to minimize the effect of depreciation by the higher returns on funds. These economic concerns were echoed by companies in North Africa, one of which mentioned specifically restrictions on fund transfers. A company in the GCC also said that the macroeconomic environment was impacting on the ability of customers, especially corporates, to pay their contributions on time. A Retakaful company in South East Asia said that regression of a country's macroeconomic environment will impact overall performance and growth of the Takaful industry. However, considered that, with strong fundamentals the cycle is expected to be over within a few years. It therefore saw it as important to carefully manage operating costs and maintain a disciplined underwriting policy to weather the slow period.

Takaful companies in Group 7 (Europe, Turkey and others) are most concerned about market infrastructure, reflecting the lack of regulations and laws to govern the emerging Islamic finance markets in these areas.

Takaful companies in Group 7 (Europe, Turkey and others) are most concerned about market infrastructure, reflecting the lack of regulations and laws to govern the emerging Islamic finance markets in these areas. Takaful companies in these jurisdictions say that Takaful is a very new concept and they are gradually adopting best practices in the business. Although they say that there are positive developments related to the legal infrastructure of Takaful, regulatory changes in the general insurance sector increase their burden. Respondents of this group reiterate that they play a constructive role in helping the authorities in the legislation processes to optimise new regulations for Takaful. However, regulatory concerns are not confined to this region. A GCC Takaful company identified the challenge of the lack of an effective supervisory body, while another commented on the possibility of regulatory changes which would impact the industry. Two South East Asian companies referred to regulatory frameworks (in different countries), one specifically drawing attention to the impacts on Takaful companies as opposed to conventional insurers. To a large extent, these concerns seem to reflect the fact that insurance regulatory standards are going through a period of relatively rapid change globally, and the changes do not always take account of the particular needs of the Takaful industry. However, one company in West, Central and South Asia said that "the Takaful contract, model and practices are totally different from conventional insurance. The biggest challenge with reference to Takaful is introducing a Takaful regulatory model under a conventional insurance regulatory framework." They are discussing this issue with their regulator. A company in North Africa commented particularly on the need for Shariah standards and a basis for implementing proper Shariah governance and compliance.

"The biggest challenge with reference to Takaful is introducing a Takaful regulatory model under a conventional insurance regulatory framework."

One company in the GCC mentioned the issue of turning the promise of new technology and big data into commercial successes. This includes capitalizing on the opportunities in mobile and web-based services, using big data and predictive analytics effectively, and overcoming the problems associated with legacy technologies. A Retakaful company in South East Asia also said that "the era of digitization has brought about significant change to the business landscape. The disruption it caused to society demands for product innovation and services. Failing to keep up will result in losing market share to conventional companies." Technology issues will be discussed in more detail later in this report.

A Sub-Saharan African Takaful company underscored the need for product development/innovation in its relatively nascent Takaful market. With more than 50 conventional insurance companies, and with less than 1% penetration rate, the Takaful industry is expected to have a considerable opportunity to be tapped. The company endeavours to develop and package innovative products that will meet the expectations of this large population that are insurable but remain uninsured. Product innovation is an important concern which emerges from later parts of the survey, as does another concern in the newer geographies, the need to spread awareness on Takaful among the population to increase Takaful penetration.

Takaful companies consider wide-ranging initiatives to increase their penetration rates

Notwithstanding its growth, Takaful industry is generally operating in markets where overall insurance penetration is low and where, in addition to increasing the overall market, it also has the opportunity to take market share from conventional rivals. The last question of this section of the survey probed Takaful companies on how they can increase the penetration rate of Takaful in their respective markets. They were asked:

Takaful industry is generally operating in markets where overall insurance penetration is low and where, in addition to increasing the overall market, it also has the opportunity to take market share from conventional rivals.

> *How do you intend to increase the penetration rate of Takaful in the jurisdictions in which your organization operates?*

Companies provided a wide variety of responses on this aspect. Some GCC companies stressed the need to carry out studies and market research and awareness campaigns on Takaful and deploying competent sales staff, while others called for benefiting from the social media platforms and digital marketing in reaching out to customers to increase awareness. One GCC company said they have a group level strategy to decentralise Takaful operations in order to increase their customer base. Others recommended offering simple and value-based products and building long term strategies on developing new products. A GCC Retakaful company highlighted the need for Takaful companies to become more innovative and to use technology to emphasise on the potential of personal lines.

Six companies out of the total 55 explicitly recommended having Bancatakaful arrangements to increase their Takaful penetration rates.

Six companies out of the total 55 explicitly recommended having Bancatakaful arrangements to increase their Takaful penetration rates. A Middle East ex-GCC Takaful operator said it would open new branches in the provinces that do not have branches and collaborate with Islamic banks to provide Bancatakaful services. Another Group 2 Takaful company said that it uses social media and technological platforms to get more customers in areas that do not have physical Takaful branches. Another Middle East ex-GCC Takaful company suggested that it would develop marketing skills of its staff and improve its customer service. Similarly another Group 2 company pointed out the importance of good treatment of current customers who may in turn bring new customers thereby increase the penetration rate. A Retakaful company in the same group said it spreads awareness on Takaful through regular conferences and meetings to provide new products to target segments of the market and believes that a major tool to improve the Takaful penetration is through full commitment to Shariah principles which will build the trust of potential customers towards the proposition. It also plans to spread awareness of Microtakaful products.

In Group 3 (South East Asia), a Retakaful company emphasises developing products and services to keep up with the changes in the market landscape by offering more products through digital platforms. It also promotes exchange of knowledge with its Takaful cedants and provides various opportunities to bring niche Takaful solutions to the underserved sections of the society. The company also recommended engaging with international broking houses to bring quality and sophistication to the industry. Another regional company stressed the need to explore new markets and develop specialty products along with developing microtakaful products and increasing the distribution channels. Likewise, a company in West, Central and South Asia said it is working on increasing its visibility in print and social media, organising seminars in educational and trade institutions and establishing forums to increase customer interaction touch points and help the population increase their understanding on Takaful concepts.

A North African company mentioned that it will look to expand regionally in the African continent. It will also initiate steps to build trust between the company and customers aiming to improve Takaful awareness among its potential customers. Another company in the same region aims to open ten new branches on an average yearly. On the other hand, a Sub-Saharan Africa company believes that by developing a well-coordinated and structured retail and agency system and investing in capacity building it can increase

In Group 3 (South East Asia), a Retakaful company emphasises developing products and services to keep up with the changes in the market landscape by offering more products through digital platforms.

the Takaful penetration rate. A firm in Group 7 (Europe, Turkey and others) said it favours more transparent and simple disclosures to customers, developing the Bancatakaful channel and making user friendly and innovative mobile /internet solutions to increase its business and penetration.

Through this diversity of responses, a few themes recur. One is the need to increase Takaful awareness, especially in new areas. Another is product development. Both of these recur throughout the survey. A third is the need to improve distribution and to increase contacts with potential customers. Although this is a commonly-recognised need, approaches to it vary. Some firms favour expanding their own branch structure, while others prefer to use agents/brokers or, through Bancatakaful, to capitalise on existing bank distribution networks. Others see more potential in technology. The divergences here are likely to reflect in part the different commercial environments in different jurisdictions, but also that some products, particularly investment products, will typically require a higher level of contact with the customer than other shorter duration and more standardised products like motor or household cover.

Part II

CIBAFI Takaful Risk Dashboard

Part II. CIBAFI Takaful Risk Dashboard

There has been a strong growth in the overall Islamic finance market across jurisdictions and Takaful market has also seen a strong corresponding progress[2]. There are, however, risks and this CIBAFI survey aimed to identify what Takaful companies see as the top risks that they are facing today, and how they aim to mitigate them.

The survey respondents were asked to score each of the given 30 risks on a scale of 1-5, (1 being 'No Risk at all' and 5 being 'Extreme risk'). They were asked to:

> *Score the level of riskiness faced by your institution from the following types of risks in the next 1-3 years.*

They were additionally asked to describe, in more detail, the top two risks and the steps they take to mitigate them over the same period.

Takaful companies indicate market risk as the top risk that is affecting the Takaful business across jurisdictions.

Market Risk is identified as the top risk faced by global Takaful industry

Takaful companies indicate market risk as the top risk that is affecting the Takaful business across jurisdictions. There is, however, some ambiguity in the answers. The term can be used to signify the risk that the market prices of assets will change. As volatility affects the actual market value of the Takaful assets, including those needed to cover liabilities; it also affects the company's actual surplus. However, it appears from the write-in responses that some respondents interpreted the term differently, to mean the risk posed by competition in the market for cover. For example, one company in the Middle East ex-GCC group claims that market risk is the result of severe competition and lack of technical expertise to recognise the impact of price deteriorations on achievable margins. It recommends diversifying the portfolio and providing clients with relevant information as one of the main mechanisms to improve the stability of market prices. Similarly, some other companies in the region say they are witnessing critical changes in the market prices and aim to mitigate them by developing a diversified range of products. A Takaful company in South East Asia says that exploring new and key profitable markets will reduce dependency on existing markets and will go a long way in countering the inherent risks of the company.

[2] The IFSB's Islamic Financial Services Industry Stability Report 2017 reports double-digit growth figures for Takaful globally over the period 2008-2015. More detailed figures are in section 1.4 of that Report.

Market stagnation risk may hamper Takaful industry growth

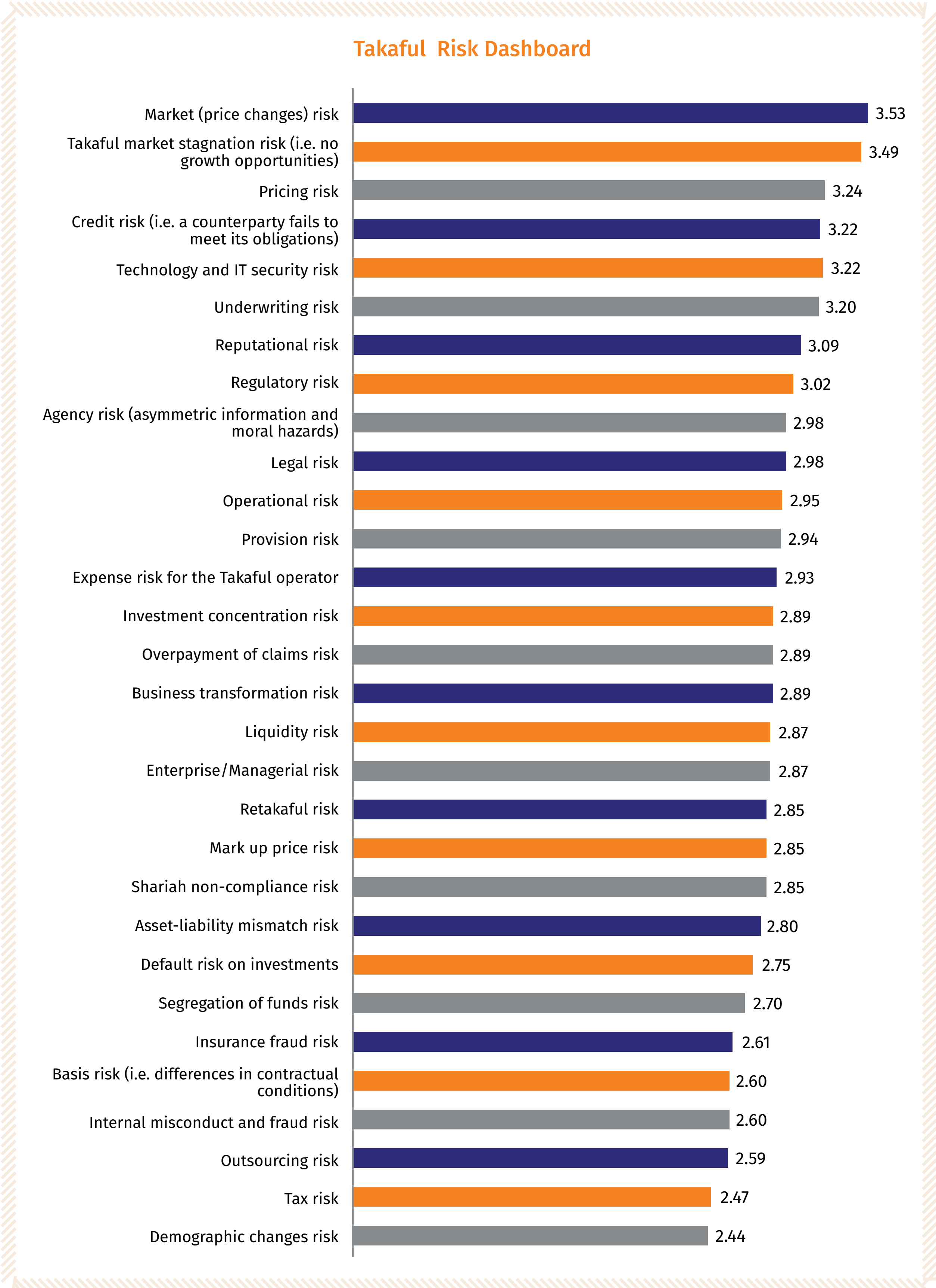
After market risk, Takaful companies indicate that the overall industry is facing 'Stagnation risk', and a lack of growth opportunities. This may partly be because of the overall economic performances of countries where Takaful markets operate, in some cases exacerbated by political factors.

One GCC Takaful company opines that market stagnation makes accessing new customers difficult. Accordingly, achieving profit in the market will also be difficult, which leads to strong price competition in the market between the companies. This competition may be harmful for the sector and may put pressure on the profit margins which in turn makes it difficult to maintain or attract new customers.

One North African respondent discloses that it mitigates this by developing research studies, marketing mechanisms, new production channels, together with enhanced effectiveness of its operations in addition to raising awareness and expanding regionally. Another North African company says that, despite enormous potential in the country in different sectors, certain external policies result in adverse consequences for their market. These negatively affect the country in terms of generating national incomes and deteriorate economic conditions in all sectors of the economy, including the Takaful industry. They also lead to decline in foreign investments and available liquidity in the sector, which results in the default or delay in paying Takaful contributions and obligations.

After market risk, Takaful companies indicate that the overall industry is facing 'Stagnation risk', and a lack of growth opportunities.

Figure 16. Takaful Risk Dashboard



1. No risk at all; 2. Low risk; 3. Medium risk; 4. High risk; 5. Extremely risk

Pricing risk increases pressure, but it also encourages innovation

Pricing risk has been identified as the third top risk by global Takaful companies. Most respondents have rated pricing risk as very significant and have expressed that they often have a focused plan to monitor their pricing strategies. Although some companies operate within regulated price environments for at least some lines of business, in general they consider lower pricing to be a result of the competition in the market between companies which negatively affects Takaful contributions of all companies collectively. Some propose to address this risk through disciplined underwriting across their whole operations. Another, in Sub-Saharan Africa, saw the development of distinctive and economic products as a key contribution to the problem.

A Takaful company in Sub-Saharan Africa opines that high competition in the market has already pressed some of the existing conventional insurers into behaving unethically (in the respondent's view), such as by rate cutting (pricing the products very low), posing a challenge for other market players to appropriately price their products. Of course pricing uneconomically cannot be a successful business strategy in the longer run, though it may buy market share in the short run.

For Takaful operators, remaining viable in the longer run requires that the contribution they charge is appropriate to cover the risk posed, but no higher than necessary. These companies will have an incentive to 'risk price' as much as possible, using more and increasingly sophisticated rating factors so that they can accurately predict the probability of a claim, and the likely cost of that claim. In addition, risk pricing will encourage Takaful companies to innovate as they seek newer propositions to help them compete more effectively on price and product. For example, when Takaful companies can accurately assess a particular risk, such as where a home is located or where a car is garaged, they can price the policy contribution according to the risk that location actually represents. There are, however, tensions between detailed and accurate underwriting and a straightforward sales process. And if overall market levels are uneconomic, companies may have to forego business rather than pricing it at loss-making levels.

Risk pricing will encourage Takaful companies to innovate as they seek newer propositions to help them compete more effectively on price and product.

Mitigating credit risk is important

Credit risk has been highlighted as among the top risks that Takaful companies think they need to mitigate actively. Takaful companies also face counterparty risk in terms of their investments, particularly in situations when more market players turn to high-risk assets in search of higher yields and better investment returns. They also have credit risk from any outstanding payments due from retakaful/reinsurance, and may extend credit to their customers.

A GCC respondent recommended having a more disciplined approach by implementing a tight credit control. It also suggested that a sound enterprise risk management (ERM) regime implementation would go a long way in addressing credit risk. Similarly, a Middle Eastern respondent outside the GCC said it practises a thorough analysis of customer positions before contracting, together with applying an intense credit policy. A South East Asian Retakaful company opines that improved operational process and controls in line with regular updates will help mitigate credit risk.

Technology and IT Security risk is a prominent risk for most Takaful companies

The Takaful sector among others has been exposed to technology risk in recent years, and technology and IT security risk emerged in fifth place overall. A company in the GCC commented that "Technology and IT security risks are high on the agenda of most financial institutions. Our company applies latest technology in terms of firewalls and monitoring tools (DLP, Antivirus...) and does periodic penetration testing and vulnerability assessment exercises including external audits." A company in West, Central and South Asia said that it "has set up a database centre for security concerns and is heavily investing on IT for high-end infrastructure." A company in North Africa said that it is undertaking limited strengthening of the existing insurance systems and continues to raise the capacity of staff working and keep updated with the technical development of this area in terms of programs and technical infrastructure.

Credit risk has been highlighted as among the top risks that Takaful companies think they need to mitigate actively.

Table 3. Geographical breakdown of top 3 Risks

Geographical breakdown of top 3 Risks*		
Group	**Top Concerns**	**Score**
Group 1 GCC	▶ Market (price changes) risk	3.67
	▶ Takaful market stagnation risk (i.e. no growth opportunities)	3.58
	▶ Credit risk (i.e. a counterparty fails to meet its obligations)	3.50
Group 2 Middle East ex-GCC	▶ Market (price changes) risk	3.75
	▶ Takaful market stagnation risk (i.e. no growth opportunities)	3.38
	▶ Credit risk (i.e. a counterparty fails to meet its obligations)	3.25
Group 3 South East Asia	▶ Shariah non-compliance risk	3.86
	▶ Reputational risk	3.86
	▶ Underwriting risk	3.71
	▶ Takaful market stagnation risk (i.e. no growth opportunities)	3.71
	▶ Technology and IT Security risk	3.71
	▶ Pricing risk	3.71
Group 4 West, Central, and South Asia	▶ Underwriting risk	3.80
	▶ Pricing risk	3.80
	▶ Overpayment of claims risk	3.40
Group 5 North Africa	▶ Takaful market stagnation risk (i.e. no growth opportunities)	3.82
	▶ Market (price changes) risk	3.36
	▶ Technology and IT Security risk	3.36
Group 6 Sub-Saharan Africa	▶ Market (price changes) risk	3.80
	▶ Expense risk for the Takaful operator	3.60
	▶ Investment concentration risk	3.60
	▶ Regulatory risk	3.60
Group 7 Europe, Turkey and others	▶ Takaful market stagnation risk (i.e. no growth opportunities)	3.71
	▶ Segregation of funds risk	3.57
	▶ Regulatory risk	3.57
	▶ Reputational risk	3.57
Global	▶ Market (price changes) risk	3.53
	▶ Takaful market stagnation risk (i.e. no growth opportunities)	3.49
	▶ Pricing risk	3.24

*For every group, the top three risks are identified, including all risks with the same score, even if that means that more than three are listed in total.

There are significant regional divergences

There are some interesting differences between regions. Shariah non-compliance risk and reputational risk score high in South East Asia, but relatively low elsewhere. Unfortunately the comments shed little light on why this may be the case. In West, Central and South Asia, the typical insurance risks of underwriting, pricing and overpayment of claims top the list. There is evidence from the comments that firms feel under pressure to pay claims quickly, perhaps without adequate time to validate them. In Sub-Saharan Africa expenses and investment concentration risk loom large. The latter appears, from evidence elsewhere in the survey, to be the result of limited availability of Shariah compliant investments. The former may be the result of relatively new and small companies trying to establish a presence in highly competitive markets.

There are some interesting differences between regions. Shariah non-compliance risk and reputational risk score high in South East Asia, but relatively low elsewhere.

PART III

CIBAFI Takaful Growth Monitor

PART III. CIBAFI Takaful Growth Monitor

This Part of the report sets out what respondents identified as key drivers of growth in their businesses over the next few years, how they hope to implement these drivers, and the major challenges they see. It also looks in more detail at some key areas for Takaful business in the future, including technology, regulation and Microtakaful.

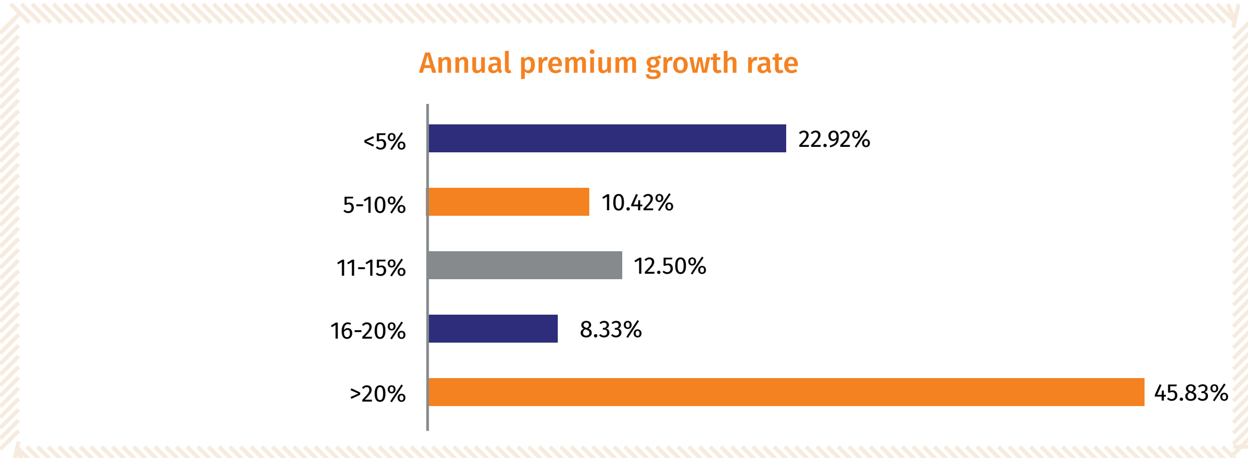
Growth is critical for Takaful, because the data at the beginning of the report expose the relatively small size of most Takaful companies. Because of this, their ability to retain risk is limited, and small size may also contribute to some of the high expense ratios which appear. In addition, it is clear from comments that some Takaful companies see themselves as in a relatively weak position as compared with their conventional counterparts, and lacking influence over the development of their local markets.

Almost half the respondents expected growth of more than 20%, while just under a quarter expected less than 5%.

Strong growth in Africa and Europe; much weaker in the Middle East and SE Asia

Respondents were asked about their annual premium growth (current year compared with last year). This revealed a sharply polarised response. Almost half the respondents expected growth of more than 20%, while just under a quarter expected less than 5%.

Figure 17. Annual premium growth rate



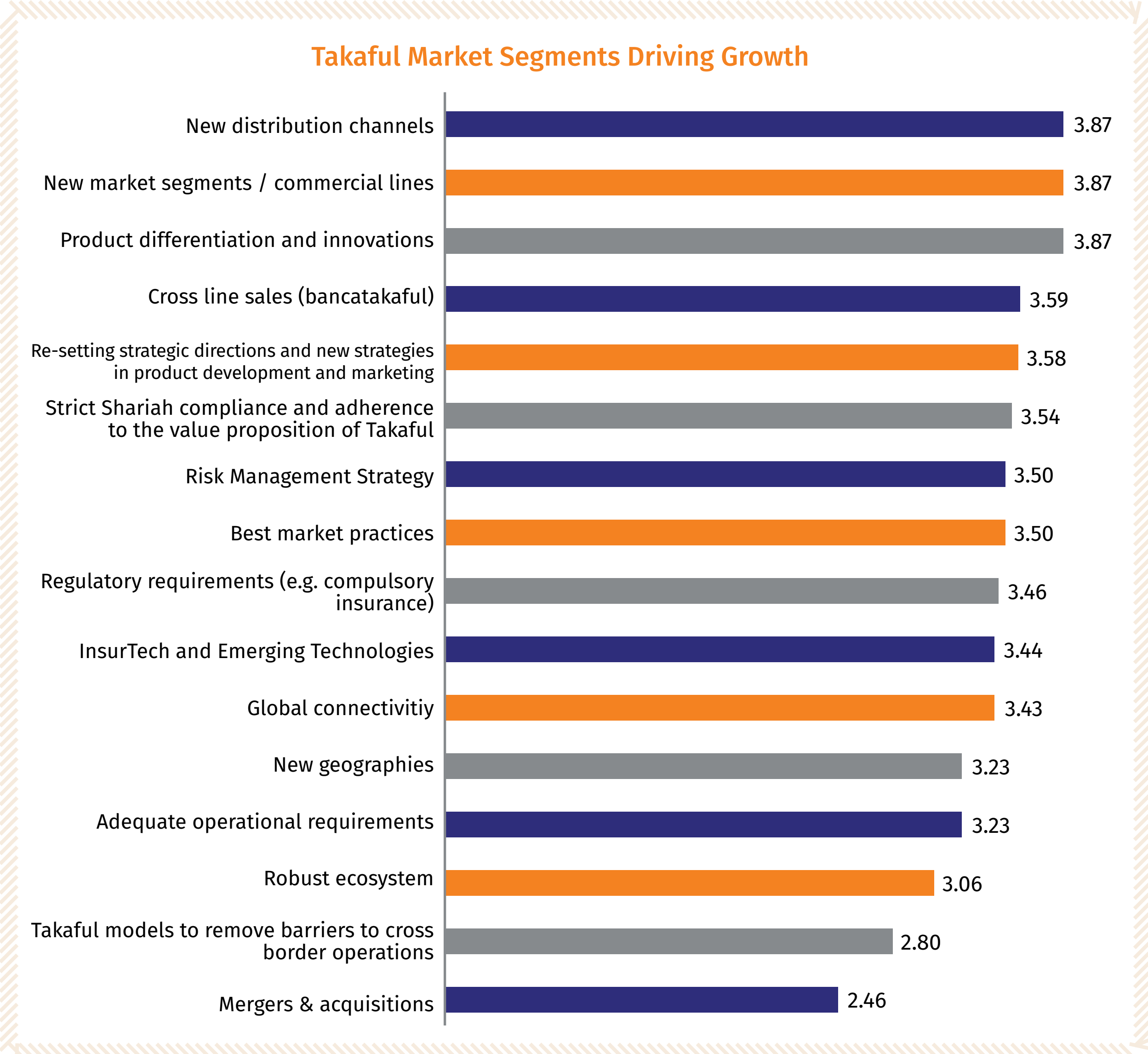
The bare figures, however, disguise large regional differences. The areas in which very strong growth was expected were dominantly Group 5: North Africa, Group 6: Sub Saharan Africa and Group 7: Europe, Turkey, USA and others, while the areas of low growth were Group 1: GCC, Group 2: Middle East ex. GCC, and South East Asia. Economic factors, especially low oil prices, may well be a factor here, but another is likely to be that the high-growth regions are for the most part newer markets for Takaful, where growth is easier to achieve than in more mature markets. It follows also that overall industry growth is likely to be slower than these figures might at first sight suggest, because it is the larger markets that are growing more slowly.

'New distribution channels', 'new market segments/commercial lines' and 'product differentiation and innovation' have the highest scores, while 'mergers and acquisitions' and 'Takaful models to remove barriers to cross border operations' have the lowest.

Business drivers will be new products, market segments and distribution channels

Respondents were asked to rate the importance of 16 business factors in driving revenue growth over the next 1-3 years, with a score of 1 meaning 'Not important at all' and 5 meaning 'Extremely Important'. The scores are relatively clustered, but 'new distribution channels', 'new market segments/commercial lines' and 'product differentiation and innovation' have the highest scores, while 'mergers and acquisitions' and 'Takaful models to remove barriers to cross border operations' have the lowest. (A later question explored the issue of distribution in more detail.) Overall, the data suggest that firms are looking primarily to organic growth in their own markets rather than to large strategic moves like mergers, acquisitions and cross-border expansion.

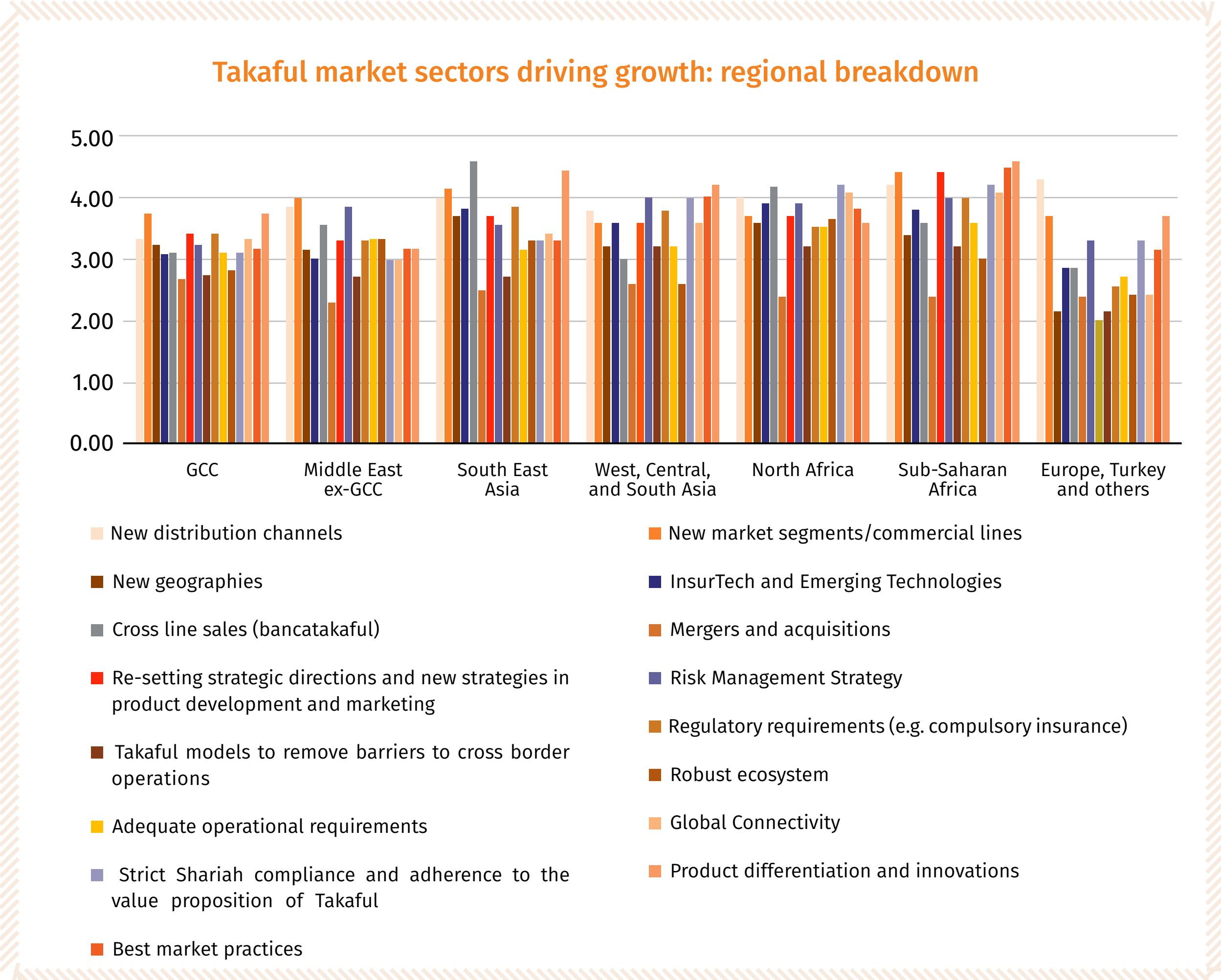
Figure 18. Takaful Market Segments Driving Growth



Bancatakaful ranked high in Group 4: South East Asia and Group 5: North Africa, but notably low in Group 3: West, Central and South Asia. This may reflect different traditions for the role of banks in society.

There were some interesting differences between geographies. The African and Asian groups (Groups 3, 4, 5 and 6) gave generally higher scores than the Middle Eastern and European groups (Groups 1, 2 and 7), suggesting perhaps that they are more focused on growth. The two lowest scoring items were consistently low ranking across all geographies, and 'new market segments', 'product differentiation and innovation' and 'new distribution channels' consistently ranked high or middling. However, Bancatakaful ranked high in Group 4: South East Asia and Group 5: North Africa, but notably low in Group 3: West, Central and South Asia. This may reflect different traditions for the role of banks in society. Strict Shariah compliance ranked very high in West, Central and South Asia and North Africa, but low in both Middle Eastern groups and in South East Asia. A reason for this may be that in newer regions it is more important to establish the difference between Takaful and conventional insurance. But it also appears from some of the comments made that the creation of Shariah compliance systems is more difficult in areas without a developed Islamic finance industry. Risk management strategy, which generally had a high or middling ranking was the lowest ranking item in Group 7.

Figure 19. Takaful market sectors driving growth: regional breakdown



Respondents were asked to describe the two key growth drivers that they had identified and to describe initiatives or strategies to implement these. This led to some interesting further insights into some of the rankings.

Several respondents commented on the potential of new technology. One, from the GCC, summarised it as follows: "Reducing Risk – The more data you have, the more accurately you can assess risk and then address that risk. It's not just about accurately assessing premiums either there's a substantial reduction in fraud possible with better data. Growth – Data also drives growth. You can highlight market segments with the highest level of opportunity and gauge the potential for innovative products. Service Delivery – Reducing costs and improving the overall customer experience is essential to any retention strategy. Insurance brokers are going to be putting a lot of effort into ensuring that their choice of insurance software comes with a genuine return on investment in this area." Another, from West, Central and South Asia, said "The world is changing at a rate faster than our imagination and using technology to meet these challenges is the only possible solution. Our company is spending a lot in terms of making the latest technologies available for our employees so that they can remain abreast with the changes happening around them."

On product differentiation and innovation, some respondents saw this as a general competitive issue. For example, one (in West, Central and South Asia) said "Currently almost all the competitors are marketing similar me-too kind of products and with increasing awareness … clients are also becoming indifferent in choosing these products. Differentiation and innovation have thus become a necessity more than a choice." However, another (from the GCC) saw a specific need to lift the level of Takaful product offerings to match those of conventional products, while highlighting the other benefits specific to Shariah compliant products.

Several respondents commented on Bancatakaful, viewing it as a distribution channel with potential for cross-sales, based on the banks' relationships with a large customer base. However one, from North Africa, also made the point that Takaful policies could be used to support the banks' business by ensuring the repayment of finance advanced by them. Another commented that it is easier to get payment of regular premium instalments on time when the participant is a bank customer.

Two retakaful companies commented on Shariah compliance from a different standpoint to others. Their concern was to reduce the use by Takaful operators of conventional reinsurers, though one also saw the need to extend the retakaful industry's offerings to support this.

Distribution channels to drive growth will be direct marketing, Bancatakaful and brokers

The issues of distribution, already discussed in Part I, were explored in more detail through a targeted question as to the importance of different channels in driving revenue growth over the next 5 years. The strongest drivers were expected to be direct (face-to-face) marketing, Bancatakaful and

> The strongest drivers were expected to be direct (face-to-face) marketing, Bancatakaful and brokers. However, corporate and retail agencies are expected to be important in particular regions.

brokers. However, corporate and retail agencies are expected to be important in particular regions. This fits with the insights gained from comments in Part I, that many companies see a pressing need to improve distribution, but the preferred approaches to doing so vary considerably. Successful approaches will depend substantially on the nature of the business, with pure protection products, investment products and Retakaful all having distinctive features. But they will depend also on the nature of the local market, including the extent to which customers use technology to buy cover, the extent to which they rely on banks for financial advice, and the geographical dispersion of the target population.

In addition, there will be an interaction between the distribution approach and underwriting strategy. Broadly speaking, precise assessment of risk is easier when there can be detailed interaction between the Takaful company's staff and the prospective customer, and products intended to be sold through non-specialists (for example bank staff) tend to be underwritten more simply. Of course one potential gain from data analytical technology is the possibility of changing this interaction by making use of broader pools of data not necessarily gathered specifically for underwriting purposes.

> Precise assessment of risk is easier when there can be detailed interaction between the Takaful company's staff and the prospective customer.

Figure 20. Distribution channels driving growth

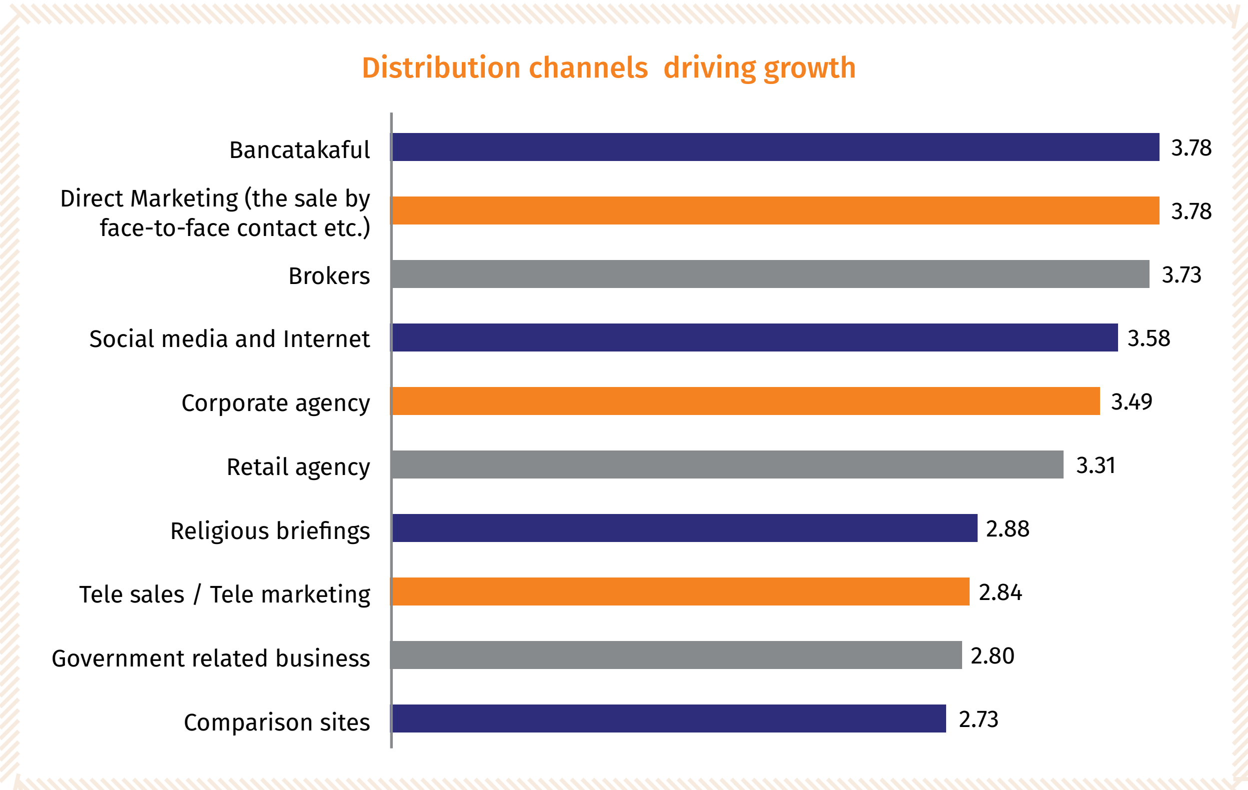
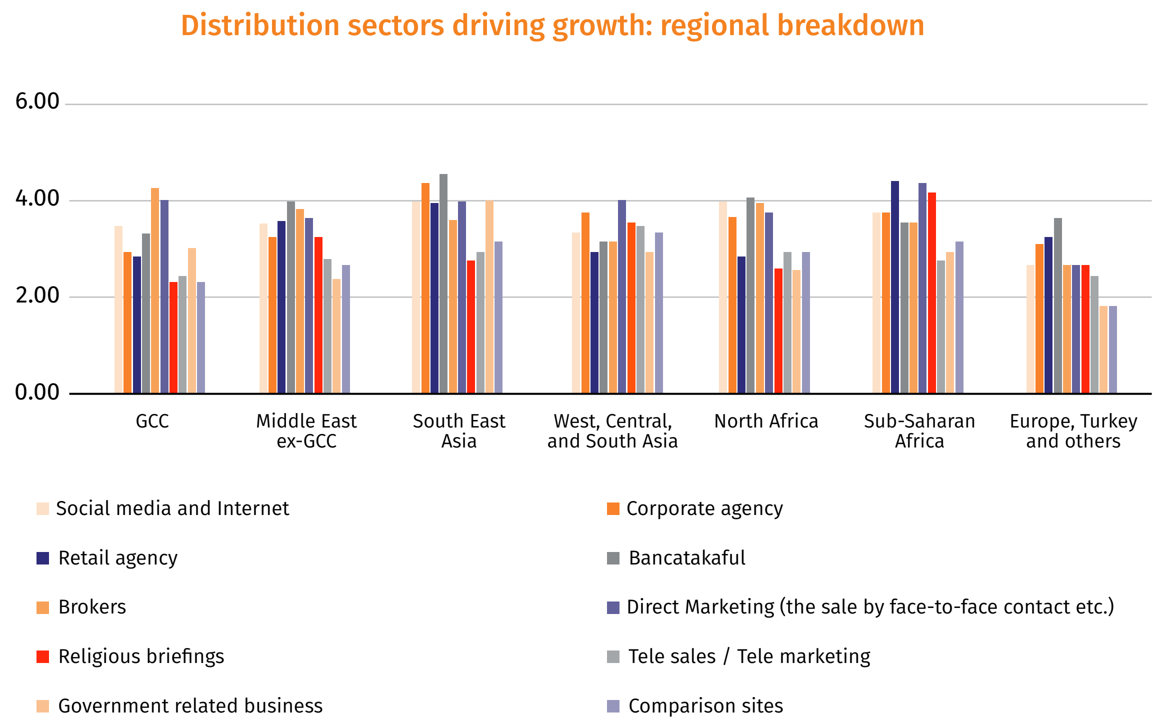


Figure 21. Distribution sectors driving growth: regional breakdown



For family Takaful, investment and protection products will be equally important; general Takaful will be dominated by personal lines

A similar question was asked about the importance of particular Takaful products in driving growth. The answers here of course need to be treated with some caution, because a general Takaful company will not expect its growth to be driven by family Takaful products, and vice versa, while mixed 'bouquet' business is generally characteristic of retakaful rather than direct business.

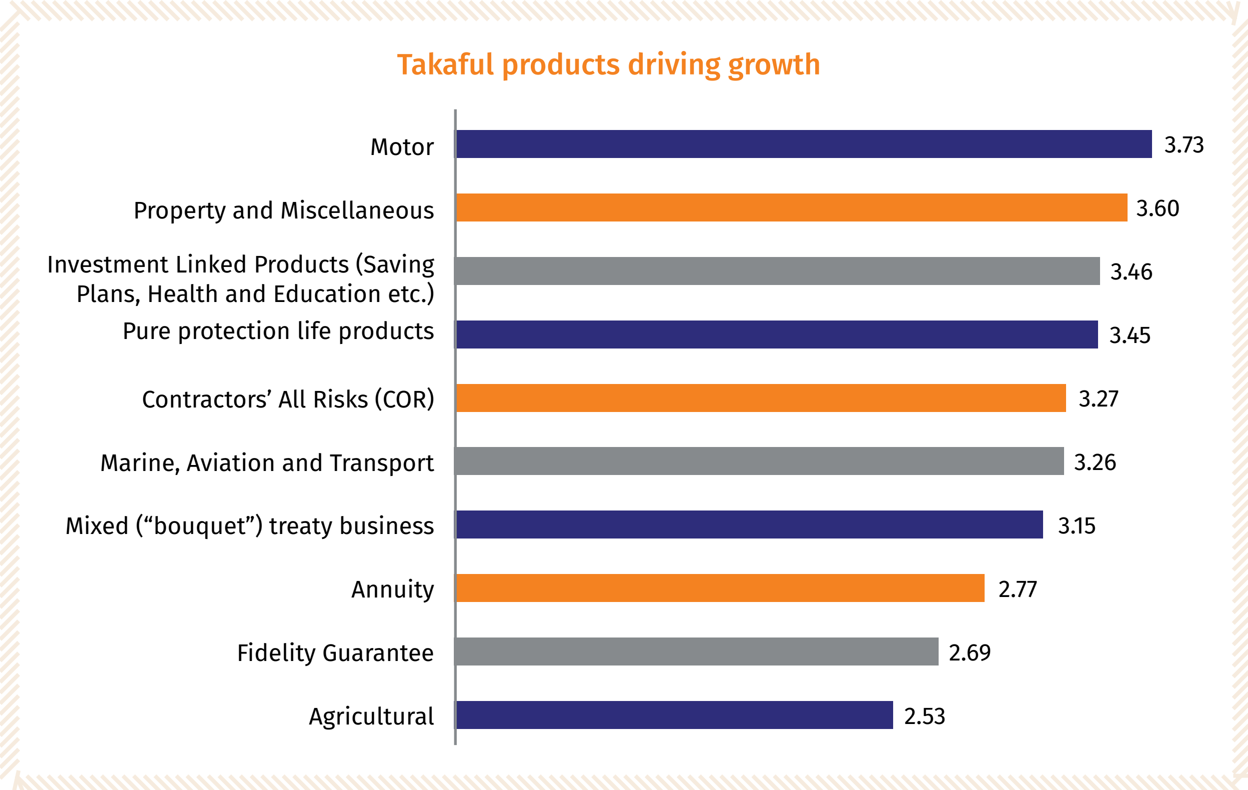
Among life products, investment and pure protection products seem to rank roughly equally, with annuities well behind.

Among life products, investment and pure protection products seem to rank roughly equally, with annuities well behind. This is hardly surprising, since annuities can be difficult to structure in a Shariah compliant way.

Takaful has in general focused more on personal than commercial lines, though marine, aviation and transport features strongly in the Middle East (ex. GCC) and relatively strongly in some other regions.

Among general products, motor and property are expected to be the main drivers, reflecting the fact that Takaful has in general focused more on personal than commercial lines, though marine, aviation and transport features strongly in the Middle East (ex. GCC) and relatively strongly in some other regions.

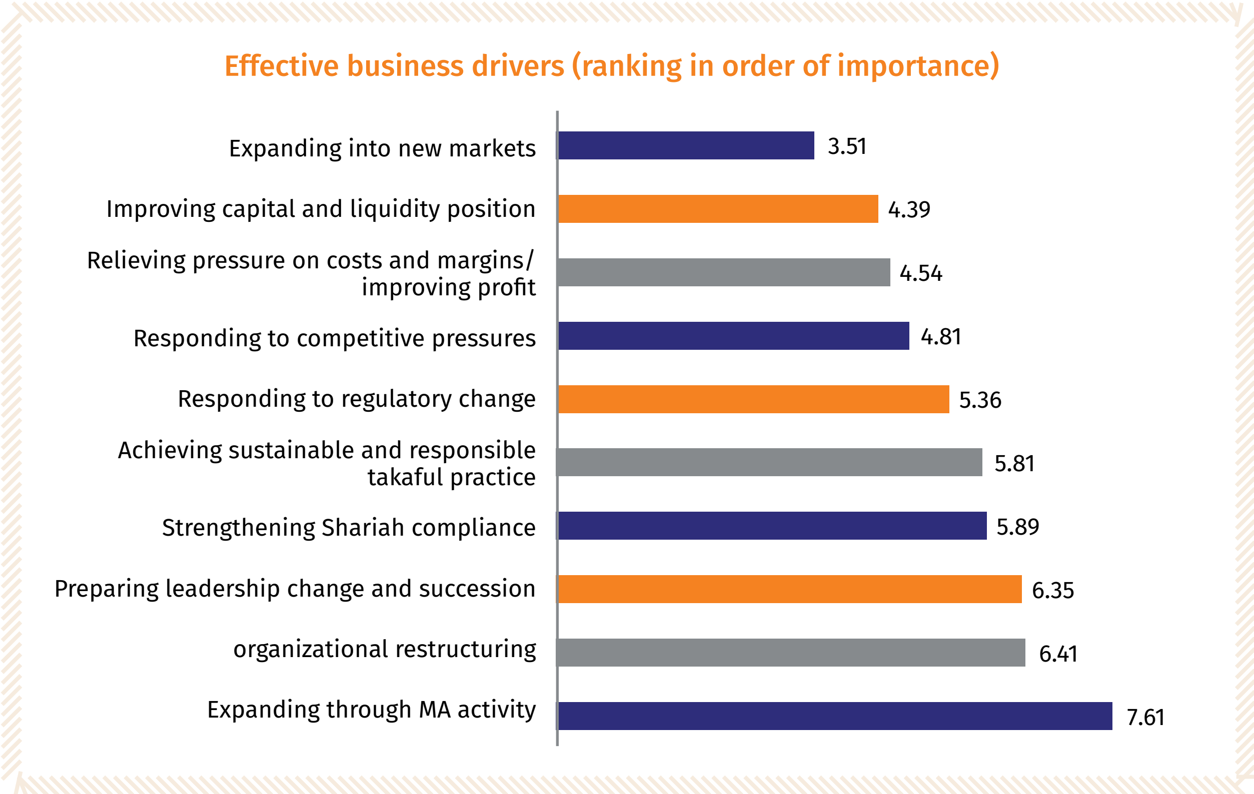
Figure 22. Takaful products driving growth



Expansion into new markets is a priority, as are capital, liquidity and profitability

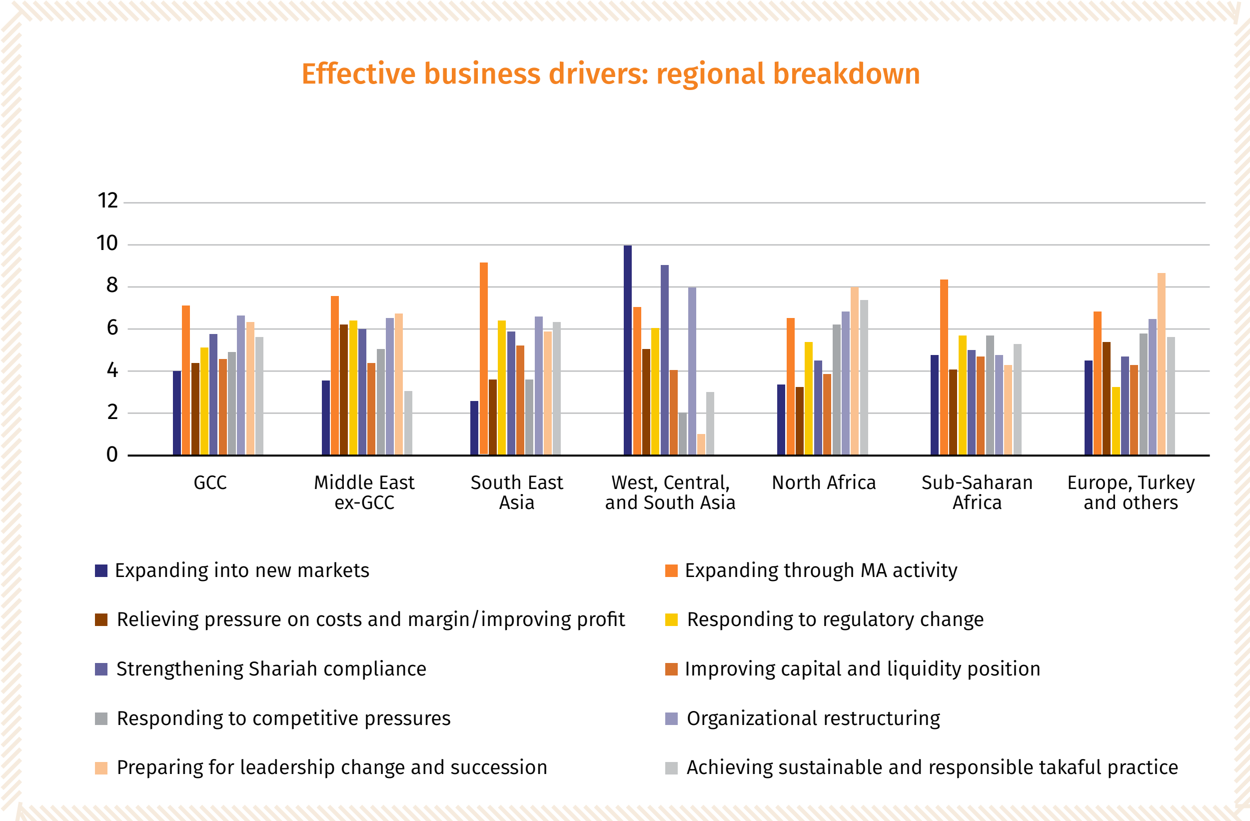
The next question asked respondents to rank in order certain business drivers, primarily concerned with the strategic and managerial actions that the business itself could take. (In this case, therefore, the figures in the charts represent the average ranking, from 1-10, with a high number indicating a low ranking.)

Figure 23. Effective business drivers (ranking in order of importance)



The highest priority was expanding into new markets, followed by improving the capital and liquidity position, and improving profitability. M&A activity was clearly bottom of the list, followed by organizational restructuring and succession planning.

Figure 24. Effective business drivers: regional breakdown

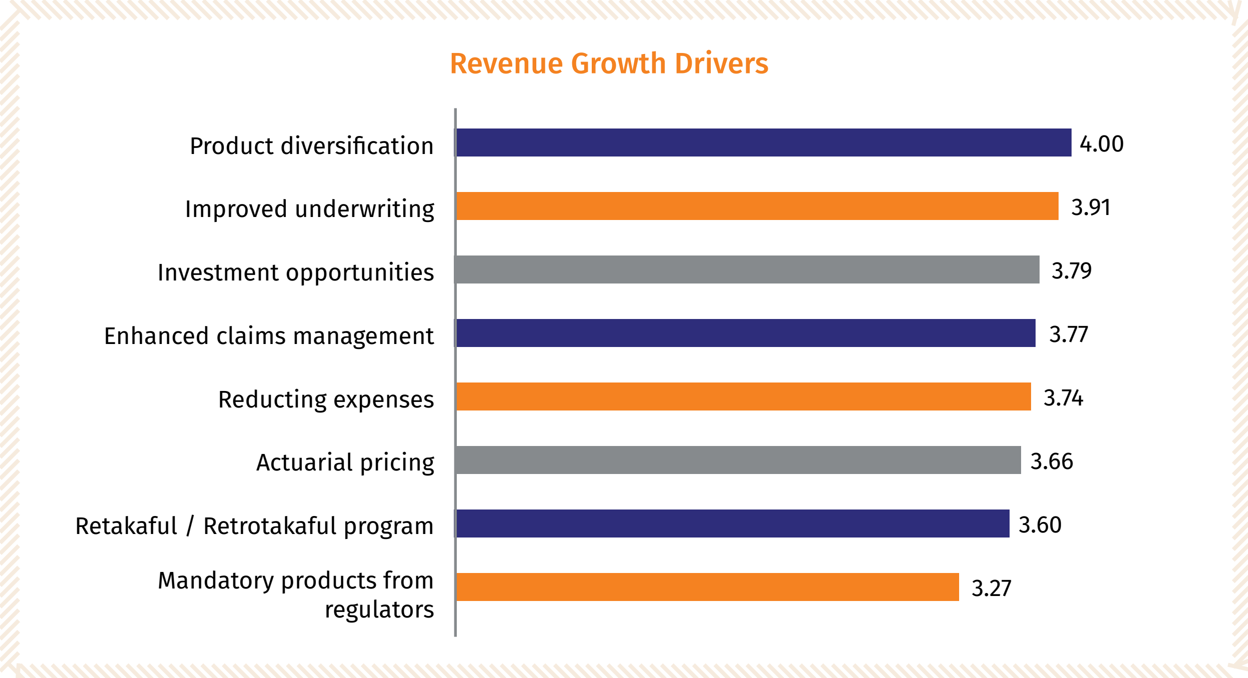


There were considerable regional variations here, though the data must be approached with caution, because the number of respondents to this question in some regions was small. Particularly noticeable here is the high priority attached in Group 7: Europe etc. to responding to regulatory change, in contrast to its relatively low priority elsewhere. This may reflect the influence of the new Solvency 2 regime in the EU, which has had a major impact on insurers both conventional and Islamic.

Product diversification and improved underwriting are the top operational priorities for growth

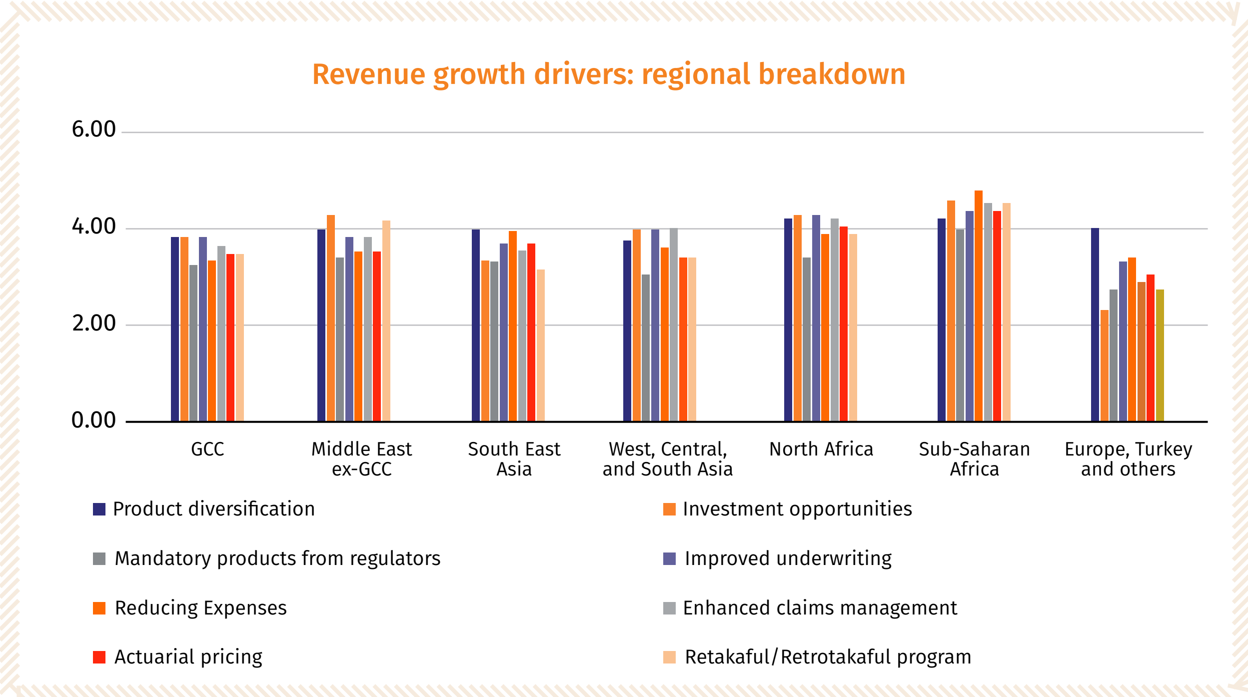
Respondents were also asked to assess (on the earlier scale from 1 (low) to 5 (high)) the importance of certain drivers specific to the Takaful business. These drivers were fairly closely clustered, with product diversification and improved underwriting top of the list and mandatory products (e.g. compulsory motor or health insurance) clearly bottom.

Figure 25. Revenue Growth Drivers



Once again, however, there were important regional variations.

Figure 26. Revenue growth drivers: regional breakdown



There were no major differences in the priorities within regions, though in general those in the Middle East and Europe etc. saw technology overall as a less important driver than those in Asia and Africa.

It appears, particularly from some of the write-in comments, that it is the application of big data to underwrite and price risk, rather than its use in marketing, that respondents see as most important.

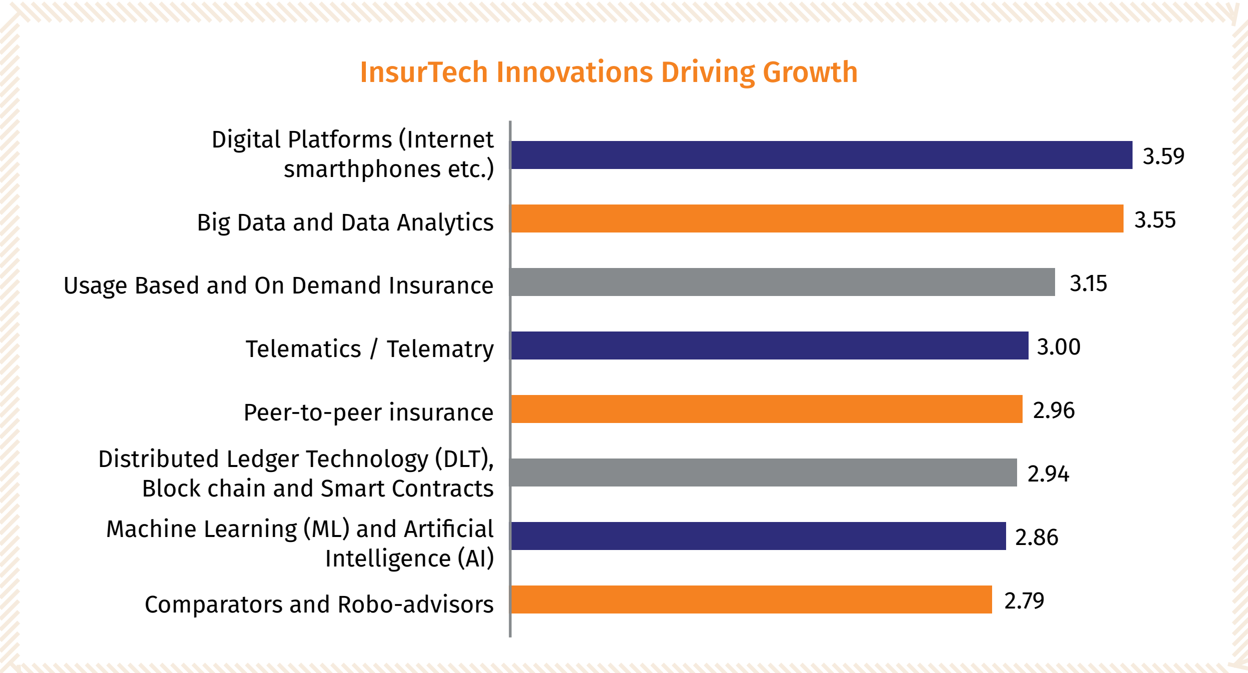
For example, investment opportunities ranked high in five of the seven Groups, but low in West, Central and South Asia and in Europe etc. Retakaful/Retrotakaful ranked high in the Middle East ex. GCC and in Sub Saharan Africa, but low or middling in the other Groups. This suggests that there may be a shortage of capacity in some regions but not in others. Perhaps most interestingly, reducing expenses was high in the priorities for firms in Group 3, Group 6 and Group 7, but relatively low in Group 1, Group 2 and Group 5, though it is hard to suggest any common factors that may explain this.

Technology will be used to strengthen customer interactions – data and digital platforms will be the key

The survey also asked about technology as a growth driver, and the main focus of the firms in implementing it. The highest priorities were digital platforms and big data, in line with some of the comments reported earlier. There were no major differences in the priorities within regions, though in general those in the Middle East and Europe etc. saw technology overall as a less important driver than those in Asia and Africa.

The emphasis on big data and data analytics is consistent with evidence from earlier in the survey, and suggests that some firms at least see the possibility to use these technologies to underwrite and price risk more precisely. This will be important to underwrite profitably in highly competitive markets, without making the point of sale experience of the customer unduly demanding. It appears, particularly from some of the write-in comments, that it is this application of big data, rather than its use in marketing, that respondents see as most important.

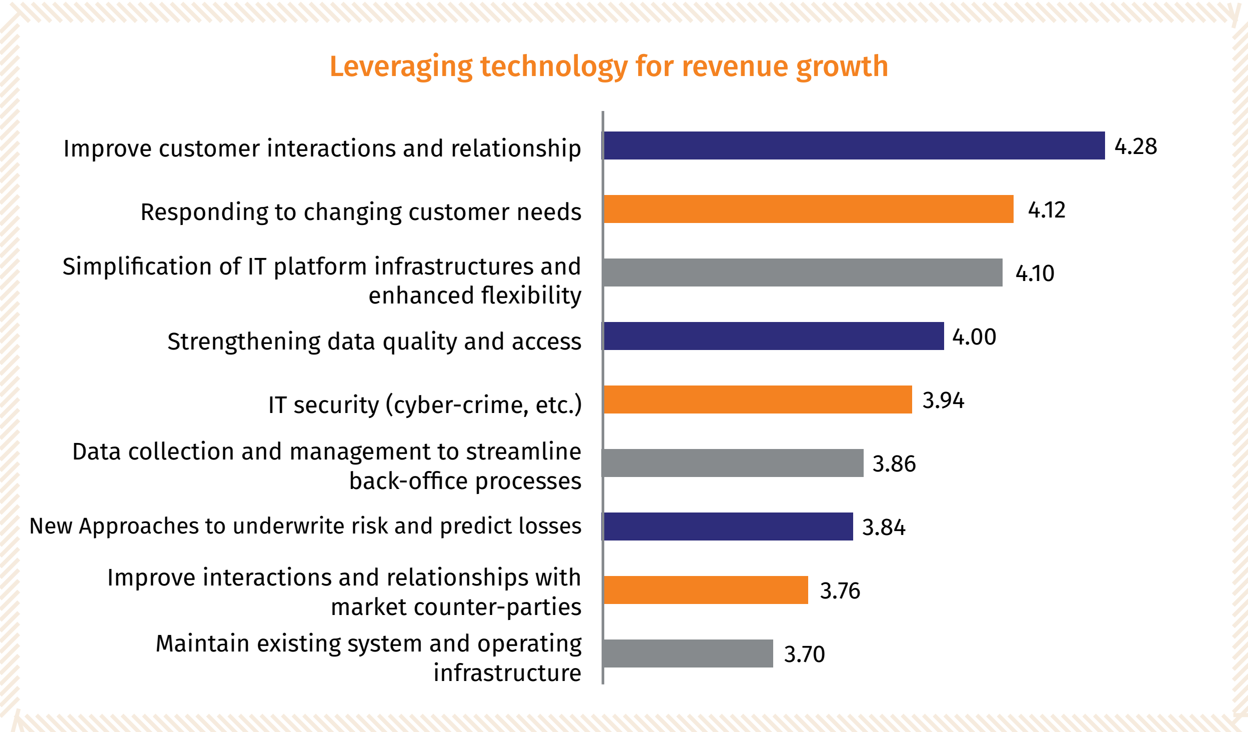
Figure 27. InsurTech Innovations Driving Growth



As to the level of focus on particular technology applications over the next 1-3 years, the priorities were very much customer-centred, followed by simplification of IT infrastructures. The customer-centred applications tended to be dominant in the Middle East in particular, and infrastructure and data quality in Africa, perhaps reflecting the fact that firms in Africa are at an earlier stage of their development and therefore have more to do to build their infrastructures. It may be also that their clients do not have as strong an expectation as those in other regions of being able to interact with their insurers through the internet.

Issues around technology and its impact on the Takaful industry are discussed at greater length in Part IV.

Figure 28. Leveraging technology for revenue growth



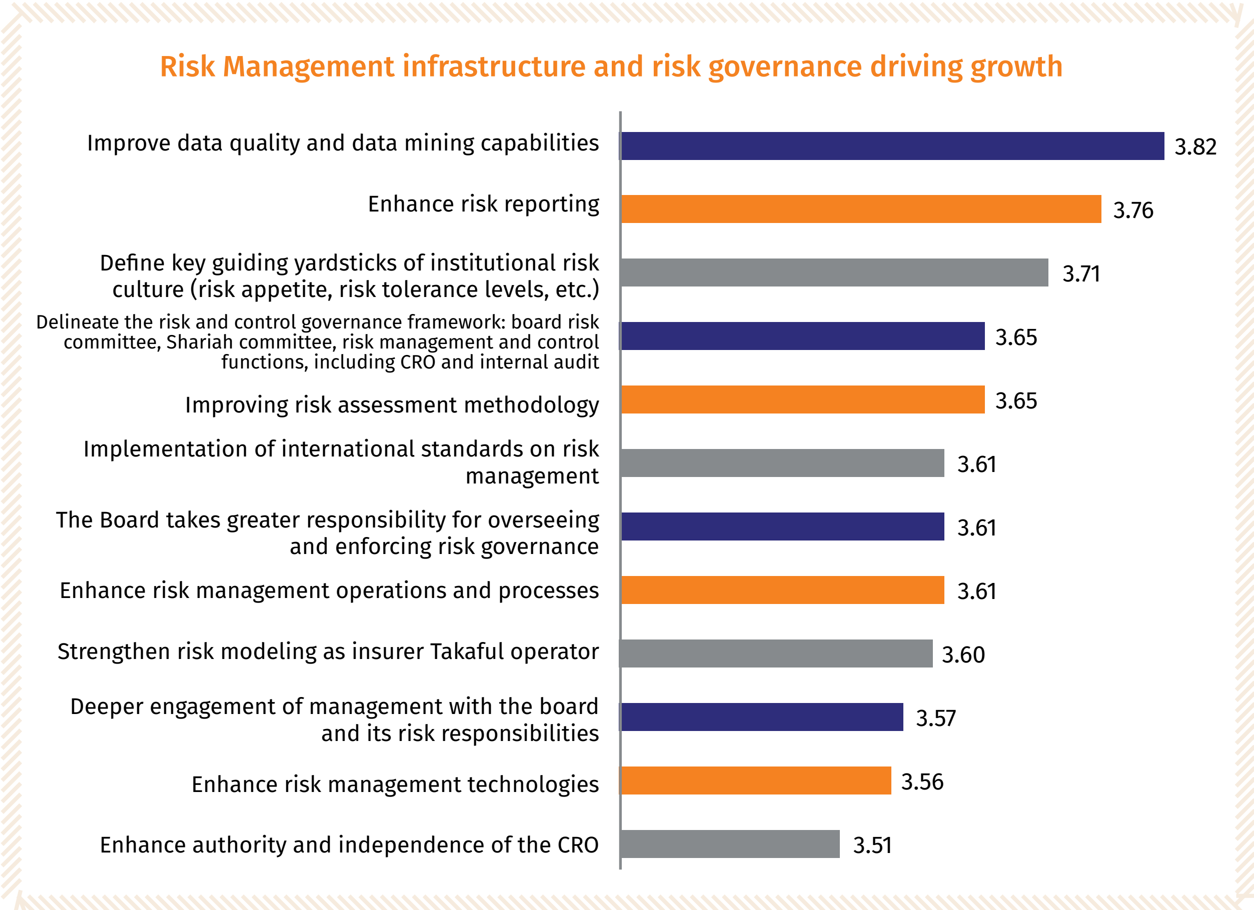
Priorities for risk management are largely data-driven

Risk management is critical to any business, but is at the core of the business in Takaful. Regulators increasingly expect a high standard of risk governance from the Board downwards, supported by an effective management infrastructure. When asked about aspects of risk management as drivers of revenue growth, respondents placed the highest priority on data quality and risk reporting, followed by defining key yardsticks such as risk appetite. Aspects concerned with the role of the Board, its engagement with management and the role of the

Regulators increasingly expect a high standard of risk governance from the Board downwards, supported by an effective management infrastructure.

Chief Risk Officer (CRO) received lower priority. There are interesting echoes here of some of the findings of a study of corporate governance in Islamic banks, recently published by CIBAFI and the World Bank. The data in relation to Takaful do not allow us to go behind what is reported here, so we do not know, for example, how far CROs exist at all, or what their current status is. However, it is interesting that the role of the Board and the risk governance framework were the highest priorities for firms in the GCC.

Figure 29. Risk Management infrastructure and risk governance driving growth



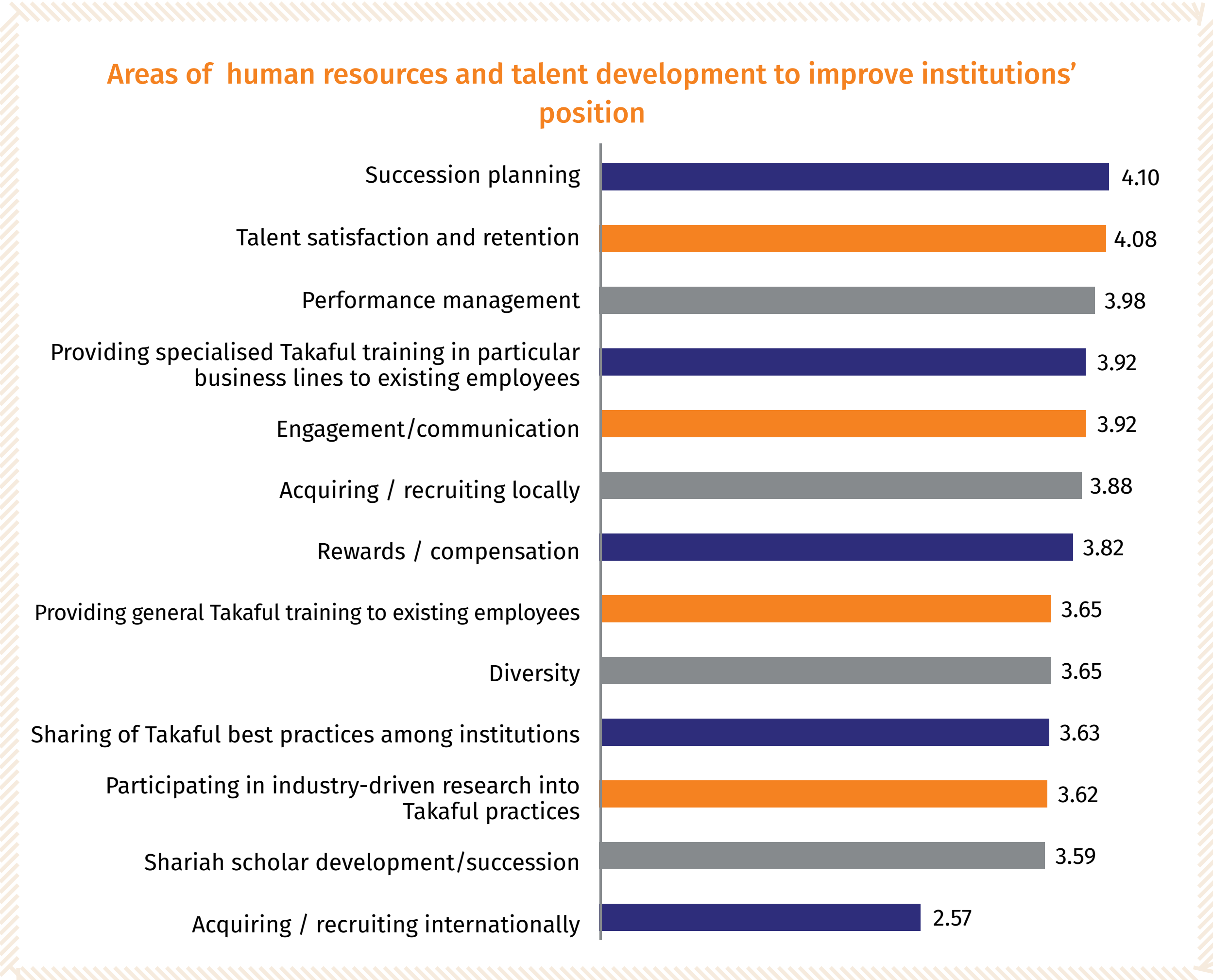
In human resources and talent development, the focus is on satisfaction, retention, performance management and succession planning

Respondents were asked about the importance of certain areas of human resources and talent development in improving their competitive positioning over the next 3 years. In general most areas scored broadly similarly, except that international recruitment was of limited interest to most firms, who saw themselves recruiting mainly in local markets.

This is despite the fact that the level and quality of resources locally emerged as a concern in some earlier parts of the survey but fits with the generally local focus seen in other parts of the survey. Actions involving engagement outside the business, such as the development of Shariah scholars, participating in research, and sharing of best practices between institutions also received low scores.

A conclusion that seems to emerge from this is that, especially in areas where Takaful is only a nascent sector, there are real resource issues, both in Takaful undertakings and in regulators. In some cases the areas of weakness include Shariah scholarship. Although companies can fill part of the gap by training their own employees, they cannot be expected to resource the market as a whole. It is likely that regulators or other national bodies will need to take action to support training. The development of local Shariah scholarship is likely to be a particular issue, given the time it takes to develop a scholar to the point where he or she can credibly sit on a Shariah Board in a specialist area such as this.

Figure 30. Areas of human resources and talent development to improve institutions' position



Traditional customer service and product offerings are more important than digitization

When asked about areas of customer centricity, respondents overall tended to focus on traditional client service and broadening product offerings, which has already been expressed as a priority from other perspectives. Digitization and multi-channel customer management received lower priority. However, in Africa and South East Asia, Takaful awareness and consumer education emerged as relatively high priorities, again reflecting the fact that these are largely emerging markets for Takaful.

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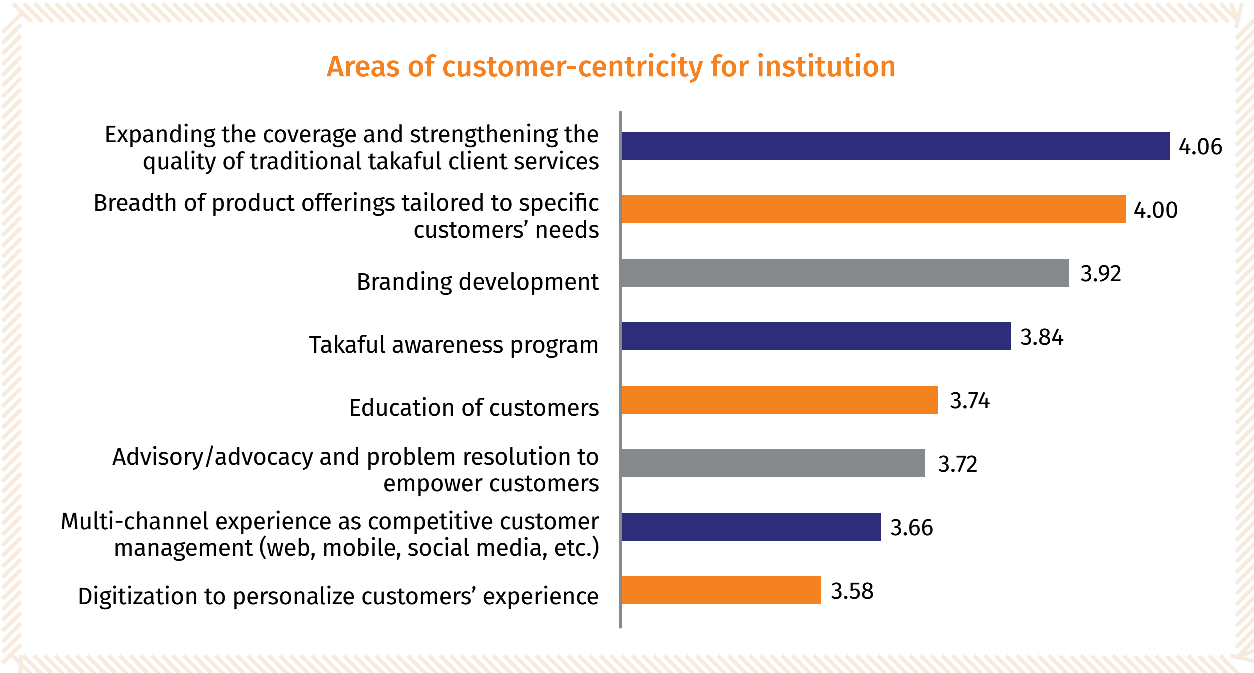
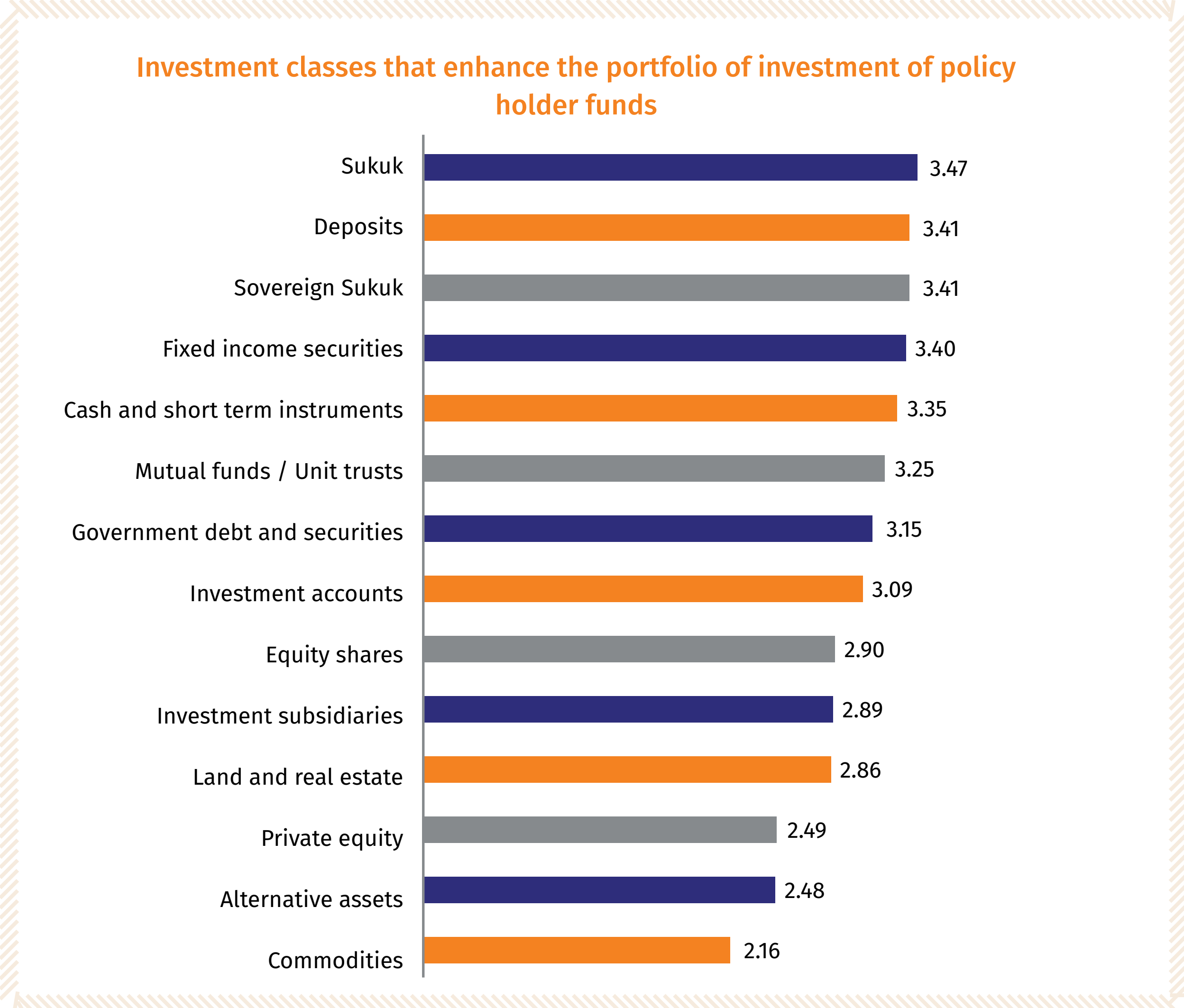
Figure 31. Areas of customer-centricity for institution



There are real difficulties in finding suitable investments, especially sukuk and Shariah compliant equities

Several questions were asked about types of investment and asset allocation. Asked about the levels of importance of various investment classes for policyholders' funds, respondents emphasised sukuk and other fixed-income instruments and also cash, deposits and short-term instruments. It is difficult to discern marked regional differences, especially since some of the classes overlap.

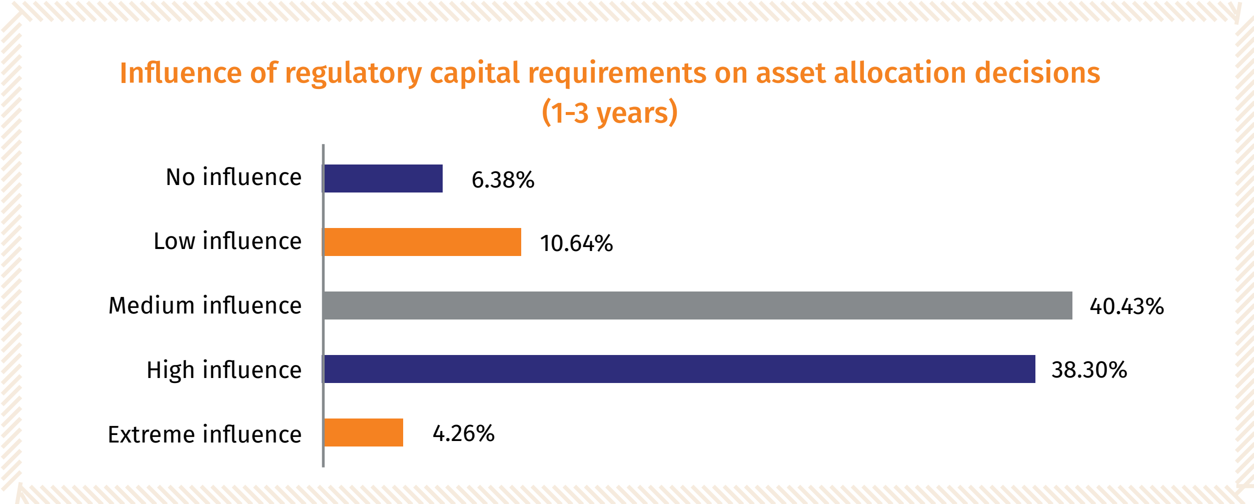
Figure 32. Investment classes that enhance the portfolio of investment of policy holder funds



Respondents expected their asset allocations to be substantially influenced by regulatory capital requirements, presumably reflecting the different insurance/ Takaful regulatory regimes in those regions

There is no universal regulatory approach to investments within either conventional insurance or Takaful. In general, more modern regimes apply risk weightings of some kind, but others instead limit, or even mandate, the proportions of investments that can be of particular kinds. It was clear overall that respondents expected their asset allocations to be substantially influenced by regulatory capital requirements. This was most strongly the case in South East Asia, and least so in Sub Saharan Africa, presumably reflecting the different insurance/Takaful regulatory regimes in those regions. However, one respondent in North Africa did comment specifically that its regulatory regime required pre-defined percentages of investment to be in certain classes, and that this gave it difficulty in locating suitable investments.

Figure 33. Influence of regulatory capital requirements on asset allocation decisions (1-3 years)



A question about firms' investment intentions threw further light on the issues. Two GCC firms emphasised market volatility as reasons for increasing their investments in safe areas such as fixed income securities, deposits and money market instruments. However, family Takaful firms, particularly in Asia, emphasised the longer-term nature of savings products, and therefore planned to invest more in equities and mutual funds.

Several respondents indicated an intention to increase their investments in land and real estate primarily for higher yields to be obtained from such investments, especially in volatile economies.

Several respondents, in a number of geographical regions, indicated an intention to increase their investments in land and real estate. Where they gave reasons, these were primarily concerned with the higher yields to be obtained from such investments, especially in volatile economies. However, land and real estate are themselves volatile asset classes and are also relatively illiquid. This is particularly concerning for general Takaful companies, which may need to mobilise assets quickly, for example in response to a natural disaster.

A few respondents, one in the GCC and two in North Africa, said that they planned to increase investment in their subsidiaries. Since the context of the question was the investment of policyholders' funds, the deployment of these funds in the Takaful operator's own subsidiaries would be of serious concern to many regulators.

It was clear from the volume of responses that firms found considerable difficulty in accessing appropriate Shariah compliant opportunities.

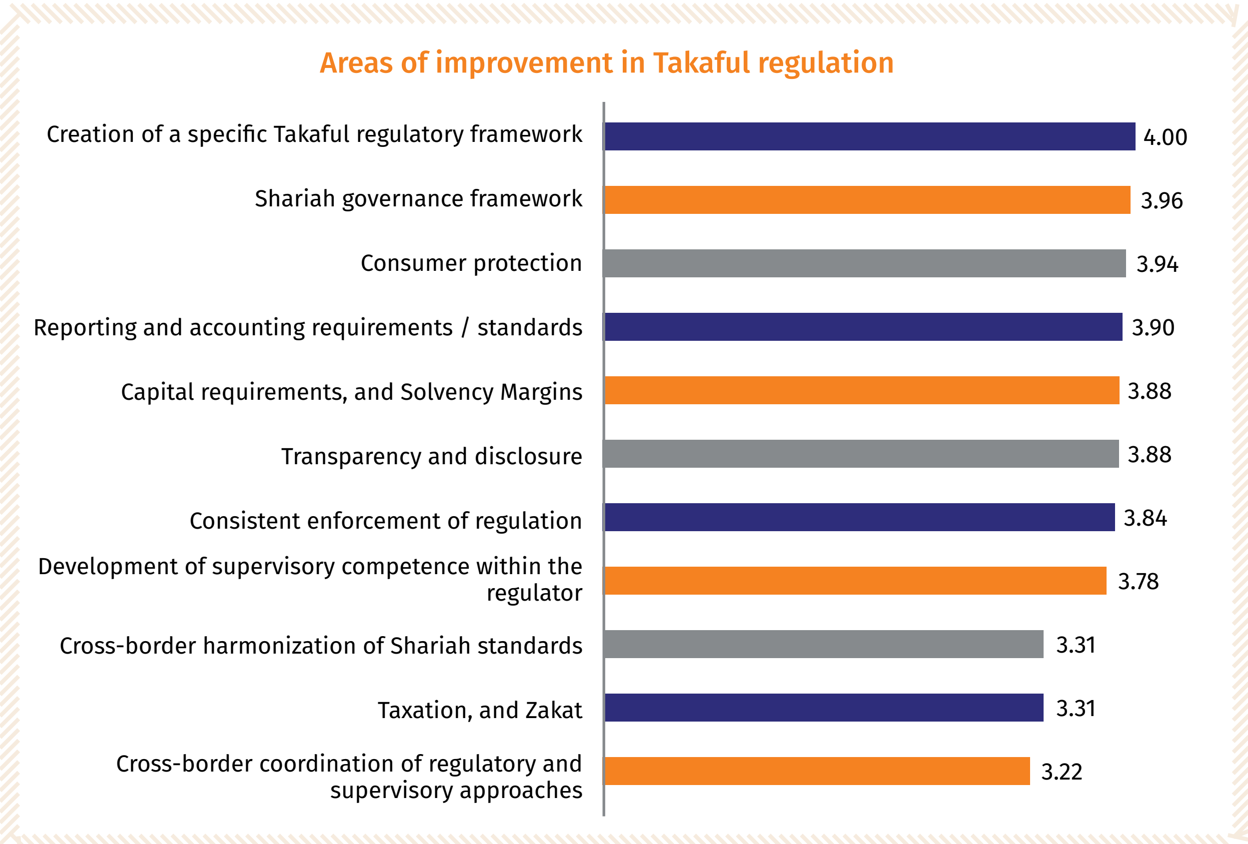
The survey also asked about the difficulties firms faced in finding suitable investments. It was clear from the volume of responses that firms found considerable difficulty in accessing appropriate Shariah compliant opportunities. While in a small number of cases this was attributed to difficult political situations in certain countries, a more general complaint was the shortage of sukuk, or at least adequately rated sukuk, and sukuk in an appropriate currency. Respondents were especially keen to see the issuance of more government sukuk, which are particularly attractive because of their security, their relative liquidity and in some cases currency matching. In addition, where regulatory regimes mandate particular types of investment, government bonds are often among the required classes, and if Islamic equivalents are not available, this impacts on the firm's overall Shariah compliance.

Some respondents were keen to invest more in equities. One, in the GCC, said, "Very few Shariah compliant equities in the region. Fixed-income generating asset classes give a lower return compared with conventional securities. Lack of options in the sukuk space." Another, from West, Central and South Asia, indicated that equities had not been widely enough screened for Shariah compliance (as, for example, a provider of an Islamic index would do). Thus a would-be equity investor needed to undertake the Shariah compliance assessment itself, which reduced the motivation to take up some possibilities.

Domestic regulation is more important than cross-border issues

Turning to regulation more generally, respondents were asked to identify the importance of improvements in various areas within their own jurisdiction. Overall, several areas ranked highly, with little to choose between them. However, the creation of a Takaful-specific regulatory system was the highest-ranked, and came at the top of the rankings in 5 of the 7 regions. Issues of cross-border regulation and harmonization of standards ranked towards the bottom, reinforcing the important perception from earlier questions that most firms are focused primarily on domestic markets.

Figure 34. Areas of improvement in Takaful regulation

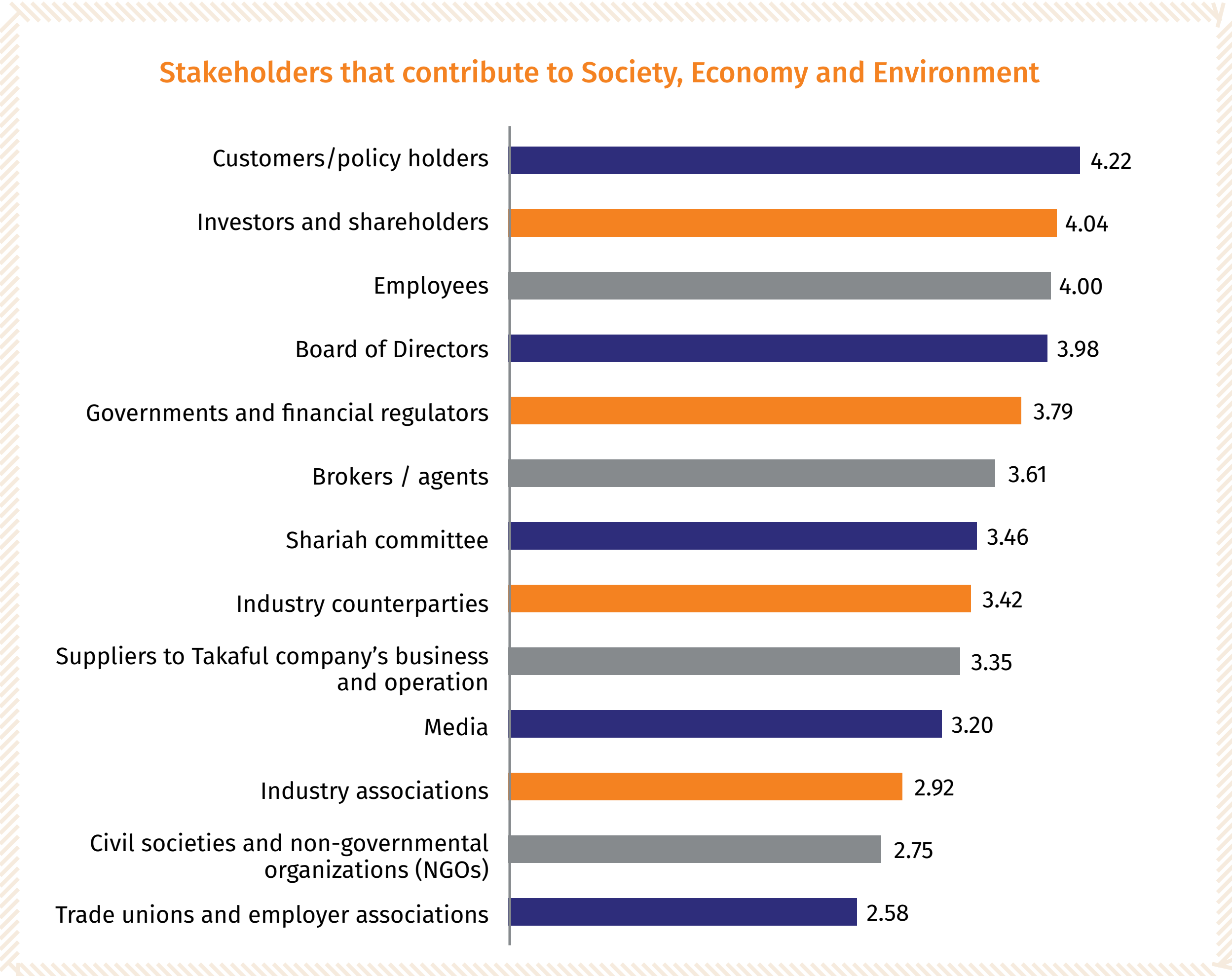


There were some regional differences worth noting. Consumer protection scored highly as an area for improvement in Group 2: Middle East ex. GCC and Group 7: Europe etc., but middling elsewhere. Supervisory competence and consistency appeared to be a particular issue in South East Asia.

Customers/policyholders come first

Respondents were asked which stakeholder/shareholder groups had the greatest impact on the way the firm contributes to the society, economy and environment. Customers came first, with investors, employees and the Board of Directors following closely. Trade unions and employer associations came bottom of the list, with NGOs also ranking low. These patterns were consistent across geographies.

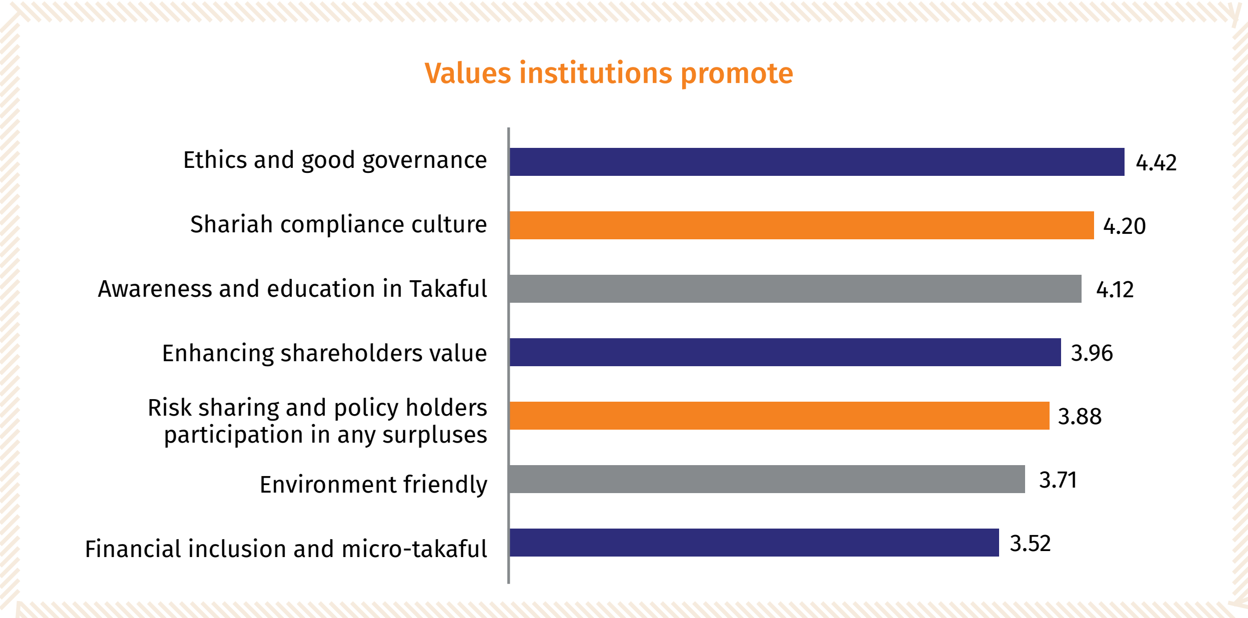
Figure 35. Stakeholders that contribute to Society, Economy and Environment



When asked about the values it was important for their organisations to promote, respondents put ethics and good governance first, followed by a Shariah compliance culture and Takaful awareness. Environmental friendliness scored consistently low. Financial inclusion and microtakaful showed the most mixed pattern. It scored extremely low in Europe, and relatively low in several other areas, but very high in West, Central and South Asia. (It is possible that, for this subject in particular, some of the figures may have been skewed by the presence in the survey of Retakaful companies, who do not deal directly with individuals, and will have no direct interest in the financial inclusion agenda.)

Financial inclusion and microtakaful showed the most mixed pattern. It scored extremely low in Europe, and relatively low in several other areas, but very high in West, Central and South Asia.

Figure 36. Values institutions promote

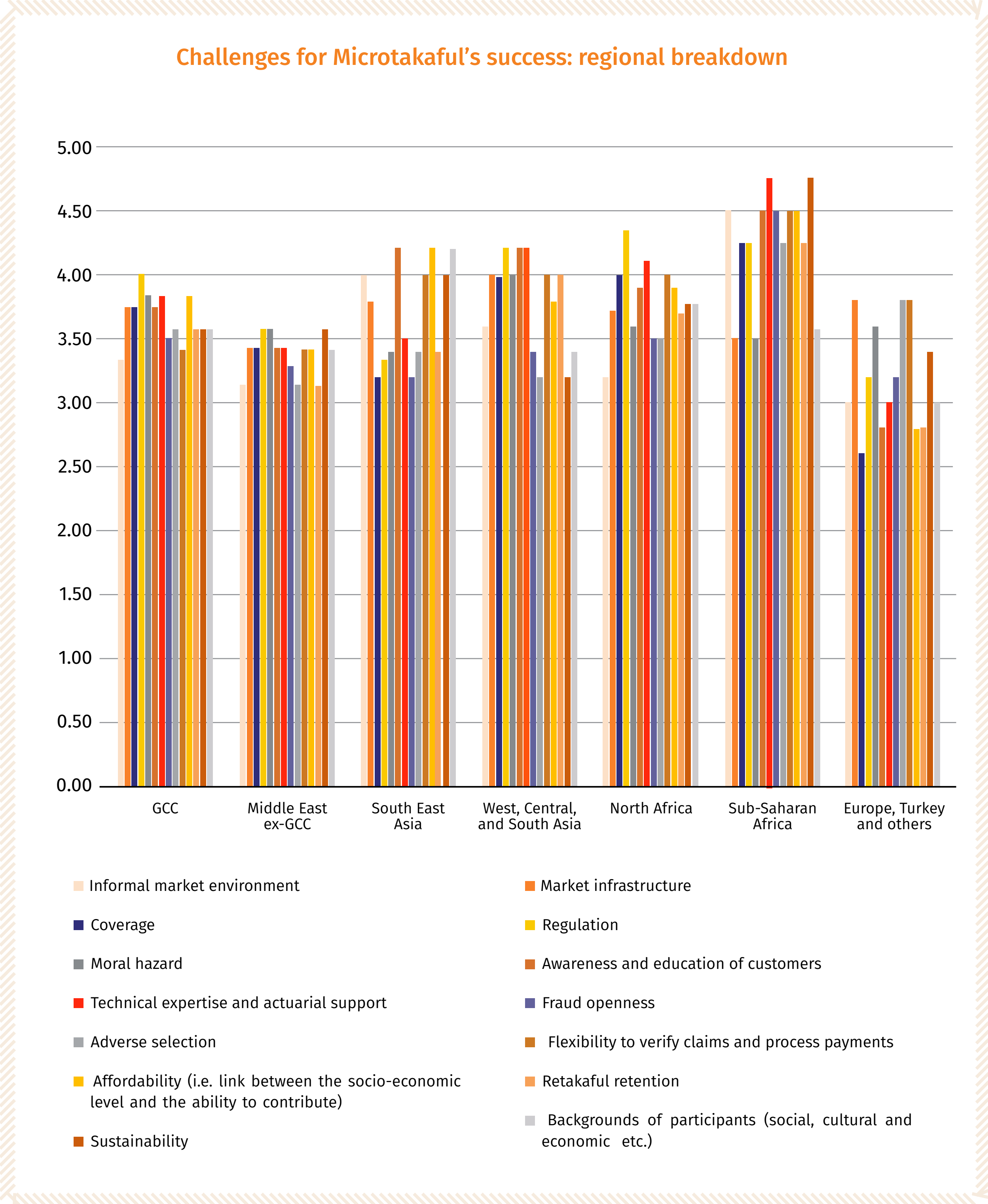


Enthusiasm for Microtakaful is relatively low. Comments suggest that customer awareness and economic viability are the main challenges

Microtakaful was the subject of specific questions. Respondents were asked to assess the importance of various challenges for the success of the microtakaful industry.

Figure 37. Challenges for Microtakaful's Success

Figure 38. Challenges for Microtakaful's success: regional breakdown



Patterns were, however, very inconsistent across regions. For example, moral hazard was seen as a high-priority issue in both Middle Eastern groups, but a very low one in Sub Saharan Africa. The detailed data suggest that in this area the patterns of issues are very much local. However, some common factors were revealed by the comments that respondents were invited to offer. Some common factors were the difficulty of achieving customer awareness, especially among poorer members of society, and the problem of achieving economic viability for relatively low-value covers, especially when the information from the customer needed to be verified to prevent fraud. Two sets of comments from West, Central and South Asia are perhaps typical: "Awareness and education of customers: Most of the potential clients belong to that segment of the society which is illiterate and has little to no access to awareness campaigns. Affordability (i.e. link between the socio-economic level and the ability to contribute): The microtakaful products tend to have a higher price due to lack of participation which doesn't allow the company to hit the critical mass necessary to slash down the pricing sufficiently to make it more affordable." "Microtakaful is not widely known to micro enterprises here. In fact, there is some degree of indifference towards Takaful products among micro enterprise operators. This is probably due to a lack of understanding of the concept of Takaful. This misconception is most unfortunate, yet, no attention and effort have been given to examine the level of the understanding among operators of micro enterprises regarding Takaful products available. We should investigate how familiar micro enterprises are concerning Takaful products and how much SME operators understand about the benefits of microtakaful products." Another prominent issue raised by respondents was finding effective distribution channels to reach potential microtakaful customers. Some looked to routes such as banks, others to Takaful windows from conventional firms. One firm, from the GCC, said, "Though the market share of the Takaful operators remains small owing to lack of much public awareness about Shariah compliant products and services, the opening of Takaful windows by conventional life insurance companies is expected to help grow this segment." Another, from North Africa, said, "Microtakaful is connected with banks as they are the main channel to the customers and the problem of awareness of Takaful insurance either by customer or bank's staff is the main obstacle in implementing microtakaful."

Takaful struggles to find a space in markets dominated by conventional firms and where insurance penetration is low

Finally, respondents were asked about the challenges in attracting customers, both Muslim and non-Muslim. For many, the challenge lay in establishing a distinct identity in a market traditionally dominated by conventional products. Two comments from firms in the GCC are pertinent: "The main challenge lies in Takaful Operators trying to find space within the conventional space. Takaful Operators must create products where the conventional companies cannot come. In other words, low penetration (particularly Family Takaful) and lack of product range to suit the customer needs are the greatest hurdles. Insurers tend to create product and sell in their market. The time has come to change and listen to customers first and then create products to suit their requirements and expectations." "Since we are operating in the GCC and most of the citizens and residents are Muslims, they prefer to participate in Takaful products. Also with the development in society, non-Muslims are also finding Takaful products attractive viewing their features (such as surplus distribution). In terms of hurdles, the main obstacles faced are the lack of proper product development initiatives on the Takaful side especially that most Takaful products in the market try to mimic the conventional products rather than highlighting the Takaful specific features and designing unique products. Furthermore, public awareness, vis-à-vis Takaful products, needs to be lifted as a lot of people still believe Takaful products are more expensive and are unable to provide the needed protection levels and flexibilities."

As these comments indicate, respondents saw a need for distinctive products, but found it hard to define what these might be. It seems to be implicit in these comments that they do not consider that this product development is something they can achieve within their own enterprises. A further difficulty will no doubt be that there are likely to be few products which, if successful, could not be imitated by a conventional competitor – unless Takaful companies can major on their broader ethical values.

The lack of awareness mentioned in these comments was a very general theme across all geographies and echoes comments made at other points in the survey.

Some also saw a more general reluctance both to purchase risk protection products and to save for the future. As one firm in West, Central and South Asia put it, "Mostly, people see risk mitigation as an attempt to interfere in the ways of God. People still tend to accept any loss as their fate and believe it to be the will of God. Also, mostly people have a tendency to raise their living standard whenever they have any surplus income. This leads towards an attitude of spending rather than saving. The concept of thinking positive doesn't allow them to think about the possibility of any mishap in the future." A firm in North Africa commented on "low penetration rates in this market and low awareness for insurance. The market remains limited to compulsory insurance."

"In terms of hurdles, the main obstacles faced are the lack of proper product development initiatives on the Takaful side"

There were some comments that were specific to the structure of particular markets. For example, one firm commented that in its market "more than 80% of the life premium is generated by banks and especially with credit linked products. It was very difficult to sell life policies outside this structure."

Firms in several markets commented that the reputation of the Takaful industry locally had been tarnished by the poor performances of particular companies in the past. One in the Middle East ex. GCC remarked that, "Abusing of Takaful industry by some Takaful companies affects insurance industry in general and Takaful in particular." One in North Africa remarked on customers' past experience of dealing with insurance companies that provided Takaful insurance and which had been liquidated some years previously without customers receiving their compensation. Bad past experience had also been a factor in at least one country in Sub Saharan Africa. This clearly indicates that the quality and behaviour of firms operating in the industry is a matter for all participants.

PART IV

Financial Technology and its Impact on Takaful

PART IV. Financial Technology and its Impact on Takaful

Following the pattern of past CIBAFI Global Banking Surveys, Part IV of this report deals with a specific topic relevant to the industry. Although it draws on some material from the survey, it also draws on wider sources and attempts to offer a CIBAFI perspective on the issues raised.

Much has been written recently about financial technology. The term is often abbreviated to Fintech, but the use of a single word can easily disguise the fact that it embraces many different digital technologies with different impacts. Those particularly relevant to insurance are sometimes lumped together under the term Insurtech, but this term still embraces several technologies.

In some cases, the breathless enthusiasm of a few years ago is giving place to a more measured assessment[3]. However, the large majority of what has been written implicitly assumes highly developed markets, both in a business and a technological sense, and very little of it has looked at how financial technology may affect Takaful specifically.

Financial technology and insurance

The International Association of Insurance Supervisors (IAIS) recently identified[4] the most significant innovations, from the point of view of the insurance industry, as follows:

Digital platforms (internet, smartphones): Various initiatives exist to improve customer experience, either when purchasing insurance or in the claims process. Some aim particularly to service the 'on demand' economy through the provision of pay-per-use or period based products (e.g. short term insurance focused on online platforms like Uber and Airbnb). There is also interest in peer-to-peer insurance (see below).

Internet of Things (IoT): IoT involves the internetworking of physical devices, vehicles, buildings and other items, embedded with electronics, software, sensors, actuators, and network connectivity that enable these objects to collect and exchange data.

Telematics/Telemetry: In the present context, telematics involves telecommunications, sensors and computer science to allow sending, receiving, storing and processing data via telecommunication devices. Telemetry involves the transmission of measurements from the location of origin to the location of computing and consumption. The two terms are closely related, but telematics often carries the implication that the data may then be used to control remote objects. In the context of insurance, the main applications of these technologies are: connected cars, advanced driver assistance systems, health monitoring and home monitoring.

[3] The Basel Committee, drawing on ideas from the Gartner consultancy, recently referred to the "hype cycle" and suggested that "some innovations may already be entering the 'trough of disillusionment'".

[4] In its report Fintech Developments in the Insurance Industry, February 2017. The technology descriptions have been edited from that report.

Big Data and Data Analytics: Big Data is the term used for the storage of data from different sources, in large volume and speed. The process of inspecting, cleaning, transforming, and modelling data with the goal of discovering useful information, suggesting conclusions, and supporting decision-making is called Data Analytics. In the insurance market, these could be used in various processes, such as product offerings, risk selection, pricing, cross selling, claims prediction and fraud detection, for example to offer customized products and allow automated underwriting.

Comparators and Robo-advisors: Online services that provide automated, algorithm-based product comparison and advice without human intervention.

Machine Learning (ML) and Artificial Intelligence (AI): ML and AI allow several insurance industry processes to use data in real time, especially for events prediction. There is a vast scope for AI, not only in a better pricing of risks, but also in fraud prevention, claims handling or in preventive counselling. The technologies may also be used in data analytics and in particular for marketing.

Distributed Ledger Technology (DLT): A distributed ledger is essentially an asset database that can be shared across a network of multiple sites, geographies or institutions. The security and accuracy of the assets stored in the ledger are maintained cryptographically through the use of 'keys' and signatures to control who can do what within the shared ledger.

> **Blockchain** is a type of decentralised distributed ledger, comprised of unchangeable, digitally recorded data in packages called 'blocks' which are stored in a linear chain.
>
> **Smart Contracts:** DLT can also set rules about a transaction (business logic) that are tied to the transaction itself. Smart contract is a term used to describe computer code that is capable of facilitating, executing and enforcing the negotiation or performance of a contract using DLT.

Peer-to-peer, usage based and on demand insurance: Emerging technologies may facilitate new business models. These include:

> **Peer-to-peer insurance:** a business model that allows insureds to pool their capital, self-organize and self-administer their own insurance. Although it is not an innovative concept, emerging concepts like DLT offer benefits for implementing this model on a broader scale.
>
> **Usage based insurance:** a new business model introduced by motor insurers that more closely aligns driving behaviours with premium rates for motor insurance.
>
> **On demand insurance:** a new business model that specialises in covering only those risks faced at a certain moment.

These technologies and business models overlap, and may be combined in various ways. Associated with them are questions about the structure of the industry. Many can be used relatively straightforwardly by existing firms to improve their efficiency. Some may be exploited first by new entrants to the market but, if they prove sufficiently profitable, may then be adopted by existing firms, some of whom may do this by buying out new entrants. (This is broadly the pattern seen with first telephone and then internet sales.) However, some may have a significant effect on industry structure, for example by changing the pattern of distribution away from human-based models. One particular question is whether some firms with access to large amounts of consumer data (especially the so-called BigTech firms such as Facebook, Amazon or Google) could use this, coupled with advanced data analytics, to become financial services players in their own right.

Globally, technology start-up activity in insurance is dominated by US-based, non-life companies, primarily in insurance distribution and related services. They are predominantly, but not exclusively, focused on personal lines. This may well be because it is this part of the business that typically has high data volumes and relatively homogeneous risks. However, robo-advisors in particular are also generating great interest in the area of investment advice, so it is likely that they will eventually impact on insurance-based investment products.

Existing firms are also making substantial investments in exploring new technologies. In 2016, a group of 15 large insurers and reinsurers[5] came together in the Blockchain Insurance Industry Initiative to evaluate whether blockchain technology can be deployed to improve operational efficiency.

Globally, technology start-up activity in insurance is dominated by US-based, non-life companies, primarily in insurance distribution and related services.

This is one of 13 reported consortia of financial services firms established in that year to investigate blockchain applications. Some have struggled to make progress, but it is likely that real applications, and probably common standards, will emerge over time. Insurers have also invested in start-ups offering services to existing customers, for example home monitoring and automation solutions, with an eye to increasing their contact with customers and their potential access to data.

Although some advocates of new technologies expect them to be hugely disruptive, there are important factors favouring incumbent firms, in addition to the large financial resources available to some of them. One is that insurance is a highly regulated business, and dealing with regulators is an accepted part of incumbents' skill sets. Some of the new technologies themselves raise regulatory issues. Data protection and privacy are obvious ones, but there are more subtle ones, for example whether robo-advisor algorithms introduce subtle biases on grounds such as race and sex or, for investment products in particular,

[5] Achmea, Aegon, Ageas, Allianz, Generali, Hannover Re, Liberty Mutual, MunichRe, RGA, SCOR, Sompo Japan Nipponkoa Insurance,SwissRe, Tokio Marine Holdings, XL Catlin and Zurich Insurance Group.

whether assessments of suitability are biased by commission considerations. In addition, and particularly relevant to the position of 'Bigtech' firms, insurers sometimes have to make unwelcome decisions, for example to reject a claim or to deny coverage. Some have speculated that such decisions would not sit well with the relationships that firms like Facebook or Google seek to have with their users.

As a result of all these factors, as well as the relative immaturity of some of the technologies, there is no consensus on how they are likely to affect industry structures. Reports on the subject commonly proceed by scenario analysis, and even then have difficulty identifying patterns and lessons, for either firms or regulators.

TECHNOLOGY AND TAKAFUL

Are there Shariah issues?

In considering the effect of technology on Takaful specifically, one question to be addressed is whether there are any Shariah issues that would materially affect its adoption.

Some industry reports[6] noted that Shariah issues might exist in relation to smart contracts, though it is likely that broadly similar issues would exist from the point of view of conventional law. Lawyers are likely to argue that computer code cannot be legally binding. What can be legally binding is the agreement to apply the technical code for a specific purpose or an intended outcome. However, when parties agree to use a smart contract, its language would be computer code that is probably not understood by all the contracting parties. Hence, it may be necessary to write down the intention of the parties in human language so that, in case of a dispute, a third party can check whether that intention was accurately reflected by the computer code and executed accordingly. If this is indeed the case, it is the human language contract that will be definitive, and to which the principles of Shariah interpretation can be applied.

Clearly business models, as opposed to technologies themselves, will raise issues of Shariah compliance. For example, an apparently peer-to-peer model may be heavily dependent on being supported by conventional insurance; an on-demand model may raise questions about how potentially very short-term participants can properly be said to have any kind of 'ownership' of the risk pool. On the other hand, some may be particularly conducive to Shariah compliant business operations. In particular, the concept of peer-to-peer insurance has sufficient connection to the concept of mutuality that underlies Takaful as to be worth further discussion below.

[6] See the 2017 Islamic Financial Services Stability Report published by the Islamic Financial Services Board.

The business context for Takaful

Takaful undertakings are, at present, typically fairly small by the standards of the insurance industry. They tend to be located in emerging markets, which will also tend to be less 'data rich', both in terms of the use being made of telemetry and telematics and also in terms of the uses made of the internet by their citizens. (A number of these markets, however, have high levels of smartphone use, because mobile rather than fixed-line infrastructure has been the route for expansion of the telephone network.) Most Takaful markets have relatively low levels of total insurance penetration, for a number of reasons including, but by no means limited to, self-exclusion from insurance for religious reasons. In most of them, Takaful operators are in competition with conventional insurers, who generally dominate the market.

Most Takaful markets have relatively low levels of total insurance penetration

Takaful business is mainly in personal lines and, as Part III of this Survey has indicated, distribution channels tend to be very much traditional ones. They vary greatly by type of business and jurisdiction, but overall there is a lot of reliance on agents and face-to-face contact. Bancatakaful is seen by some businesses as a main hope for the future. Internet platforms and comparison sites are in general not major features of the market.

Although the financial inclusion agenda is an important one for regulators of Takaful, and for those concerned with the development of Islamic finance, Part III suggests that existing Takaful operators have a very limited interest in microtakaful. For them, therefore, financial inclusion is likely to be mainly a matter of reaching the voluntarily self-excluded.

Financial technologies and Takaful

This section discusses particular technologies and their possible impact on Takaful, before looking at specific technology-enabled business models.

Purchasing insurance over the internet is now commonplace for people in many countries

In their most fundamental uses, digital platforms are not new. In particular, purchasing insurance over the internet is now commonplace for people in many countries. It seems from Part III that Takaful operators are embracing this technology only slowly. Comparable data for their conventional counterparts, and rivals, are not available, but there must be some risk that Takaful operators will be left behind by those rivals.

The situation in respect of mobile phones is a little more complex. The success of mobile phone banking technology, especially in nations like Kenya, has led to suggestions that it could have a similar enabling effect on financial inclusion in insurance. This could be very significant for Takaful operators, given the low levels of insurance penetration in many of the countries where they operate. There appears, however, to be some disillusionment with the mobile phone as a way of delivering insurance in general. A key element of the proposition had been the possibility of using inbuilt photo and GPS technology for underwriting and claims purposes, for example to look at a farmer's fields for underwriting purposes and again if a claim needs to be settled. However, there seems to be concern, evidenced by some of the survey responses, about the potential for fraud in these approaches. It may well be that affinity groups, with their stronger deterrents for misbehaviour, will be the more effective approach to financial inclusion in such situations.

The **internet of things and telematics/ telemetry** are significant largely for their ability to facilitate more precise underwriting, based on known patterns of behaviour. They of course presume a technologically advanced society, in which people have access to digitally-enabled equipment, but that would be true of some Takaful markets, for example in the Middle East. They also, however, presume that people will be comfortable with the kind of continuous monitoring of behaviour that this implies, in societies that have traditionally placed strong emphasis on privacy. In these areas it can be expected that the impact on Takaful will be very similar to that on conventional insurance. Similarly, if versions of on-demand insurance emerge, for example providing insurance cover only during the time a car is being driven, they will probably impact all types of insurance similarly. One rider to this is, however, that versions which involve a policyholder having only a very short-term relationship with a particular Takaful company may, as already mentioned, raise questions about the ownership of the risk pool, and rights to any distributions from it.

The **internet of things** and **telematics/telemetry** are significant largely for their ability to facilitate more precise underwriting, based on known patterns of behaviour.

Comparator sites are a common phenomenon in some markets, but tend to work best where products are relatively standardised.

Big data and data analytics, which can conveniently be grouped with **machine learning** and **artificial intelligence**, are a somewhat different matter. They of course depend on having a data-rich environment, which is not currently true in many Takaful markets. Given such an environment, however, they have the potential, as already noted, to impact various stages of the insurance value chain – but most notably underwriting and marketing. But using big data implies having access to it in the first place. There are many natural collectors of data, including governments and health systems, but among the most significant are the so-called 'BigTech' firms. These also have large investments in data analytical technologies, including artificial intelligence, and one of the important questions in financial technology is whether and how they may use these capabilities to move into financial services. This is of fundamental importance, and is discussed more fully later.

Comparators and robo-advisors are an interesting case. Comparator sites are a common phenomenon in some markets, but tend to work best where products are relatively standardised. Technology may, however, allow comparisons to be made and products suggested across a wider range and, conceivably, based on preferences which have not been consciously expressed by the customer but have been inferred from data on behaviour and preferences. At this point, the interests of Takaful companies become strongly engaged. The anecdotal evidence in many parallel markets suggests that some customers have a (usually) religious preference for Takaful, but one that is not in practice absolute; they would not rule out a conventional product if it were greatly superior in some respect. This seems to be reinforced by some of the comments made by survey participants about the competition from conventional firms. In a straightforward comparator site, Takaful companies need not only to be present but to ensure that a preference for Takaful can be expressed; otherwise they will lose a key advantage over conventional counterparts. In the case of a robo-advisor, they may also have the question whether such a preference is one that the advisor programme will seek to discern, and whether it has the data that will allow it to do so. This implies early engagement with the designers and operators of comparators and robo-advisors, something that may prove difficult for businesses that are often relatively small.

Distributed ledger technology has been slower to make a real impact in financial services than many had predicted. No-one doubts that there will be an impact, and financial services firms are making very large investments in this technology, but that impact is likely to come first in areas other than insurance. The reason is that the key advantages of distributed ledger technology lie in the ability to record transactions quickly, securely, and without a need for centralised control. It is therefore those parts of financial services characterised by high transaction volumes, for example payment systems, exchange clearing systems, and custody systems, which will see the earliest and highest value impacts. In insurance, the impact of DLT is likely to be principally in internal processes, particularly in recording flows of assets and information. Its impact will be fundamentally on efficiency, and in this respect will be similar for Takaful and for conventional firms.

This assessment is despite the alleged benefits of 'smart contracts' in facilitating new business models. These models often revolve around some form of insurance on demand, related to actual use of, say, a car and with pricing perhaps also linked to the type of road, the time of day, etc. But in cases like this it is, as already discussed, not the pricing algorithm that is important so much as the agreement to use it for a particular purpose. Even this has difficulties in personal lines business (which is dominant for Takaful) because of the question whether the consumer understands what has been agreed to. If one considers more complex operations involving, for example, comparing several providers and taking the lowest price for a particular journey, it is hard to imagine 'smart contract' technology being used in a way that both depends meaningfully on that technology and can be said to reflect a conscious intention of the parties. The problem of intention is more easily overcome in commercial lines business, where a commercial policyholder may be able to understand the code being used to form a contract. But in large commercial lines business, the lack of homogeneity in risks makes it harder to apply this kind of approach.

Of the new business models, usage based and on demand insurance have already been discussed in the context of the technologies that make them possible. Peer to peer insurance is, however, a more interesting case which deserves further discussion, especially since at first sight it appears closely related to the Takaful concept. At this relatively early stage, different business models are being tested, so there is no single concept available. However, in one model, typically run by an insurance broker, customers form small groups online. Part of their premiums is paid into a group fund, which typically pays minor claims and the first part of any larger claims. The remaining premiums are used to buy coverage from a normal insurer for the remainder of any larger claims. If the group fund is not fully used, policyholders may receive a refund or a discount on the next year's insurance, or the surplus may be given to charity; if it proves insufficient, a special insurance may cover the deficiency. In a second model, the pool is actually run by an insurance company. In either case, the operator of the pool takes a fee for doing so. Variants of these models may involve a greater or lesser amount of self-organisation by the participants. The technical enablers here are mainly the internet, as a way for appropriate networks of policyholders to form, and possibly in the future distributed ledger technology, to record and administer the transactions efficiently.

The essence of the peer-to-peer model is that relatively small groups with homogeneous risks can readily form, based on some pre-existing affinity – for example membership of some social club – and that the social discipline typical of affinity groups will work to keep fraudulent claims low. Technology allows – or is intended to allow – efficient administration of many relatively small pools. The model differs from Takaful as currently practised because the group funds do not need to aspire to a longer-term existence or to build up reserves; they are dependent on backing from more traditional insurers. Because of this backing, the group funds do not need to achieve much risk diversification; this can be achieved at the level of the insurer. However, it would not be difficult to adapt the model to bring it closer to Takaful, perhaps relying on some cross-support between group funds to deal, for example, with risk events affecting many members of a particular group.

Whether peer to peer models will succeed in conventional markets, and on what scale, remains an open question. It is not clear that they will offer policyholders sufficient advantages over dealing in the normal way with an insurance, or indeed a Takaful, company. If they do succeed, however, they are unlikely to be fundamentally disruptive of the market because of the need for more normal insurance backing. Takaful companies should be able fairly readily to adapt, and to adopt any model that seems to be successful.

A further interesting question in the context of financial inclusion is whether some version of a peer-to-peer model could be used to allow local groups to protect themselves through Takaful without the high expenses typically associated with dispersed communities and relatively low value insurance. This may be the case in the future, but a model of this kind, especially if it depends on self-organisation, implies a strong digital infrastructure and a populace used to using it. These are likely to be least available in the places where financial inclusion is most an issue.

Technology allows – or is intended to allow – efficient administration of many relatively small pools.

The other important structural question for financial services including Takaful is what role the so-called BigTech firms will play. As previously noted, these firms have access to large volumes of data about consumer behaviour in particular, and this data could be used to underwrite and market products aimed at users of their systems. Several publications have discussed the role big tech firms might play in various areas of financial services, from minimal (perhaps because of data protection constraints), through simple marketing of others' products, through marketing under their own name so-called 'white label' products actually supplied by others, to becoming financial services firms in their own right. The last two at least would involve significant shifts in the dynamics of the market, since it would be the BigTech firms that effectively owned the customer interface. Although these scenarios have been much discussed, there is no consensus on which is most likely. Some reasons, including regulation and customer relationships, have been mentioned above which suggest that, in insurance at least, the less radical approaches may be more likely. If so, insurance products will still come from, and be branded as coming from, separate insurance firms, whether conventional or Islamic. However, there is no certainty of this.

Market developments in this area will be of considerable importance to Takaful firms. As mostly smaller players, they may not be well-placed to negotiate close alliances with BigTech firms, or to supply them with white-labelled products. On the other hand, if BigTech limits itself to marketing the products of others, then Takaful undertakings will have something distinctive to offer. In this situation, their issues will be close to those discussed in the cases of comparators and robo-advisers. In particular, they will want to know that the data being collected, and the way it is being analysed, are capable of revealing preferences for Takaful over conventional insurance. This may not be straightforward, since in general the algorithms of machine learning cannot be simply analysed to determine how a conclusion has been reached. While this is not an imminent problem for most of the Takaful industry, since it will play itself out first in the data-rich markets of the developed world, it is an area that will need to be monitored closely.

Key Findings and Recommendations

KEY FINDINGS AND RECOMMENDATIONS

This inaugural Global Takaful Survey covered a number of areas of importance to the Takaful industry. The industry highlighted its concerns, its growth opportunities and its outlook for the future. The findings below attempt to integrate lessons from all sections of the Survey, including the financial technology issues.

Takaful Companies are optimistic regarding the growth outlook of the Takaful industry, but face significant challenges

Looking at the overall picture from the Survey, Takaful companies are optimistic about growth, and expect it to be slightly stronger than for insurance as a whole. It is the Takaful firms in newer markets who are most optimistic about growth, but they face in a more acute form the problems reported by many Takaful companies across the world. The industry has a continuing struggle to establish its position in a market largely dominated by conventional insurers, and often in areas where overall insurance penetration is relatively weak.

There is a need to develop Takaful awareness

There is a need to raise awareness of Takaful and what it can offer, and of the differences from conventional insurance. In some jurisdictions, there may be support from governments to raise awareness, but in many cases this will fall to the industry itself, perhaps working with religious organisations.

There is also a need for distinctive products and values

Companies commented frequently on the need for a broader range of products, including products clearly distinct from those offered by conventional counterparts. At a number of points in the survey, respondents commented on the competition they face on price. It is always difficult for the relatively small companies to compete on price alone against better established rivals. Hence the need to offer distinctive products, but also to price risk accurately in order to avoid taking on unprofitable business and, where possible, to find profitable niches that are not being well served by existing conventional players. Because there are relatively few products, whose main protection or investment features cannot be imitated by conventional players, the industry is likely to emphasise the broader ethical values of Islamic finance to help distinguish itself.

It remains unclear which of the values of Islamic finance can best offer a distinctive business proposition. However, for any such proposition to be sustainable, those values will have to be manifest in the Takaful companies' behaviour as well as in their advertising/branding. There is no necessary contradiction between shareholder expectations and Islamic values, but Takaful companies need to identify the values that are most likely to facilitate strong returns for shareholders in the long run.

Takaful companies tend to be locally-focused

Takaful companies are largely focused on meeting the business challenges immediately in front of them. They are looking to organic growth in their domestic markets rather than to mergers and acquisitions or to cross-border activity. They are very conscious of the need to widen distribution, but are tending to look to well-established channels like face-to-face sales, rather than to advanced technology. Technology is more significant to them as a way of improving the operations of the business, particularly through enhanced use of data. They tend to recruit locally rather than in the international market.

While these approaches may be sensible for individual companies, they pose a risk to the industry as a whole. These strategic approaches are unlikely to generate major 'champions' on the scale seen in the conventional insurance industry. As a result, the benefits of growth may be appropriated by conventional players, who can relatively easily buy into the business. There is also a risk that Takaful firms will be left behind by technical developments in the conventional business.

The microtakaful agenda will have to be driven by governments and non-governmental organisations (NGOs)

It is clear from some of the responses, in Part III in particular, that Takaful companies have only limited interest in the financial inclusion/microtakaful agenda (though they may of course help to reach those self-excluded from insurance for religious reasons). They also show a very limited interest in industry-wide initiatives generally. This is natural enough, given the immediate business challenges that many of them face, but it does appear that the microtakaful agenda will need to be driven by governments and NGOs, rather than by the industry.

Regulation needs to take account of the special features of the Takaful industry

As to the external and regulatory environment, there is a strong wish to have Takaful recognised by regulators as being different from conventional insurance, and needing a specifically tailored regulatory regime. This will affect issues such as investments, and the application of regulatory capital regimes to the structures typical of Takaful. But it is the claim to Shariah compliance which is the key distinction from conventional insurance. Companies remain committed to upholding the values of Takaful, and are highly critical of those they see as failing in this respect. But they need regulatory support in ensuring that a claim to Shariah compliance cannot be made without being solidly based.

Governments should issue sukuk to provide investment opportunities, and/or relax restrictions on investments

A substantial issue in most jurisdictions is the shortage of Shariah compliant investments, especially highly-rated sukuk. In the absence of these, some firms are taking conservative but very low-yielding investments such as cash and deposits, whose low returns impact on profitability, while others are taking the riskier course of seeking yield with more volatile, and sometimes illiquid, investments. Where possible, governments should ensure a supply of sovereign or quasi-sovereign sukuk to provide enhanced investment opportunities. If this cannot be done, they should at least amend any restrictions (for example on the use of high-quality sukuk from other issuers) which impede Takaful companies from making investments comparable in both yield and risk to those of their conventional counterparts.

Distribution channels are largely traditional, but companies need to be aware of the technological challenge

Distribution channels in Takaful companies tend to be very much traditional, and the survey responses suggest that the focus is still on these. Overall, there is high reliance on agents and face-to-face contact, with Bancatakaful significant for some products and jurisdictions, while digital platforms are in general not major features of the market. The data do not make it possible to compare Takaful companies with conventional competitors in the same markets, However, there is clearly a risk that if markets move towards digital platforms, as some developed markets have done, this could happen faster than the Takaful industry can cope with. Companies therefore need to keep their distribution strategies, and in particular their use of technology, under continuous review.

Training and talent development may require government support or industry-wide initiatives

In terms of human resources and talent development, Takaful companies are focusing on satisfaction, retention, performance management and succession planning. The survey also indicates that Takaful companies recruit mostly in local markets and that in some of these the development of local Shariah scholarship is likely to be a particular issue. Companies often do not have the capacity to take major training initiatives themselves. It is therefore likely that regulators or other national bodies will need to take action to support training.

Significant innovations of insurance financial technology may affect the Takaful industry

A number of new technologies have been identified which may impact on the Takaful industry. Some of these may allow existing firms to operate more efficiently, or to offer better service to their customers; some may enable new business models, while some may affect the structure of the insurance industry as a whole. There is, worldwide, considerable uncertainty about which technologies and business models will prove successful, and some reasons for scepticism about whether the more extreme claims of industry disruption will come to pass. Furthermore, most Takaful companies operate outside the most developed markets where the impacts are likely to be felt first. Nevertheless, as mostly smaller companies, they run some risk of being left behind by larger conventional competitors.

There are few, if any, Shariah difficulties around the adoption of relevant technologies

There appear to be no fundamental Shariah obstacles to adopting the new technologies most relevant to the insurance industry. There may be issues around whether 'smart contract' technology meets the Shariah requirements for the formation of a valid contract. But if the corresponding problems in secular contract law can be resolved, it is likely that the Shariah requirements can also be met. There may also be issues around ownership of the risk pool, if very short-term insurance becomes common. In addition any new business models will need to be implemented with proper compliance at all stages, but this appears possible, and some may even have advantages.

Most technologies are likely to impact on Takaful similarly to conventional insurance

Examples are the use of the blockchain to record transactions or other information, and the use of 'big data' to improve underwriting. However, the use of big data in marketing, or the use of comparators or robo-advisers, create the possibility that consumers' preferences for Takaful over conventional insurance may not be properly captured. Takaful companies operating in mixed markets will need to engage early on with firms developing or using such applications.

The biggest potential disruptions will come from the control of big data

There are important privacy issues around the use of big data in insurance. But one possibility is that so-called BigTech firms, like Facebook or Google, will be able to exploit their access to data to become important players in the market. There are business and regulatory reasons why this may not happen, but if it appears likely to do so, Takaful companies will need to move quickly to negotiate alliances or to ensure that they can continue to supply distinctive products.

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Appendix 1
Overview of CIBAFI

Appendix 1: Overview of CIBAFI

The General Council for Islamic Banks and Financial Institutions (CIBAFI) is a membership-based organisation, based in Bahrain that acts as the voice of the Islamic finance industry. CIBAFI was founded in 2001 by the Islamic Development Bank and other leading Islamic financial institutions. Today, it has over 120 members from over 33 countries and is proud to say that membership is increasing.

The Council is governed by a Board of Directors that is chaired by H.E. Shaikh Saleh Kamel, who is the Chairman of Al Baraka Banking Group. An Executive Committee of the Board is empowered to take certain decisions in between meetings of the full Board. The day-to-day management of CIBAFI's affairs is in the hands of the Secretariat, which is led by the Secretary General, Mr. Abdelilah Belatik.

CIBAFI has a unique role in the global architecture of Islamic finance: it is the only member-based organisation that exists to promote the interests of Islamic finance practitioners whether they are banks, insurance companies, financial regulators, customers and the users of Islamic financial products, or others who encounter Islamic financial services in their professional or personal lives.

CIBAFI works with other organisations within the global architecture of Islamic finance. These organisations include the Islamic Financial Services Board (which sets regulatory standards), the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) (which sets accounting and other standards), and the International Islamic Financial Market (which sets standards and produces documentation for Shariah-compliant financial instruments). CIBAFI also works closely with global organisations such as the World Bank and the IMF, the Basel Committee on Banking Supervision, the International Accounting Standards Board (IASB) and the Institute of International Finance (IIF). It has a close relationship with the Islamic Development Bank and shares its objectives to promote and strengthen the Islamic Financial Industry.

CIBAFI's Strategic Plan for 2015 - 2018 identifies four Strategic Objectives:

1. Policy, Regulatory Advocacy

In an increasingly complex regulatory environment, new regulations are constantly being proposed and implemented for the financial industry. CIBAFI ensures that regulators and standard setters understand how the Islamic financial services industry will be affected by their proposals. For example, CIBAFI is a founding member of the IMF's External Advisory Group on Islamic Finance and a member of the International Accounting Standards Board's Consultative Group on Shariah-compliant instruments and transactions. It solicited the views of its members recently on four Accounting Standards, one Auditing Standard and two Governance Standards being prepared by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI): Accounting Standard No. 30: "Impairment and Credit Losses", No. 31: "Investment Agency" (Al-Wakala Bi Al-Istithmar), among others, and made representations to the AAOIFI on behalf of its members. It also submitted recently the collective feedback of its members to the Basel Committee on Banking Supervision (BCBS) on three Consultative Documents: Simplified alternative to the standardised approach to market risk capital requirements; Sound Practices: Implications of fintech developments for banks and bank supervisors; and Stress Testing Principles.

2. Research and Publications

CIBAFI conducts research and produces publications on issues of interest to its members and which are relevant to the development of the Islamic finance industry. CIBAFI publishes every year its annual flagship report "CIBAFI Global Islamic Bankers' Survey" that provides insights on the Islamic banking industry and tracks its development year after year. CIBAFI also publishes a series of market related research that are conducted by CIBAFI or/and with its strategic partners in an initiative to increase its output of publications and research. Following this initiative, the Global Takaful Survey represents a market survey-based research that caters the needs of the market in providing in depth insights and prospects of the takaful industry. CIBAFI also publishes a newsletter ("InFocus") to keep members and others informed about CIBAFI activities and about significant developments in Islamic finance. In addition, CIBAFI also publishes a need-based periodical "Briefing", which are short and concise papers addressing emerging issues of the industry.

3. Awareness and Information Sharing

As the voice of the Islamic finance industry, CIBAFI plays an important role spreading awareness of the industry externally and facilitating the exchange of information and best practices within the industry. It has an annual gathering "Global Forum", where it addresses key themes of the year, and it also organises various regional events on its own and/or with our partners such as the Islamic Development Bank, World Bank, Union of Arab Banks and others. These events are usually hosted by a local regulator.

4. Professional Development

CIBAFI members have identified as one of their priorities the need to strengthen the talent pool within the Islamic finance industry. In response, CIBAFI offers 3 categories of professional development programmes: Executive Programmes for senior management and board level; Technical Workshops for mid-level staff of Islamic banks that are usually hosted by a regulator; and 16 professional certifications.

CIBAFI welcomes suggestions from members and non-members for ways in which it can strengthen the work that it does.

Appendix 2

Survey Findings: Region Focused

Group 1: GCC

Figure 1. Type of Takaful Operations

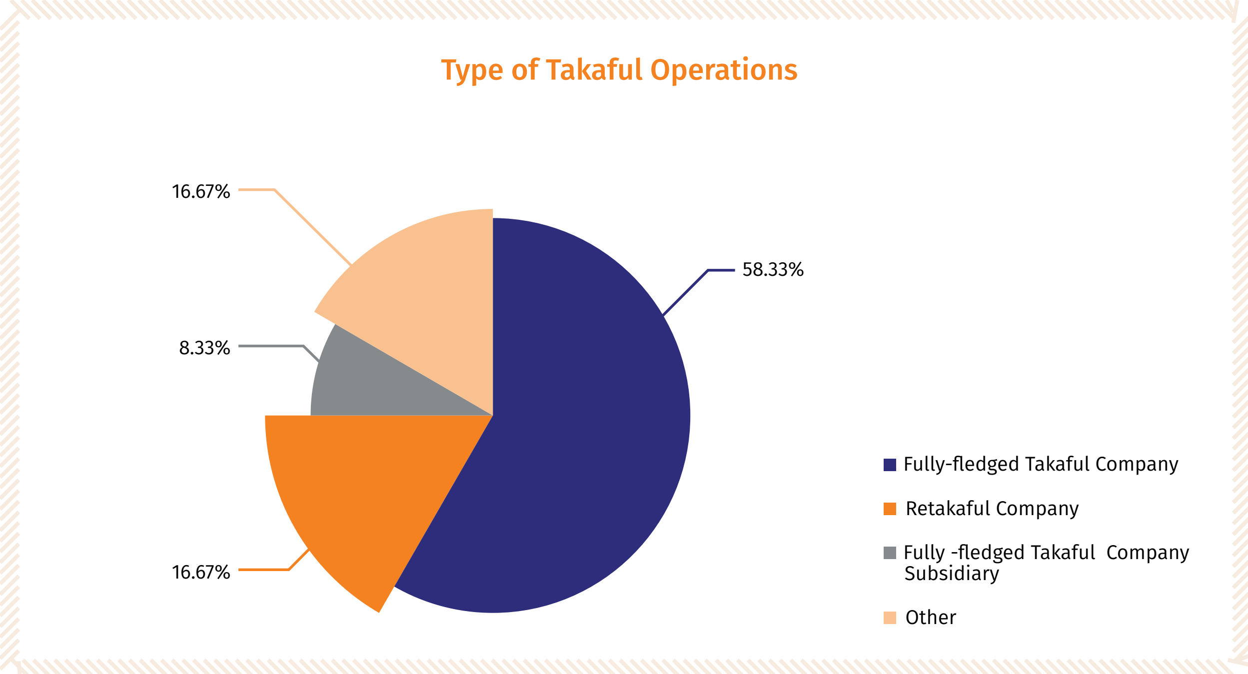


Figure 2. Takaful Models

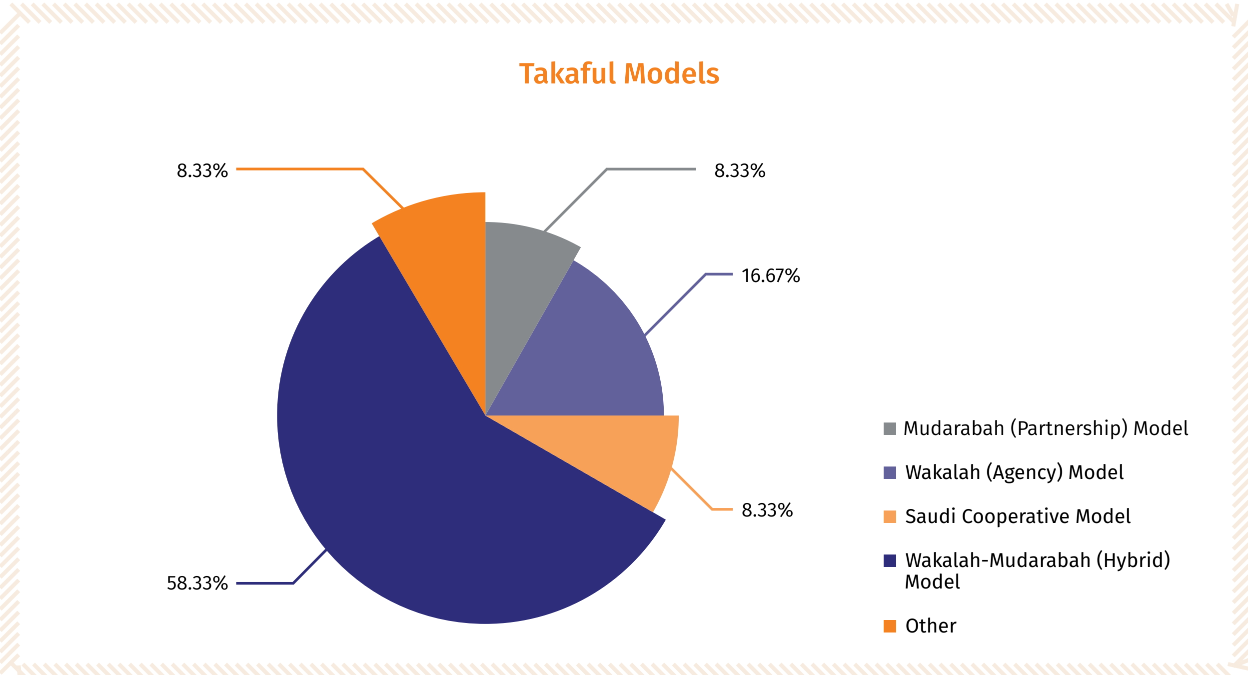


Figure 3. Nature of Takaful Operations

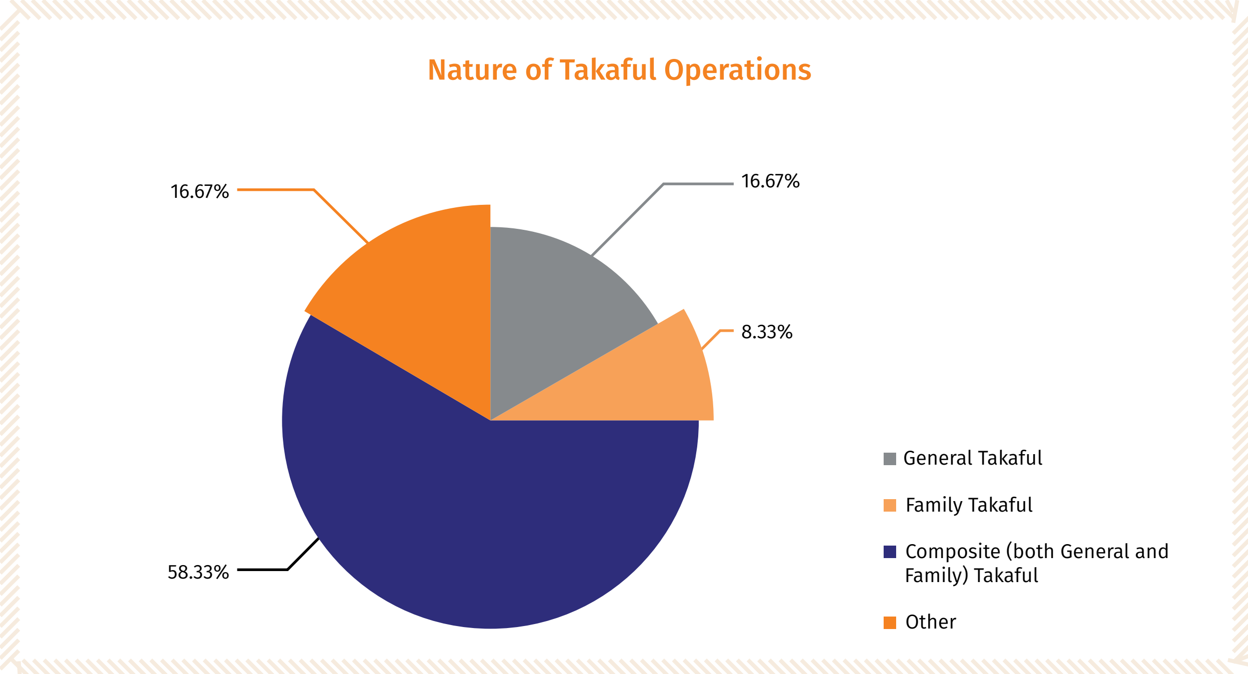


Figure 4. Total Gross Annual Takaful Contributions

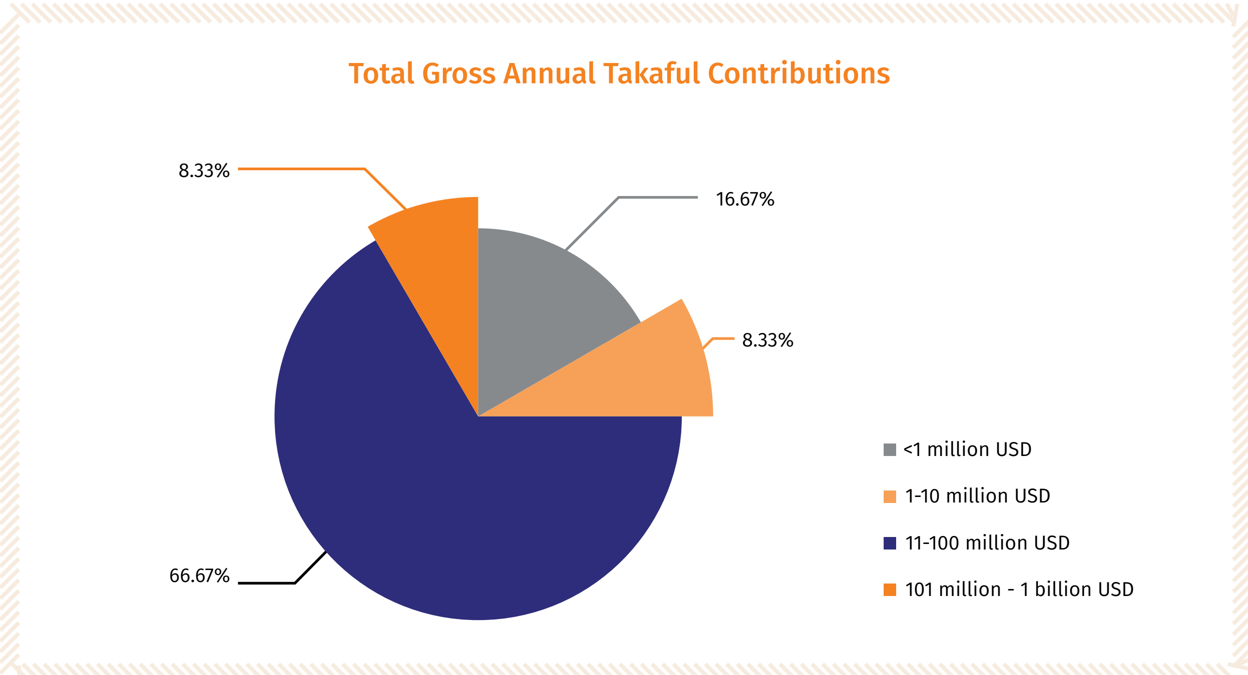


Figure 5. Overall Expense Ratio

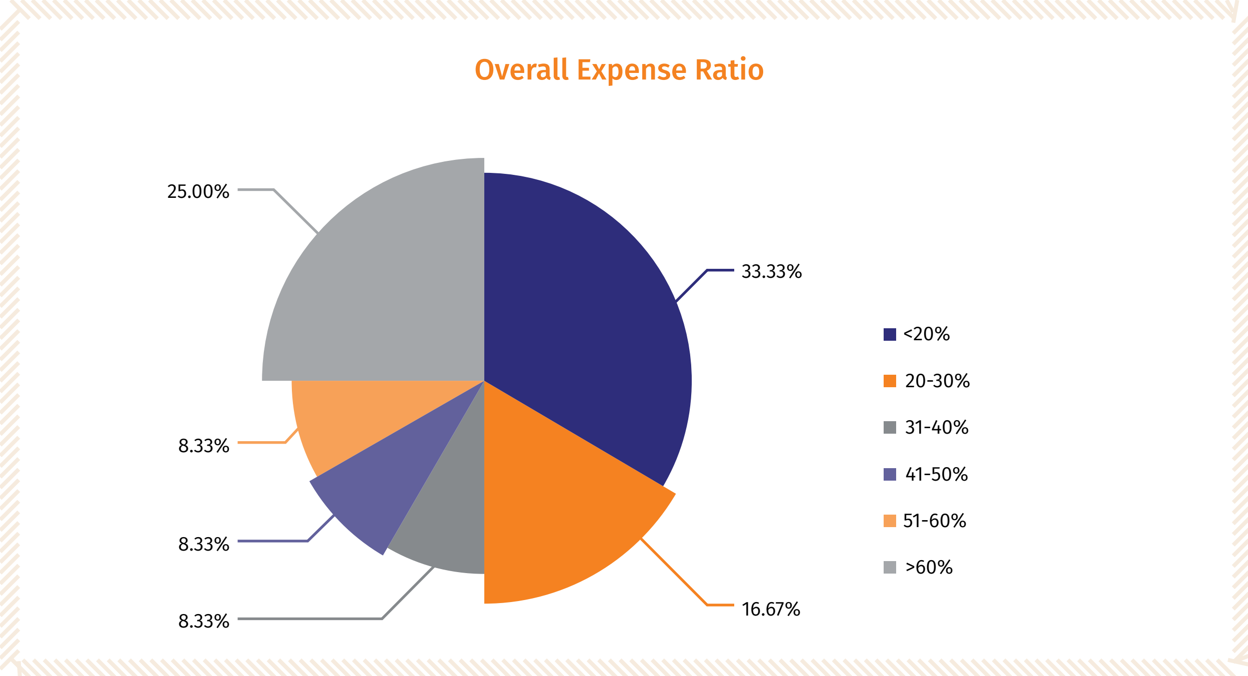


Figure 6. Average Retention Ratio

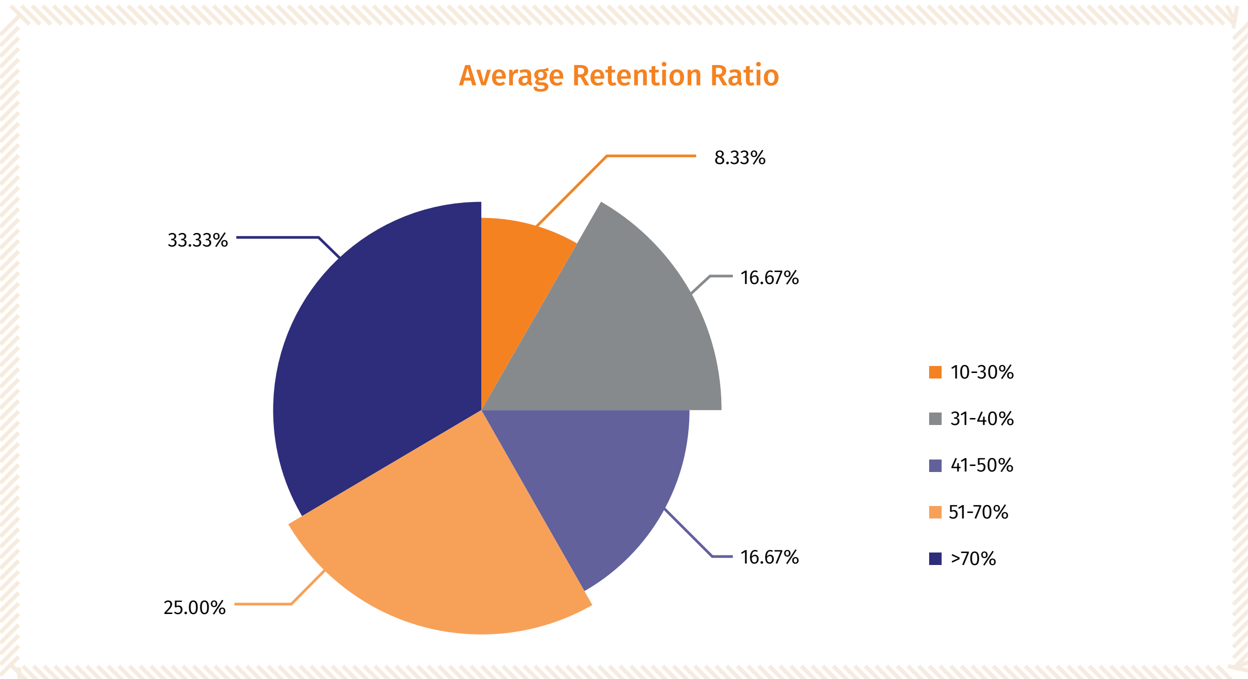


Figure 7. Optimism Level on Overall Insurance Industry

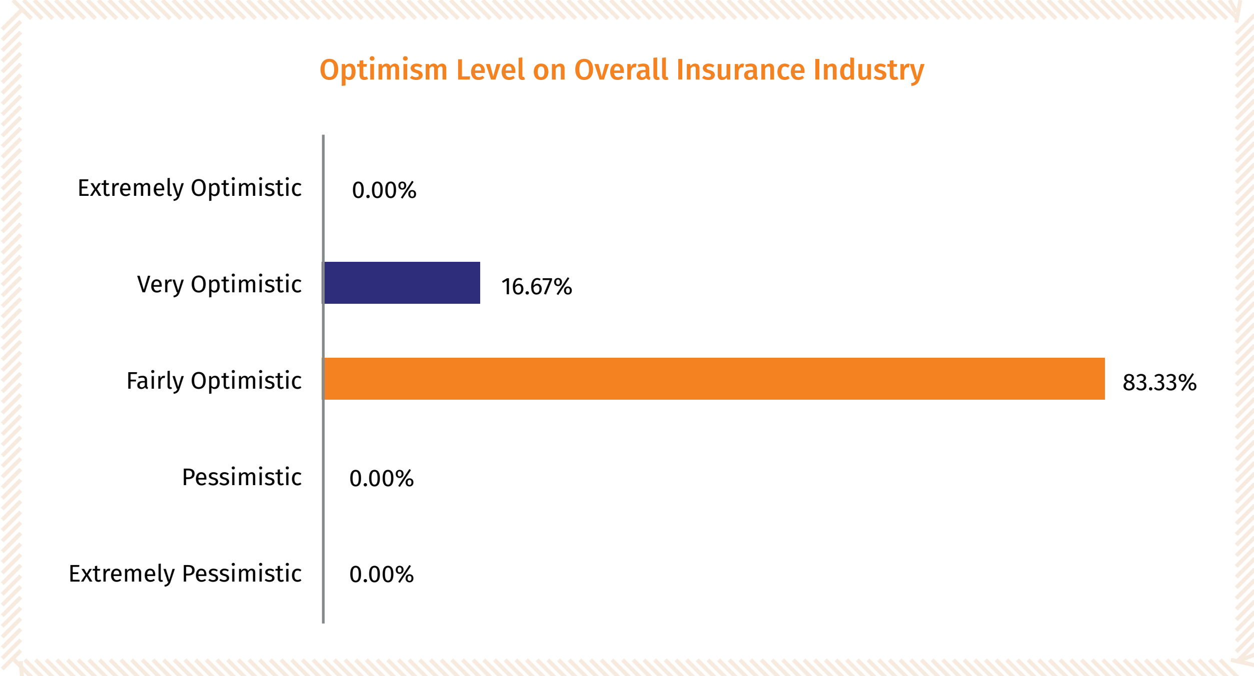


Figure 8. Takaful Industry Optimism Level

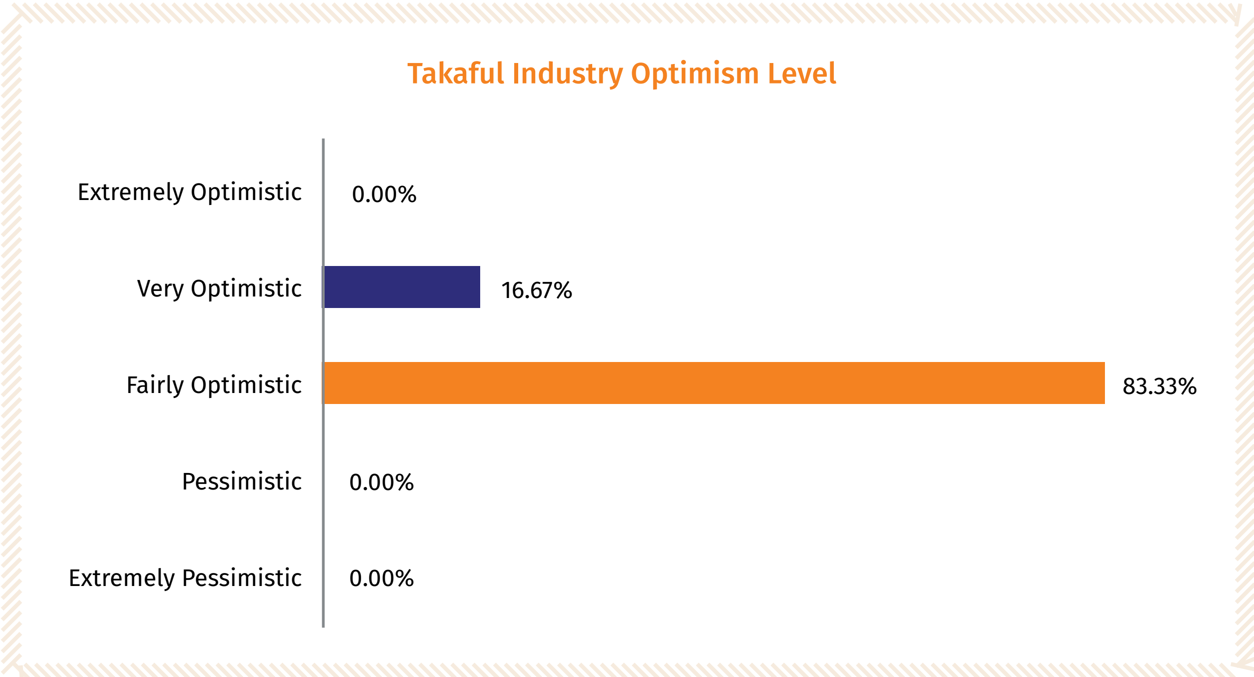


Figure 9. Expectations of Revenue Growth compared with conventional peers

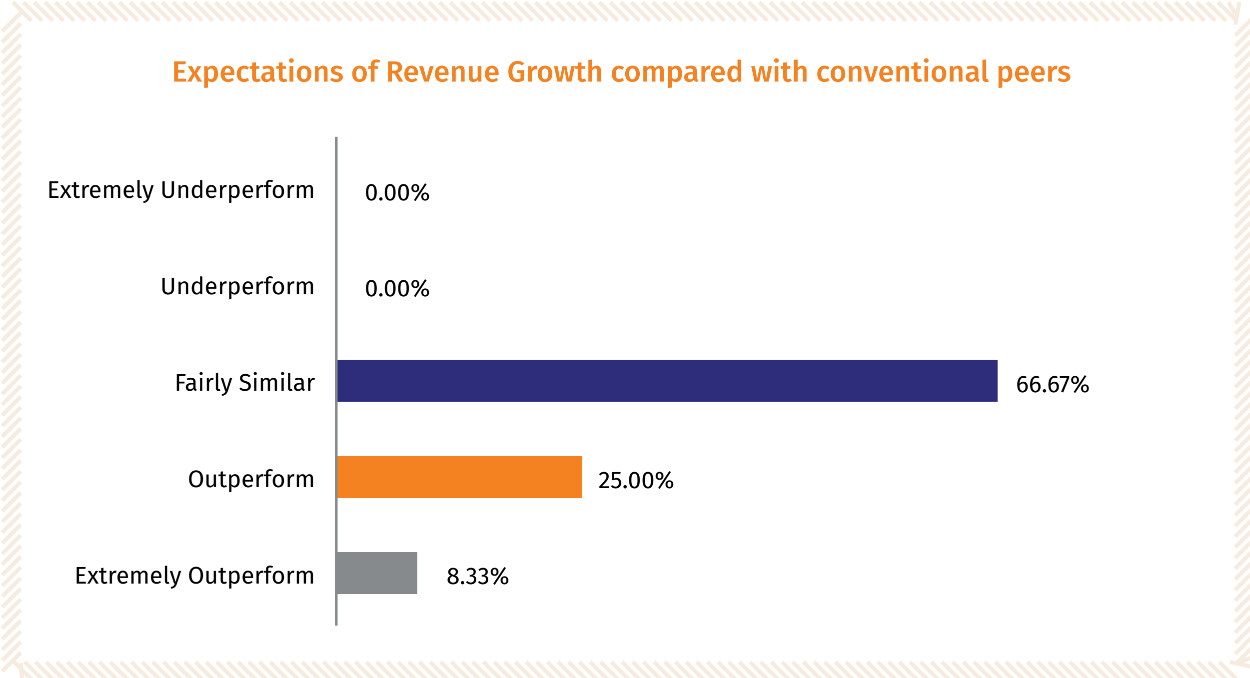


Figure 10. Revenue in Personal Lines - Short Term

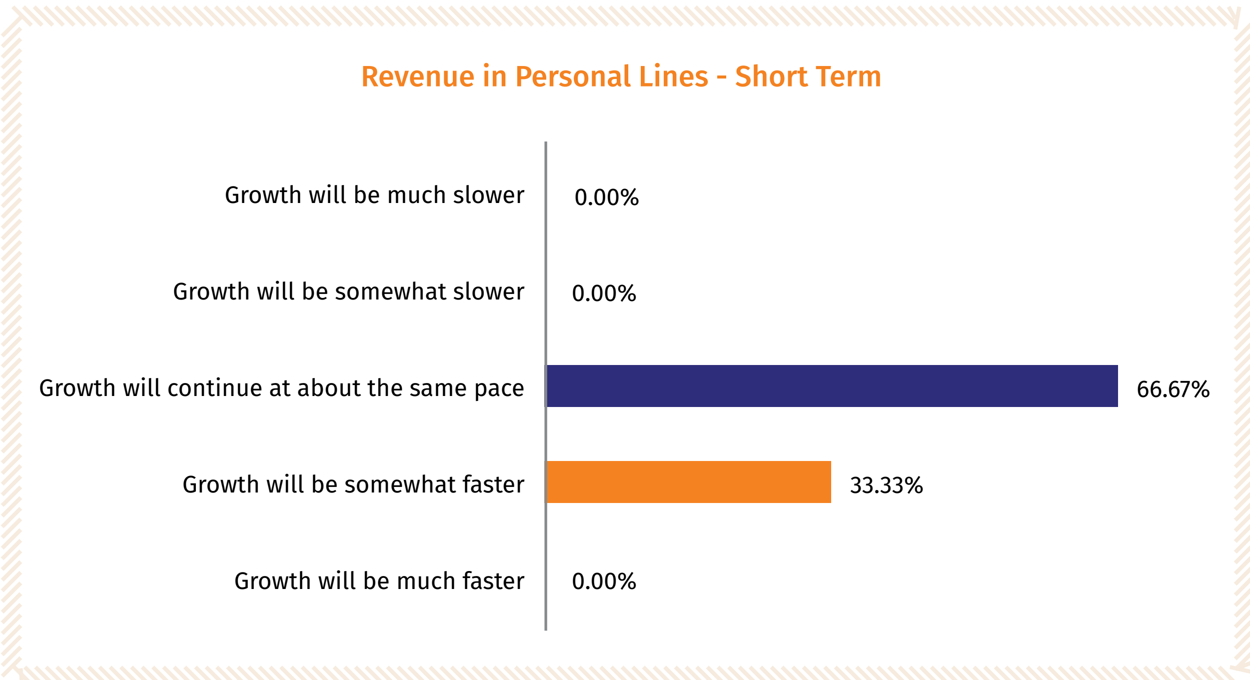


Figure 11. Revenue in Personal Lines - Long Term (2018-2021)

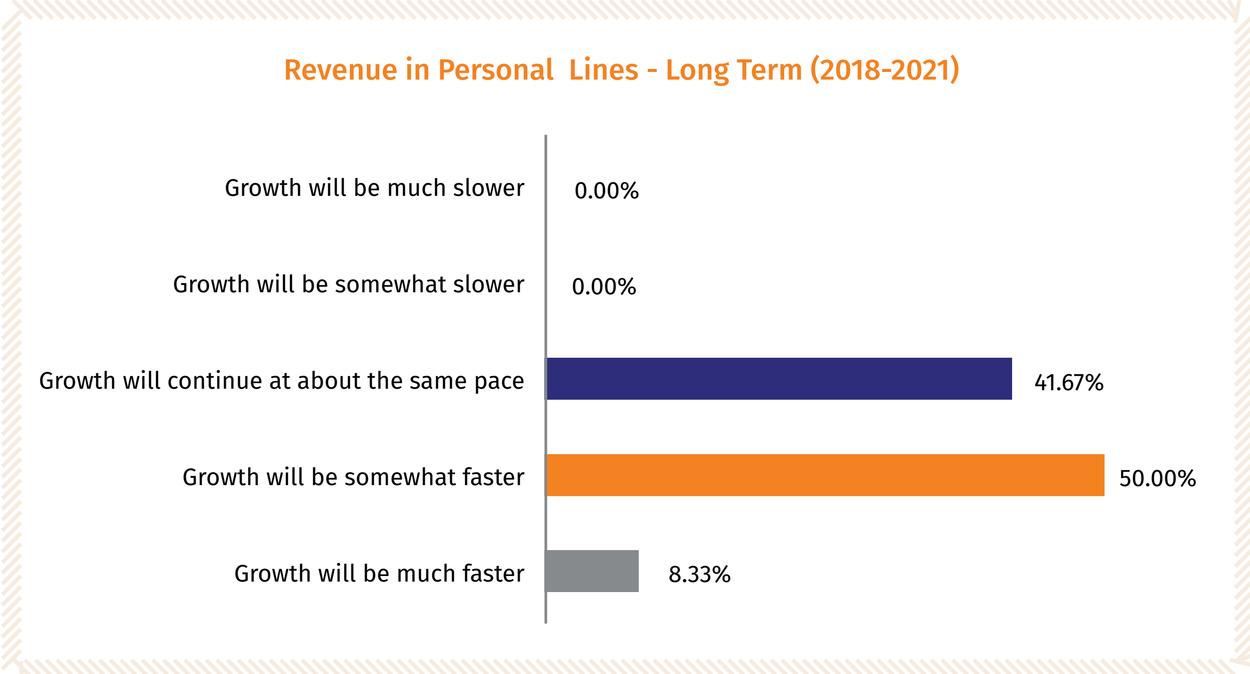


Figure 12. Revenue in Commercial Lines - Short Term

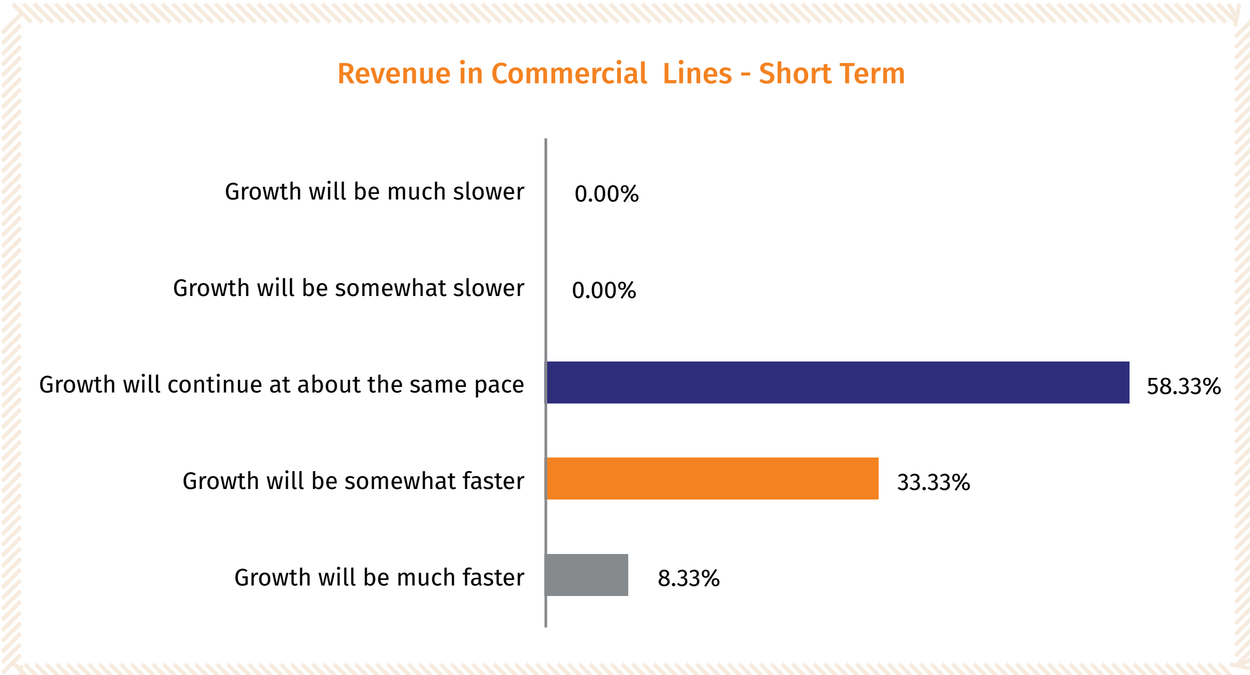


Figure 13. Revenue in Commercial Lines - Long Term (2018-2021)

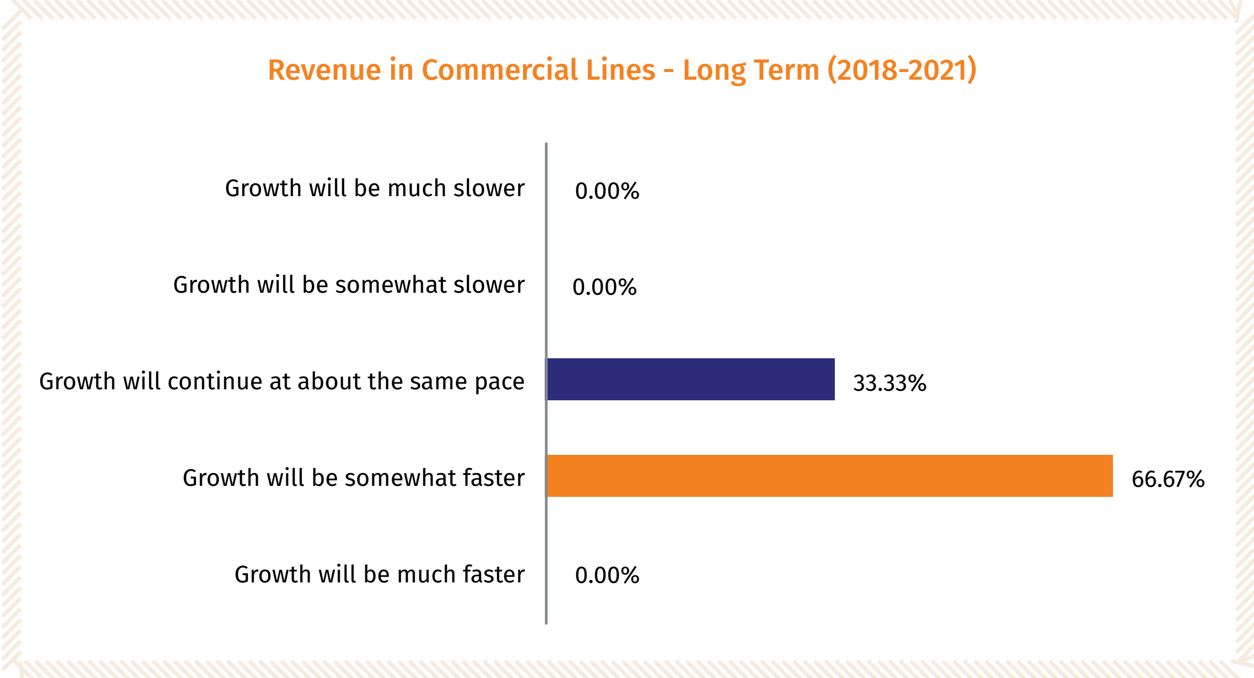
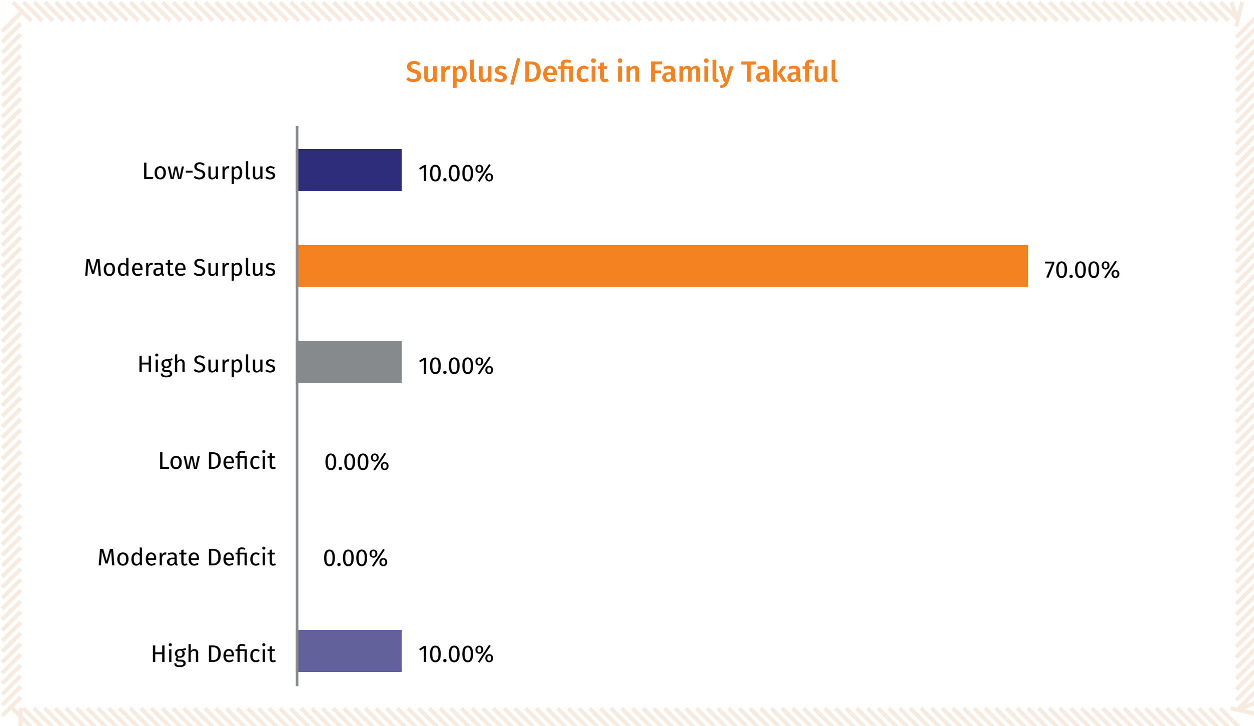


Figure 14. Surplus/Deficit in Family Takaful and General TakafuL



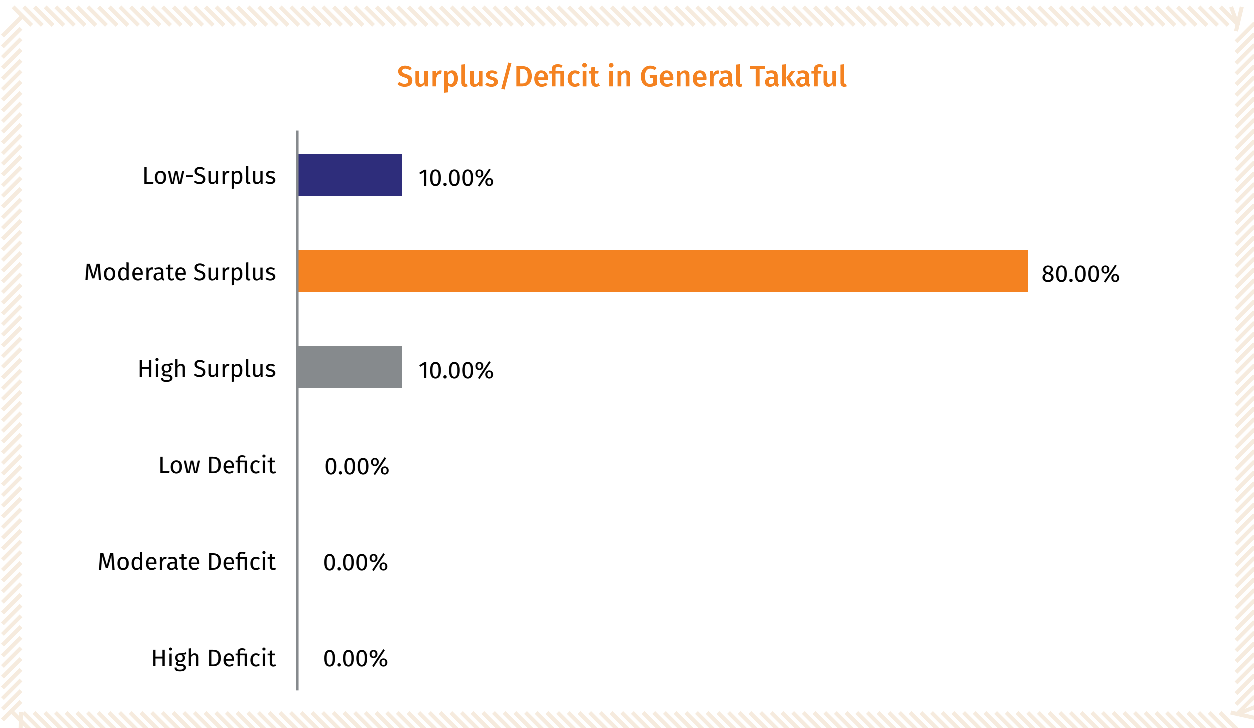


Figure 15. Takaful Industry Top Concerns

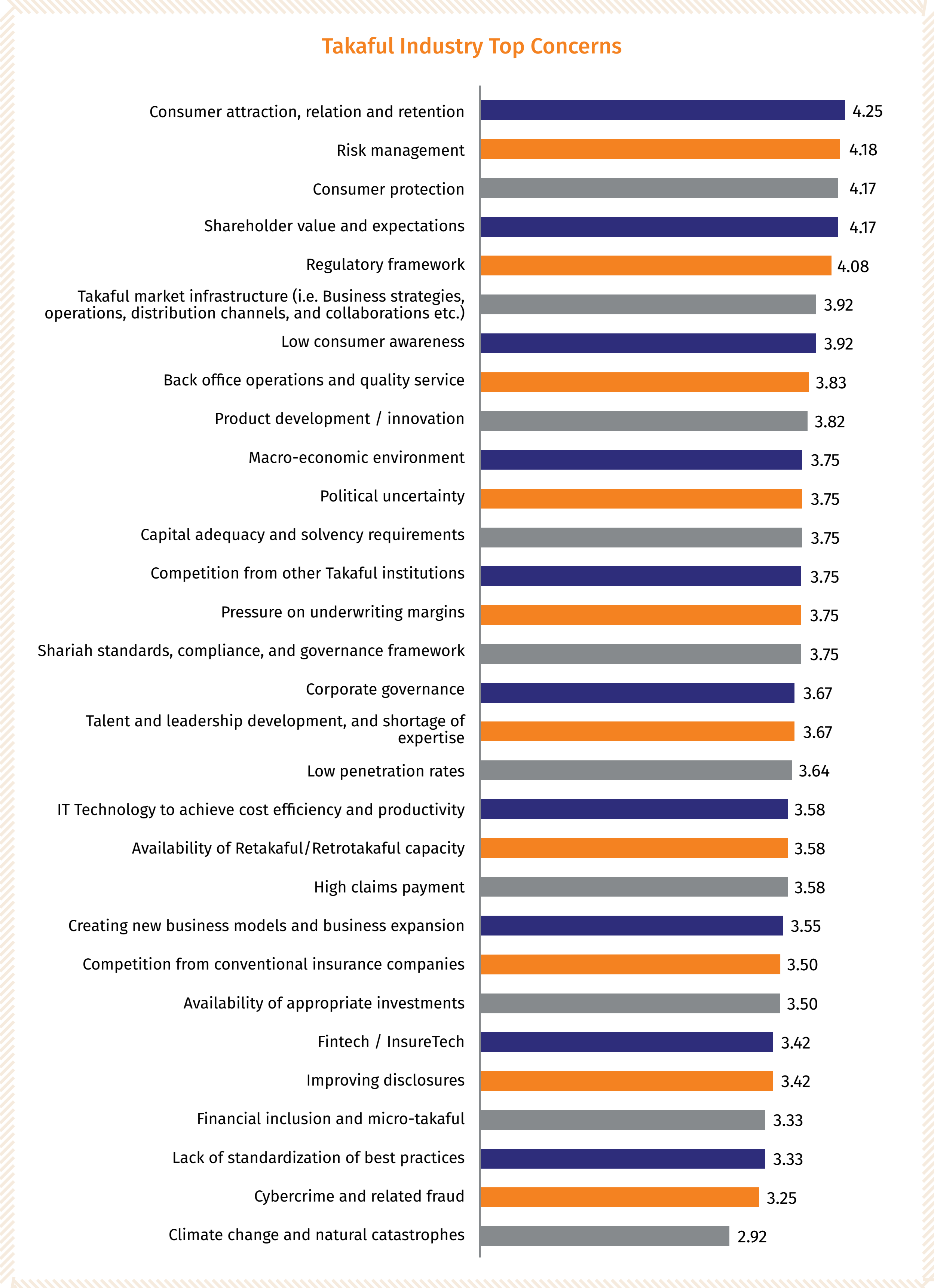


Figure 16. Takaful Risk Dashboard

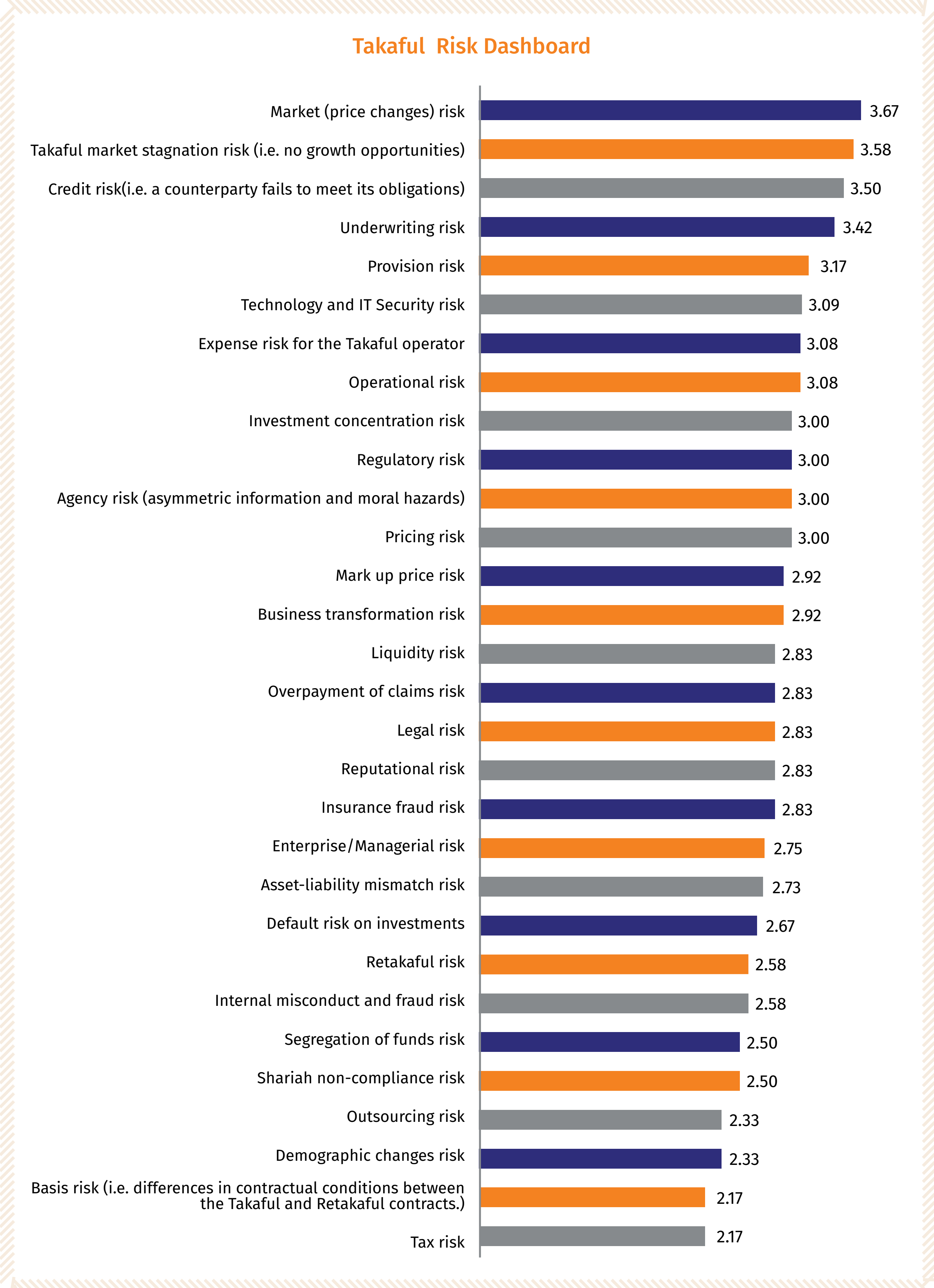


Figure 17. Annual Premium Growth Rate

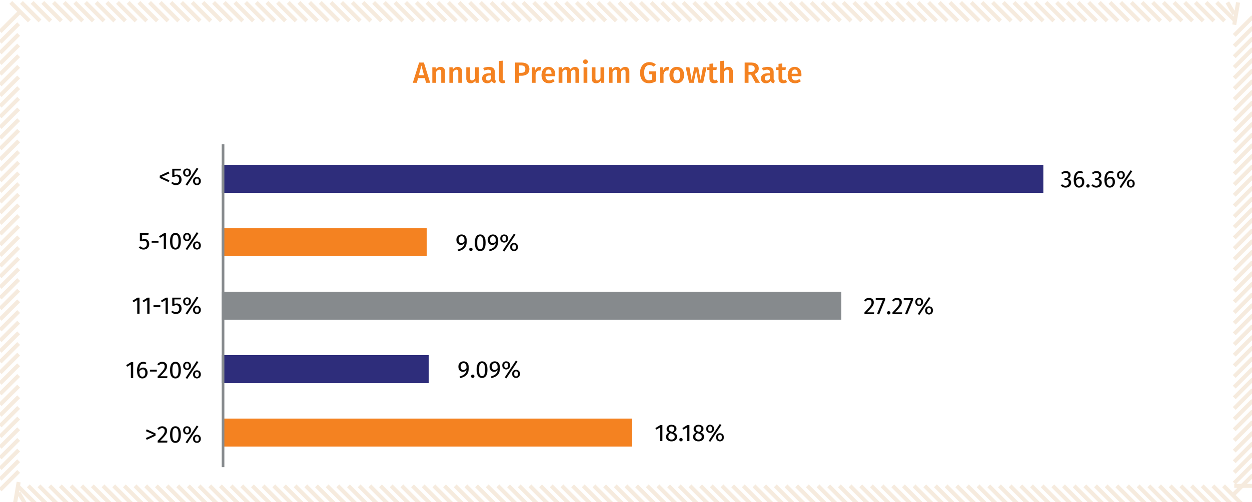


Figure 18. Takaful Market Segments Driving Growth

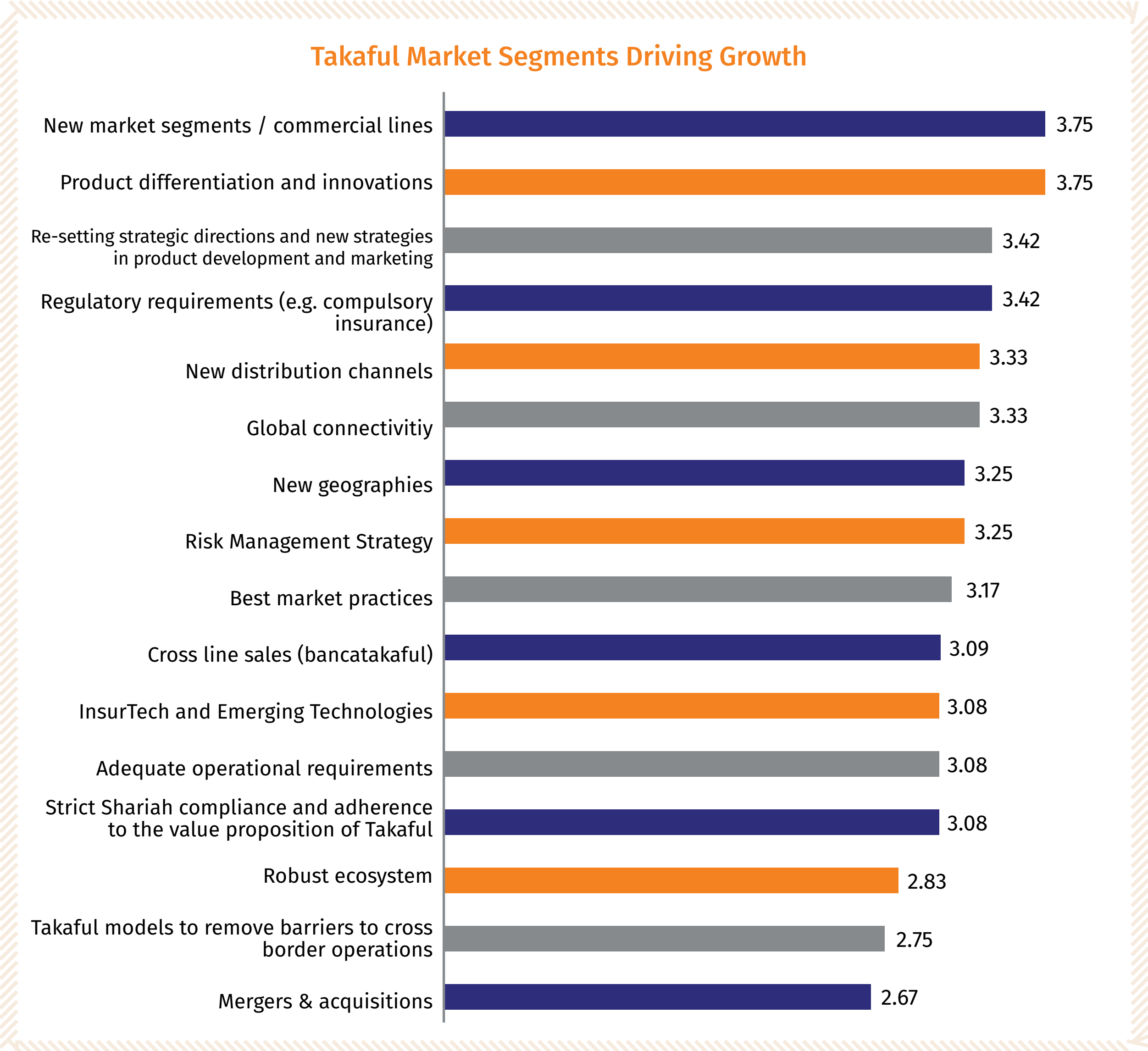


Figure 19. Distribution Channels Driving Growth

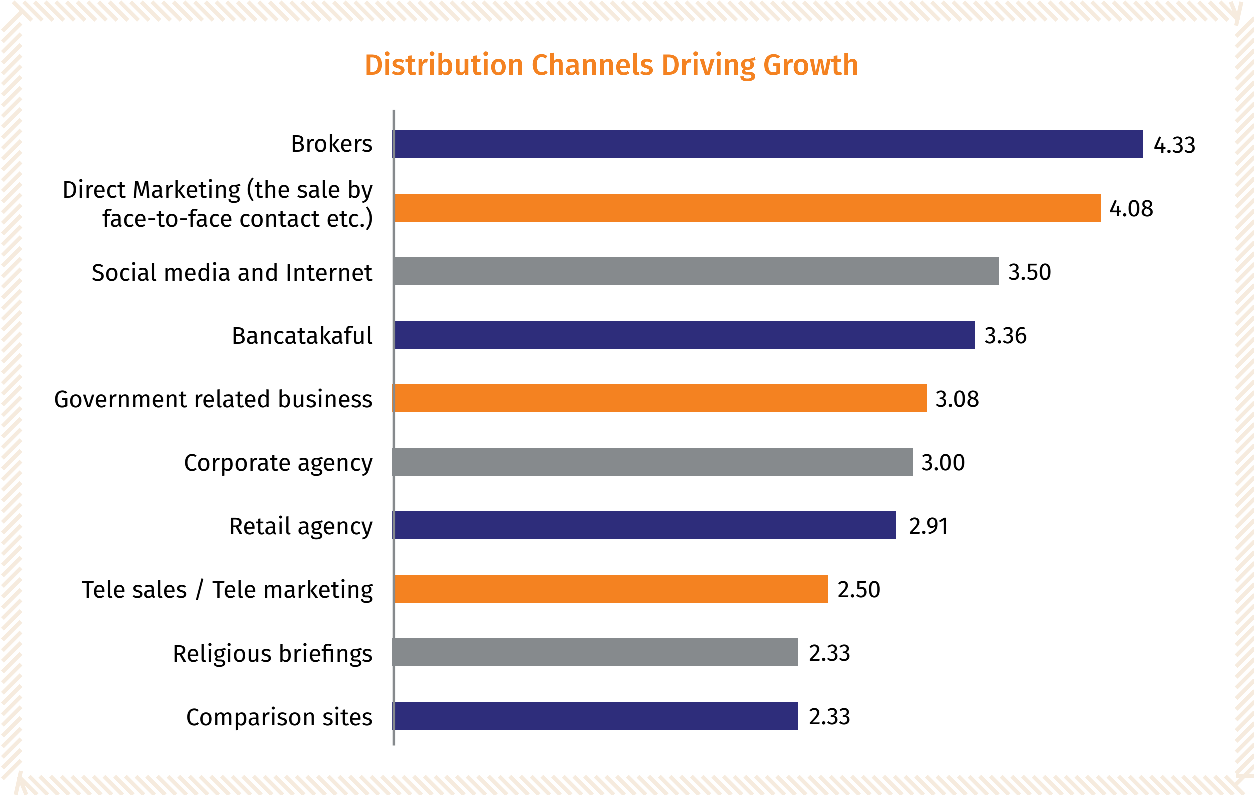


Figure 20. Takaful Products Driving Growth

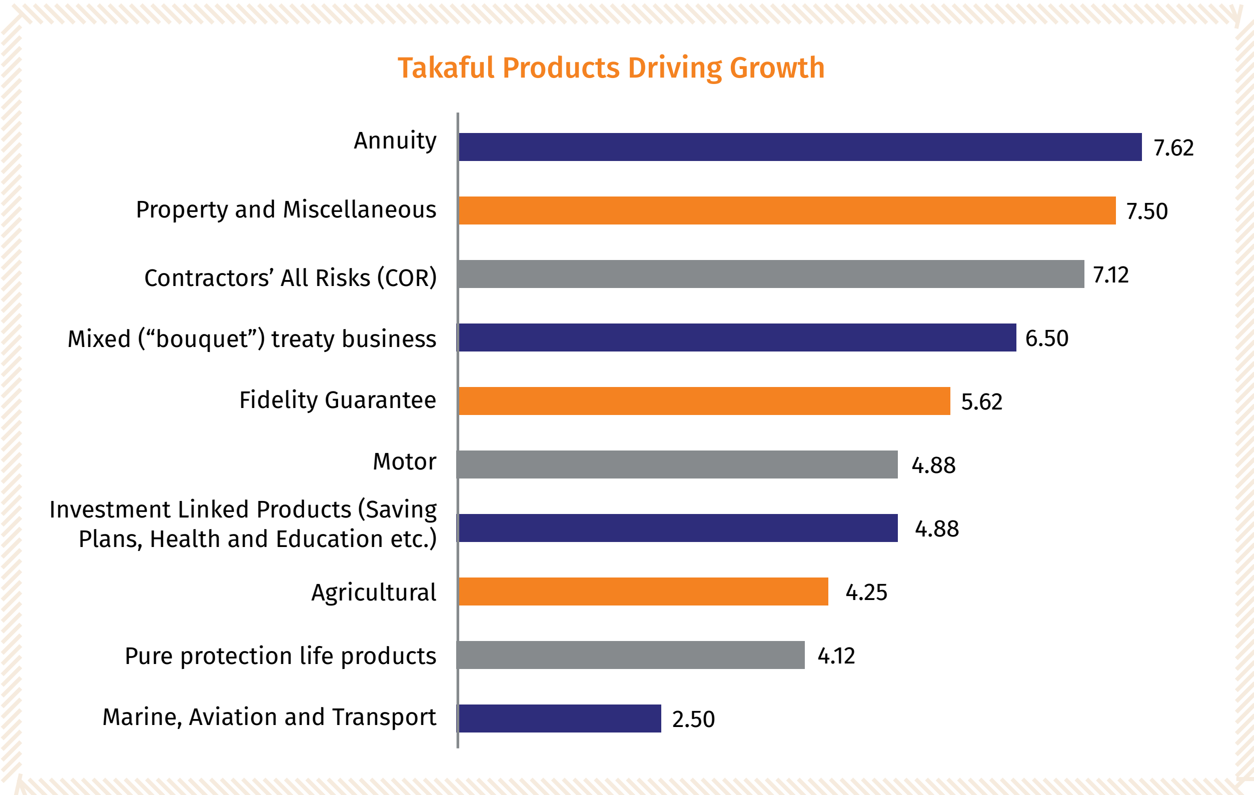


Figure 21. Effective Business Drivers (ranking in order of importance)

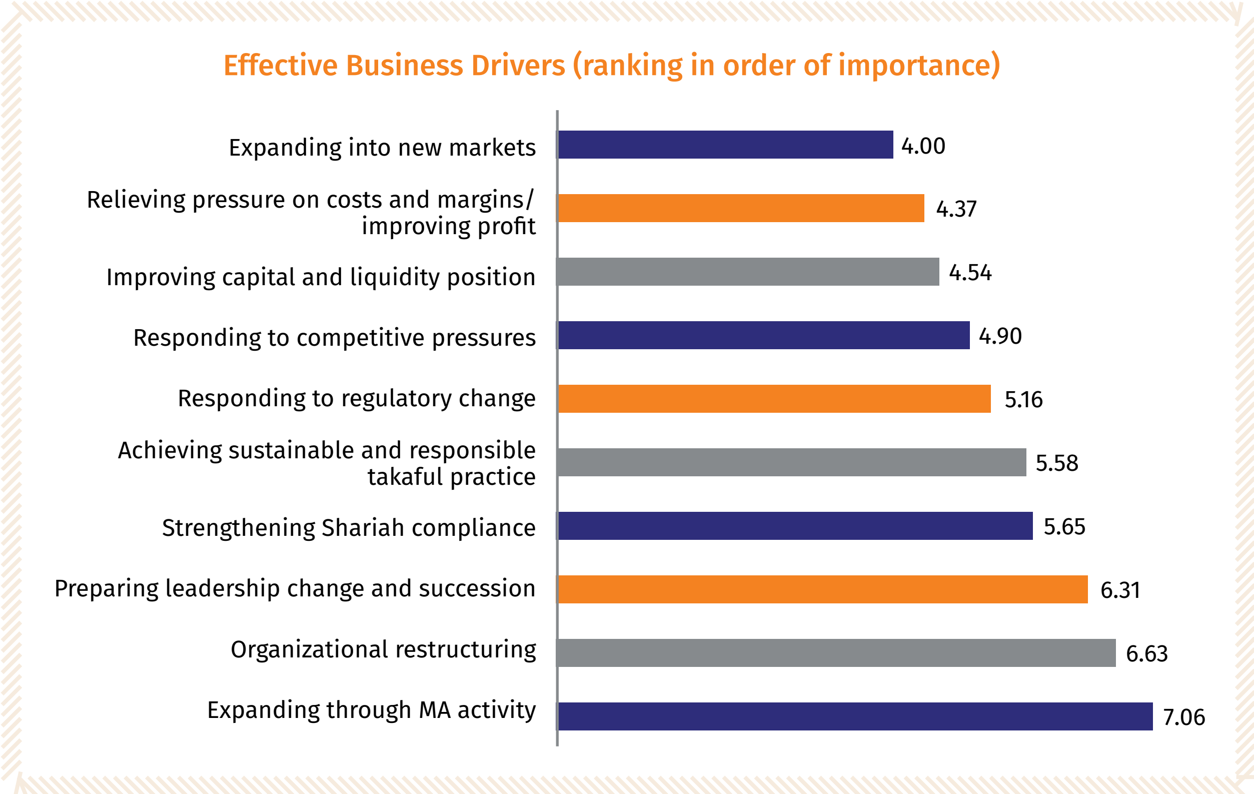


Figure 22. Revenue Growth Drivers

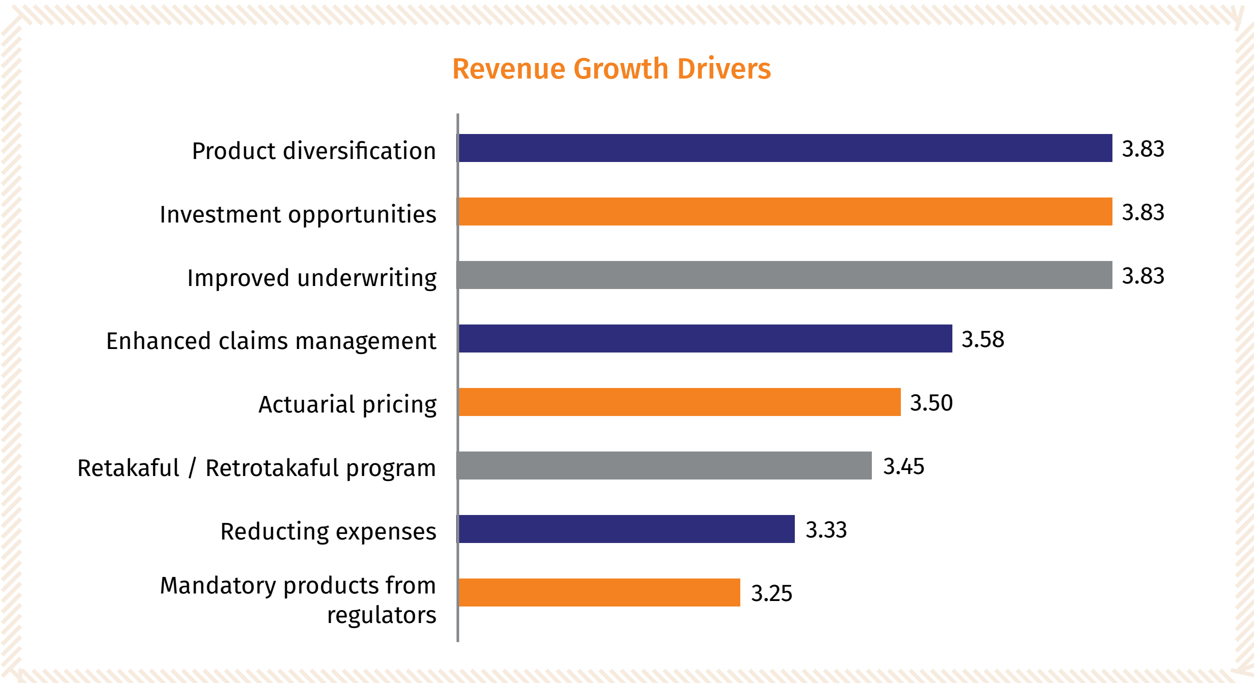


Figure 23. InsurTech Innovations Driving Growth

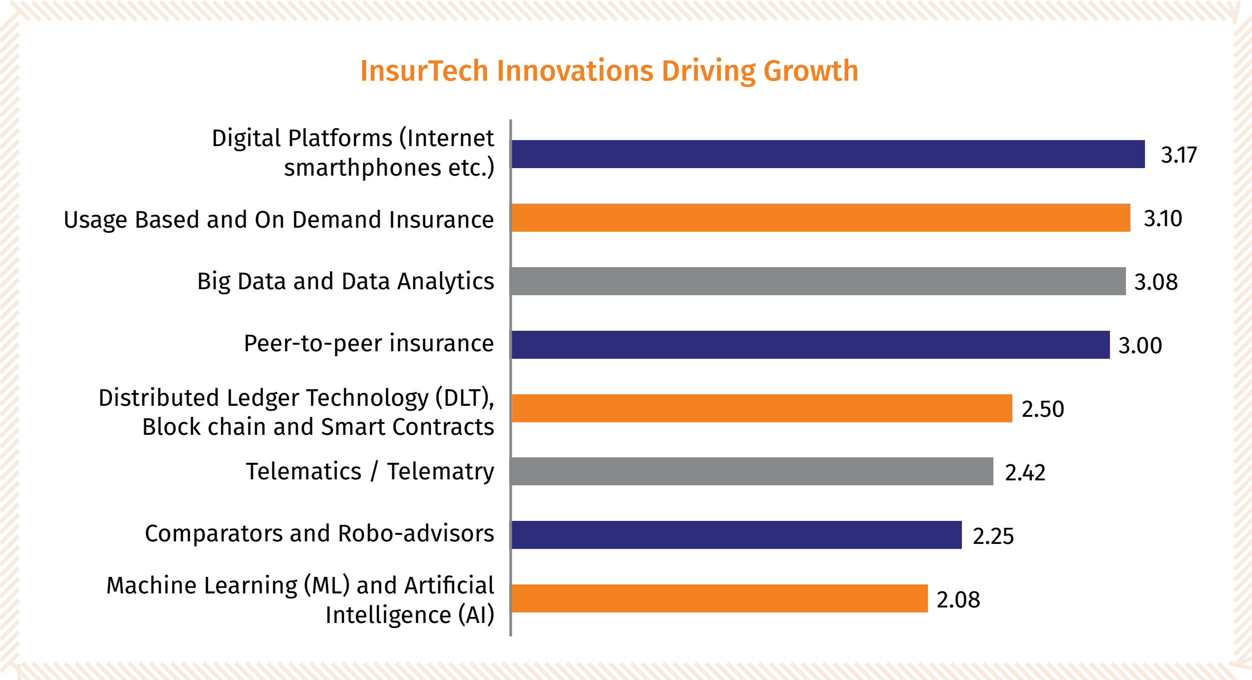


Figure 24. Leveraging Technology for Revenue Growth

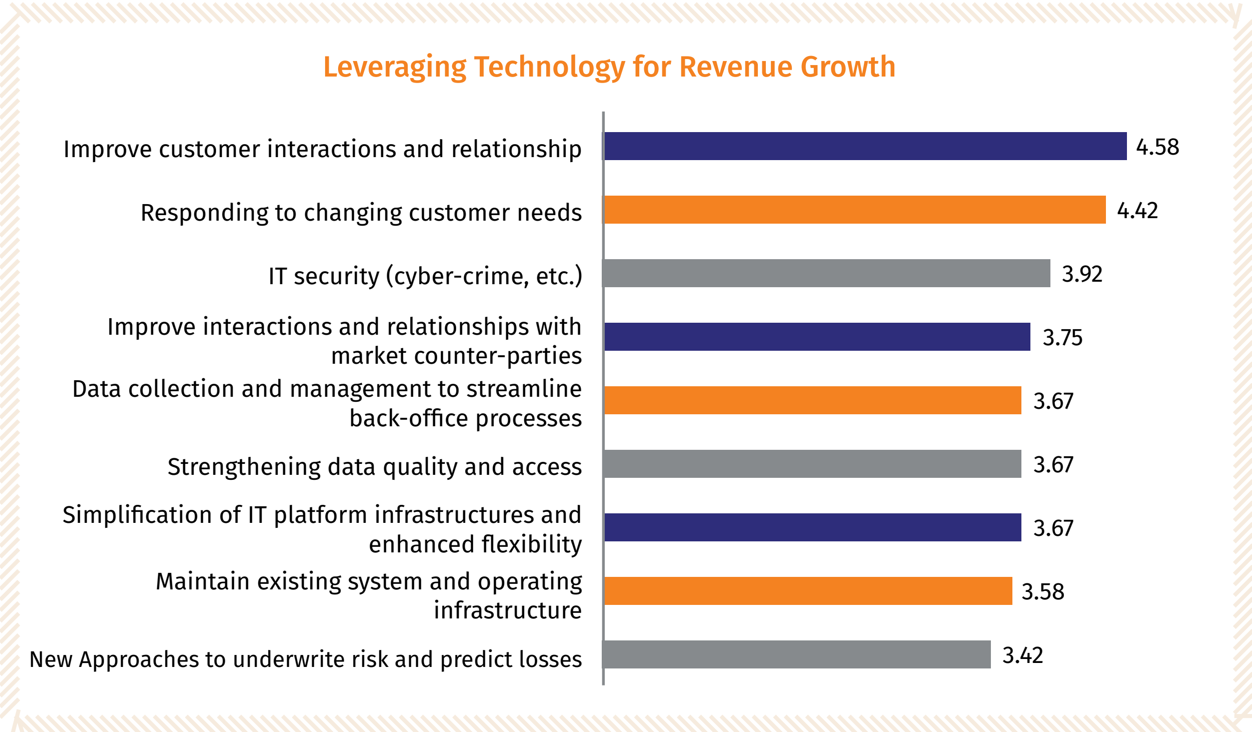


Figure 25. Risk Management Infrastructure and Risk Governance Driving Growth

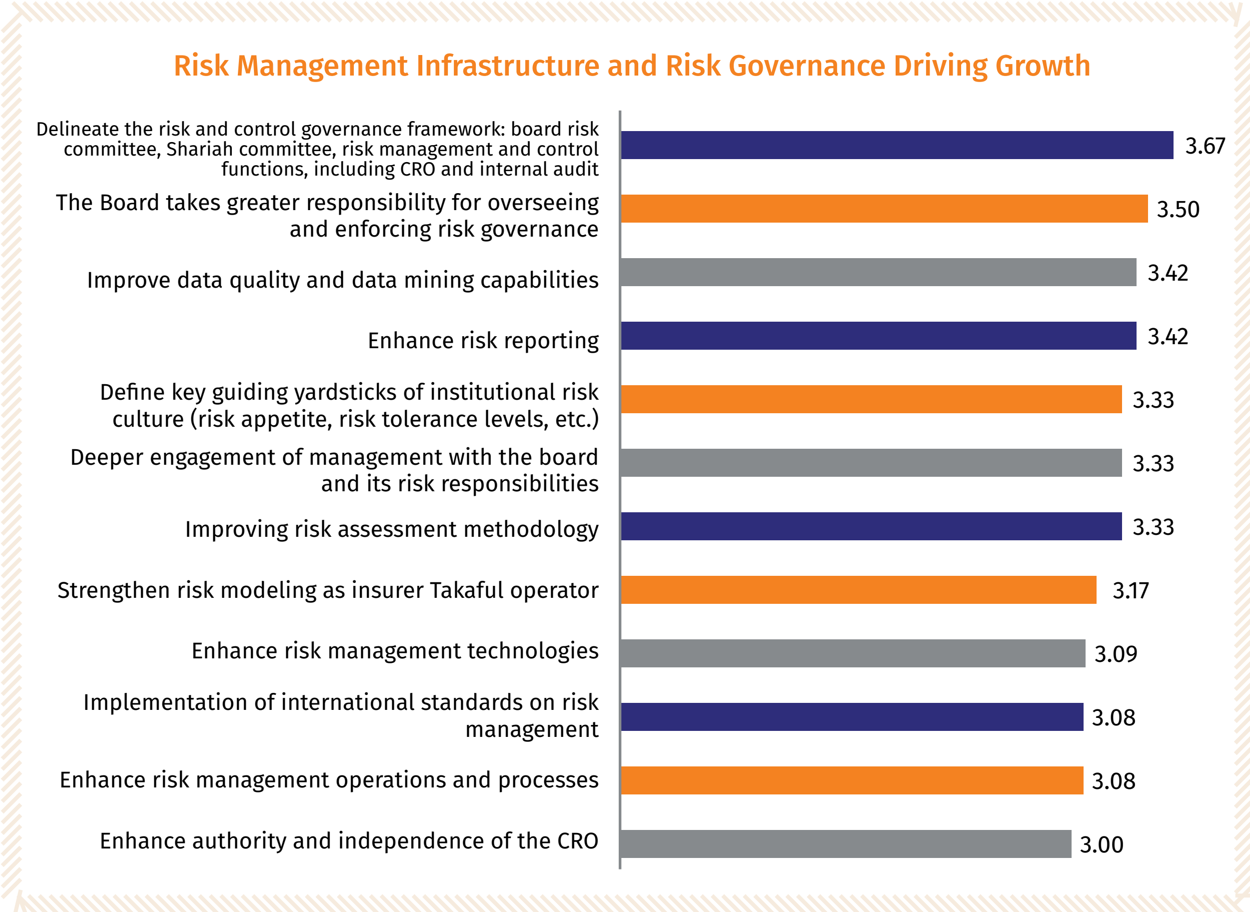


Figure 26. Areas of Human Resources and Talent Development to Improve Institutions' Position

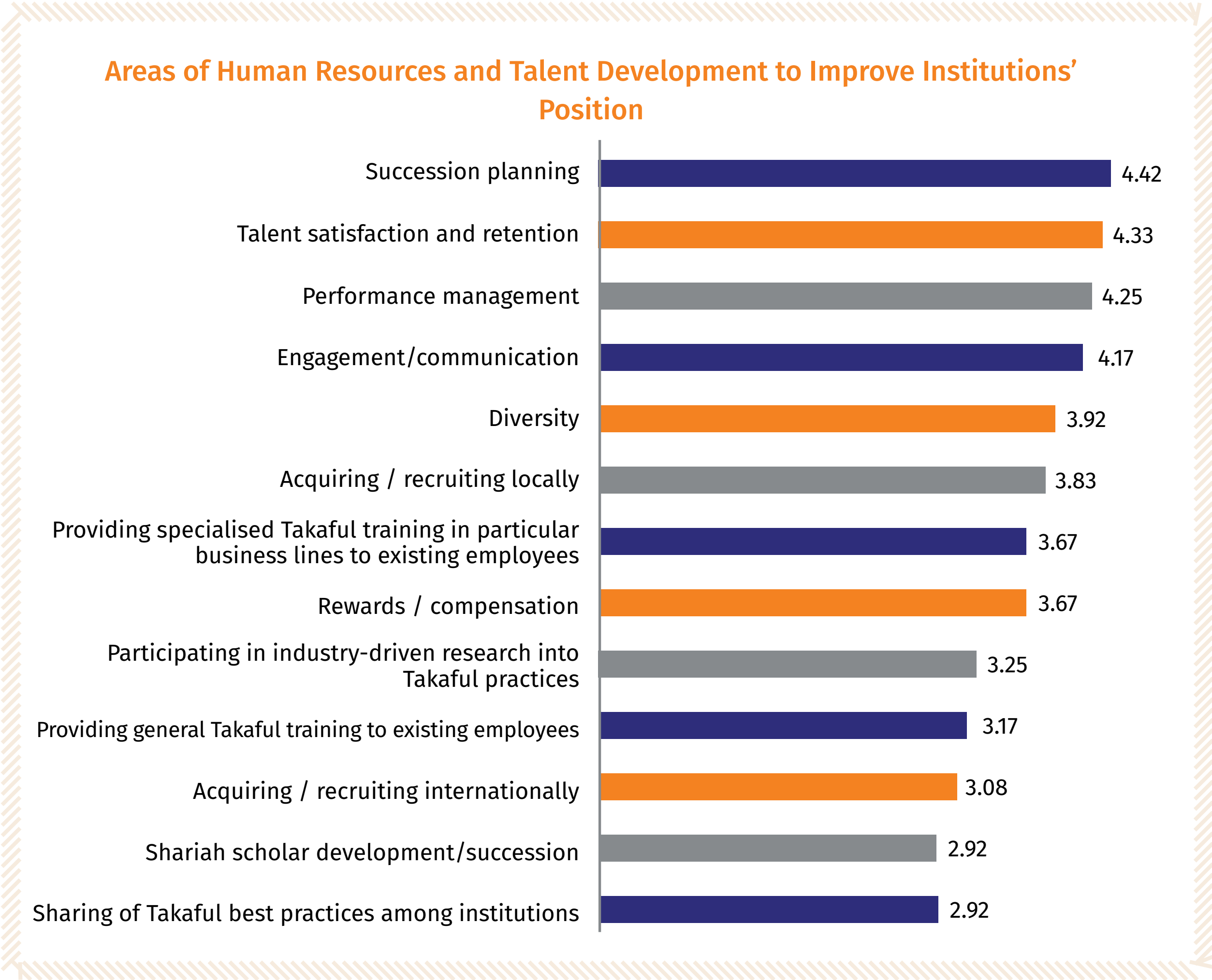


Figure 27. Areas of Customer-Centricity for Institution

Figure 28. Investment Classes that Enhance the Portfolio of Investment of Policy Holder Funds

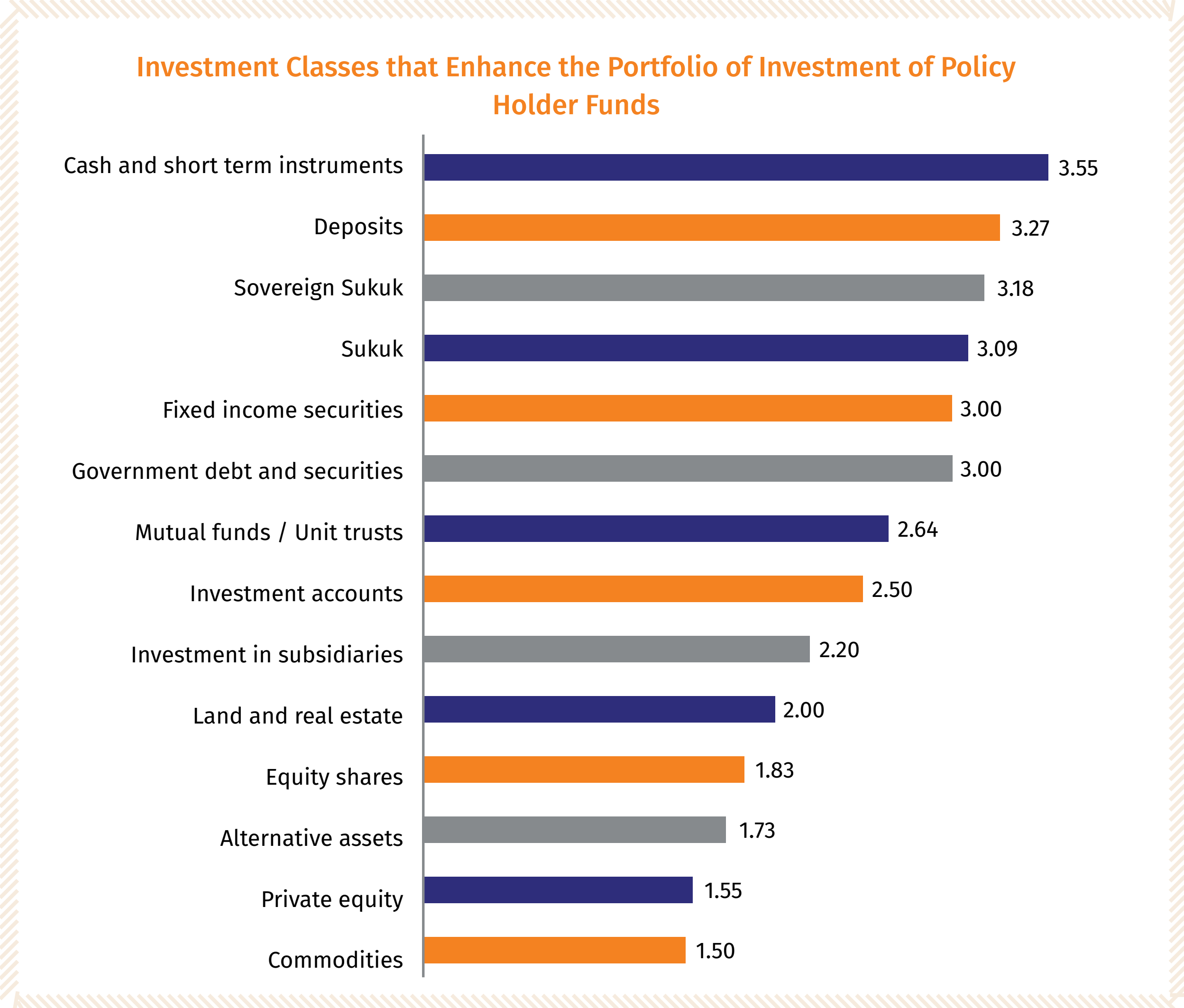


Figure 29. Influence of Regulatory Capital Requirements on Asset Allocation Decisions (1-3 years)

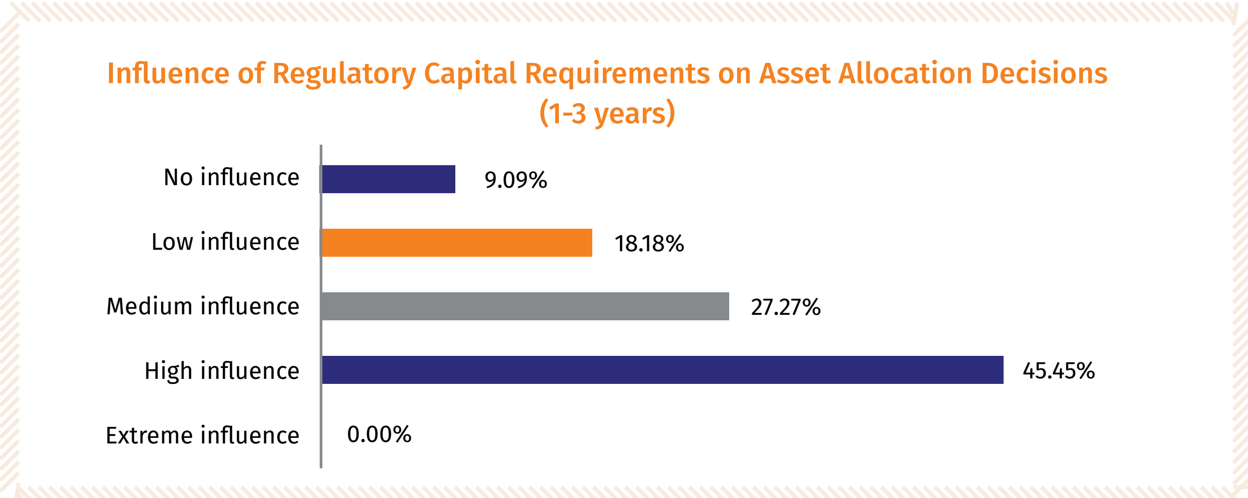


Figure 30. Areas of Improvement in Takaful Regulation

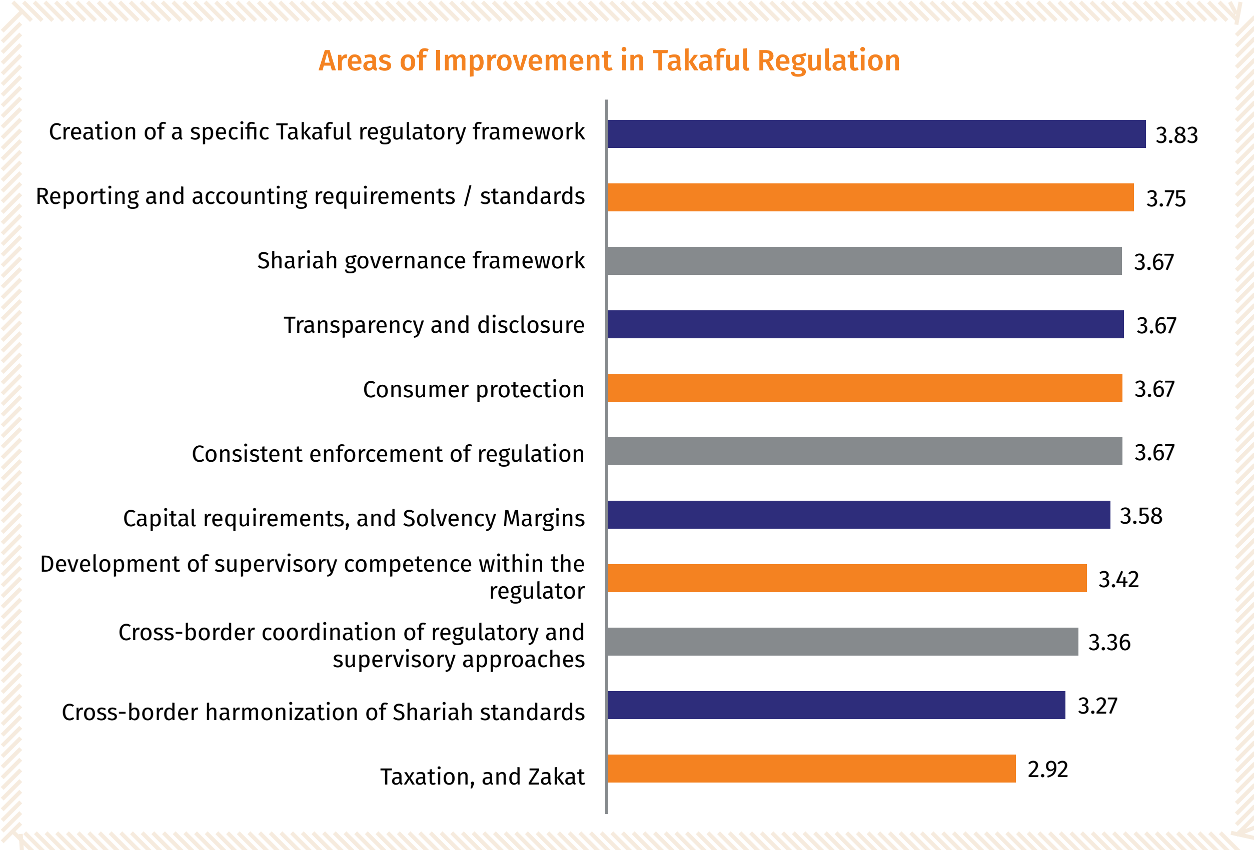


Figure 31. Stakeholders that contribute to Society, Economy and Environment

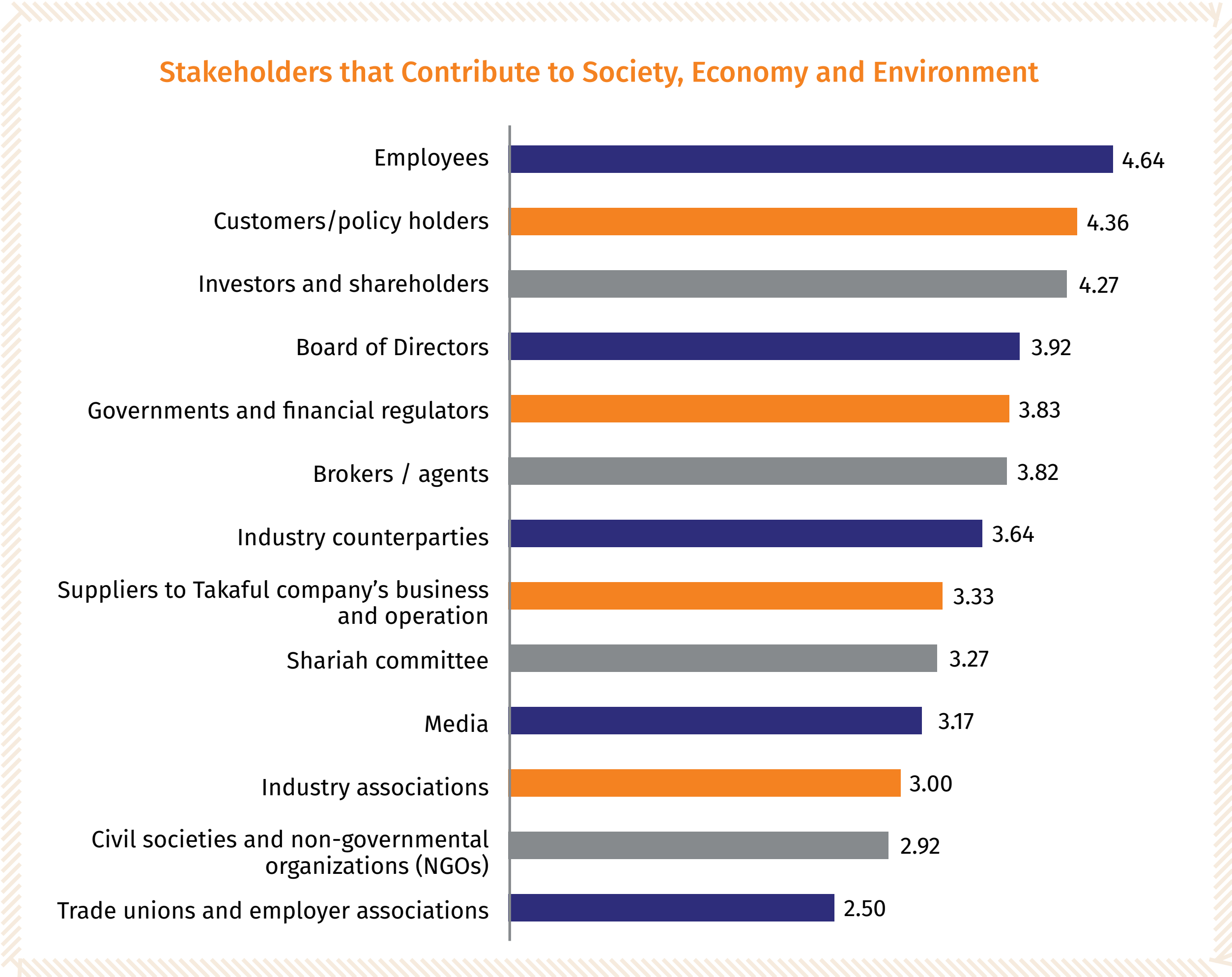


Figure 32. Values Institutions Promote

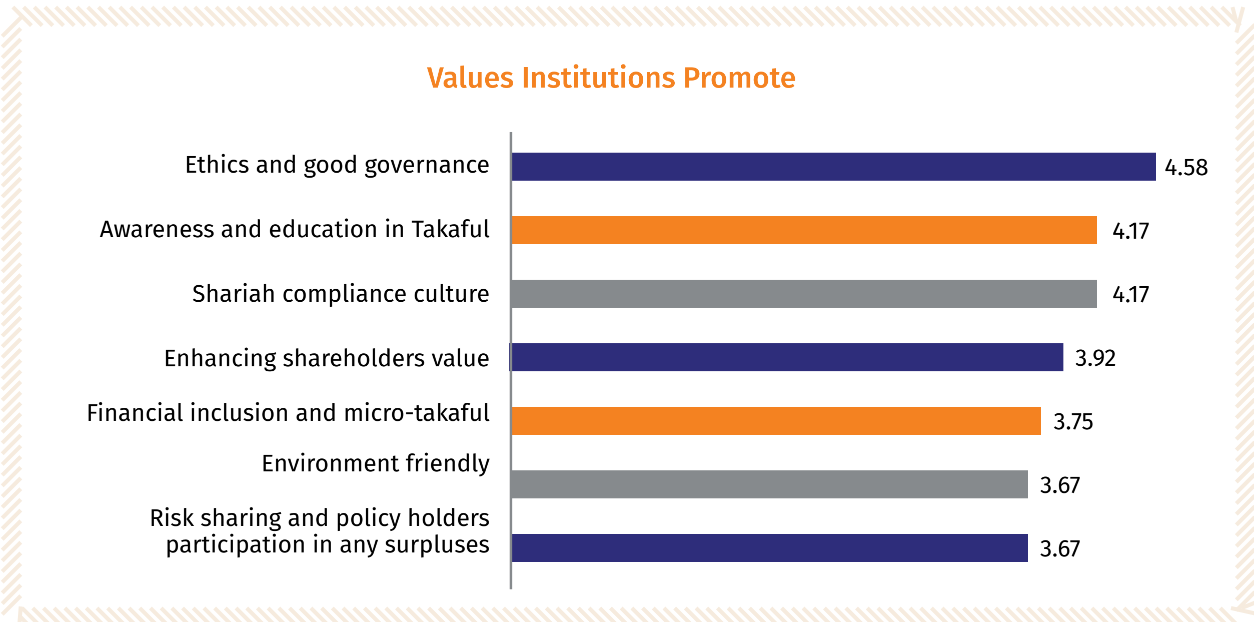


Figure 33. Challenges for Microtakaful's Success

Group 2: Middle East ex-GCC

Figure 1. Type of Takaful Operations

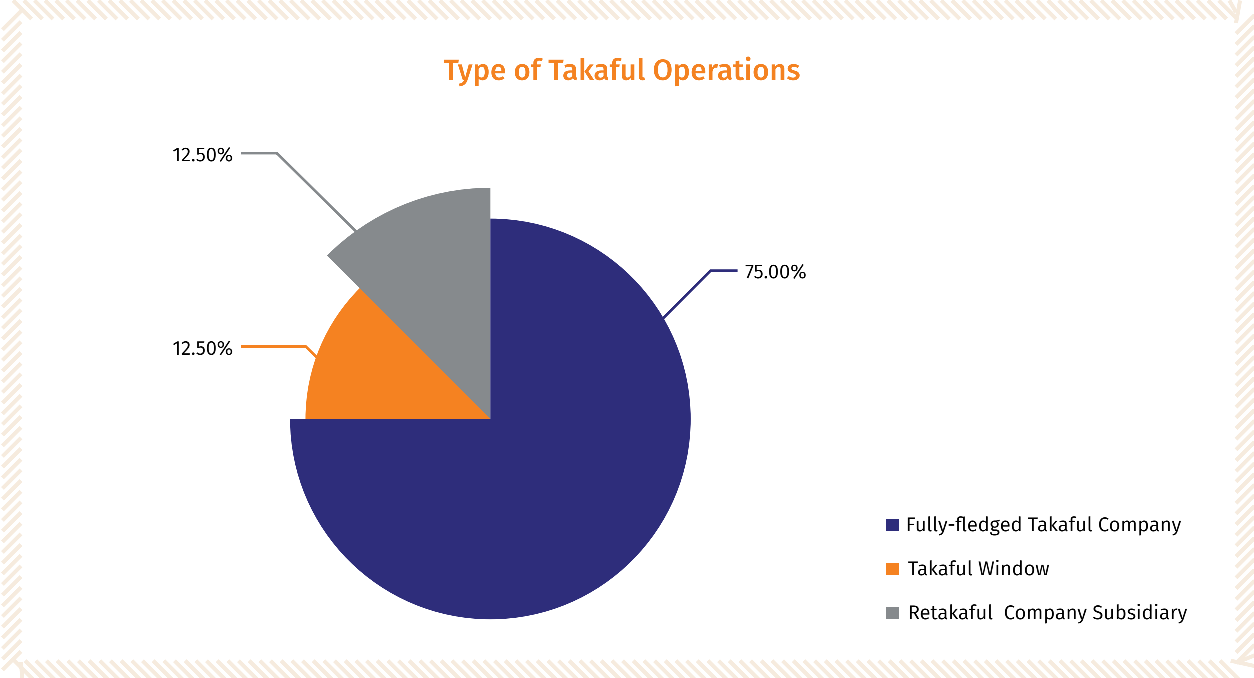


Figure 2. Takaful Models

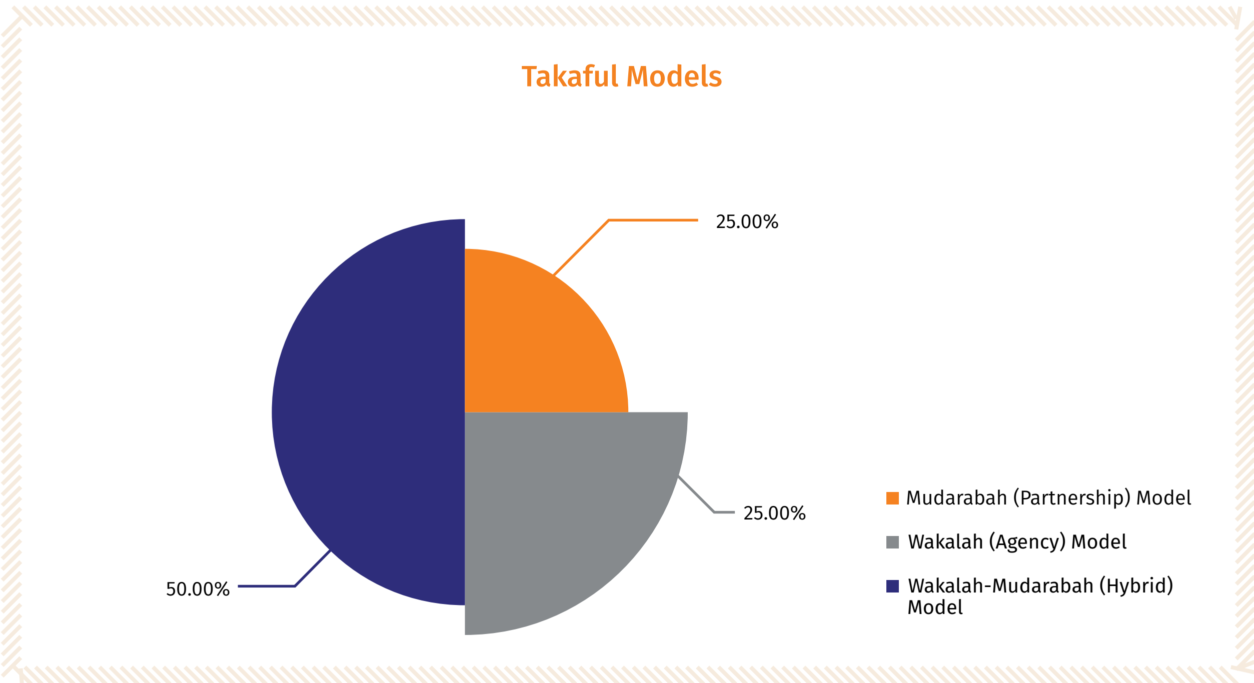


Figure 3. Nature of Takaful Operations

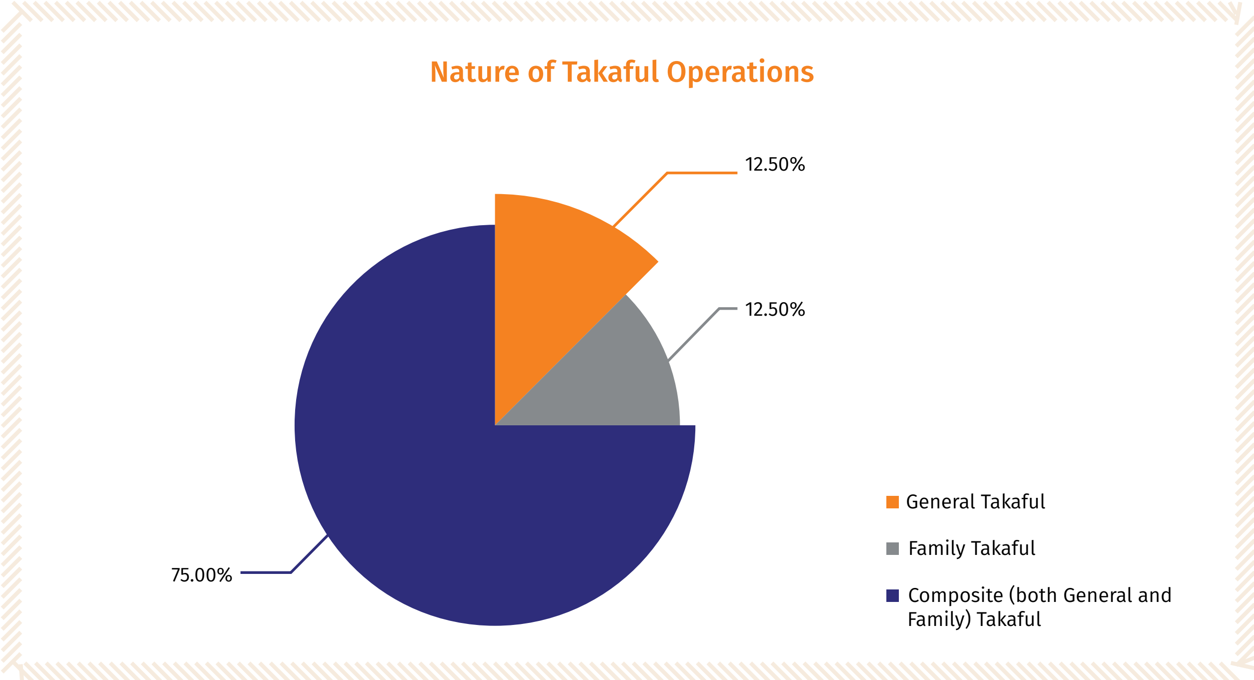


Figure 4. Total Gross Annual Takaful Contributions

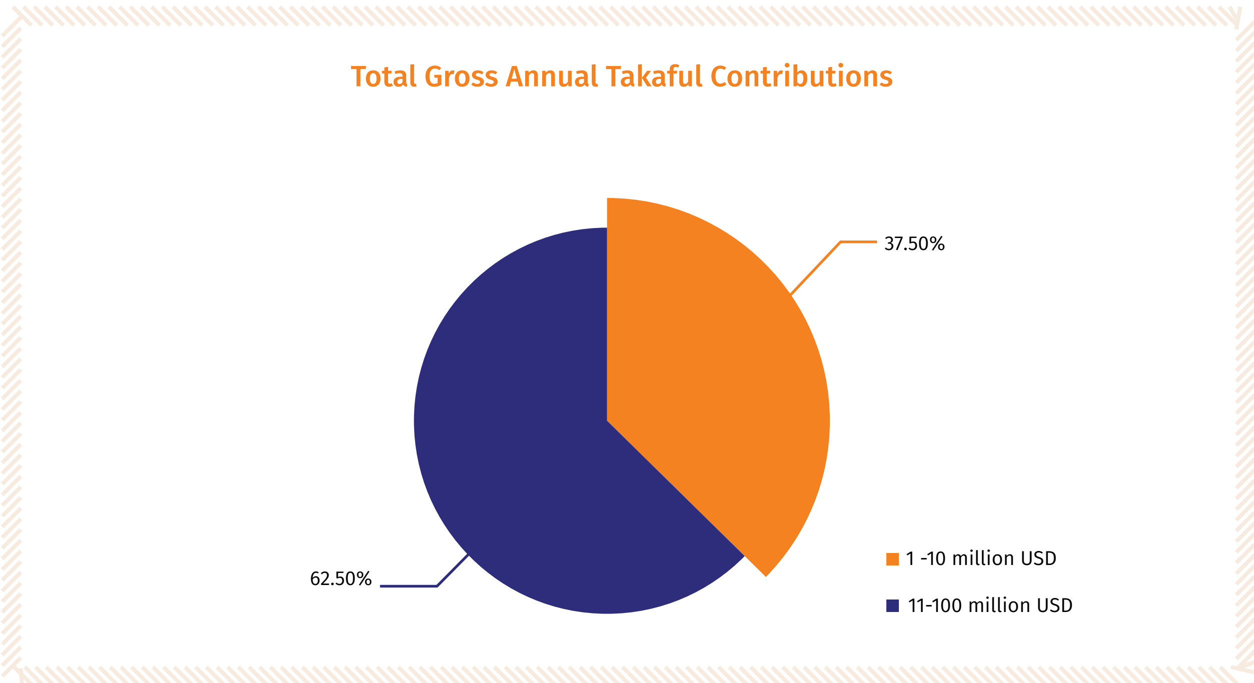


Figure 5. Overall Expense Ratio

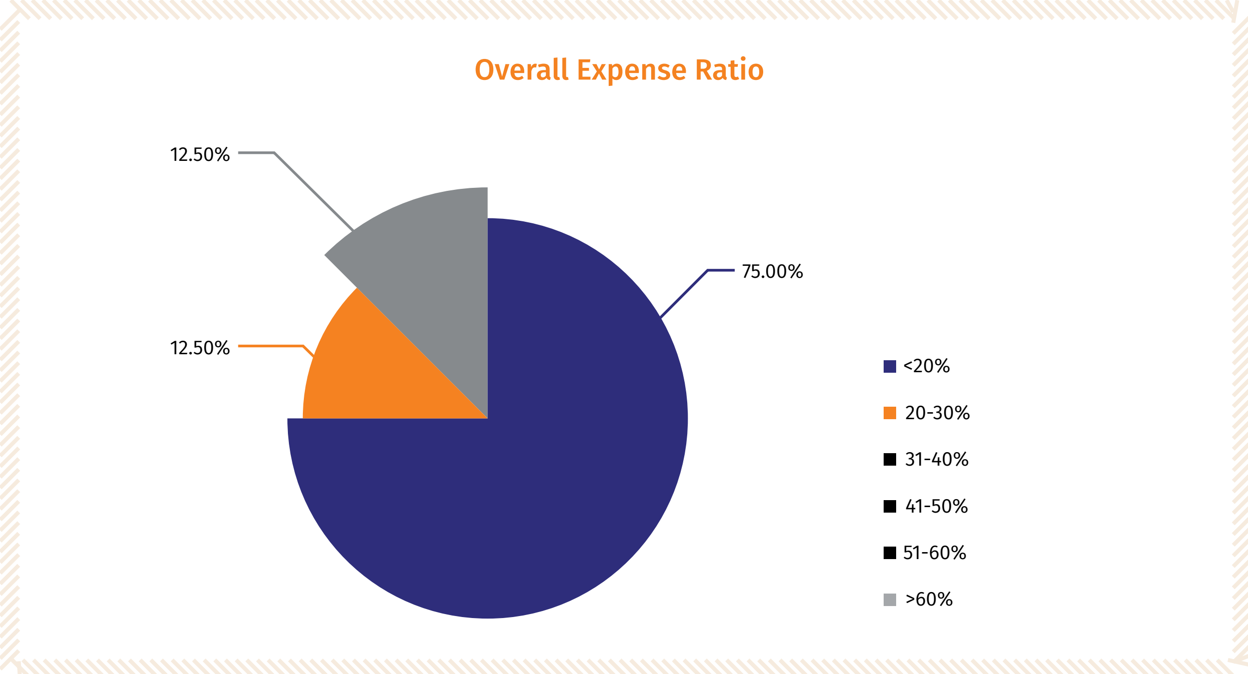


Figure 6. Average Retention Ratio

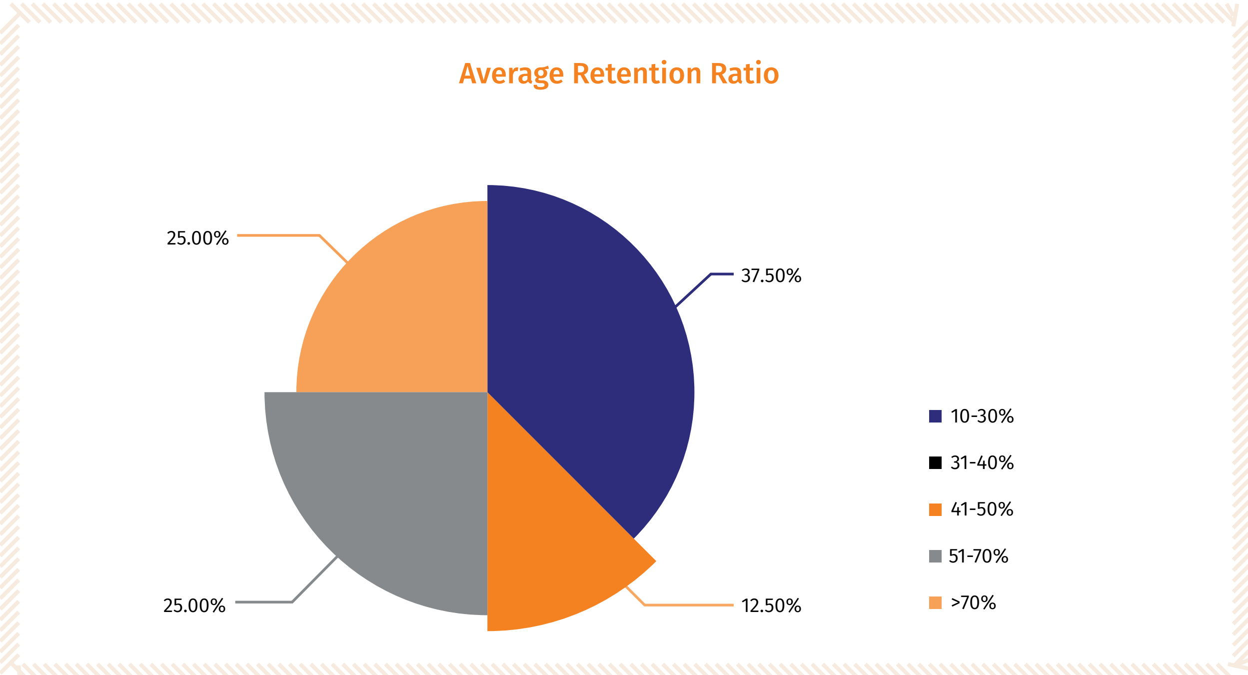


Figure 7. Optimism Level on Overall Insurance Industry

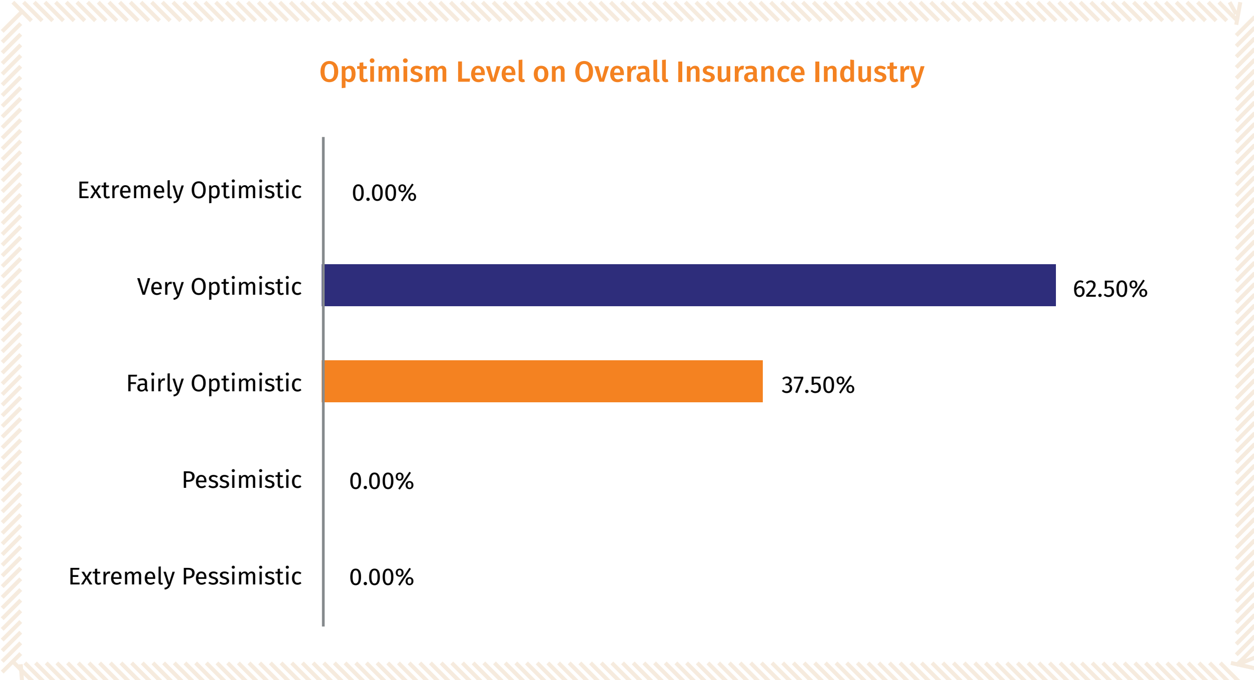


Figure 8. Takaful Industry Optimism Level

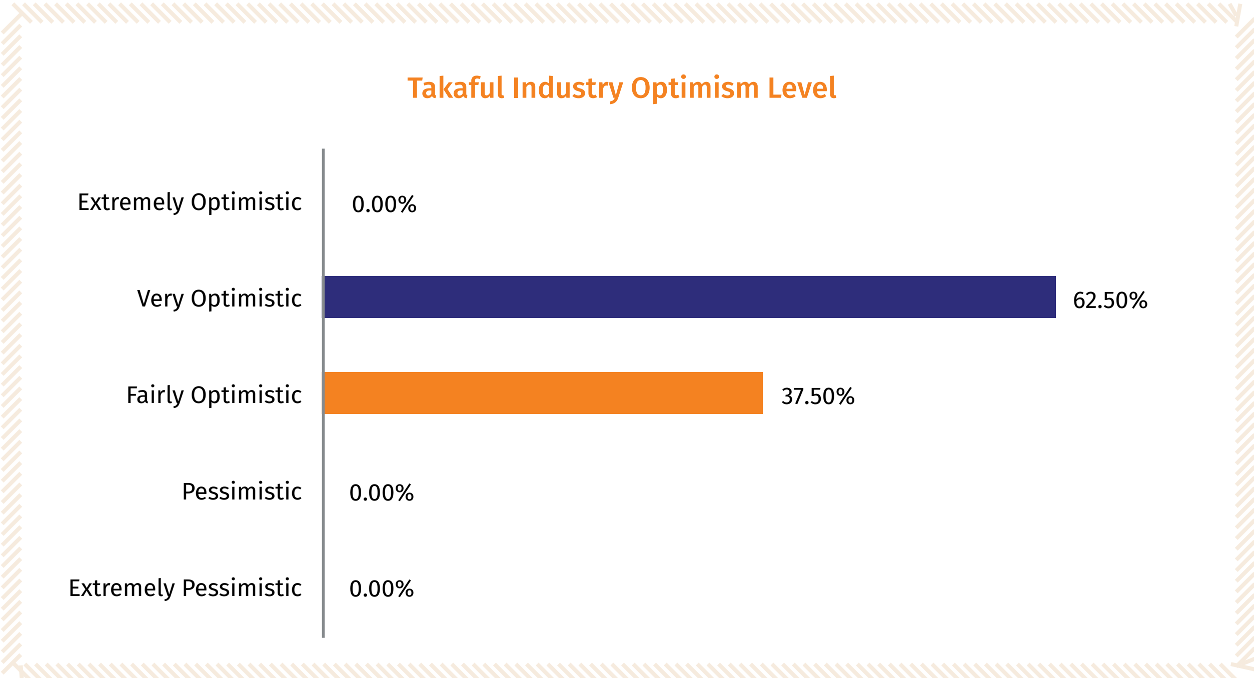


Figure 9. Expectations of Revenue Growth compared with conventional peers

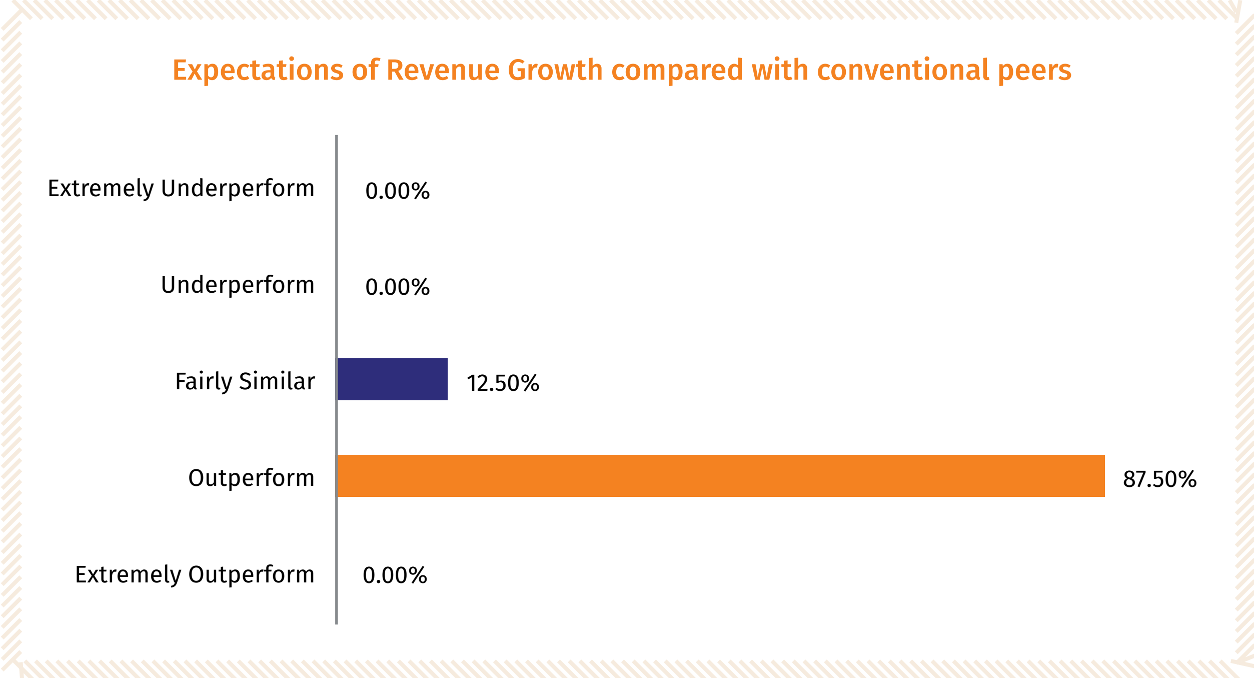


Figure 10. Revenue in Personal Lines - Short Term

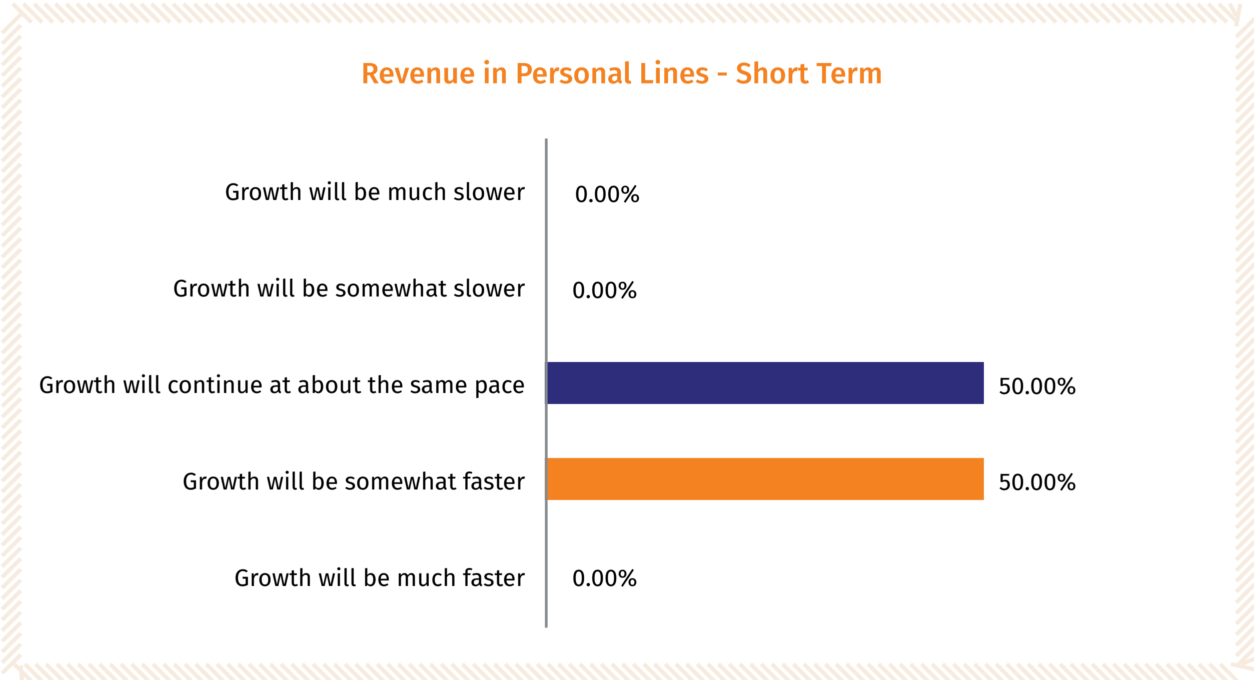


Figure 11. Revenue in Personal Lines - Long Term (2018-2021)

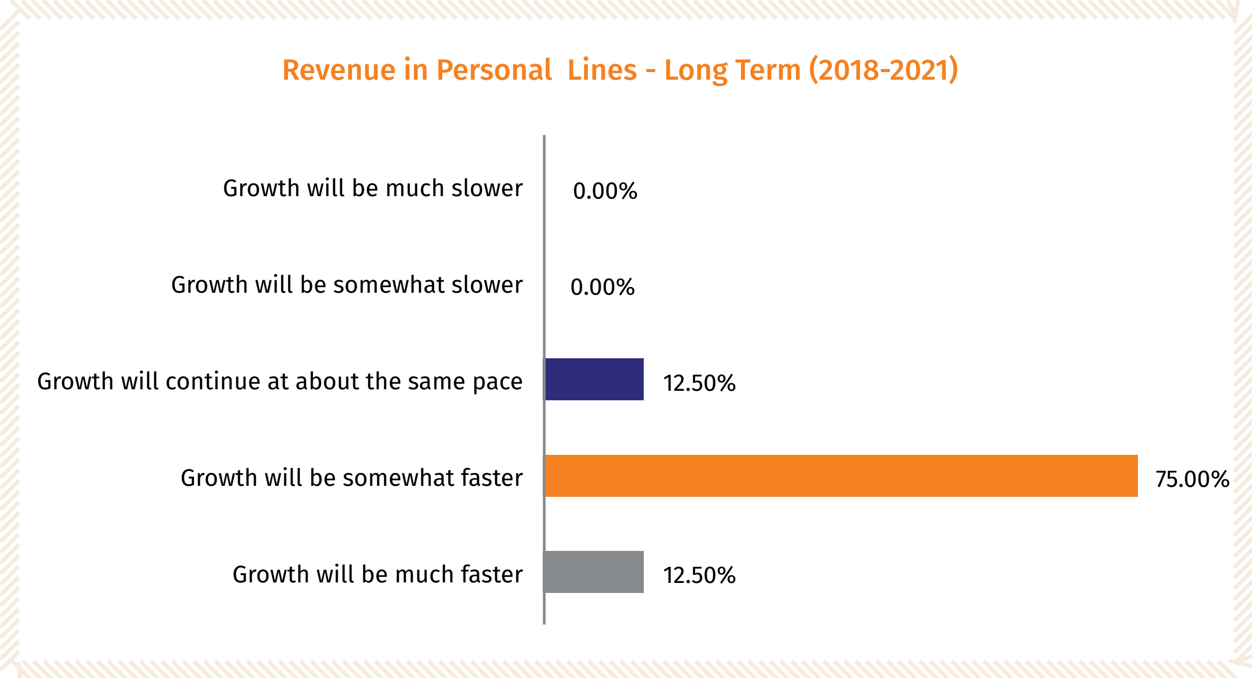


Figure 12. Revenue in Commercial Lines - Short Term

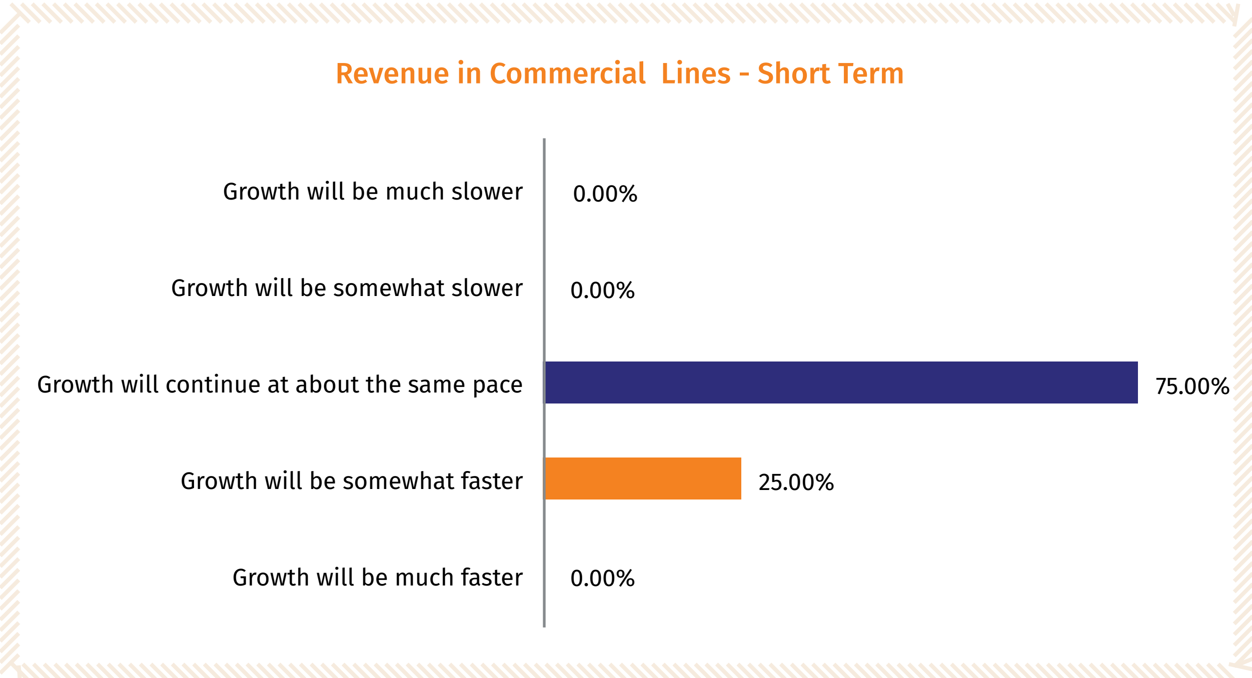


Figure 13. Revenue in Commercial Lines - Long Term (2018-2021)

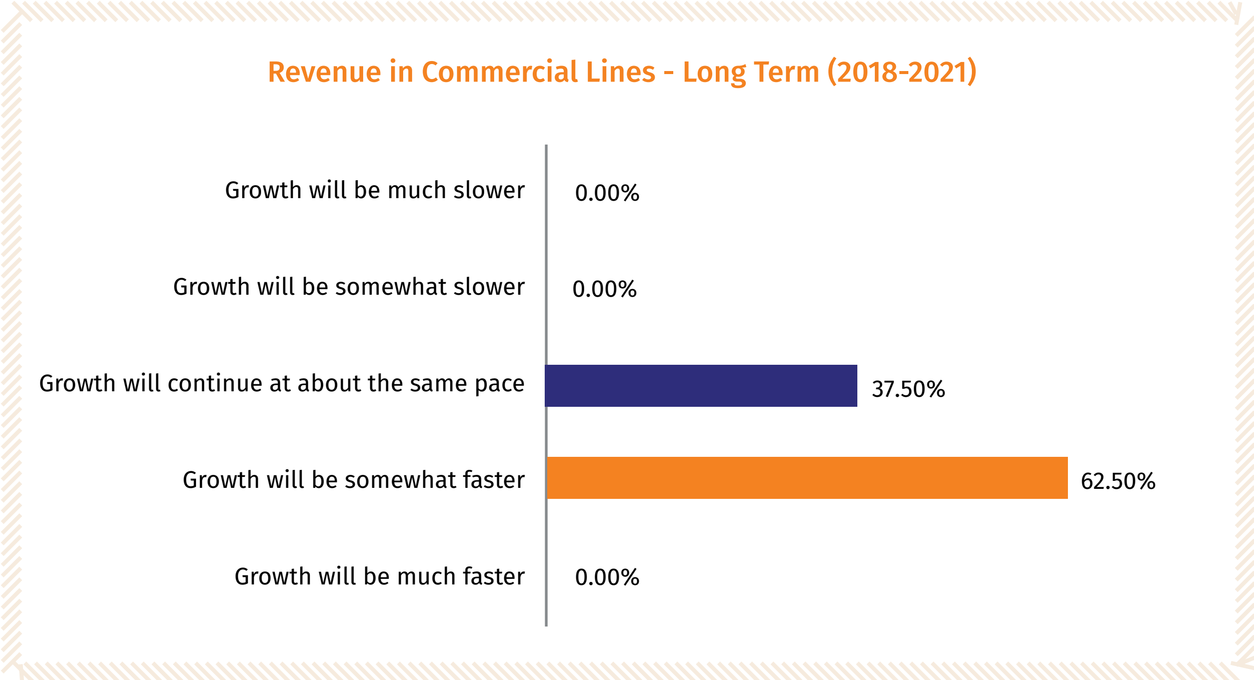
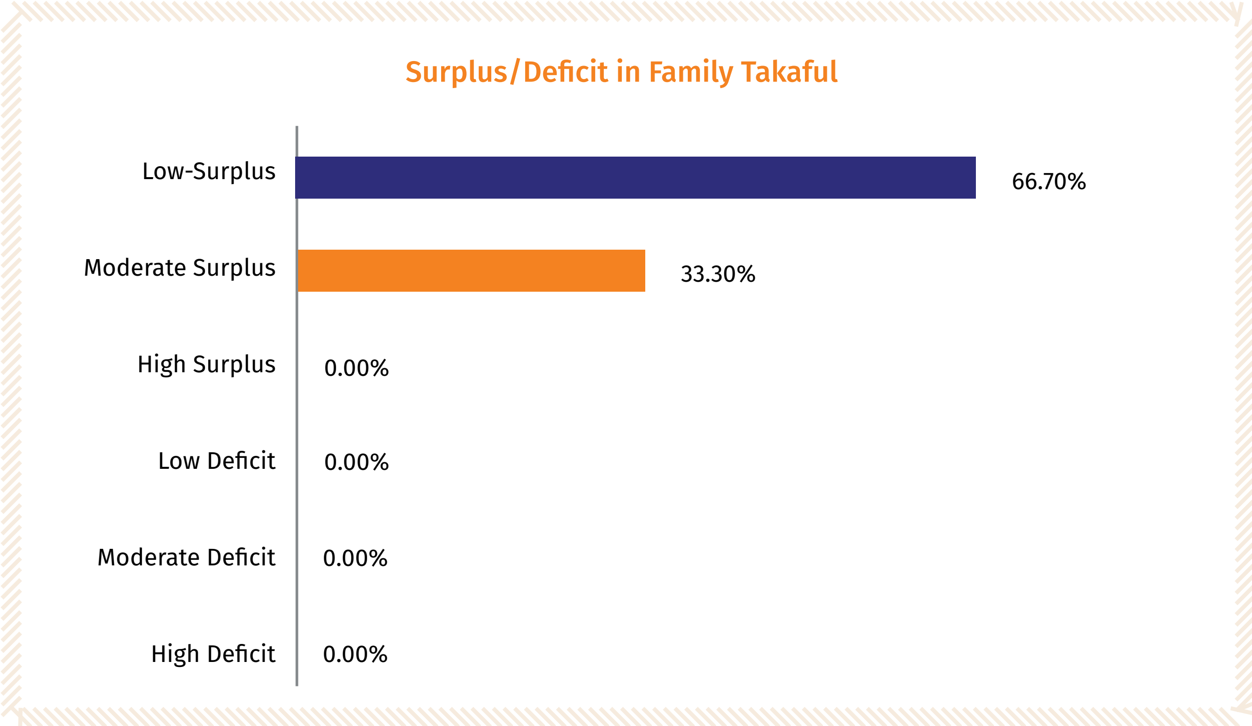


Figure 14. Surplus/Deficit in Family Takaful and General Takaful



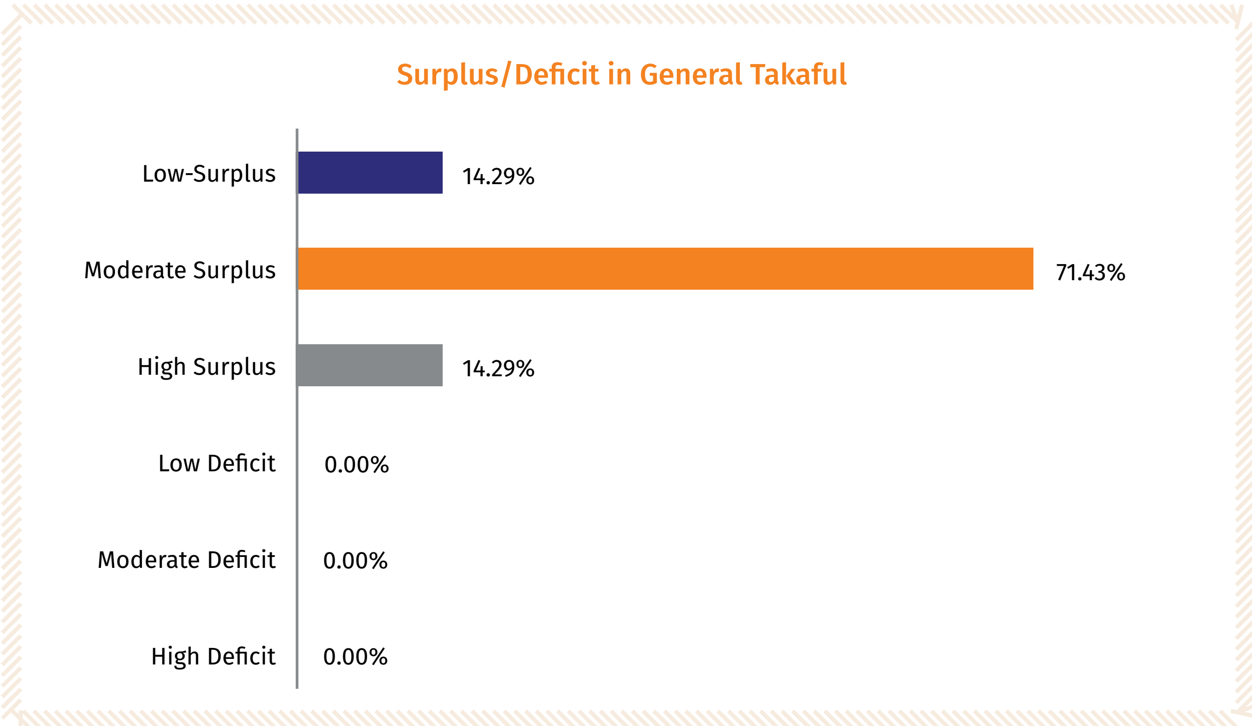


Figure 15. Takaful Industry Top Concerns

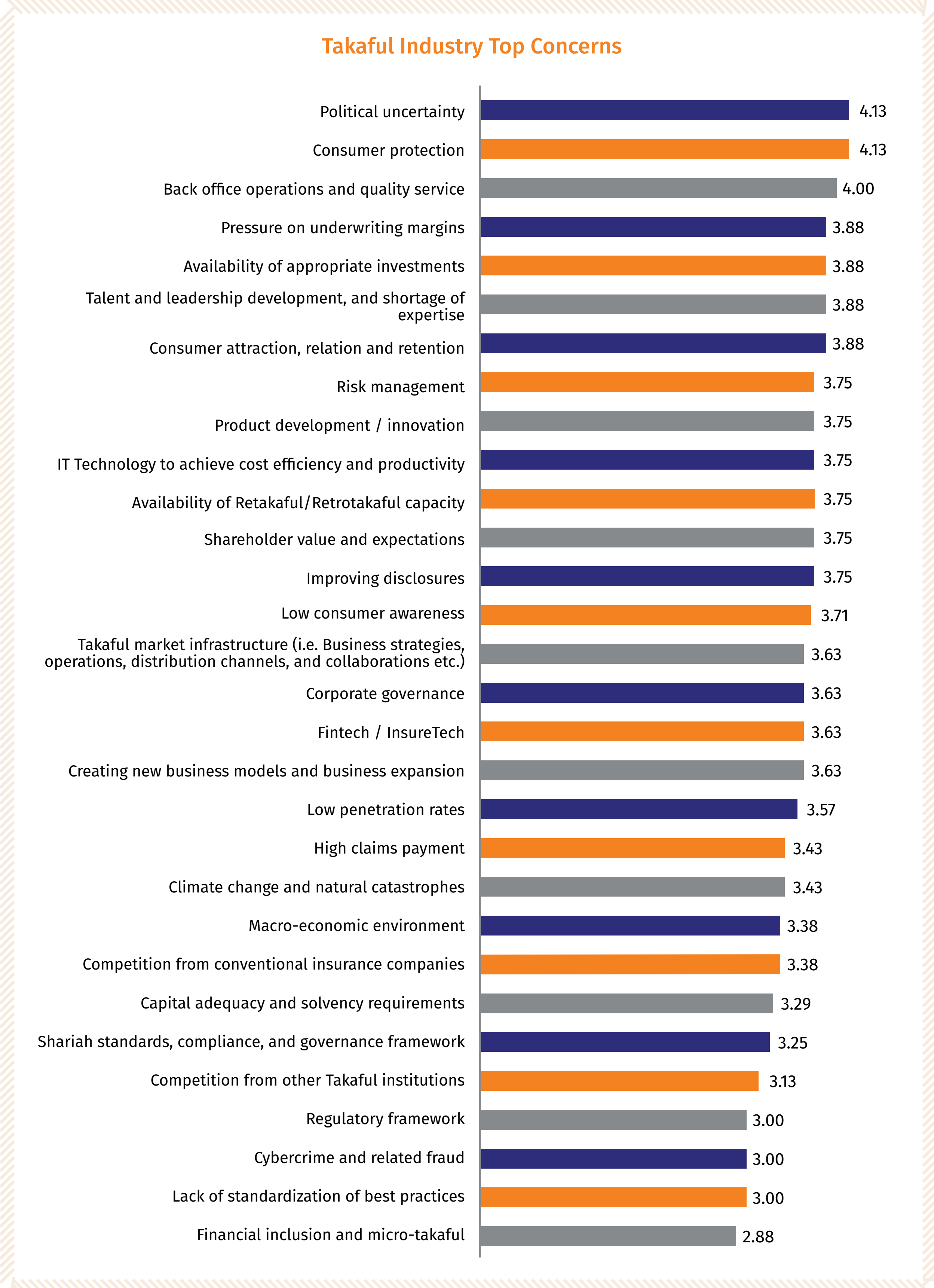


Figure 16. Takaful Risk Dashboard

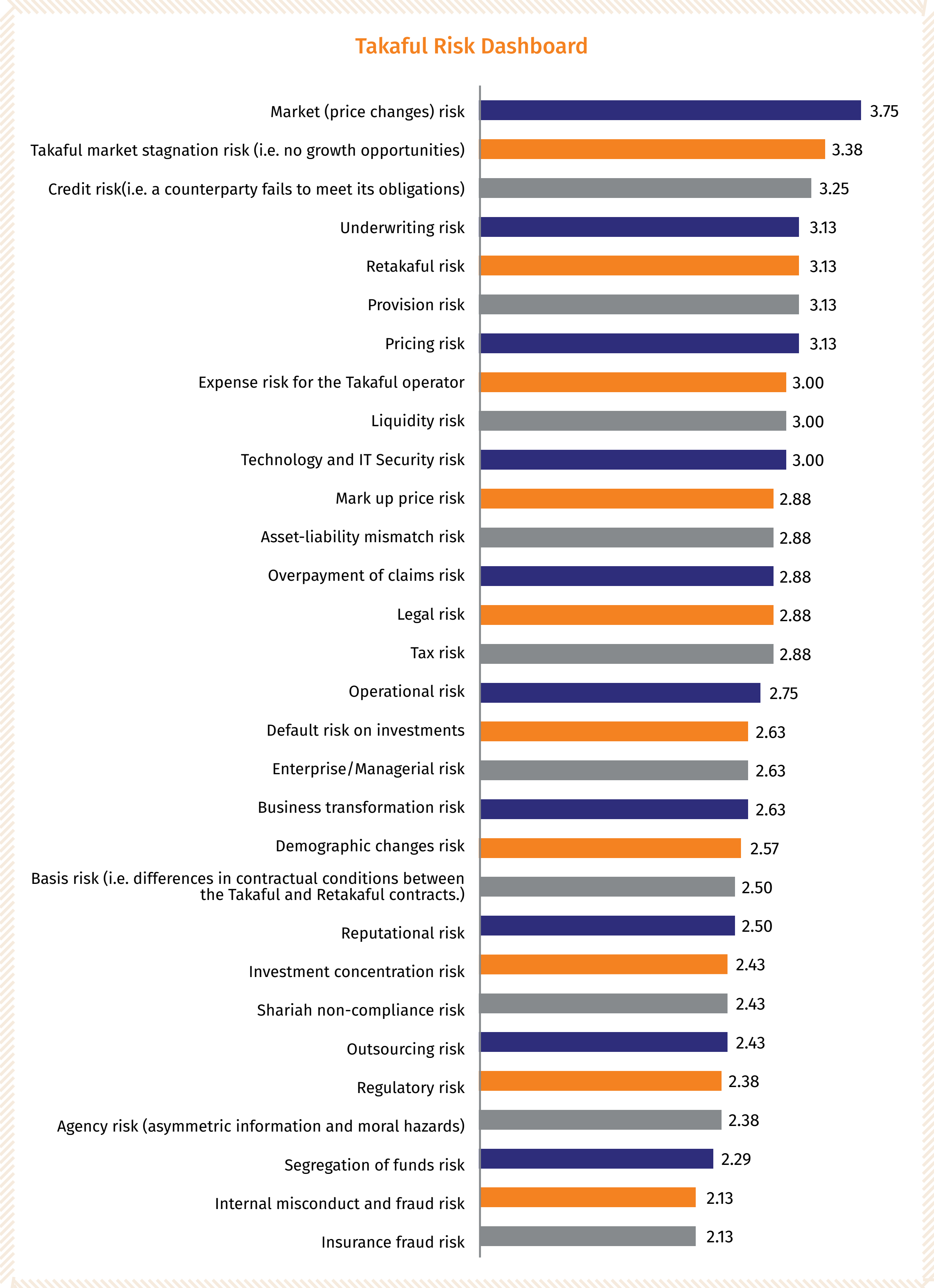


Figure 17. Annual Premium Growth Rate

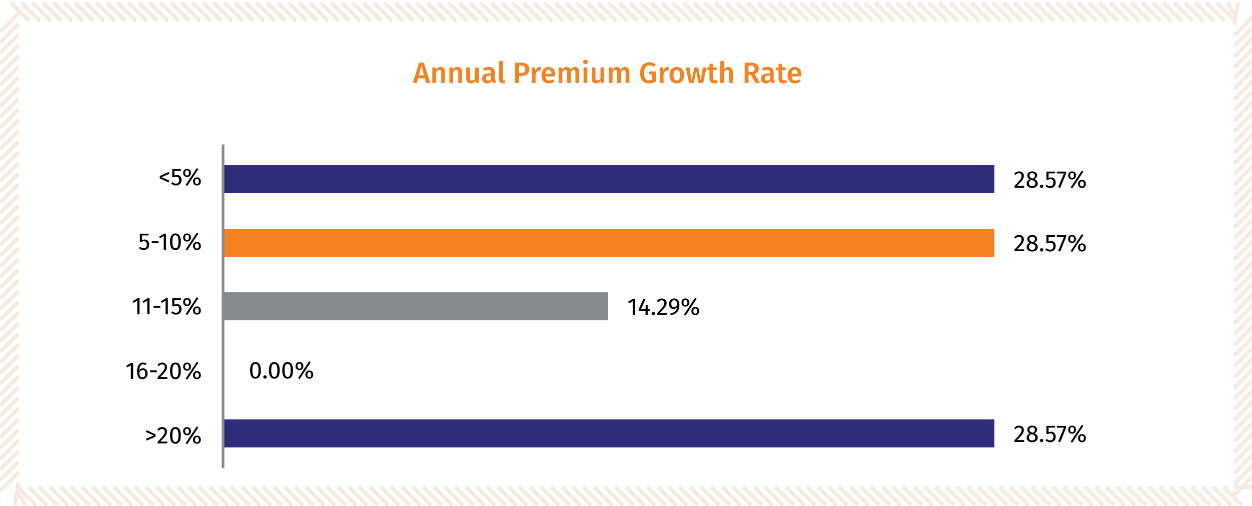


Figure 18. Takaful Market Segments Driving Growth

Figure 19. Distribution Channels Driving Growth

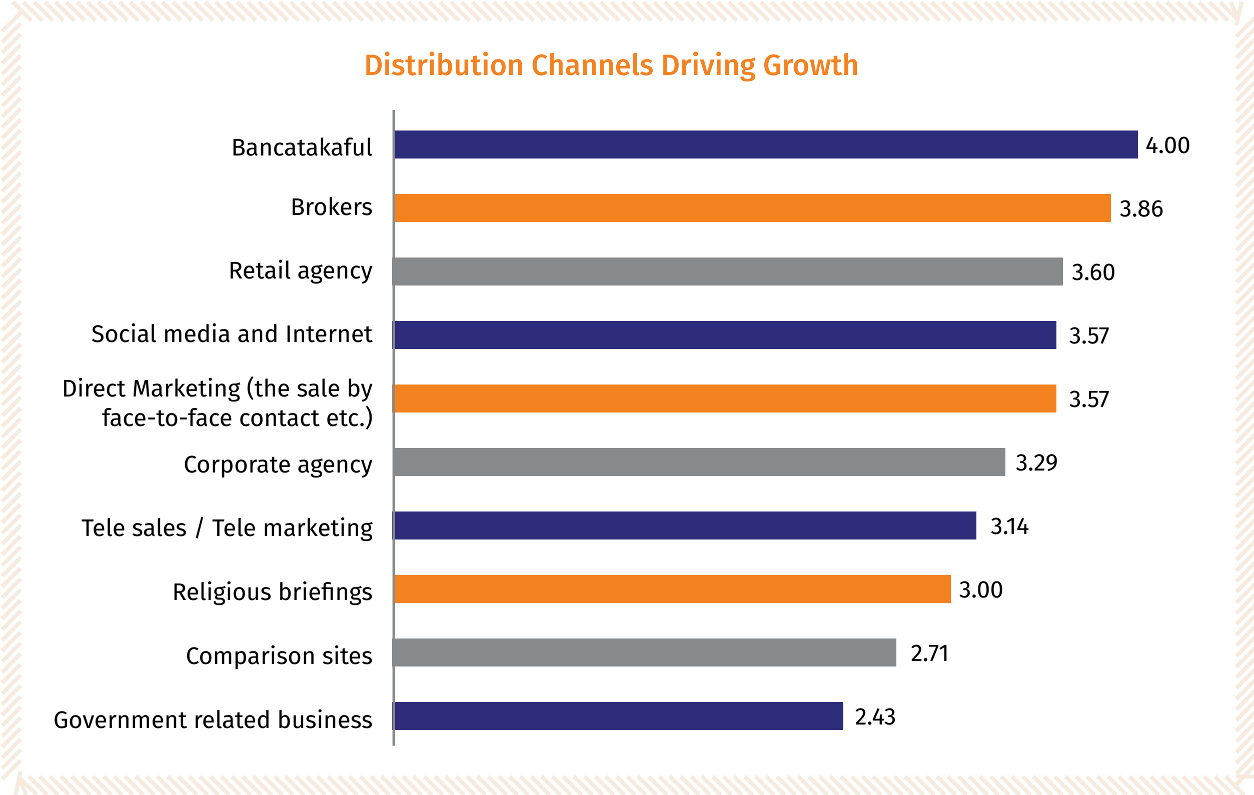


Figure 20. Takaful Products Driving Growth

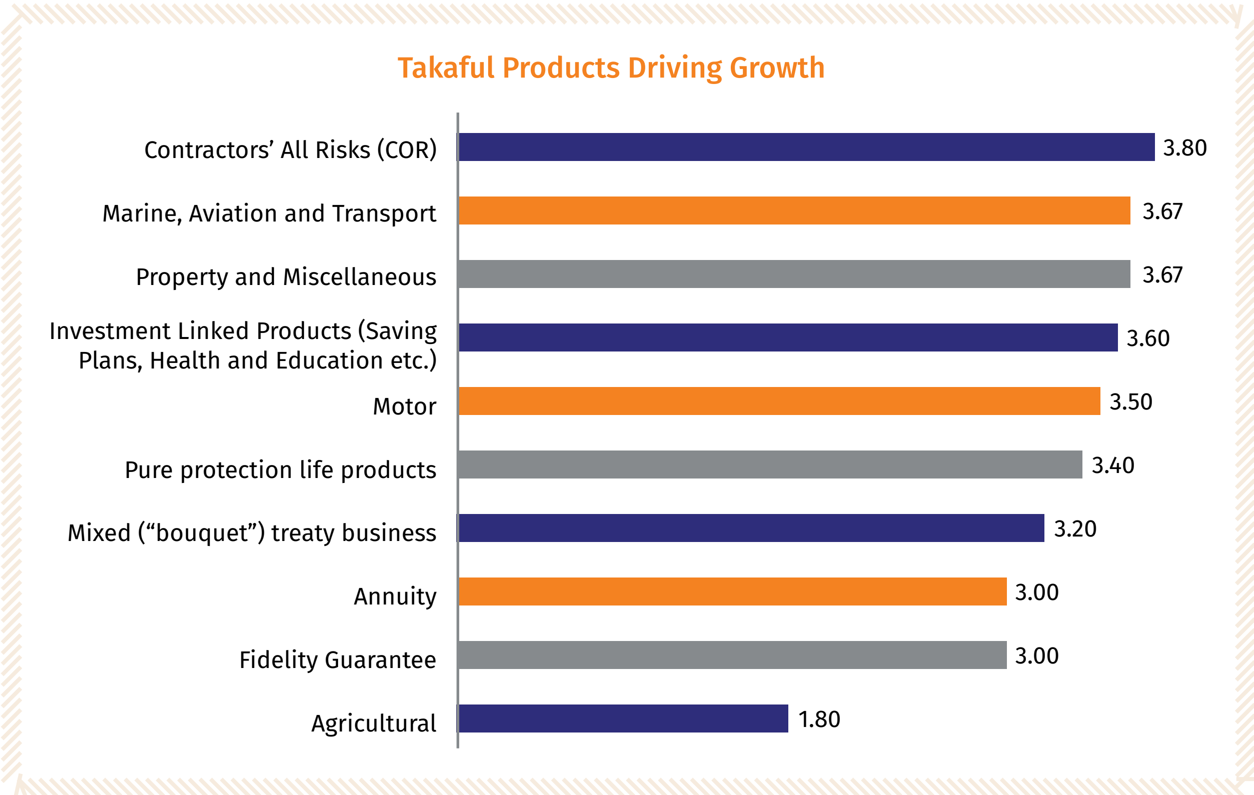


Figure 21. Effective Business Drivers (ranking in order of importance)

Figure 22. Revenue Growth Drivers

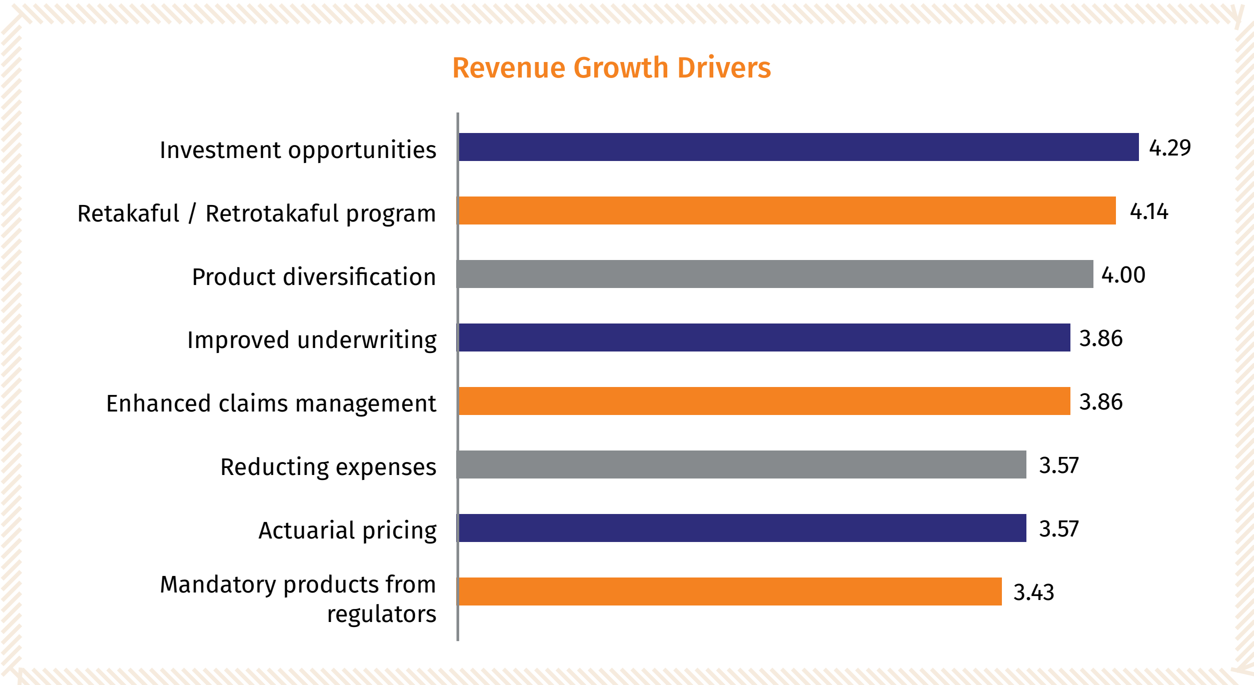


Figure 23. InsurTech Innovations Driving Growth

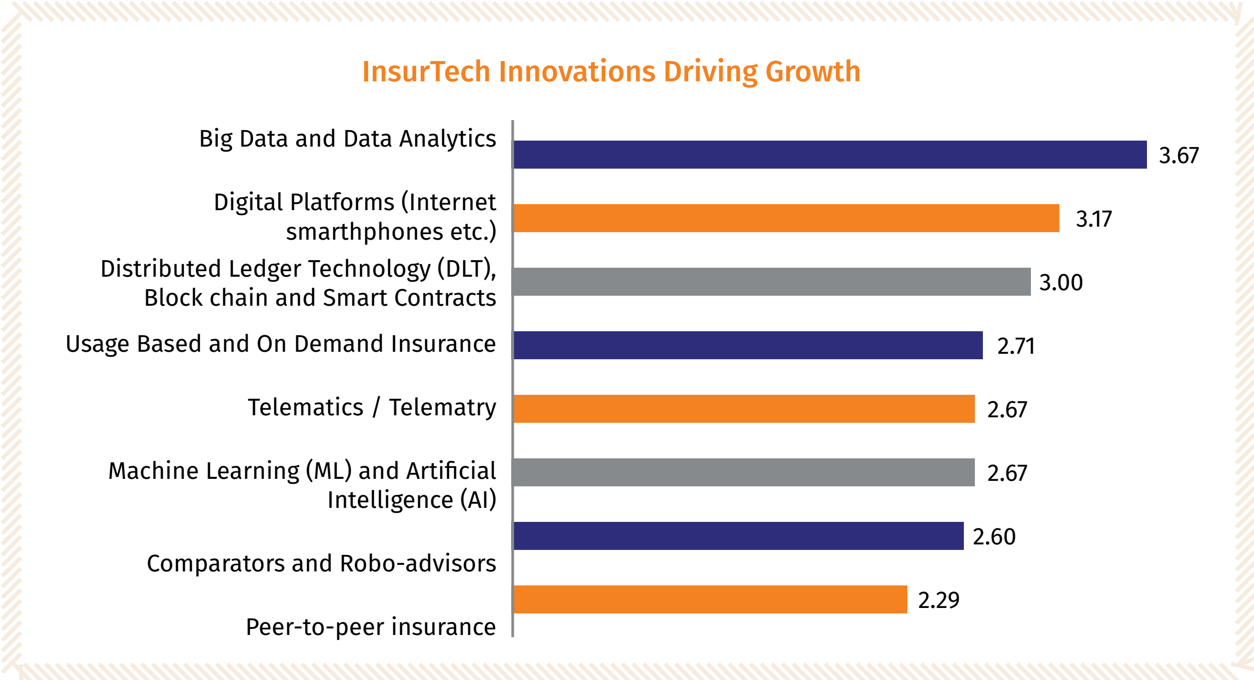


Figure 24. Leveraging Technology for Revenue Growth

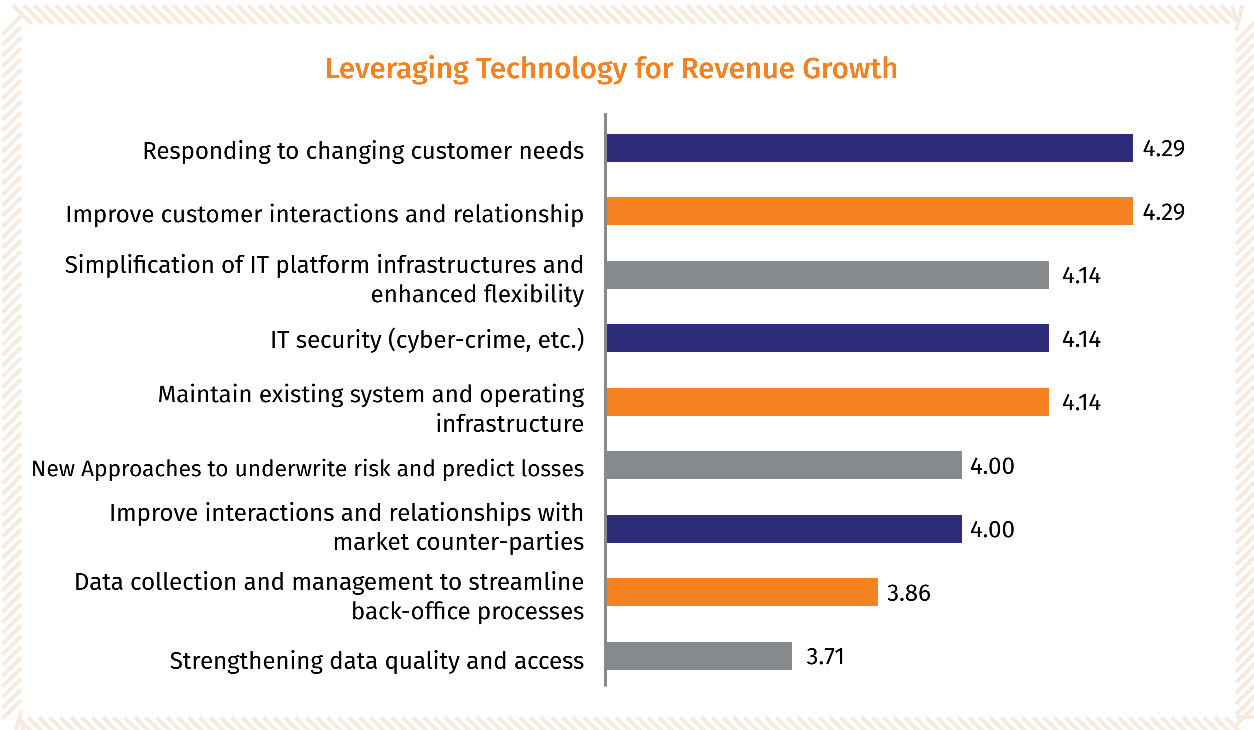


Figure 25. Risk Management Infrastructure and Risk Governance Driving Growth

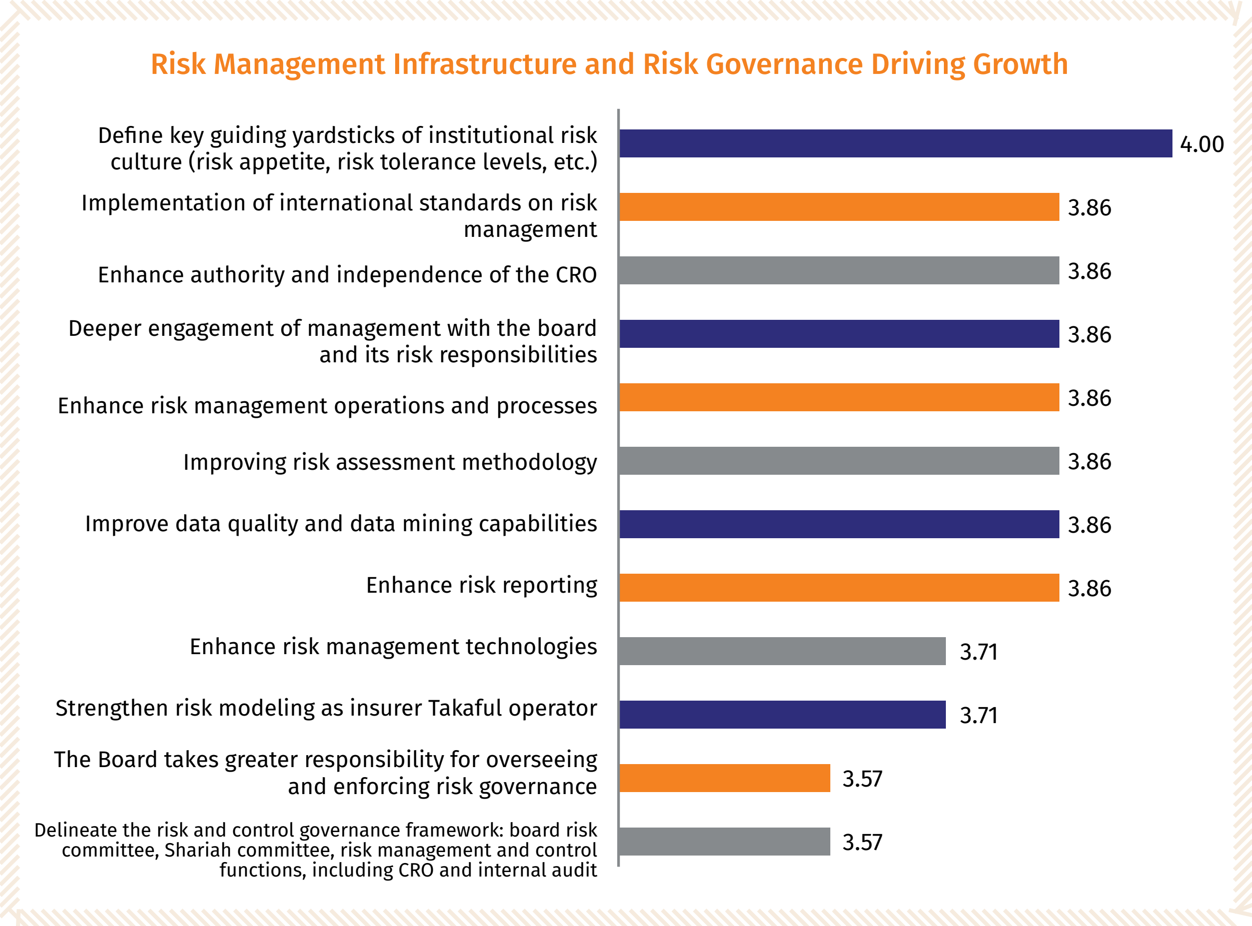


Figure 26. Areas of Human Resources and Talent Development to Improve Institutions' Position

Figure 27. Areas of Customer-Centricity for Institution

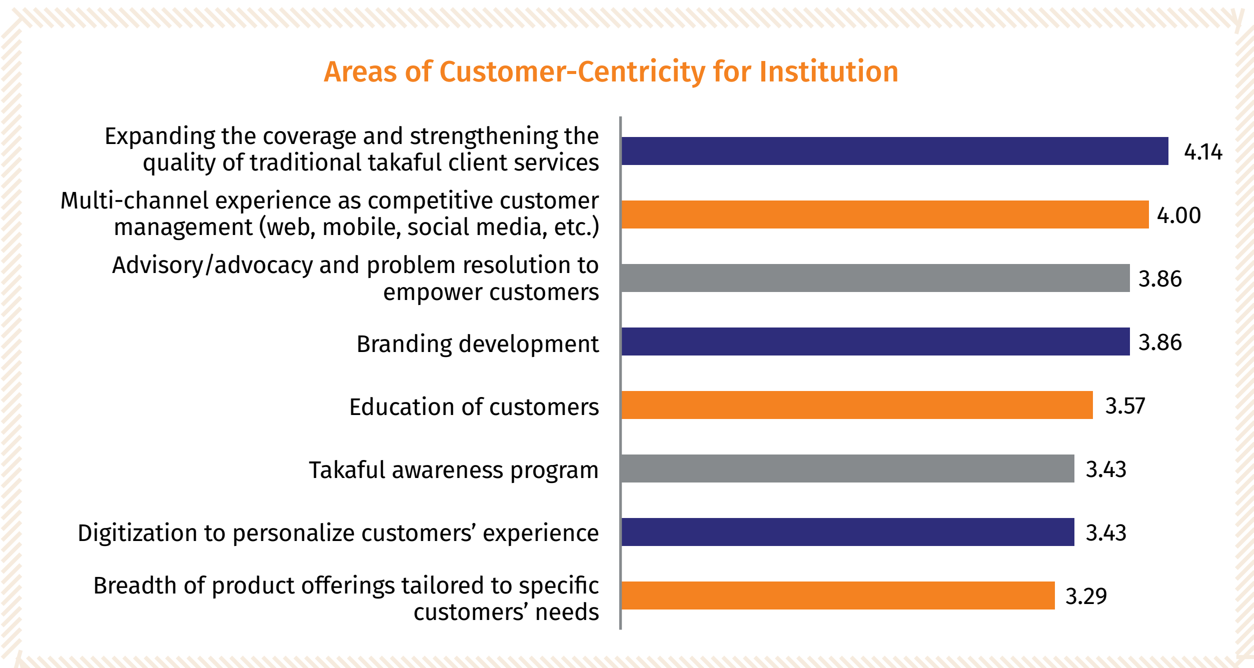


Figure 28. Investment Classes that Enhance the Portfolio of Investment of Policy Holder Funds

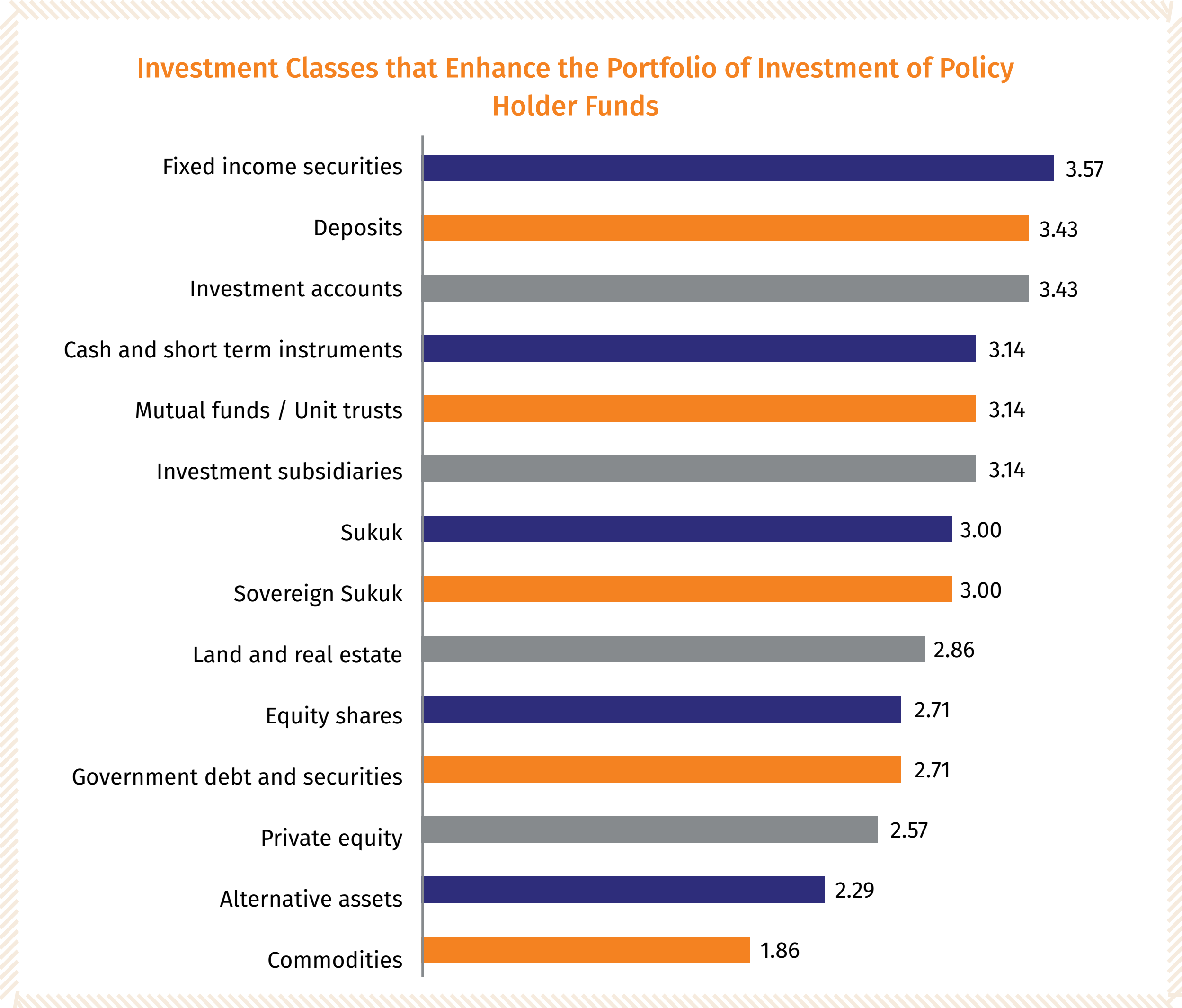


Figure 29. Influence of Regulatory Capital Requirements on Asset Allocation Decisions (1-3 years)

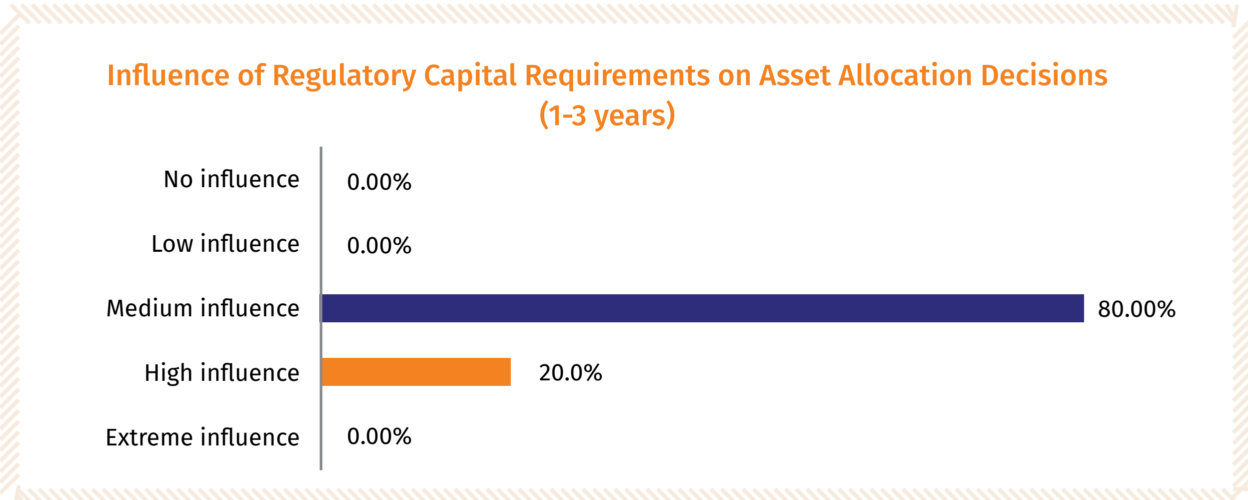


Figure 30. Areas of Improvement in Takaful Regulation

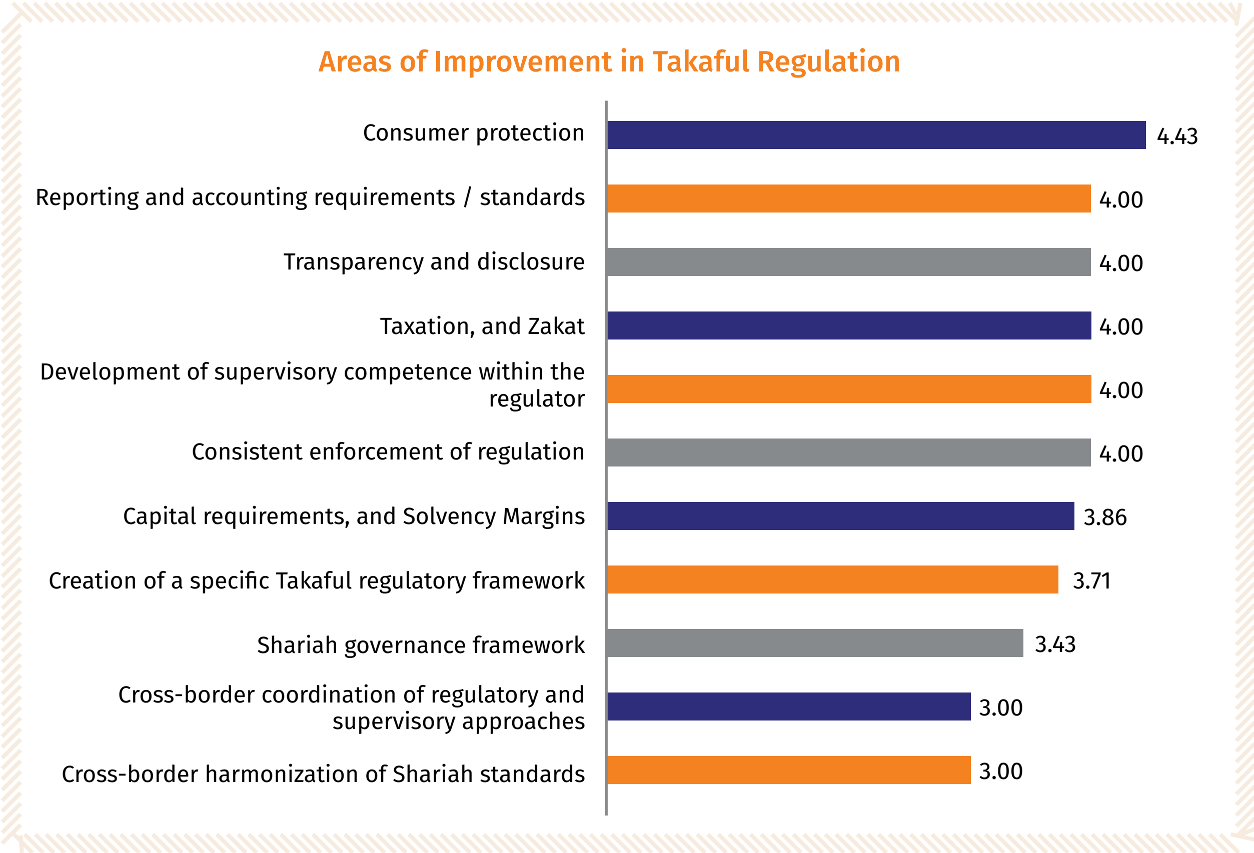


Figure 31. Stakeholders that contribute to Society, Economy and Environment

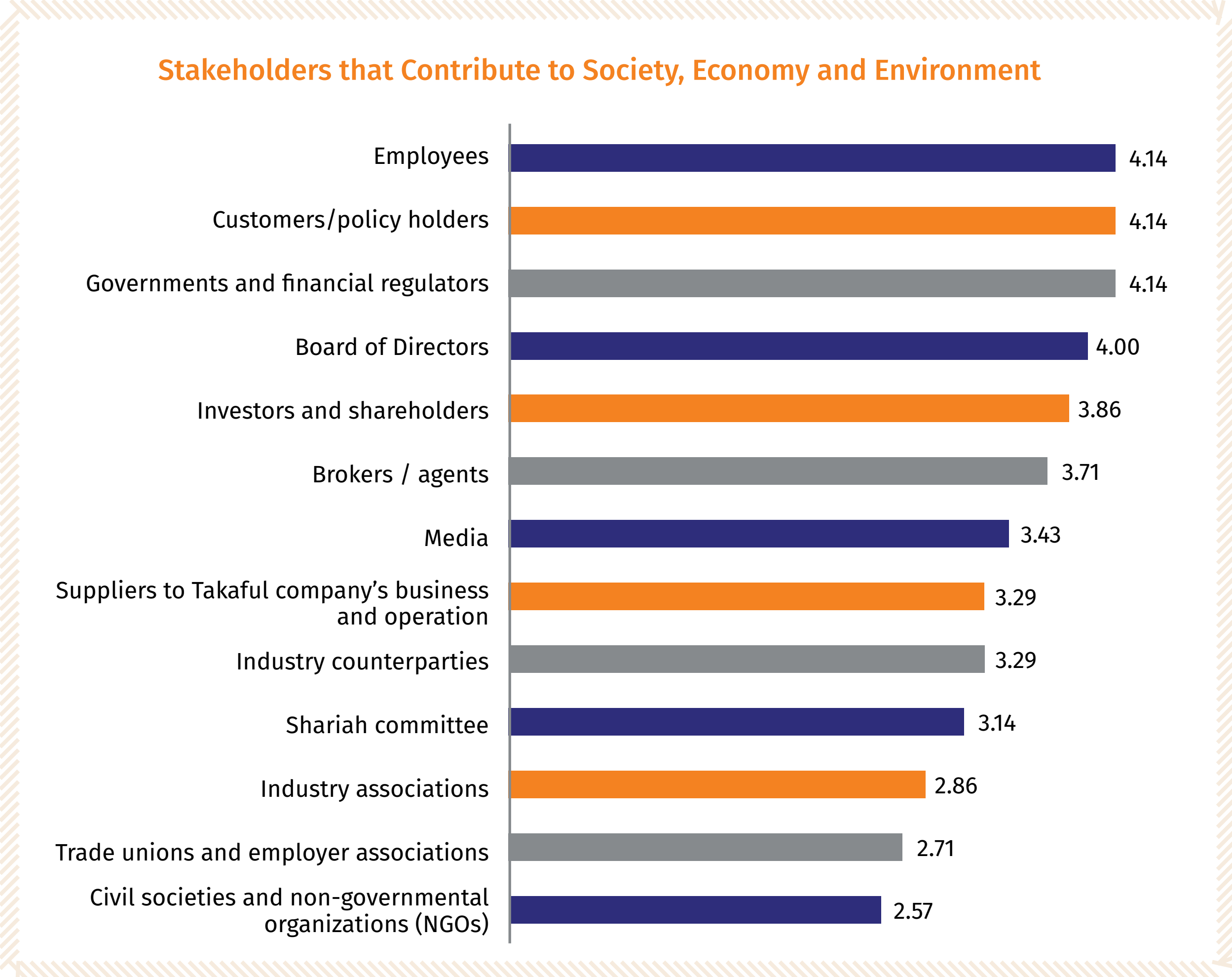


Figure 32. Values institutions promote

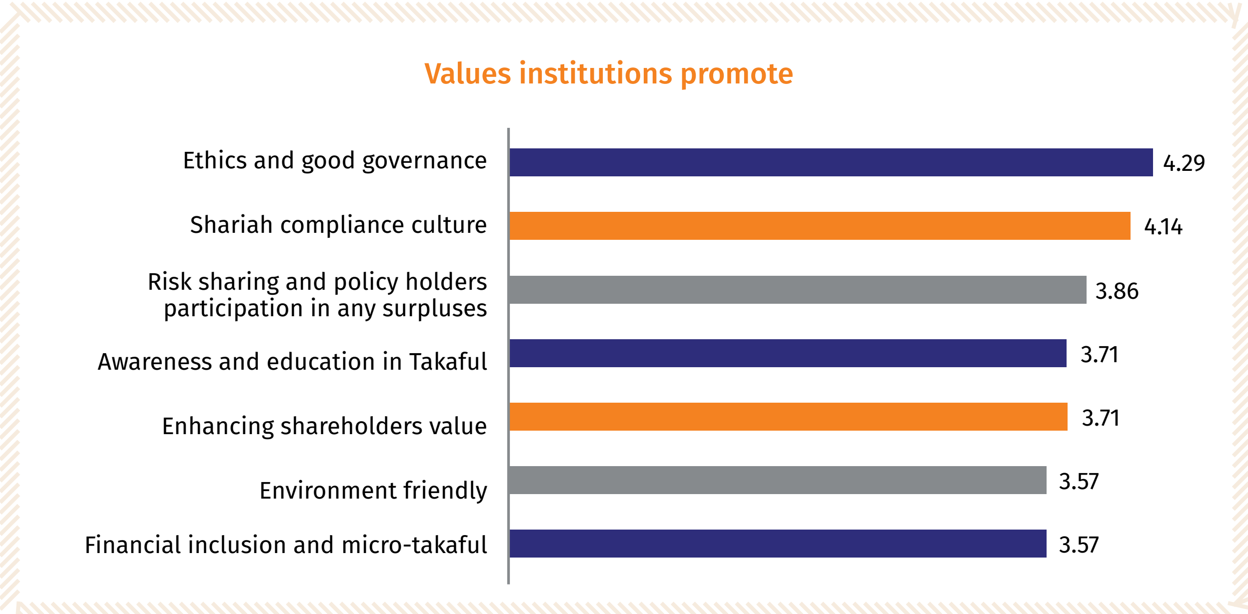
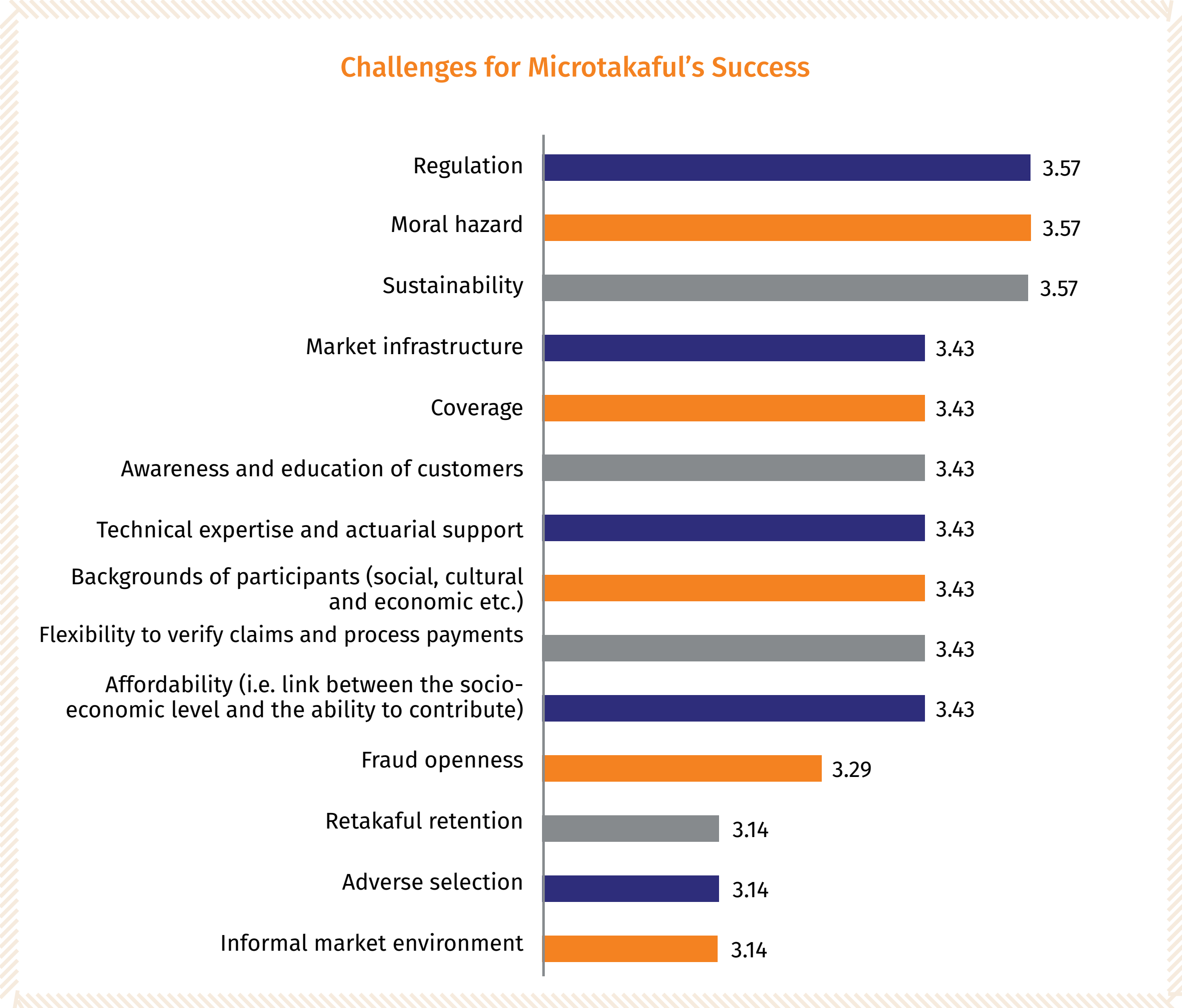


Figure 33. Challenges for Microtakaful's Success



Group 3: South East Asia

Figure 1. Type of Takaful Operations

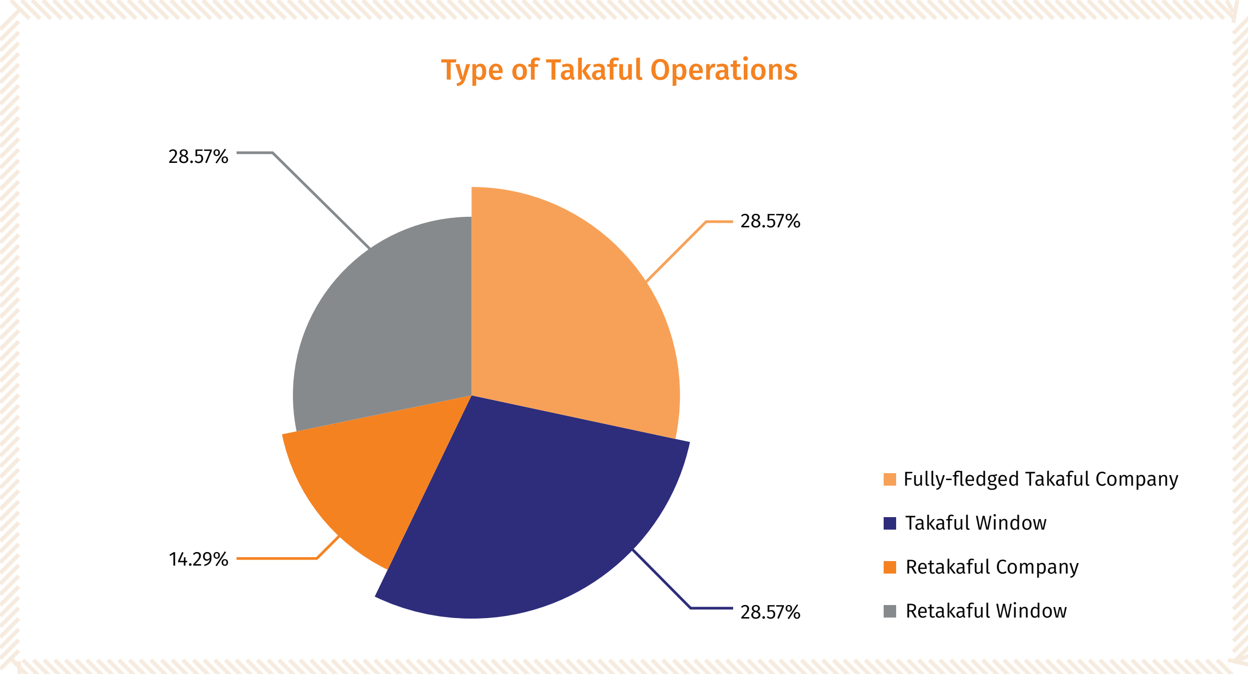


Figure 2. Takaful Models

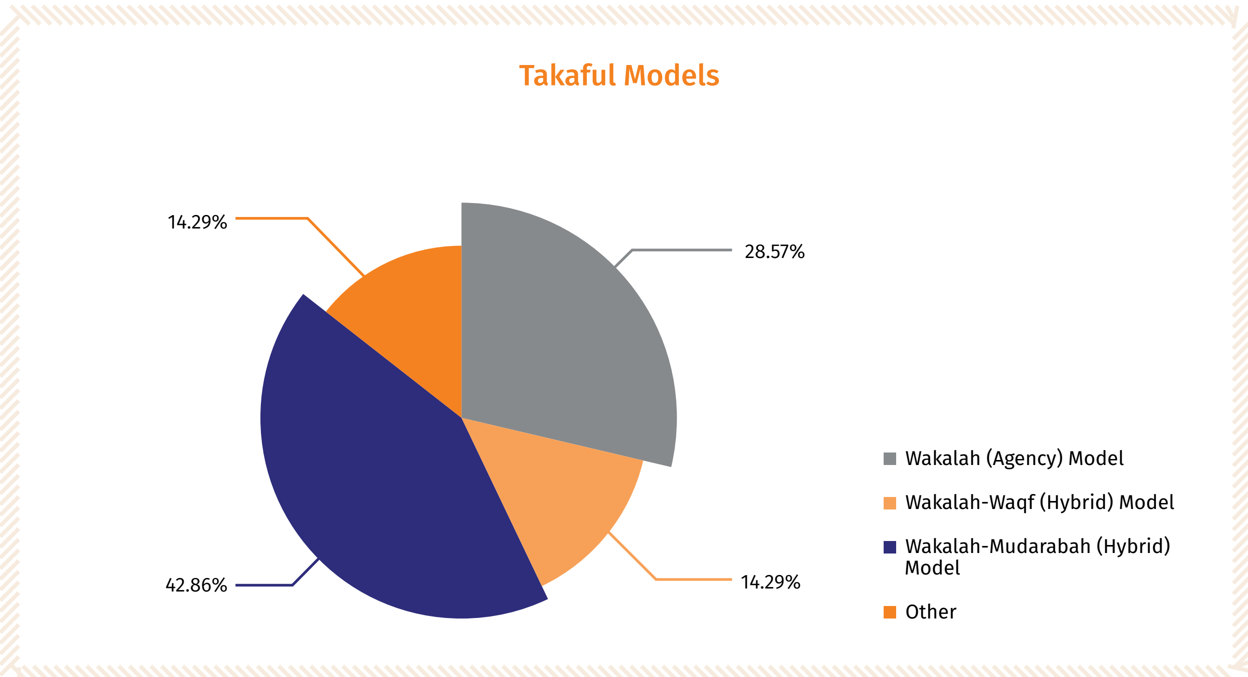


Figure 3. Nature of Takaful Operations

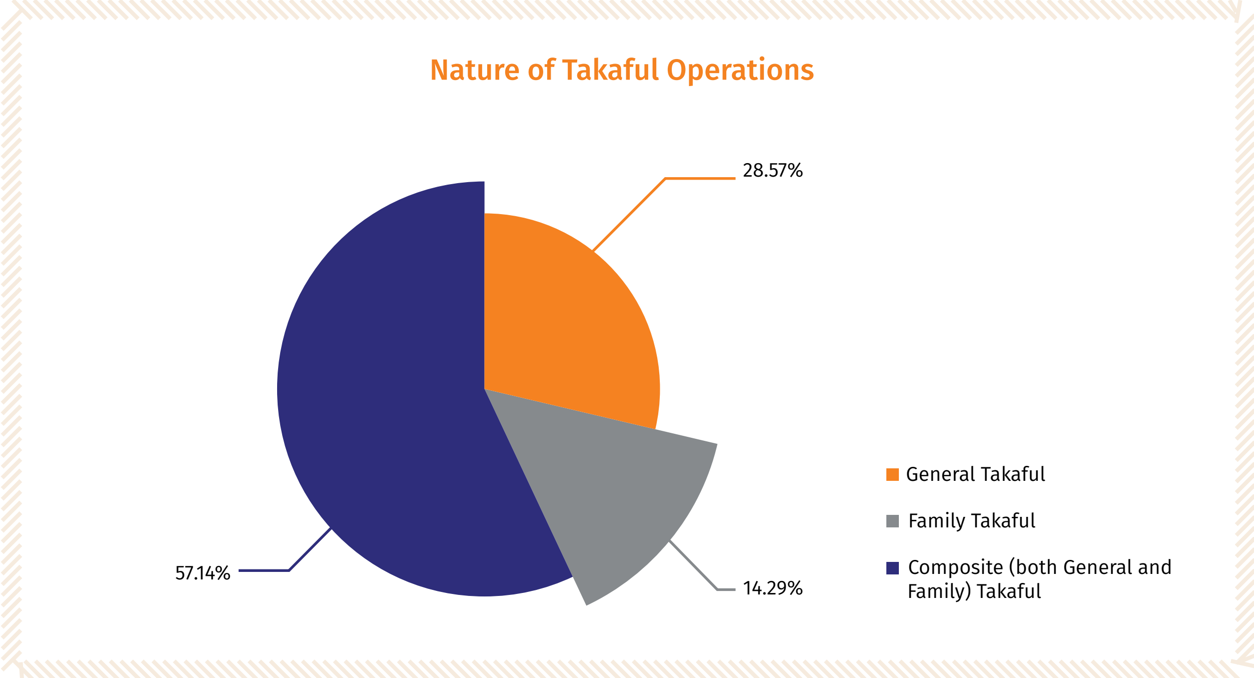


Figure 4. Total Gross Annual Takaful Contributions

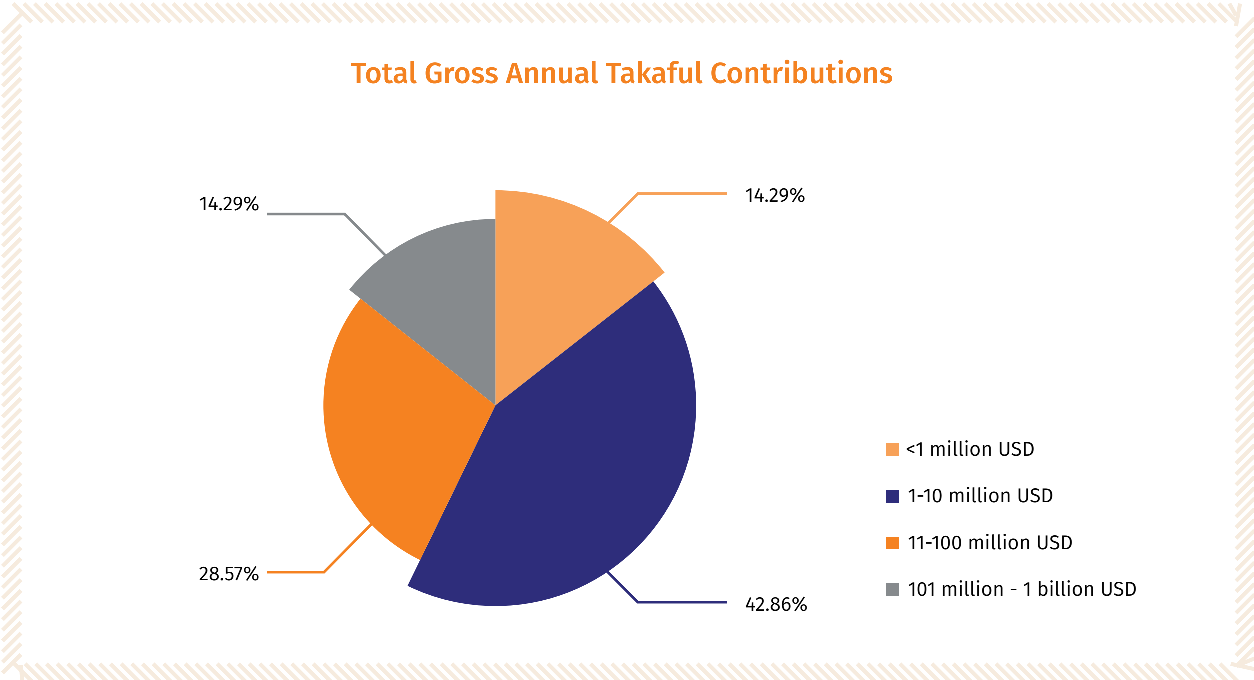


Figure 5. Overall Expense Ratio

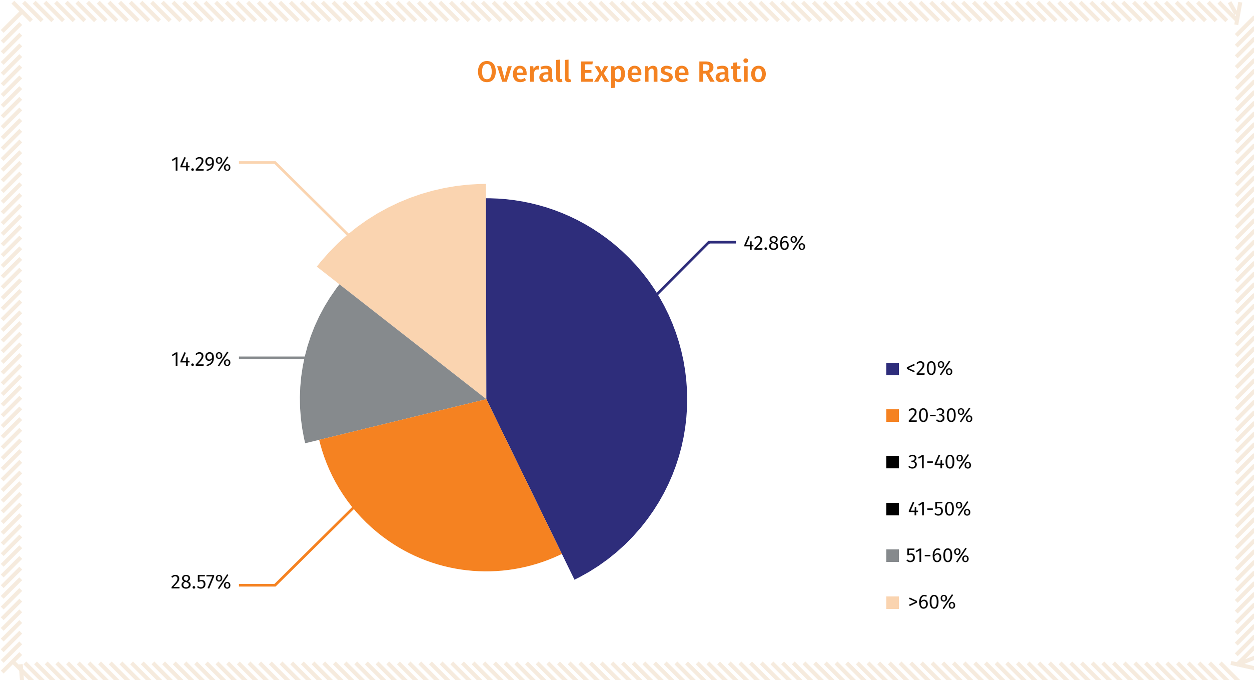


Figure 6. Average Retention Ratio

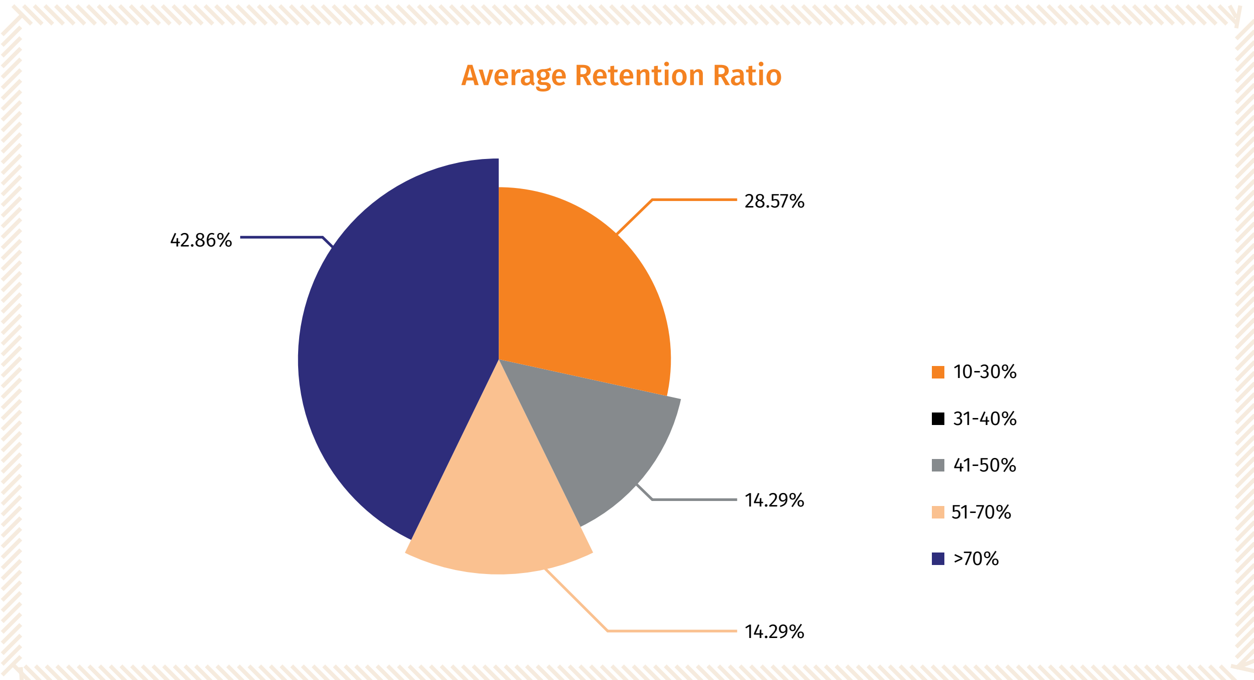


Figure 7. Optimism Level on Overall Insurance Industry

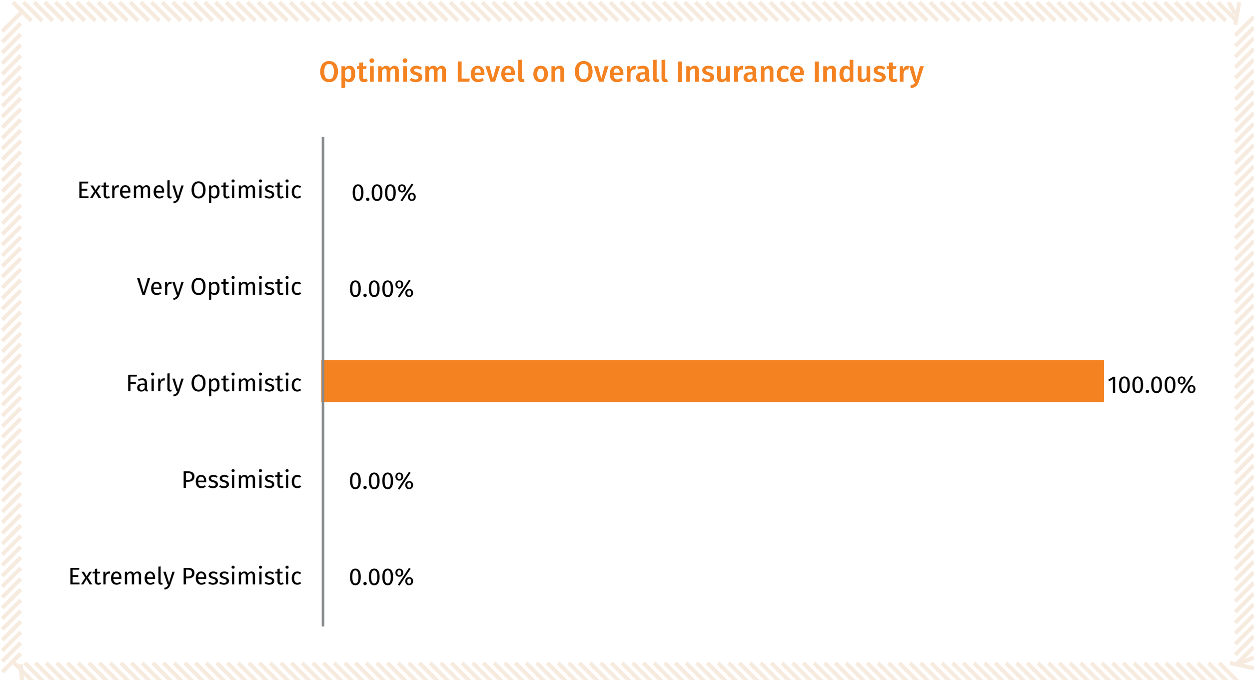


Figure 8. Takaful Industry Optimism Level

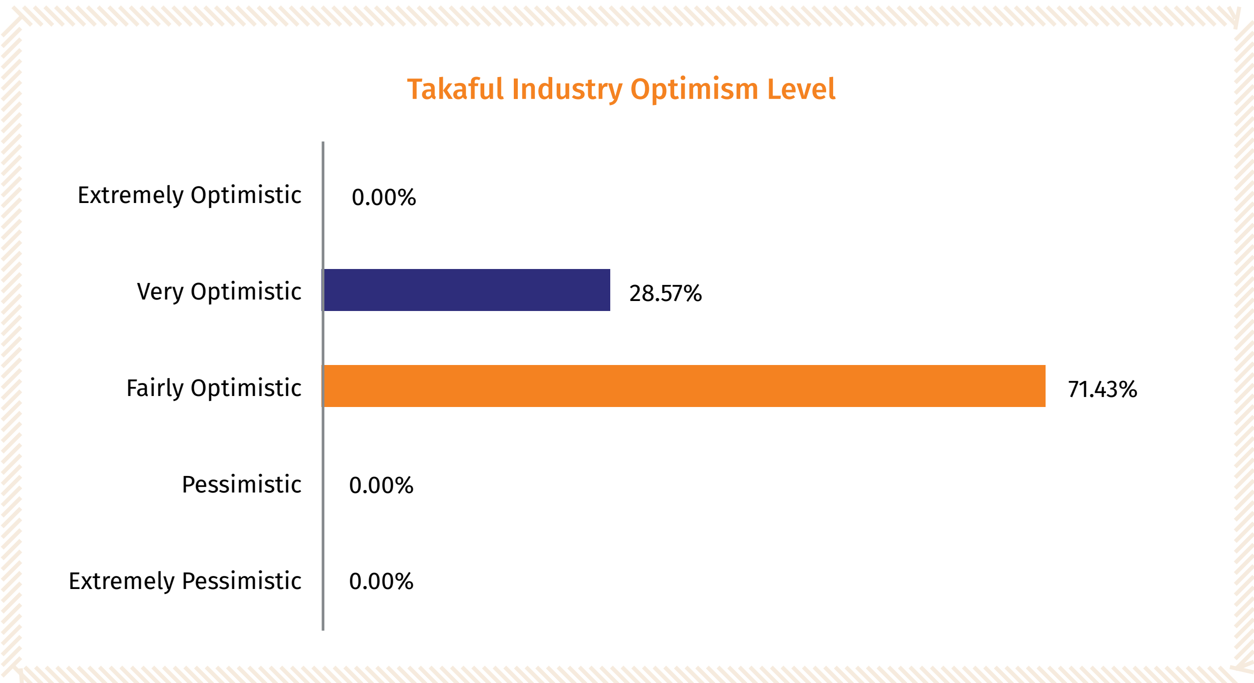


Figure 9. Expectations of Revenue Growth compared with conventional peers

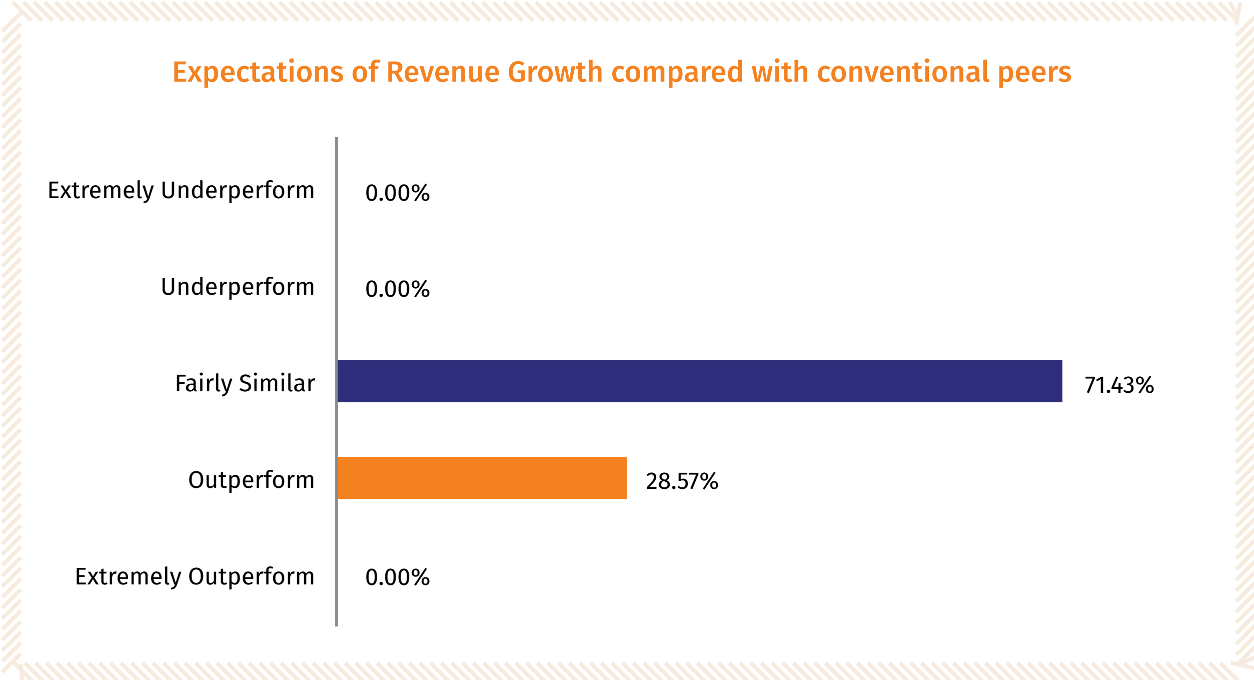


Figure 10. Revenue in Personal Lines - Short Term

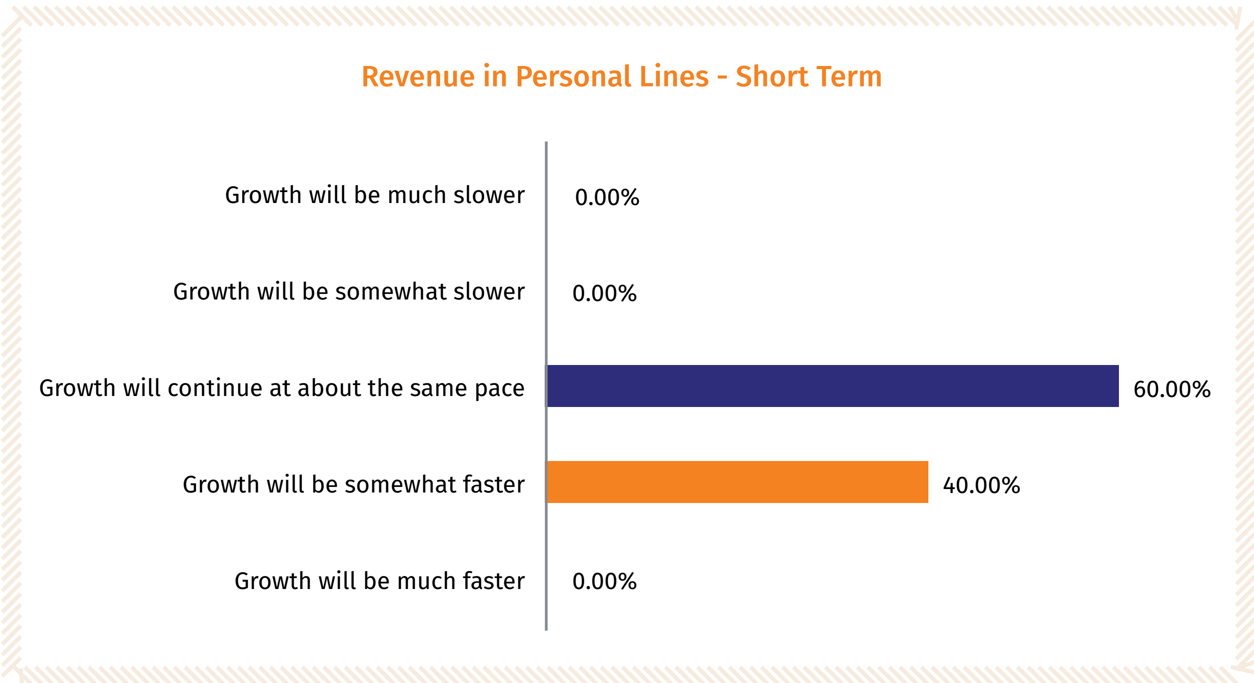


Figure 11. Revenue in Personal Lines - Long Term (2018-2021)

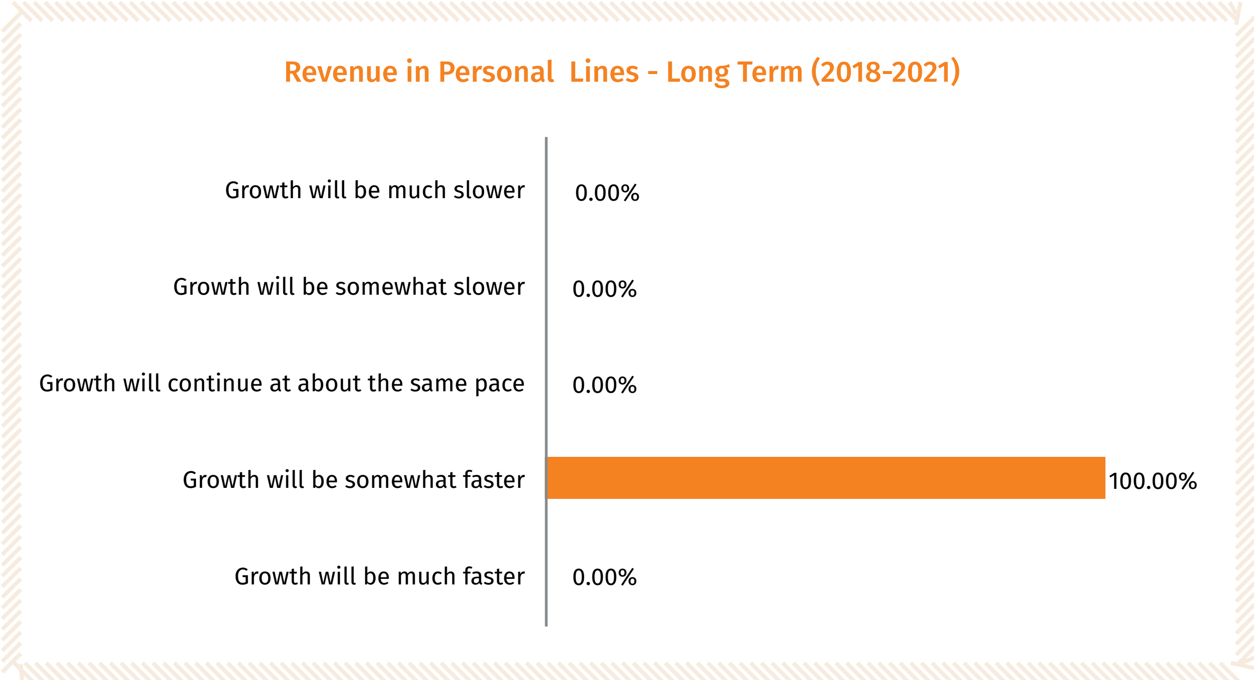
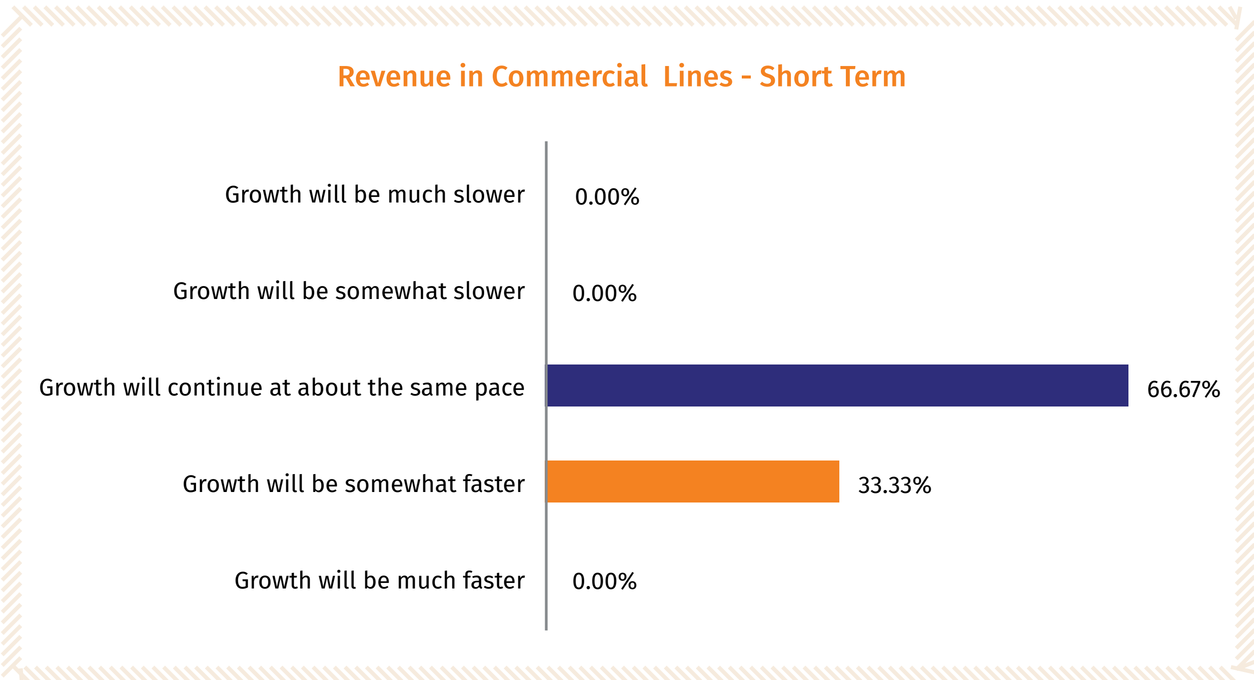


Figure 12. Revenue in Commercial Lines - Short Term



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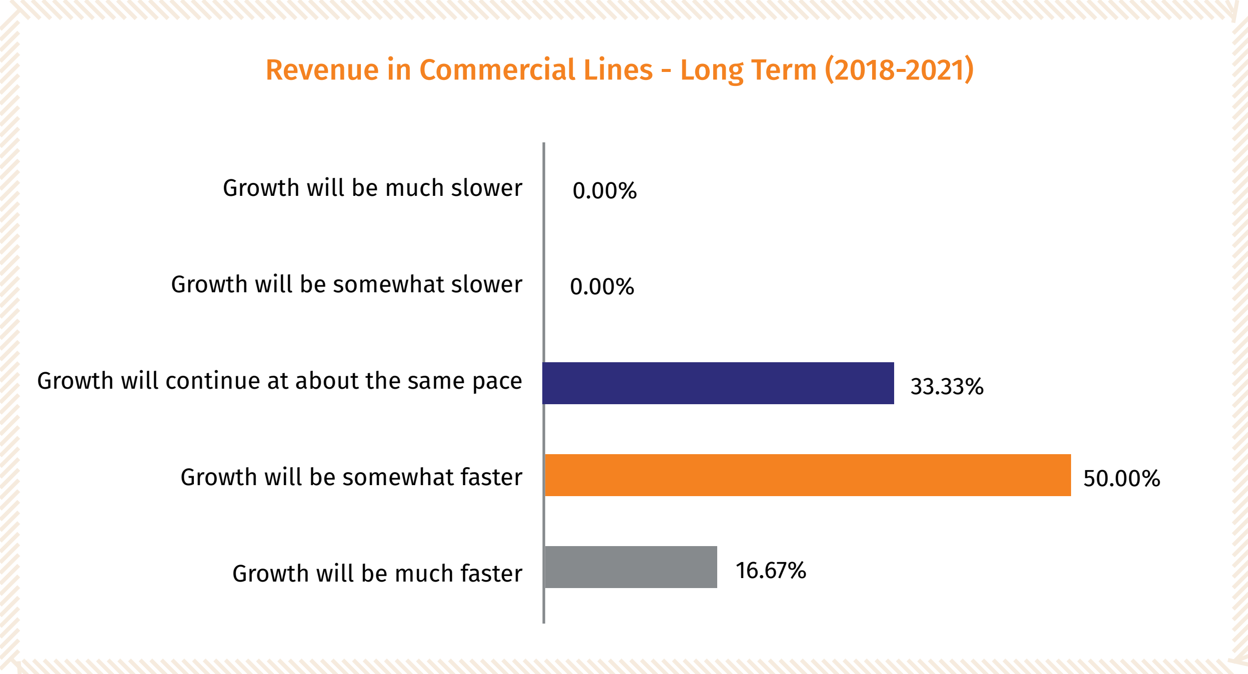

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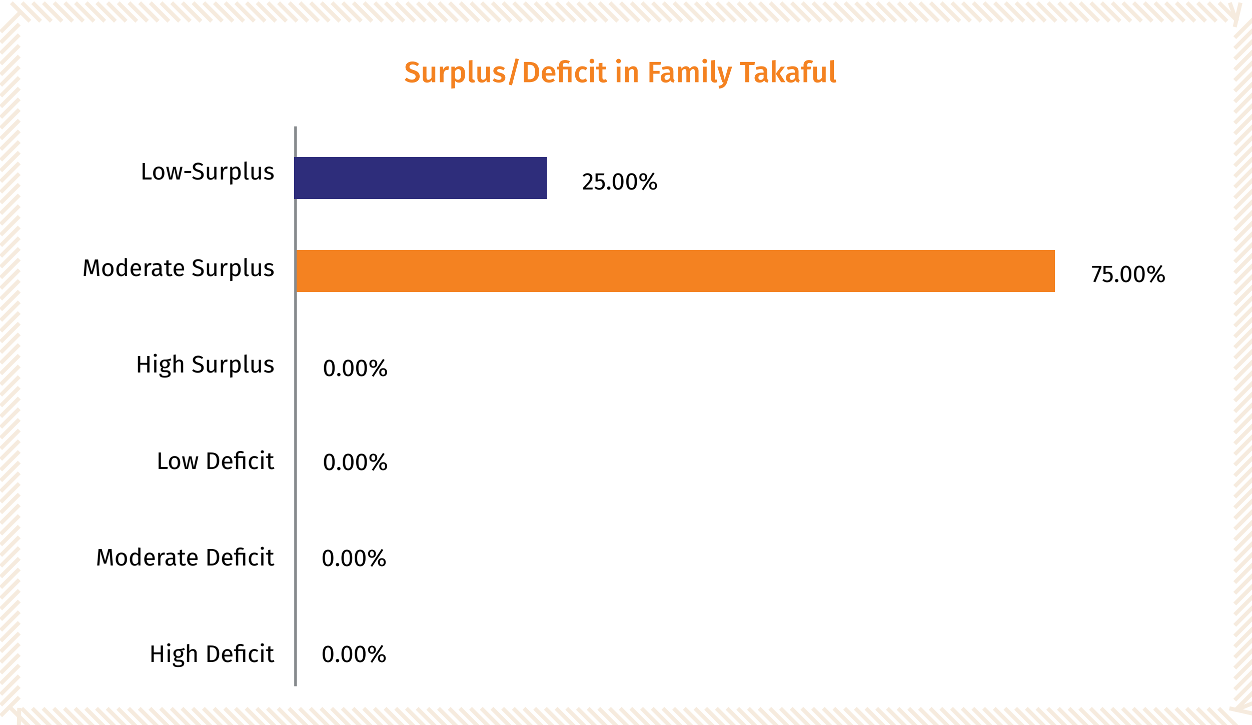

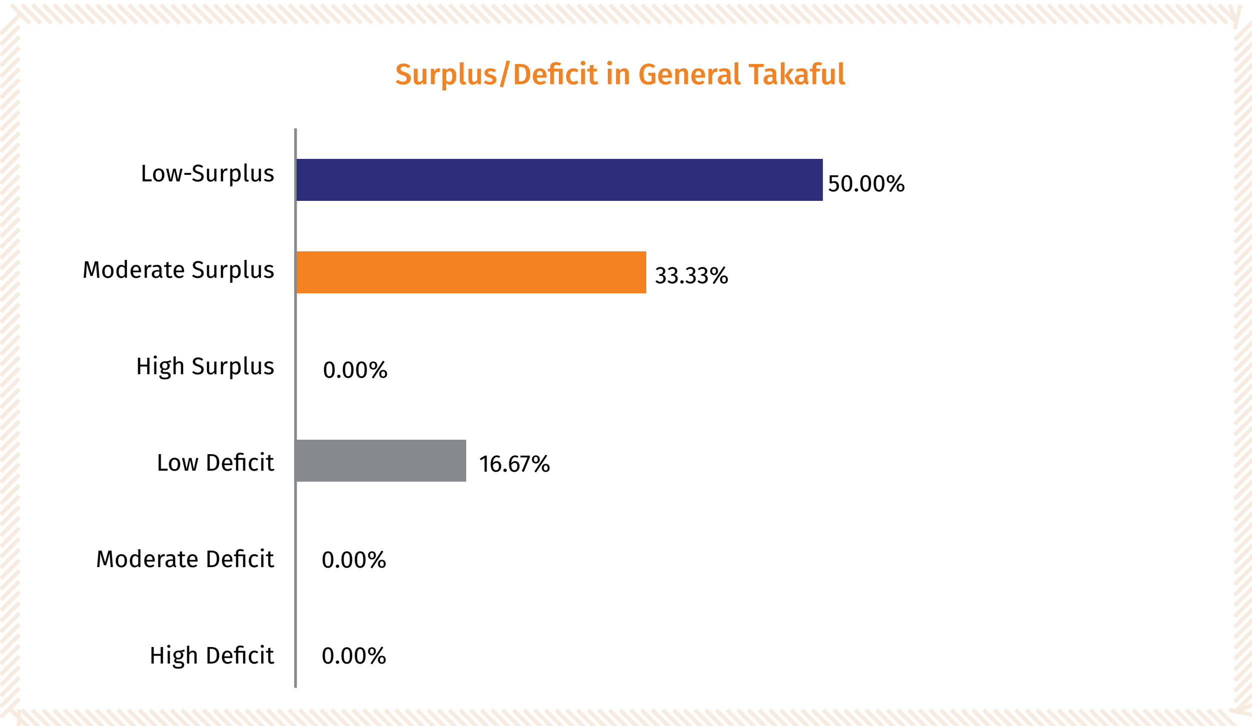

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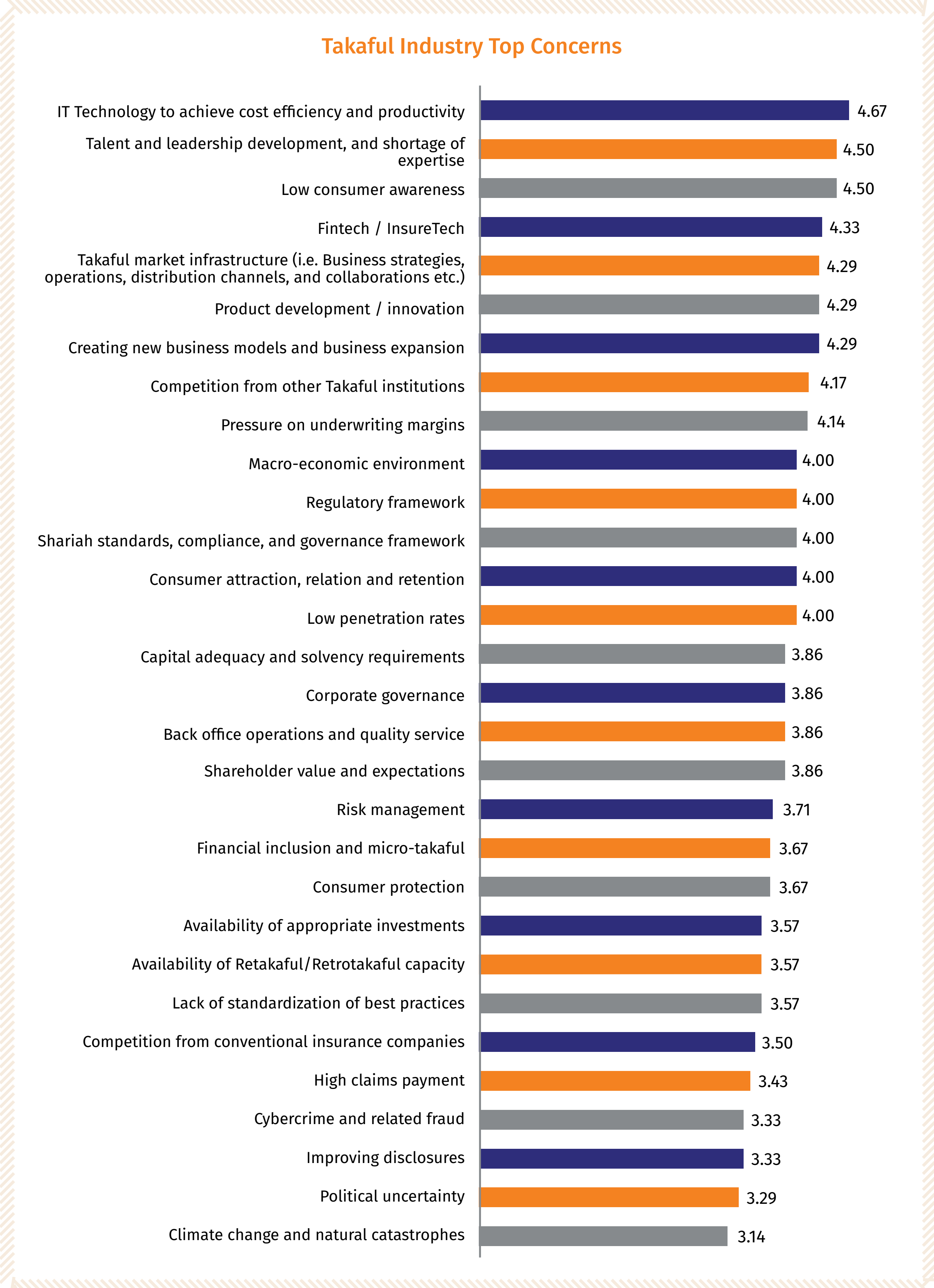


Figure 16. Takaful Risk Dashboard

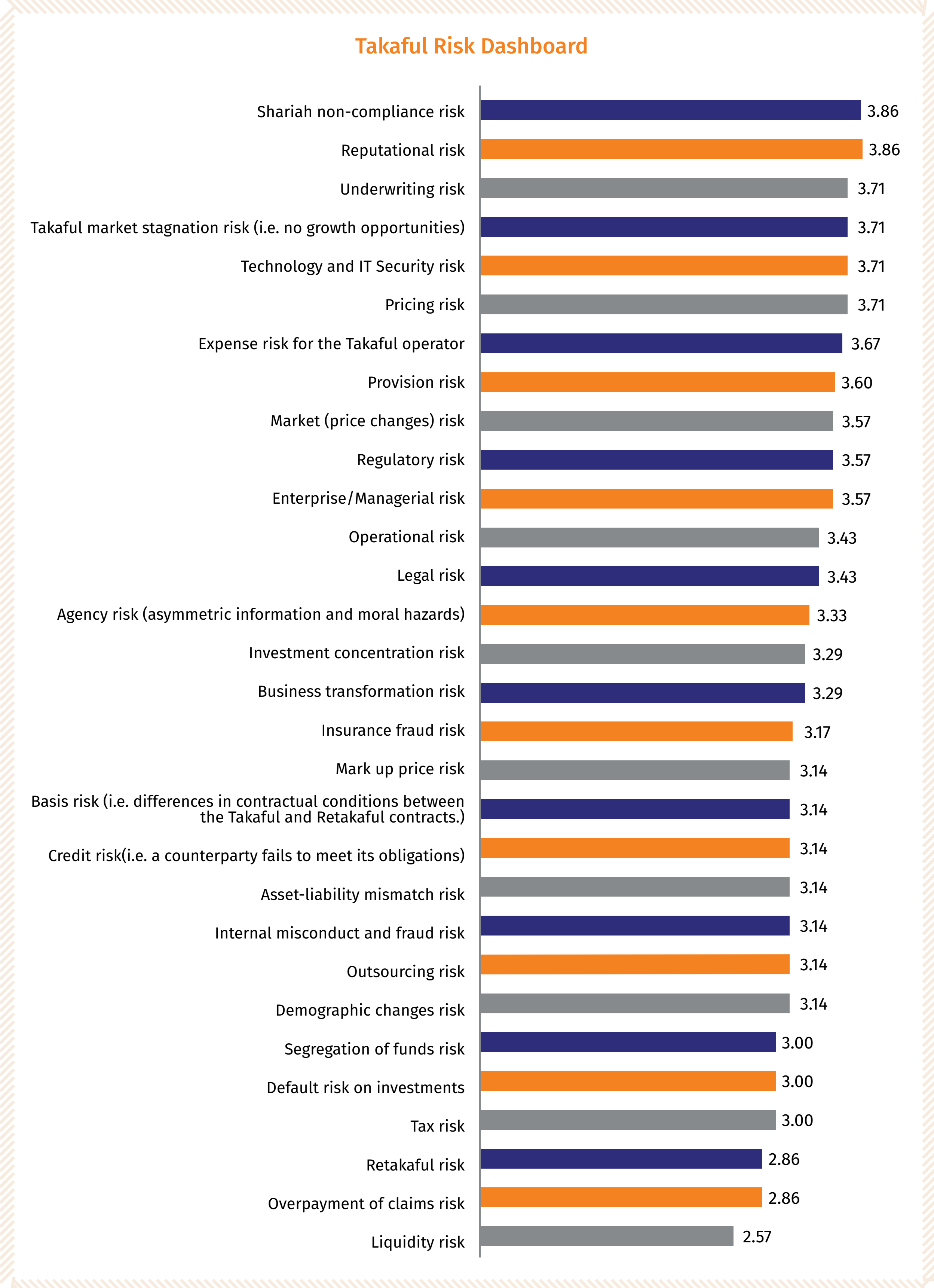


Figure 17. Annual Premium Growth Rate

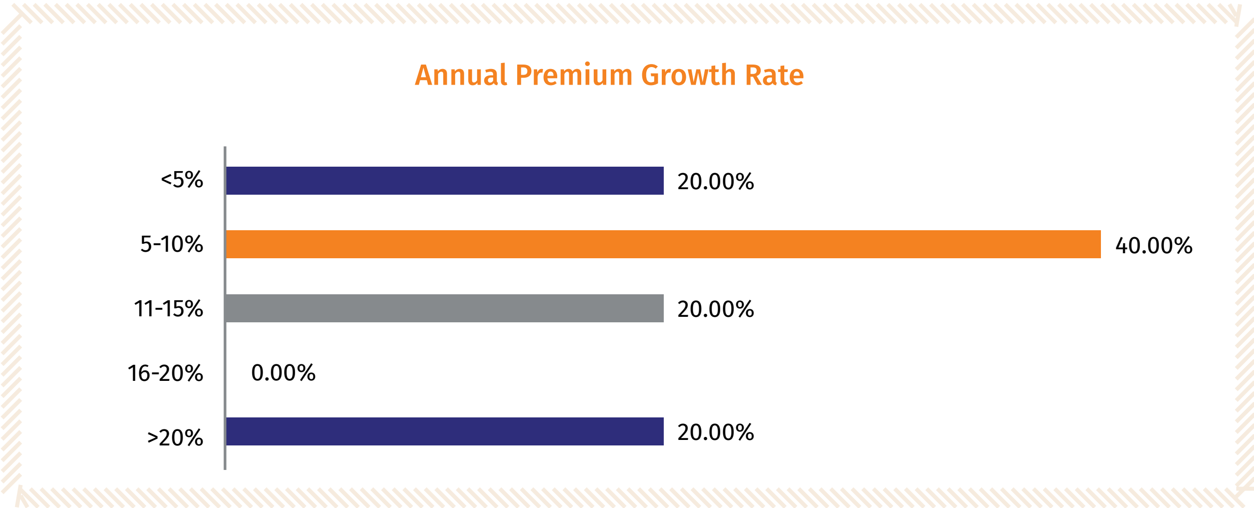


Figure 18. Takaful Market Segments Driving Growth

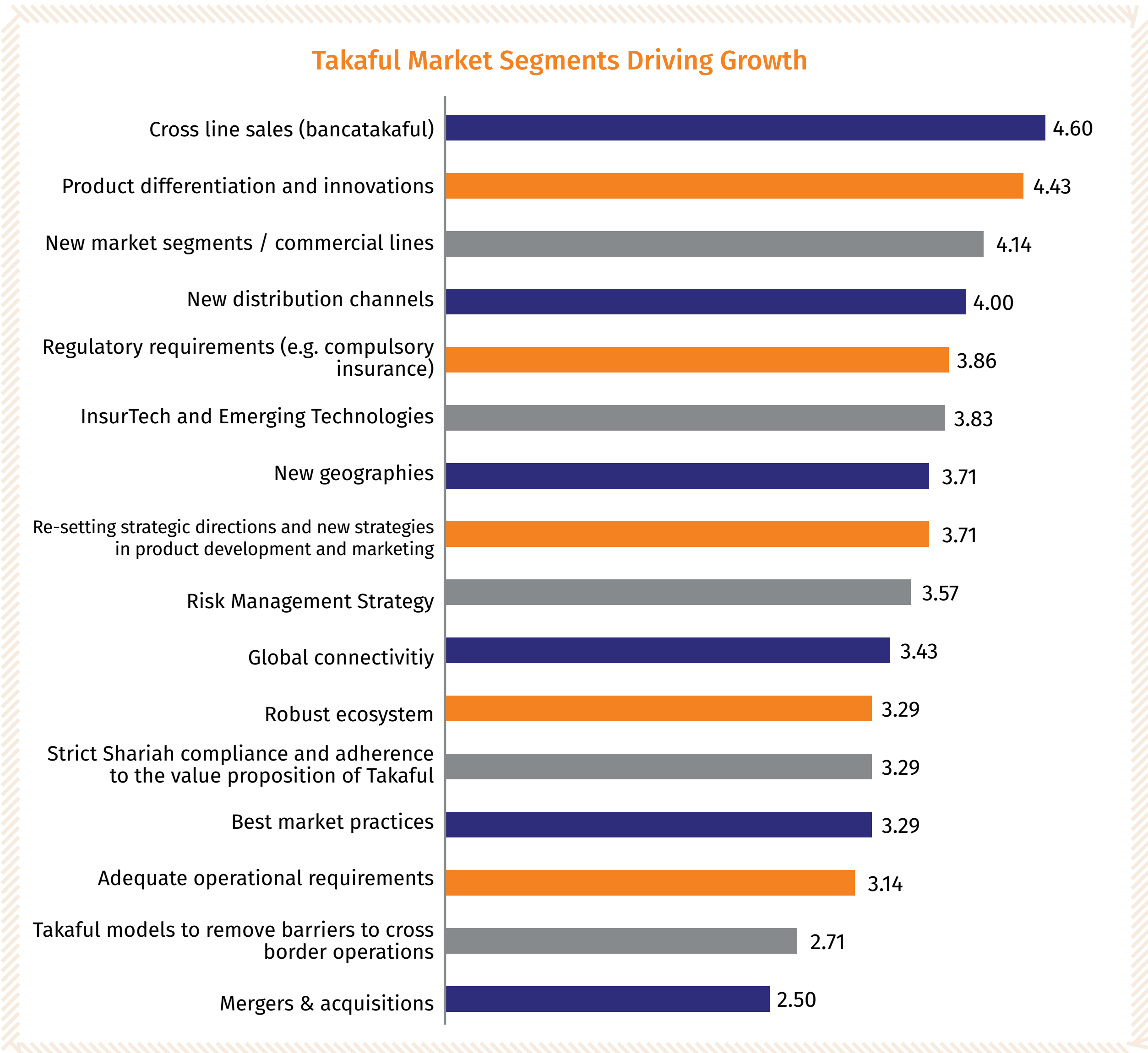


Figure 19. Distribution Channels Driving Growth

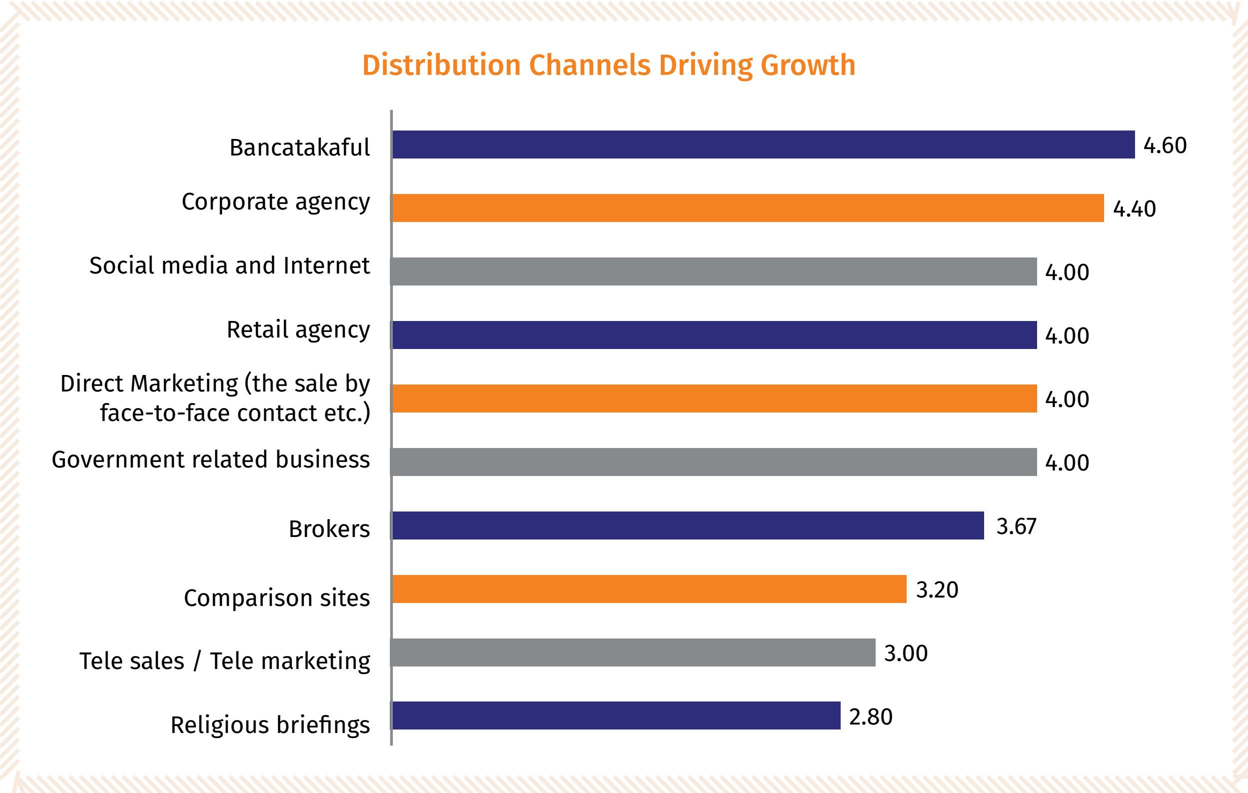


Figure 20. Takaful Products Driving Growth

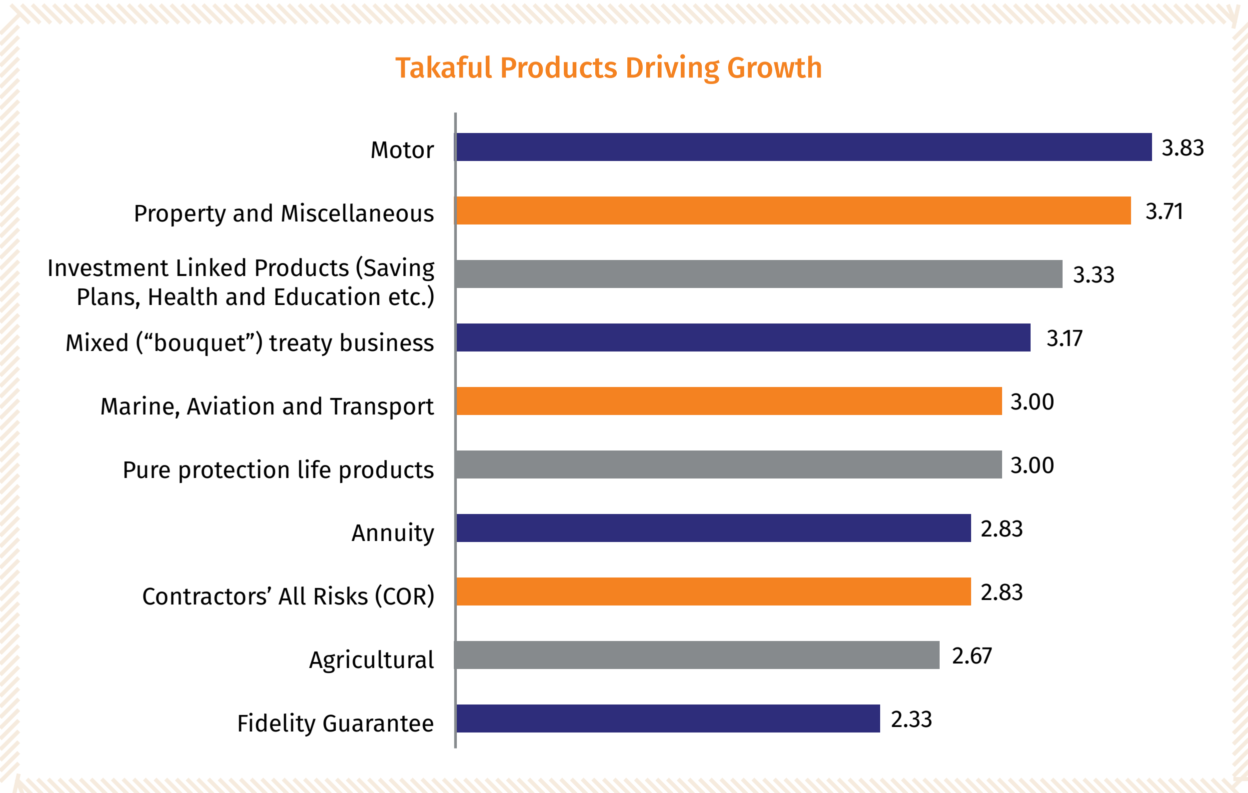


Figure 21. Effective Business Drivers (ranking in order of importance)

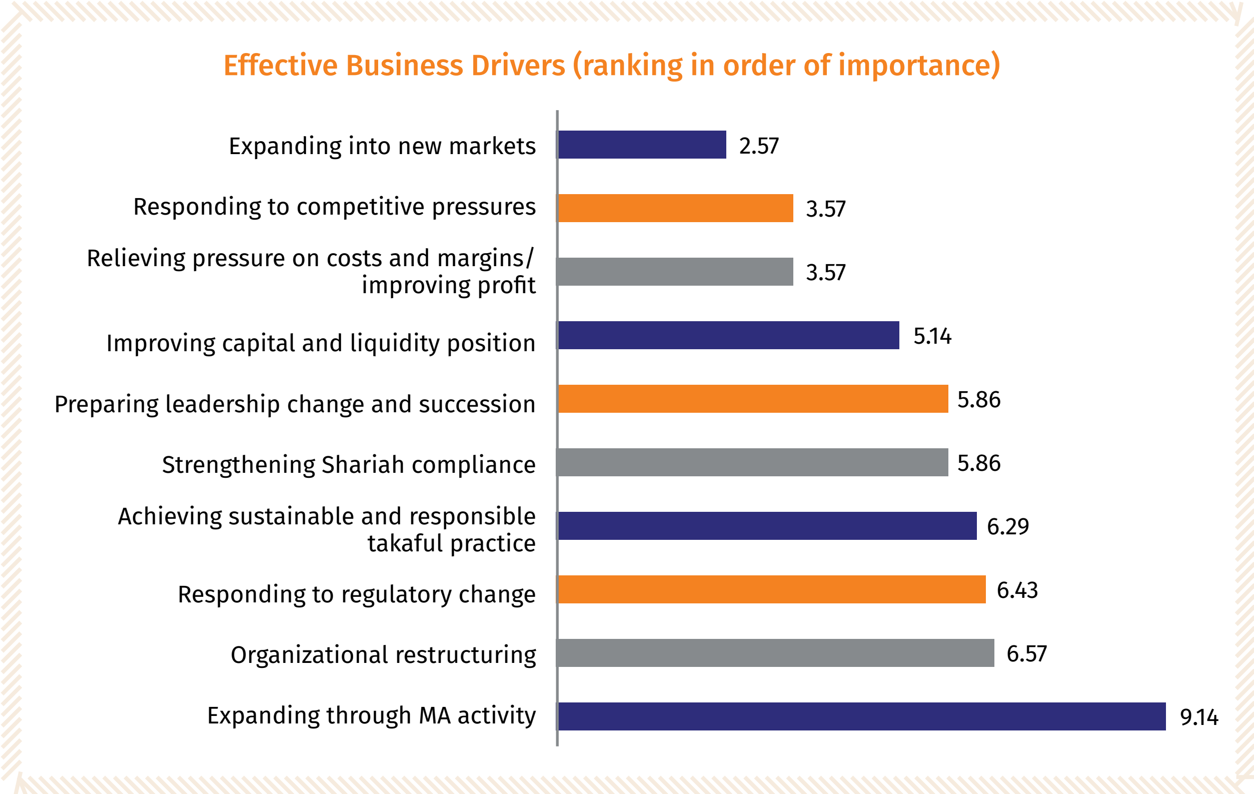


Figure 22. Revenue Growth Drivers

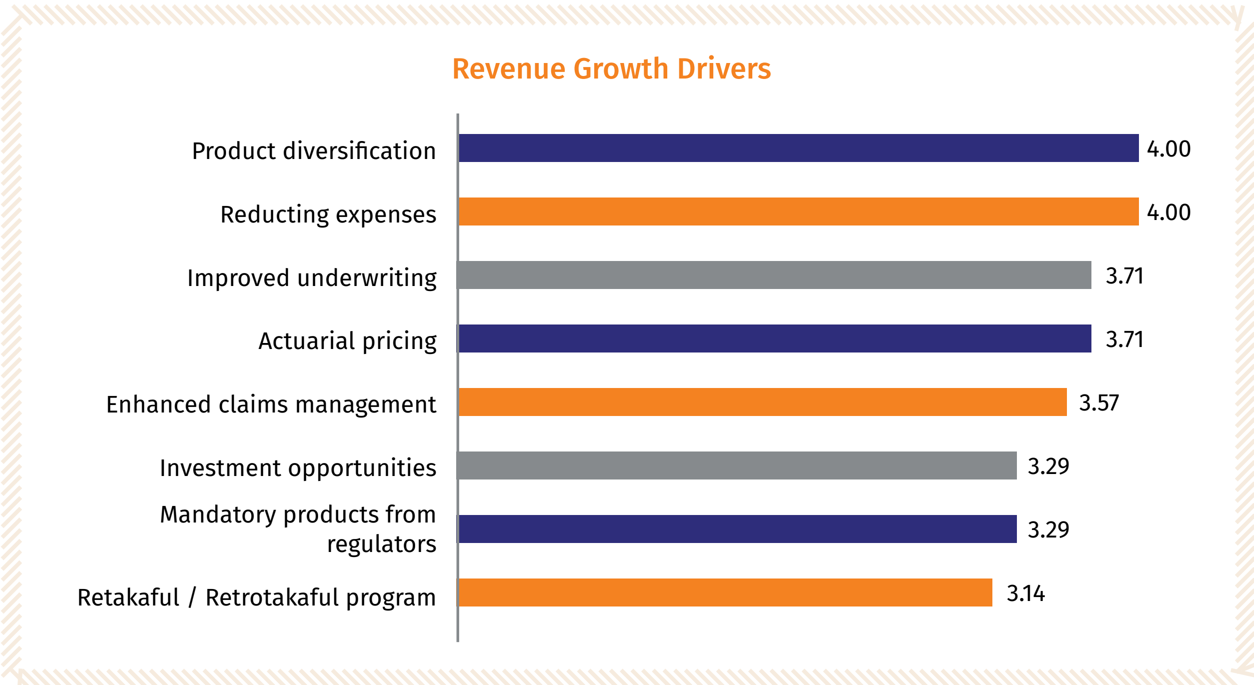


Figure 23. InsurTech Innovations Driving Growth

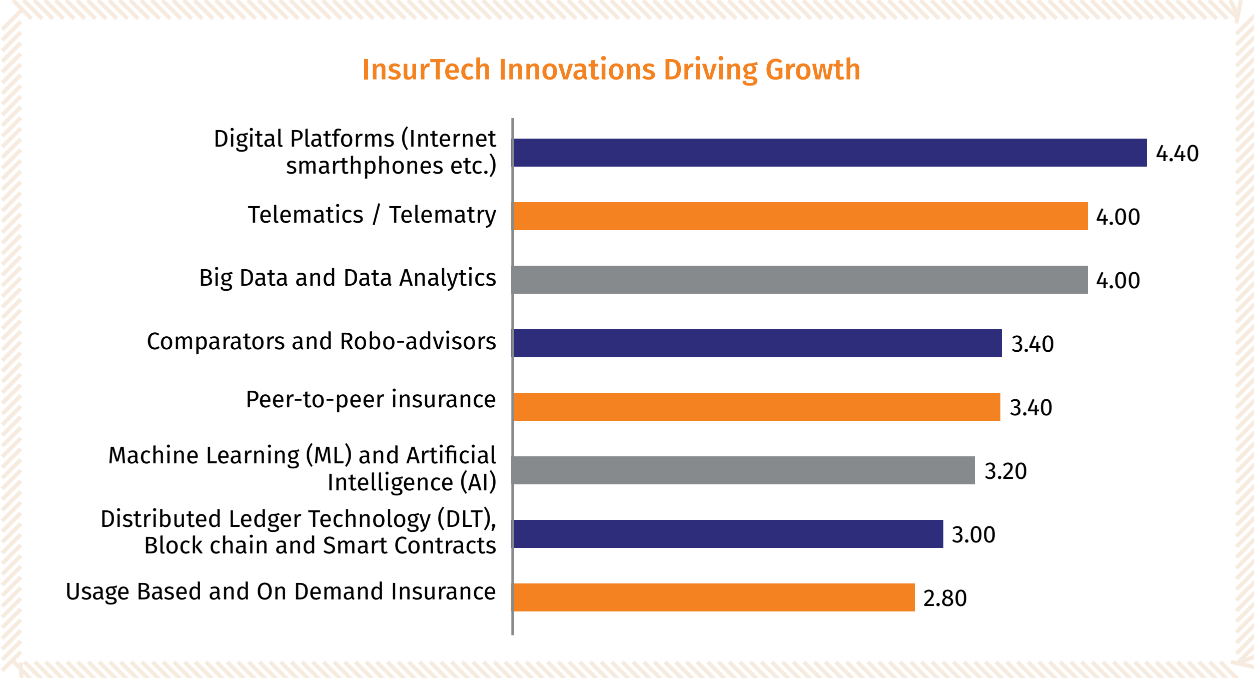


Figure 24. Leveraging technology for Revenue Growth

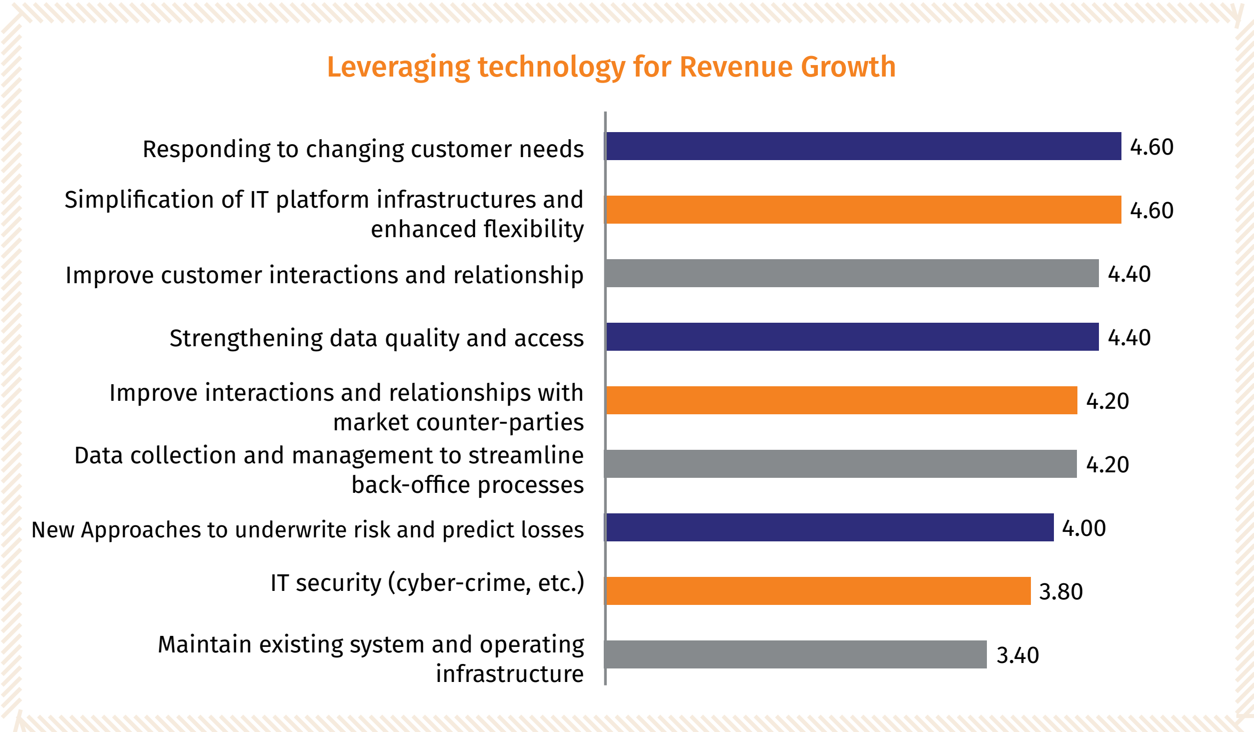


Figure 25. Risk Management infrastructure and risk governance driving growth

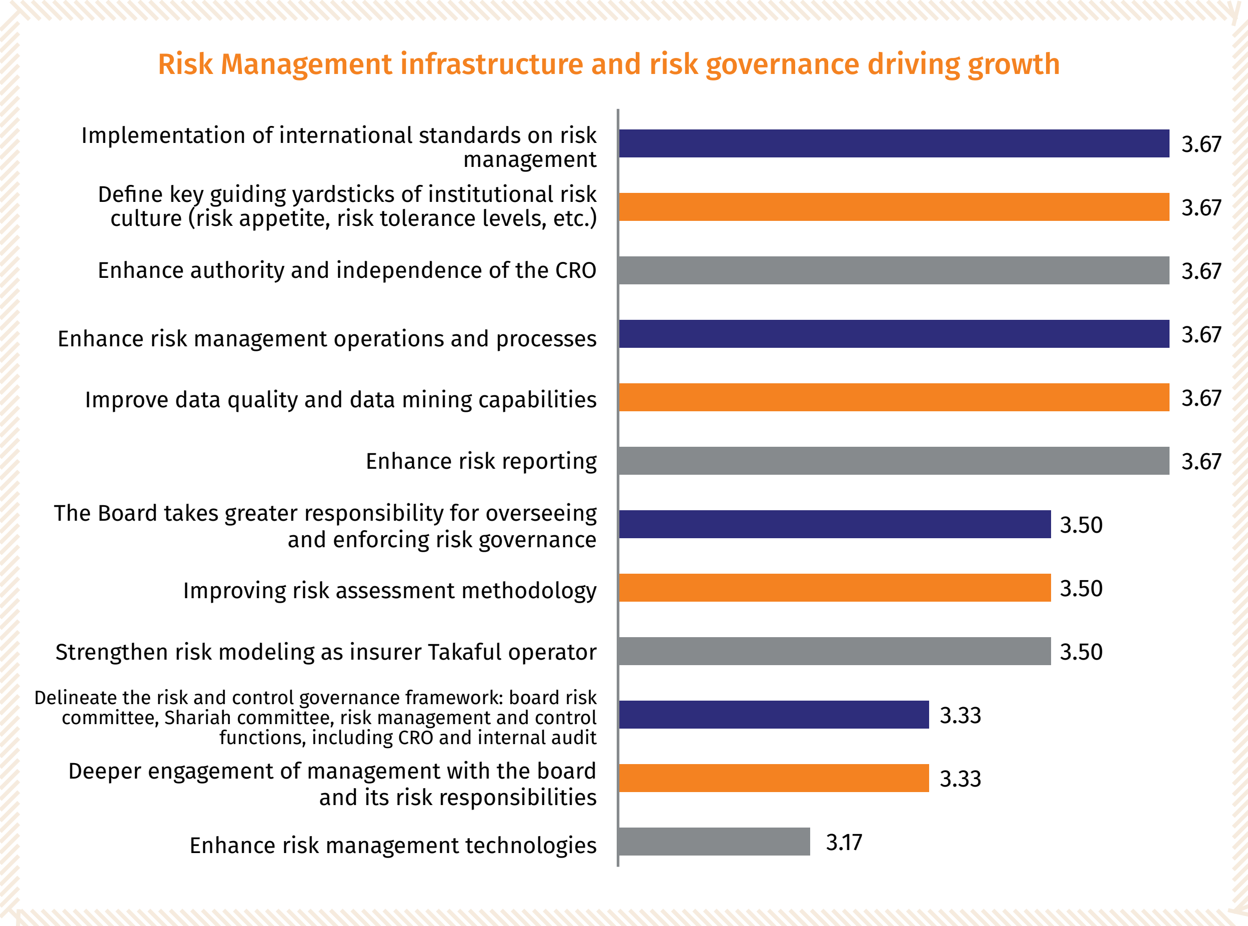


Figure 26. Areas of Human Resources and Talent Development to Improve Institutions' Position

Figure 27. Areas of Customer-Centricity for Institution

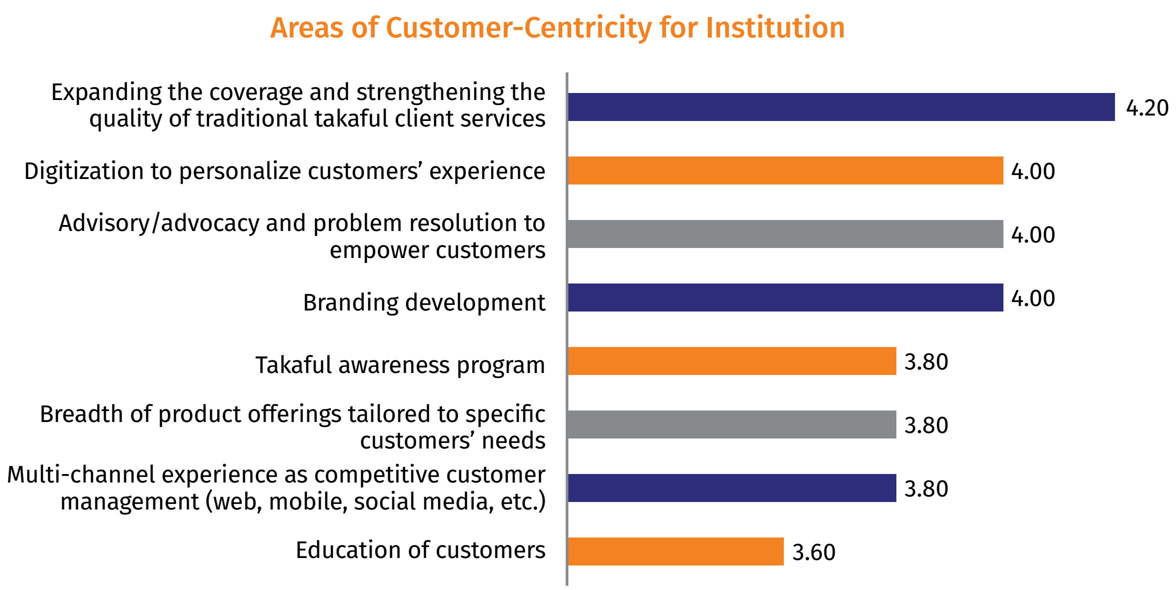


Figure 28. Investment Classes that Enhance the Portfolio of Investment of Policy Holder Funds

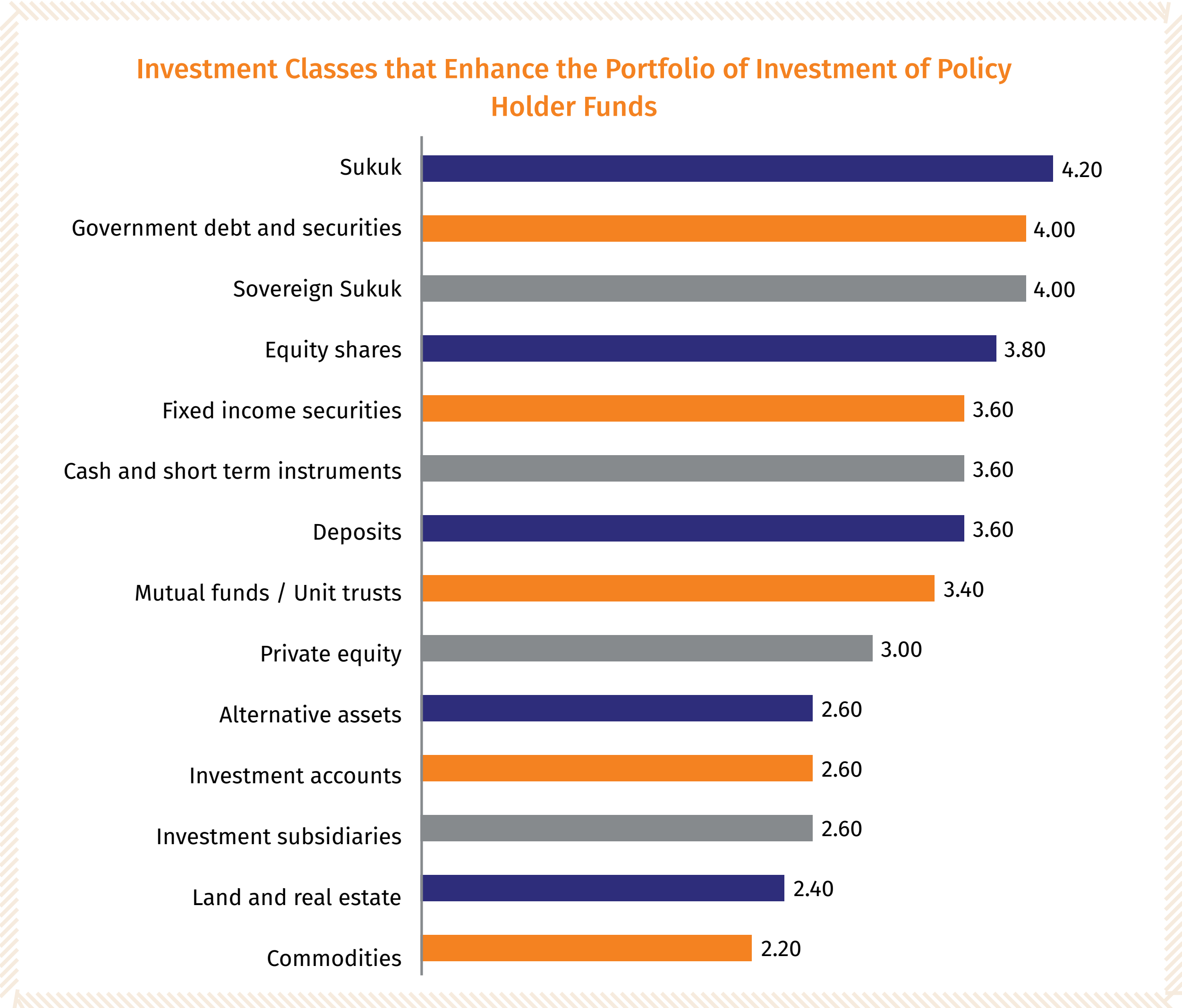


Figure 29. Influence of Regulatory Capital Requirements on Asset Allocation Decisions (1-3 years)

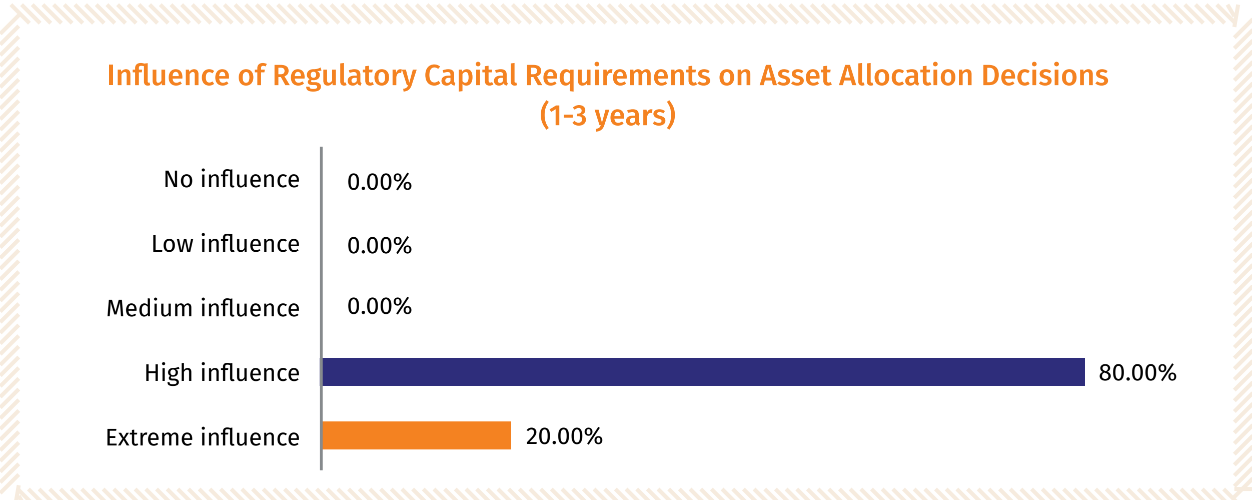


Figure 30. Areas of improvement in Takaful regulation

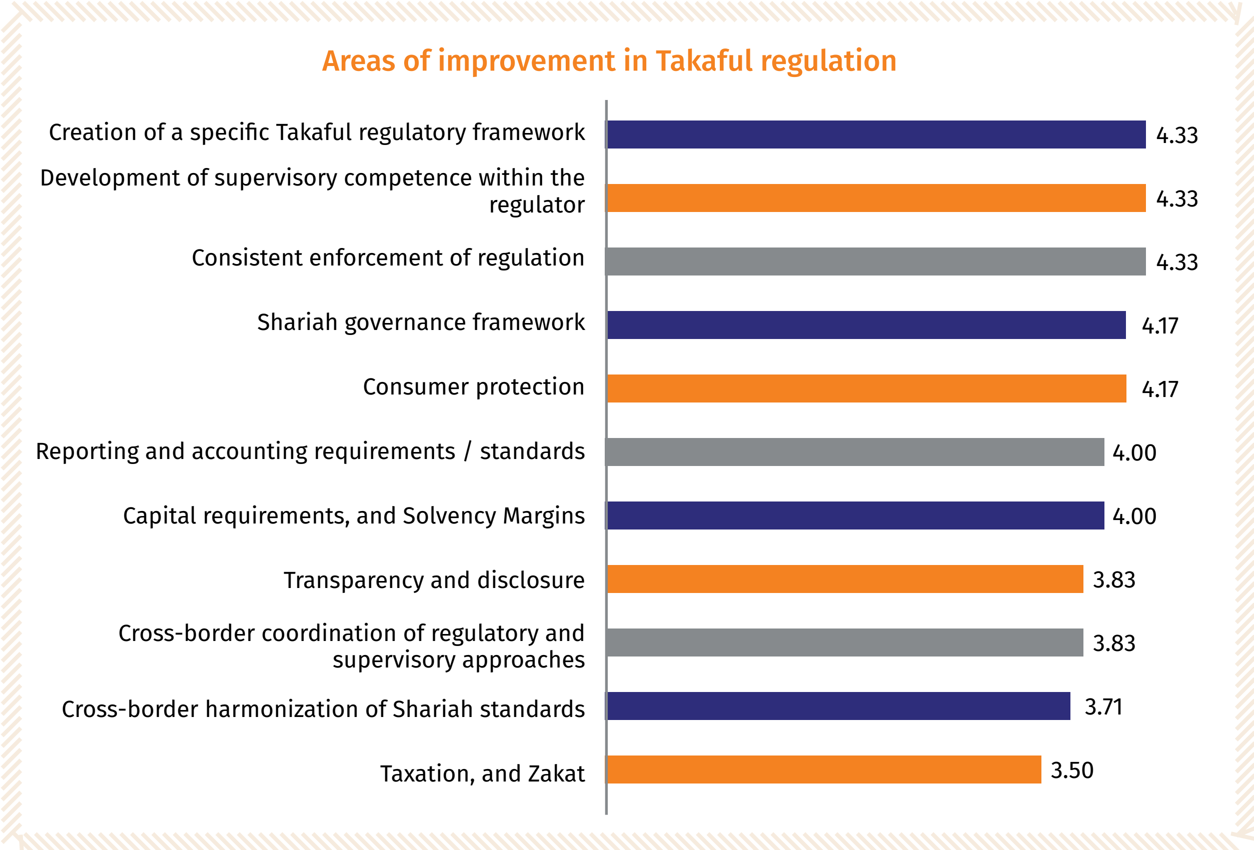


Figure 31. Stakeholders that contribute to Society, Economy and Environment

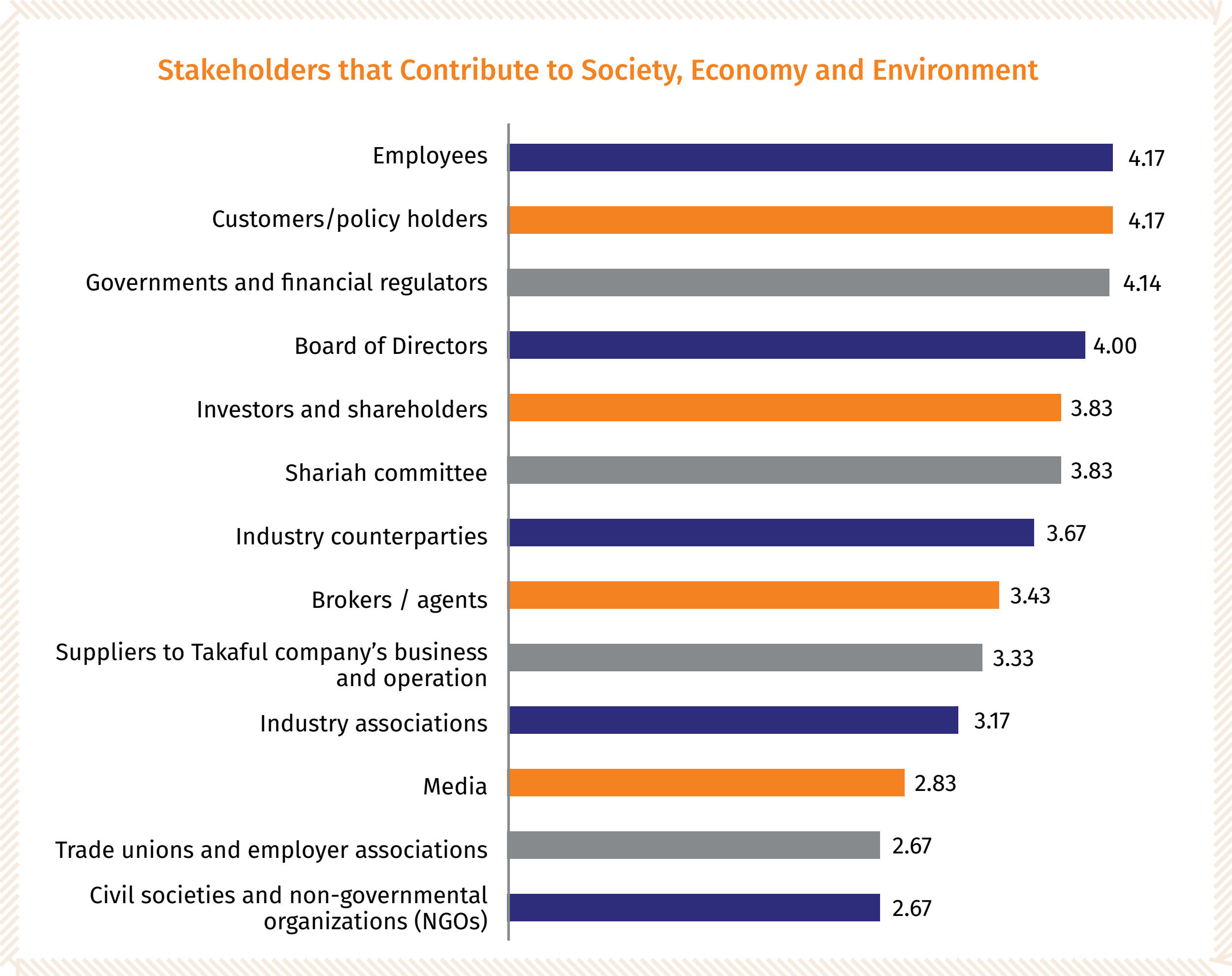


Figure 32. Values institutions promote

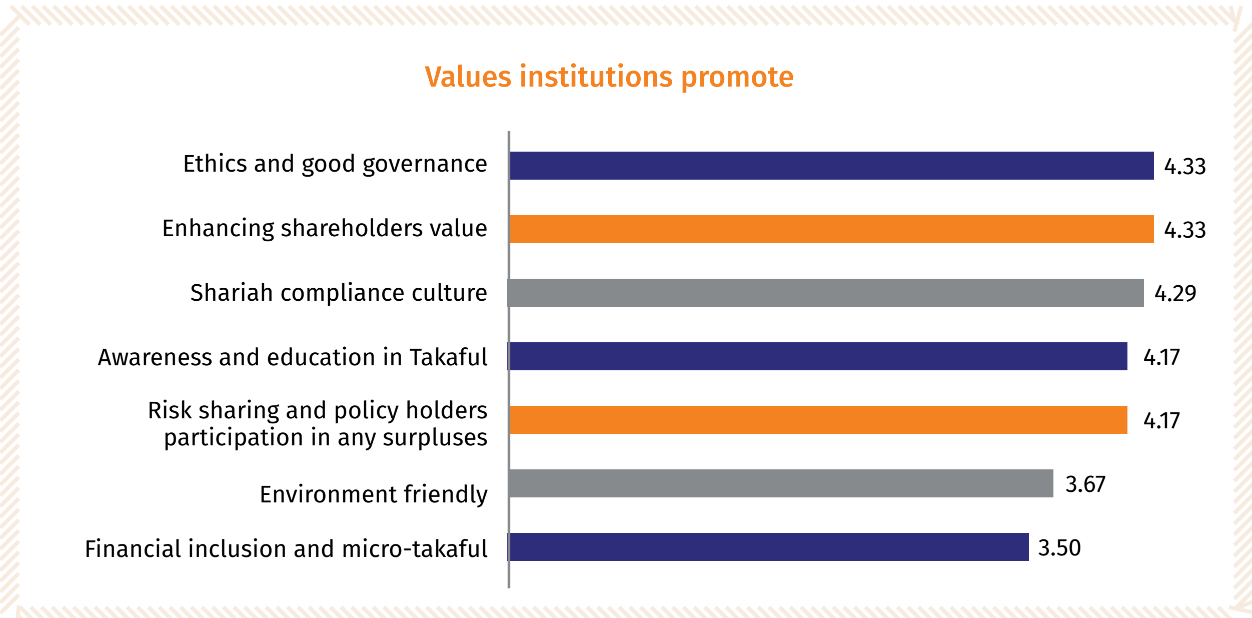


Figure 33. Challenges for Microtakaful's Success

Group 4: West, Central and South Asia

Figure 1. Type of Takaful Operations

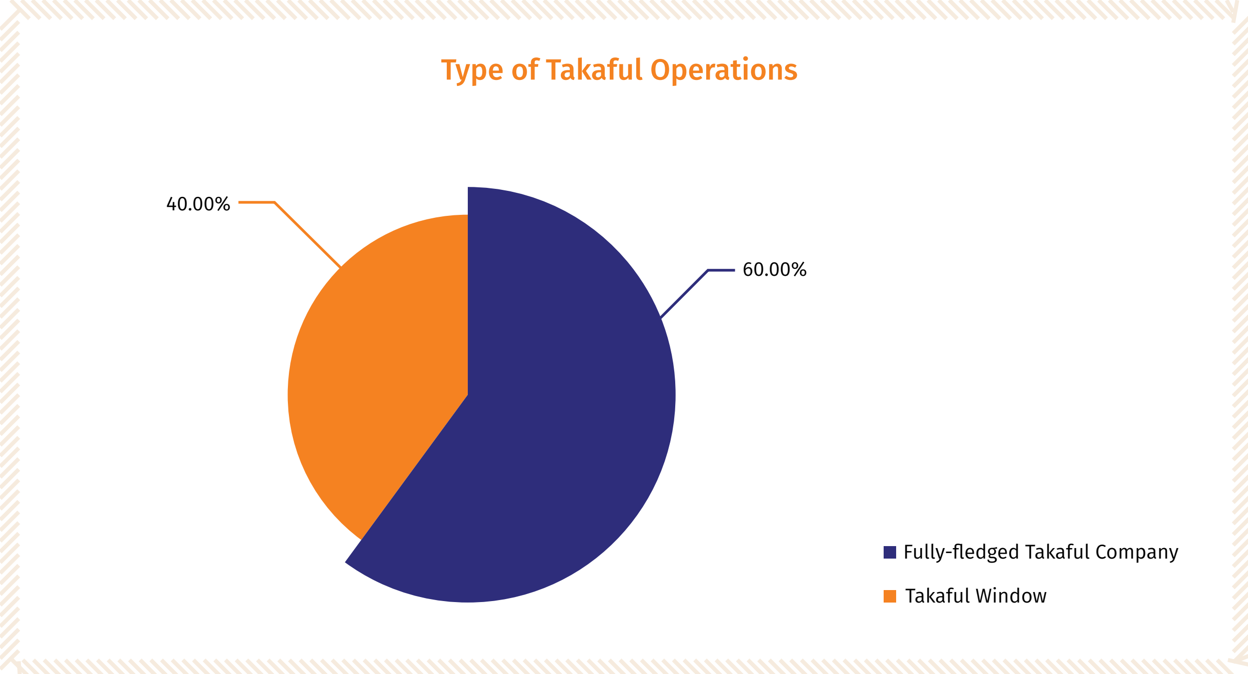


Figure 2. Takaful Models

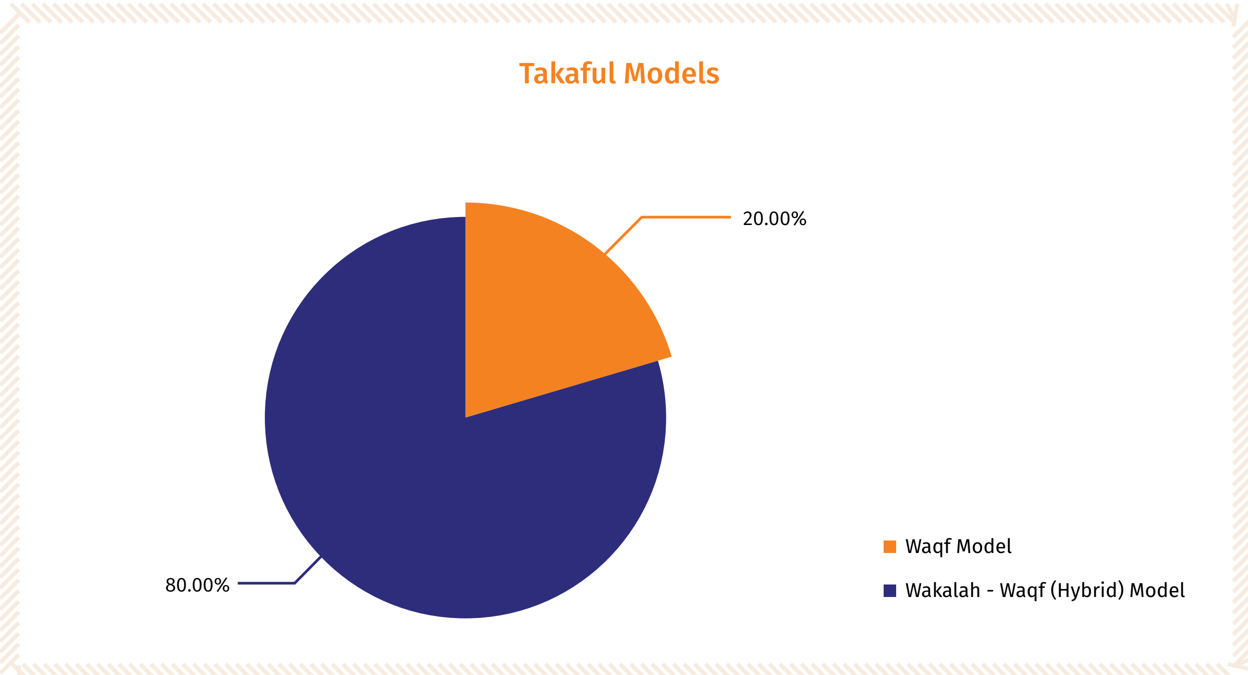


Figure 3. Nature of Takaful Operations

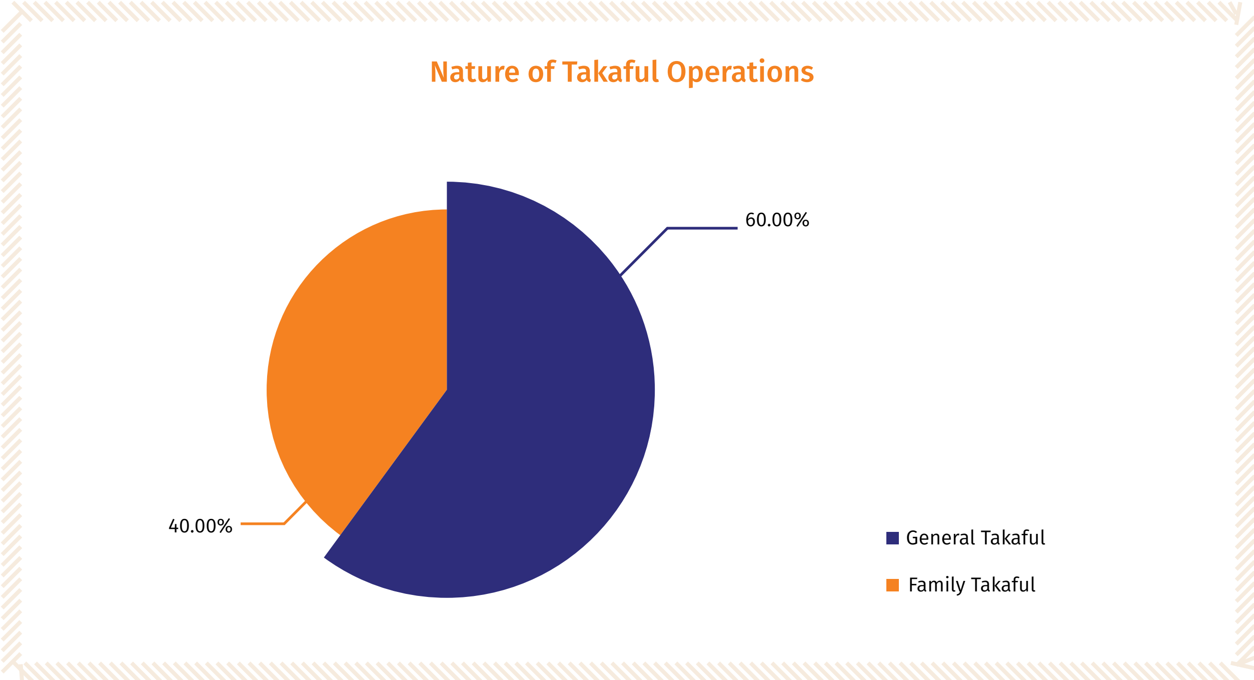


Figure 4. Total Gross Annual Takaful Contributions

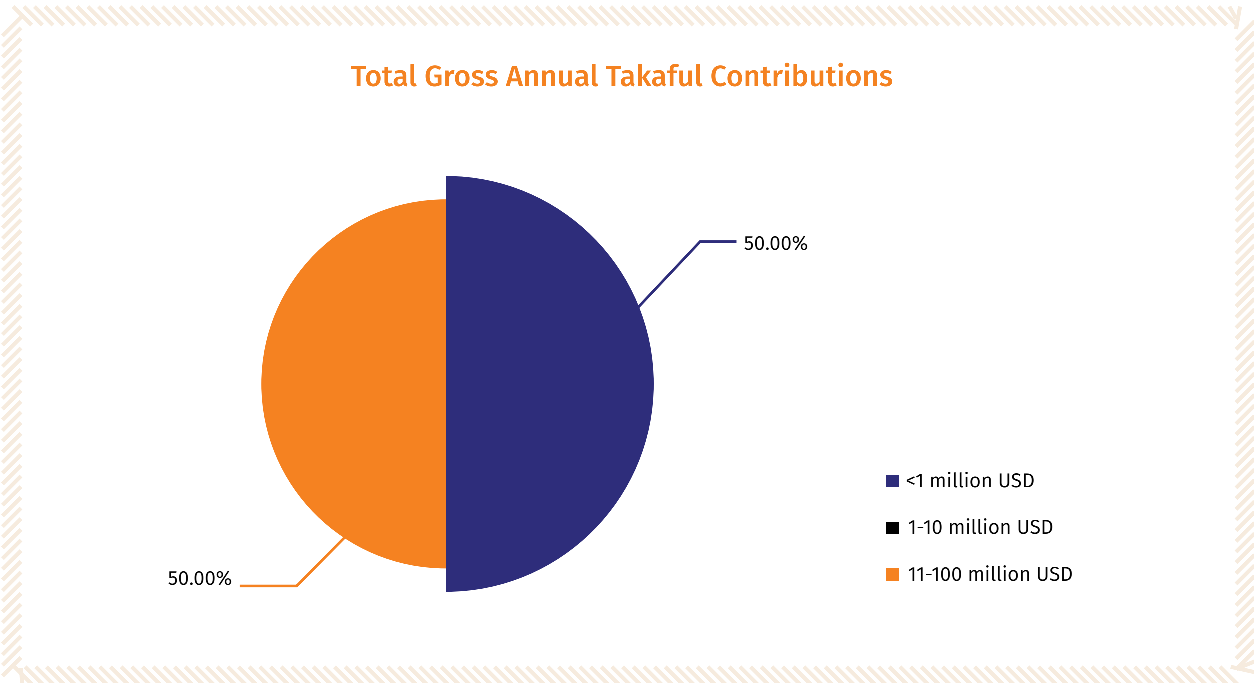


Figure 5. Overall Expense Ratio

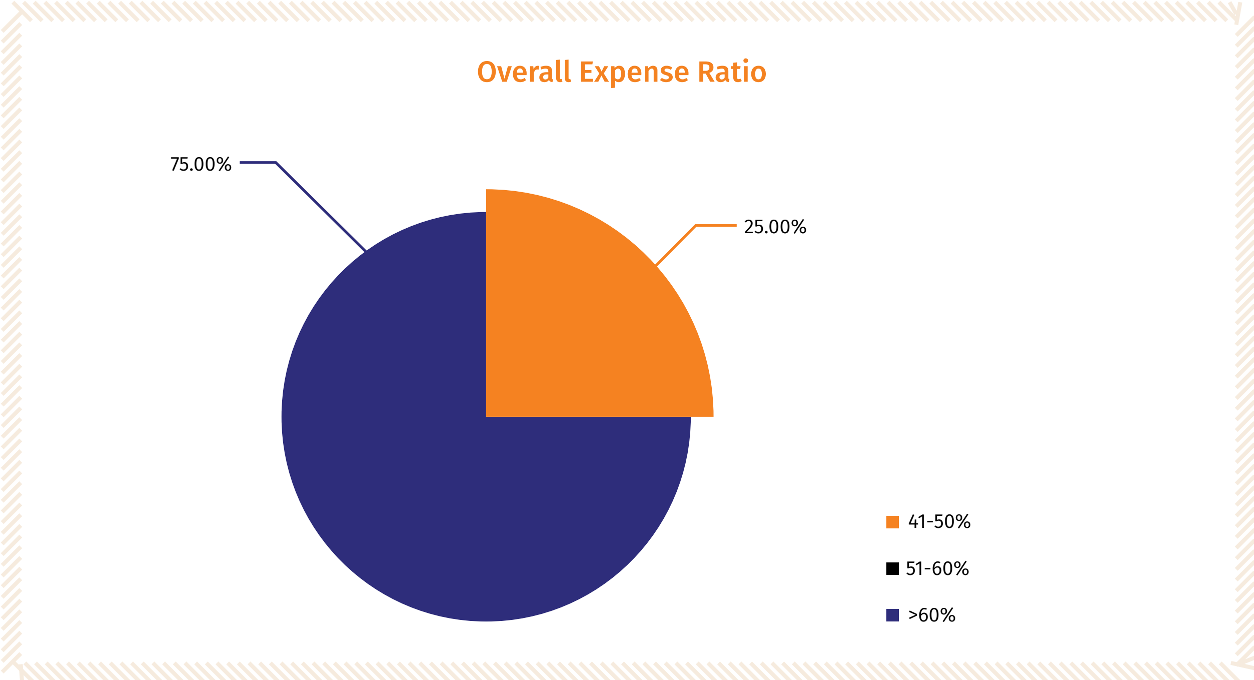


Figure 6. Average Retention Ratio

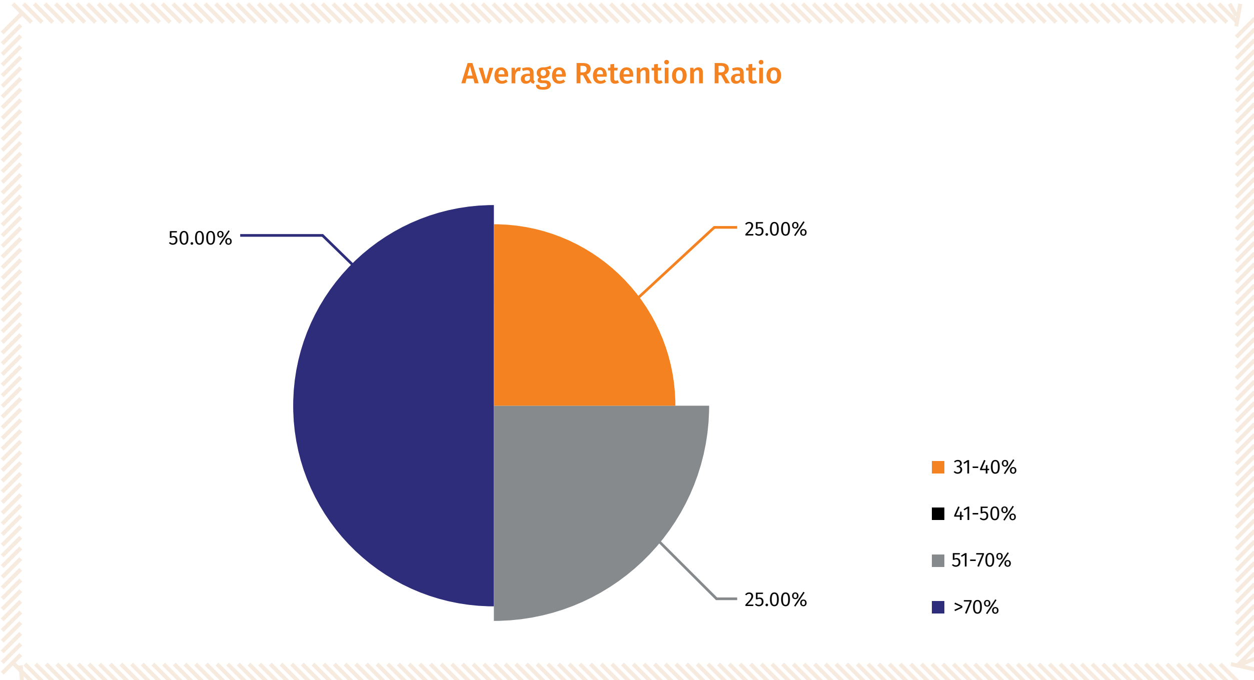


Figure 7. Optimism Level on Overall Insurance Industry

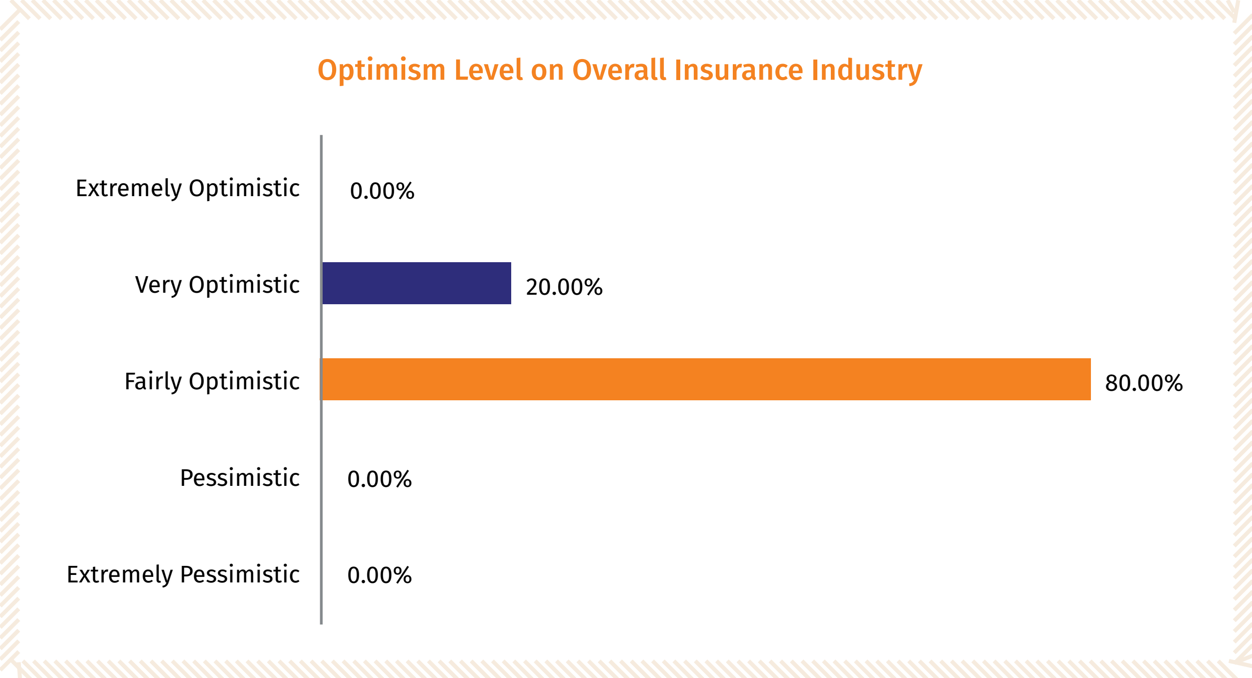


Figure 8. Takaful Industry Optimism Level

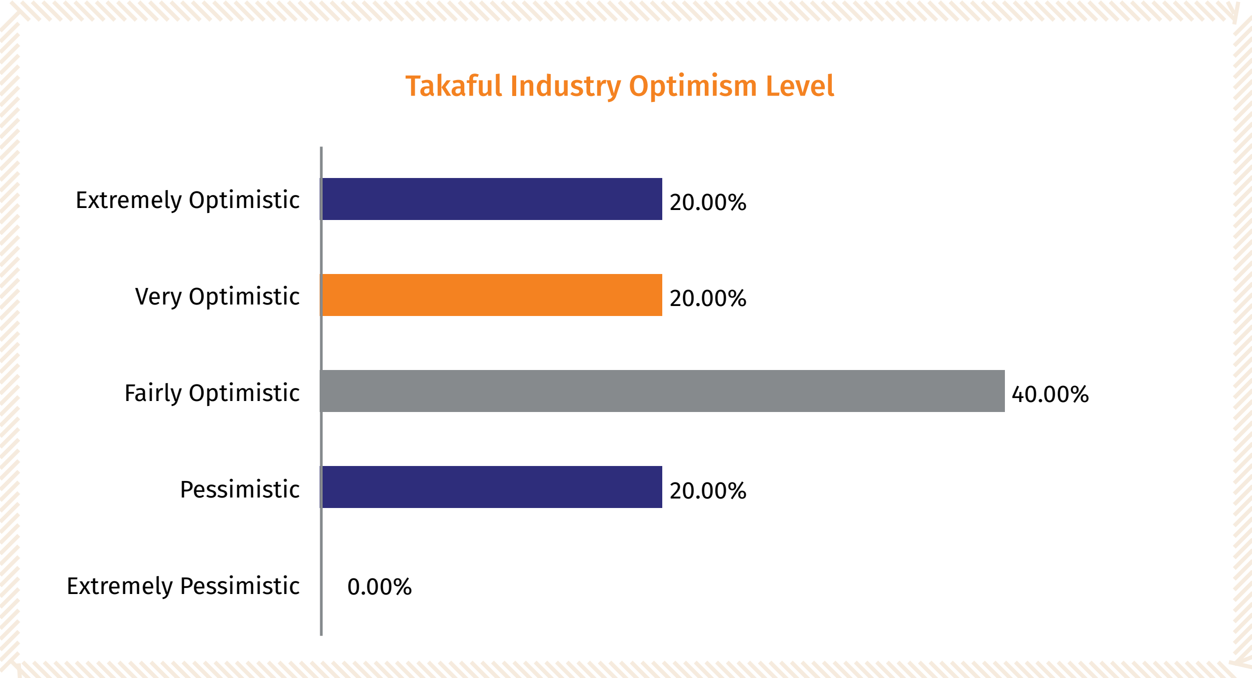


Figure 9. Expectations of Revenue Growth compared with conventional peers

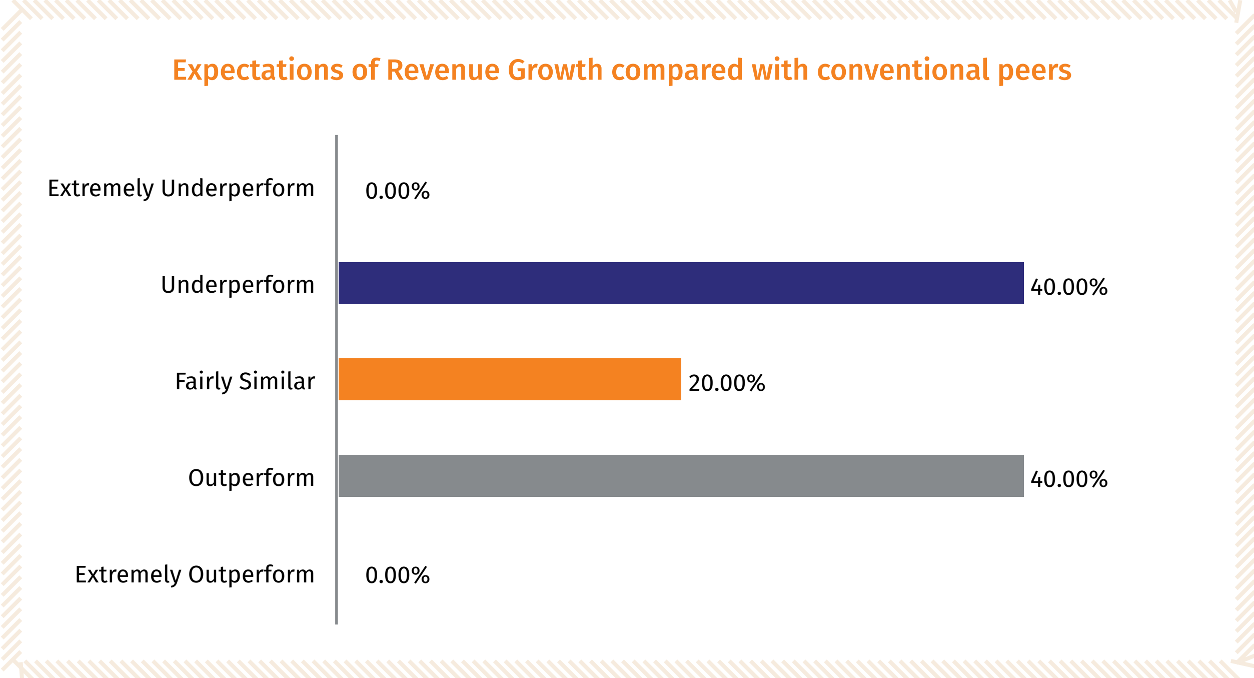


Figure 10. Revenue in Personal Lines - Short Term

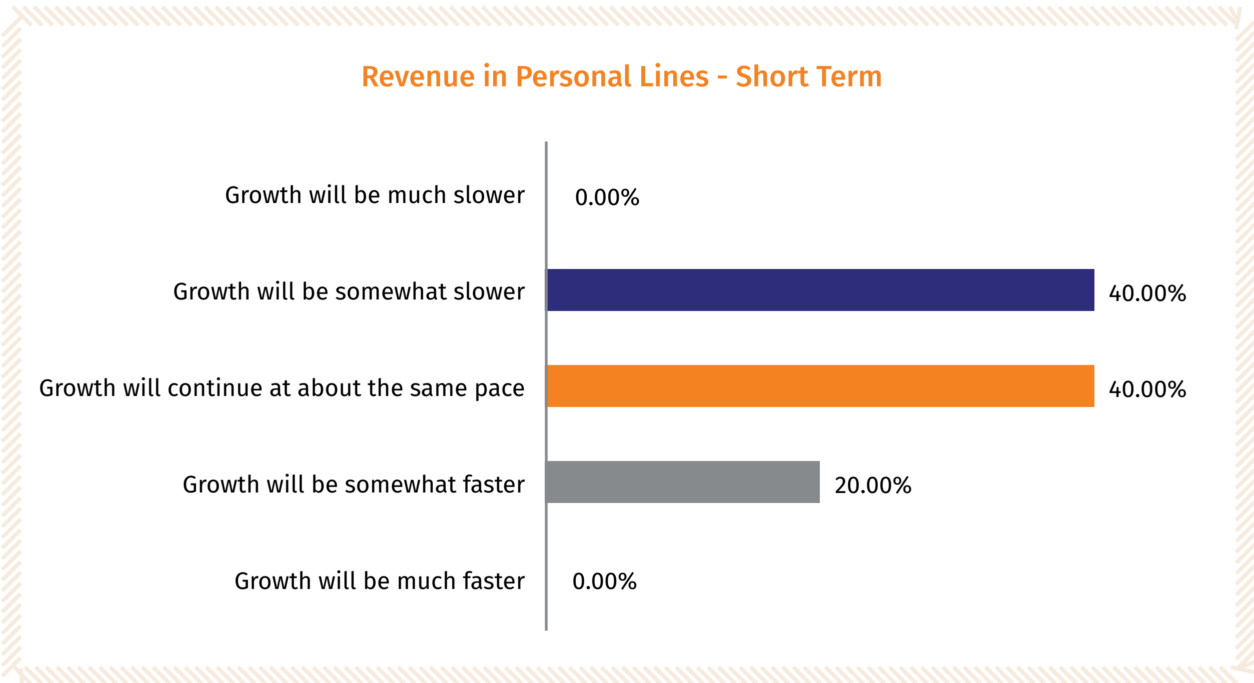


Figure 11. Revenue in Personal Lines - Long Term (2018-2021)

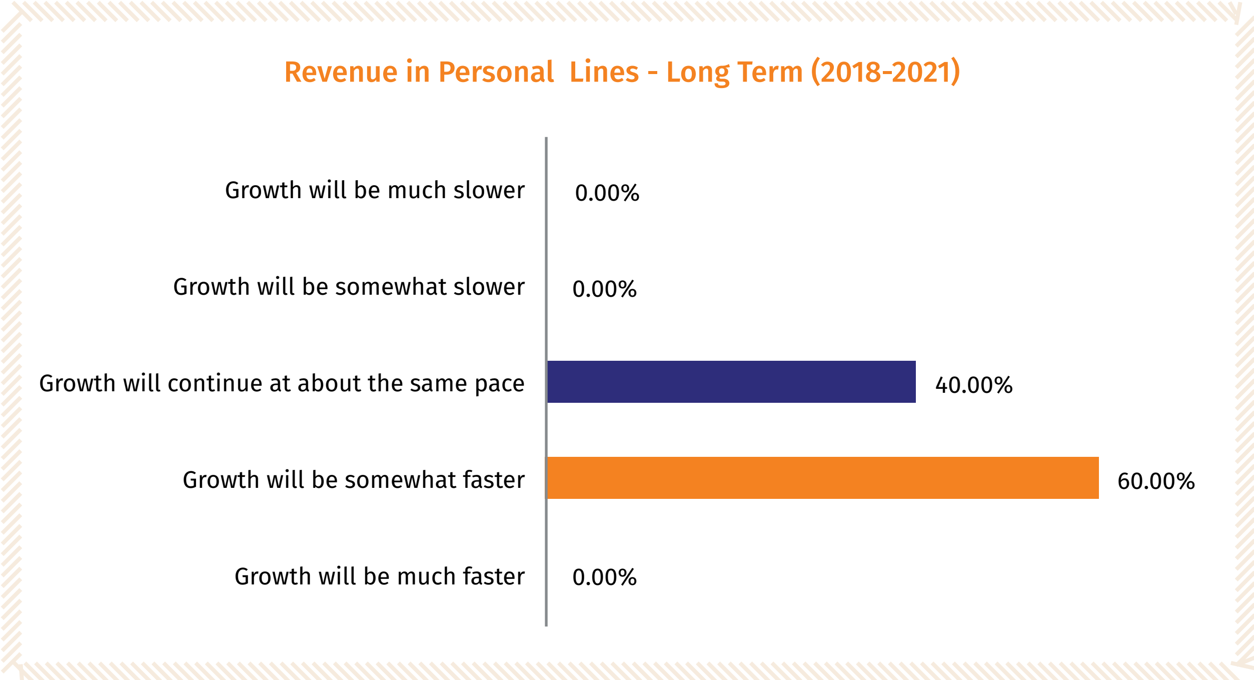


Figure 12. Revenue in Commercial Lines - Short Term

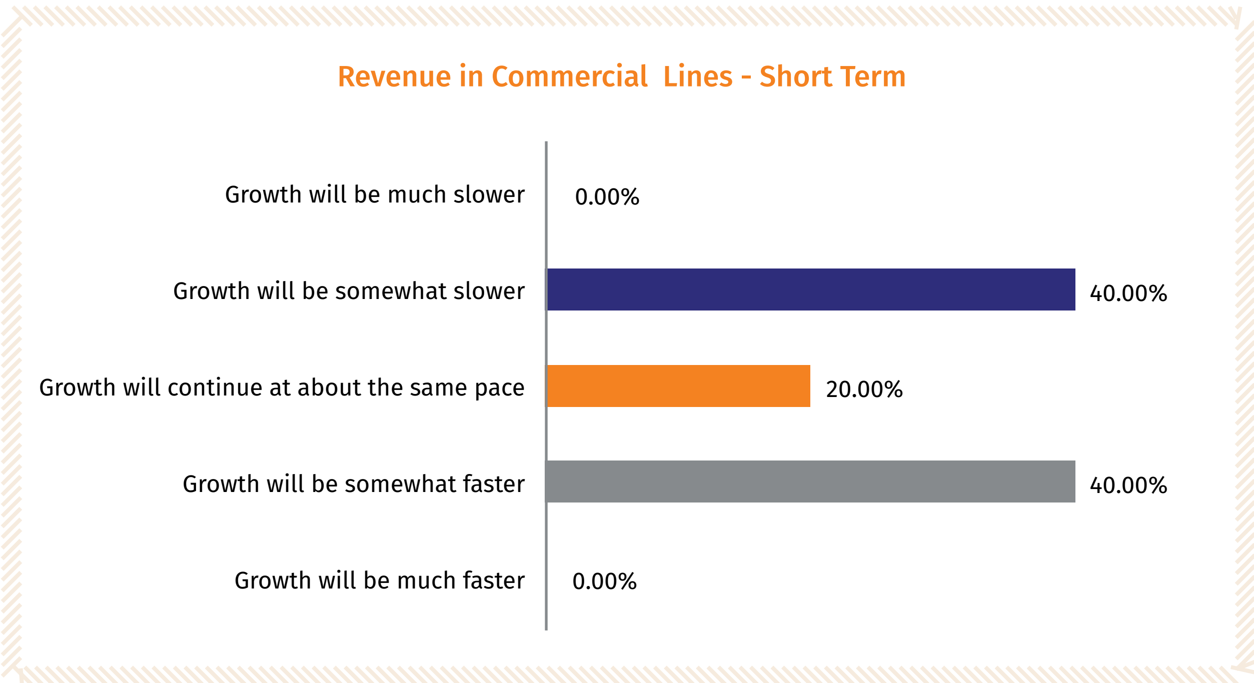


Figure 13. Revenue in Commercial Lines - Long Term (2018-2021)

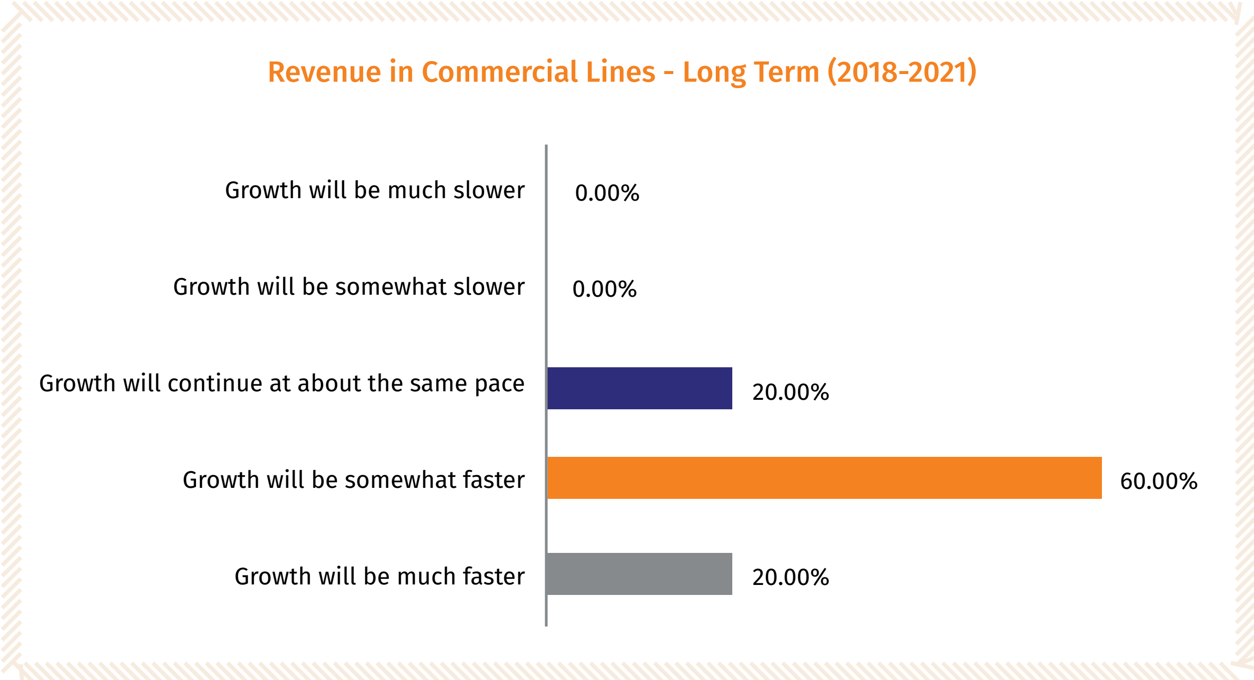
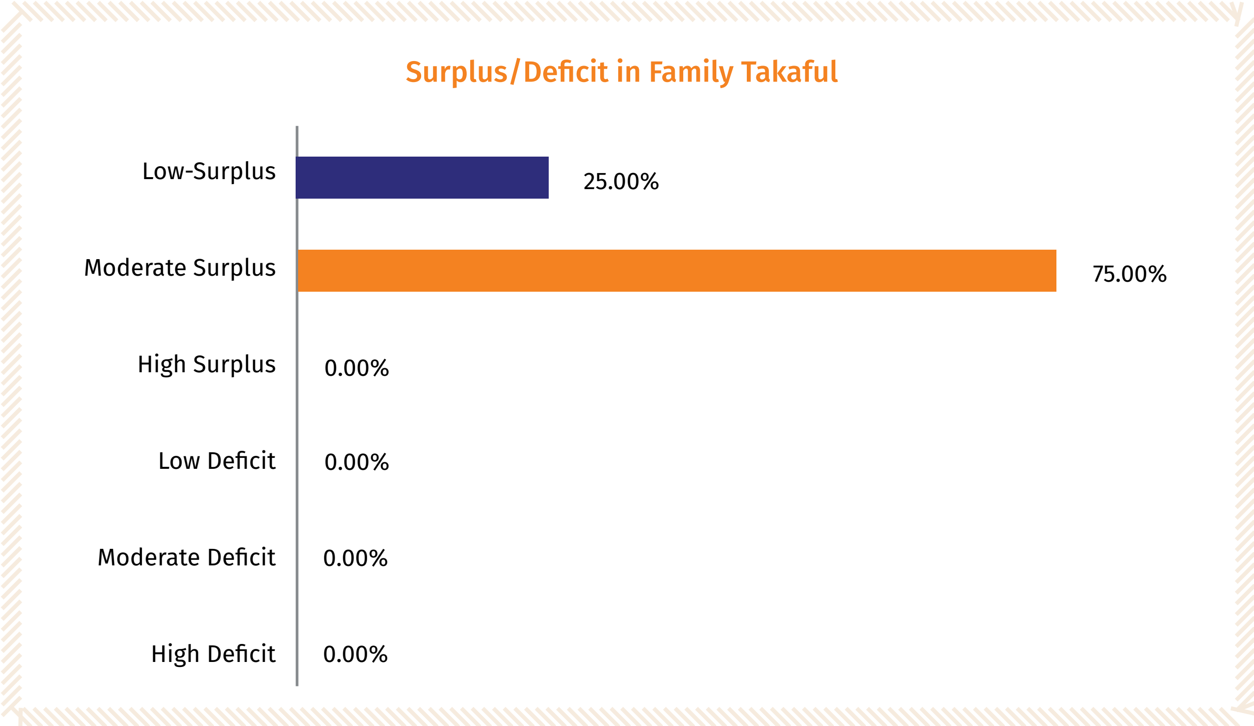


Figure 14. Surplus/Deficit in Family Takaful and General Takaful



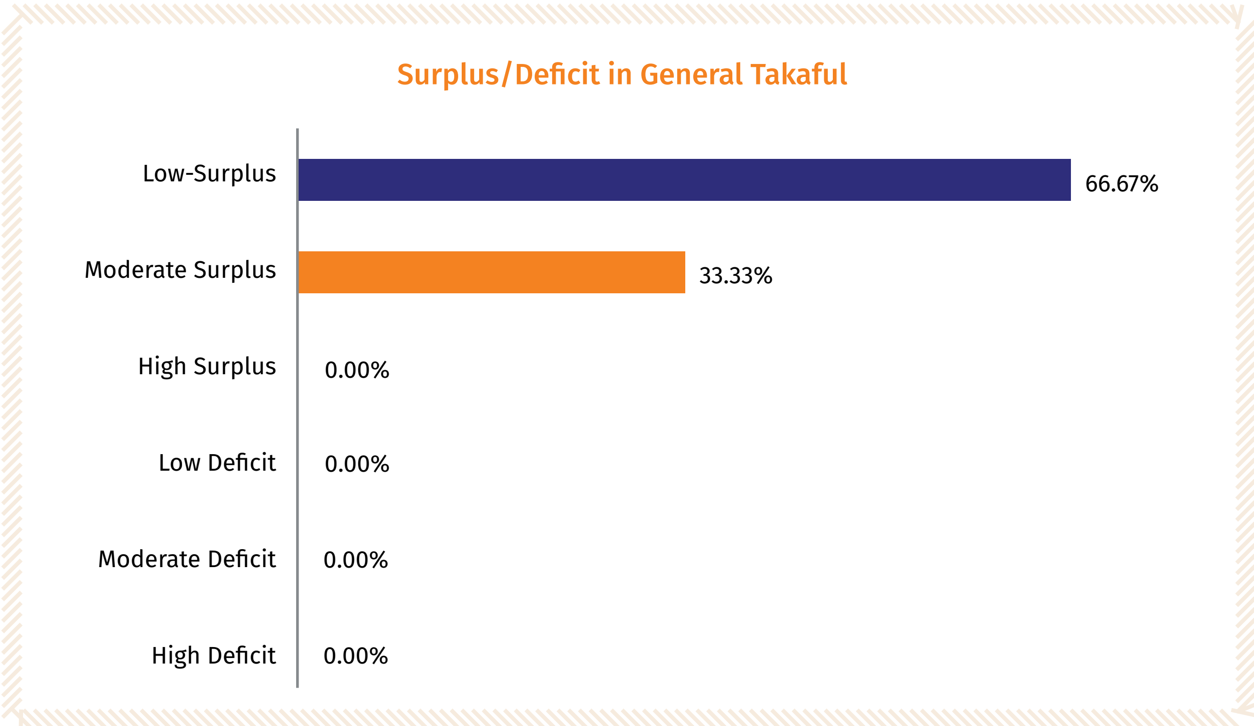


Figure 15. Takaful Industry Top Concerns

Figure 16. Takaful Risk Dashboard

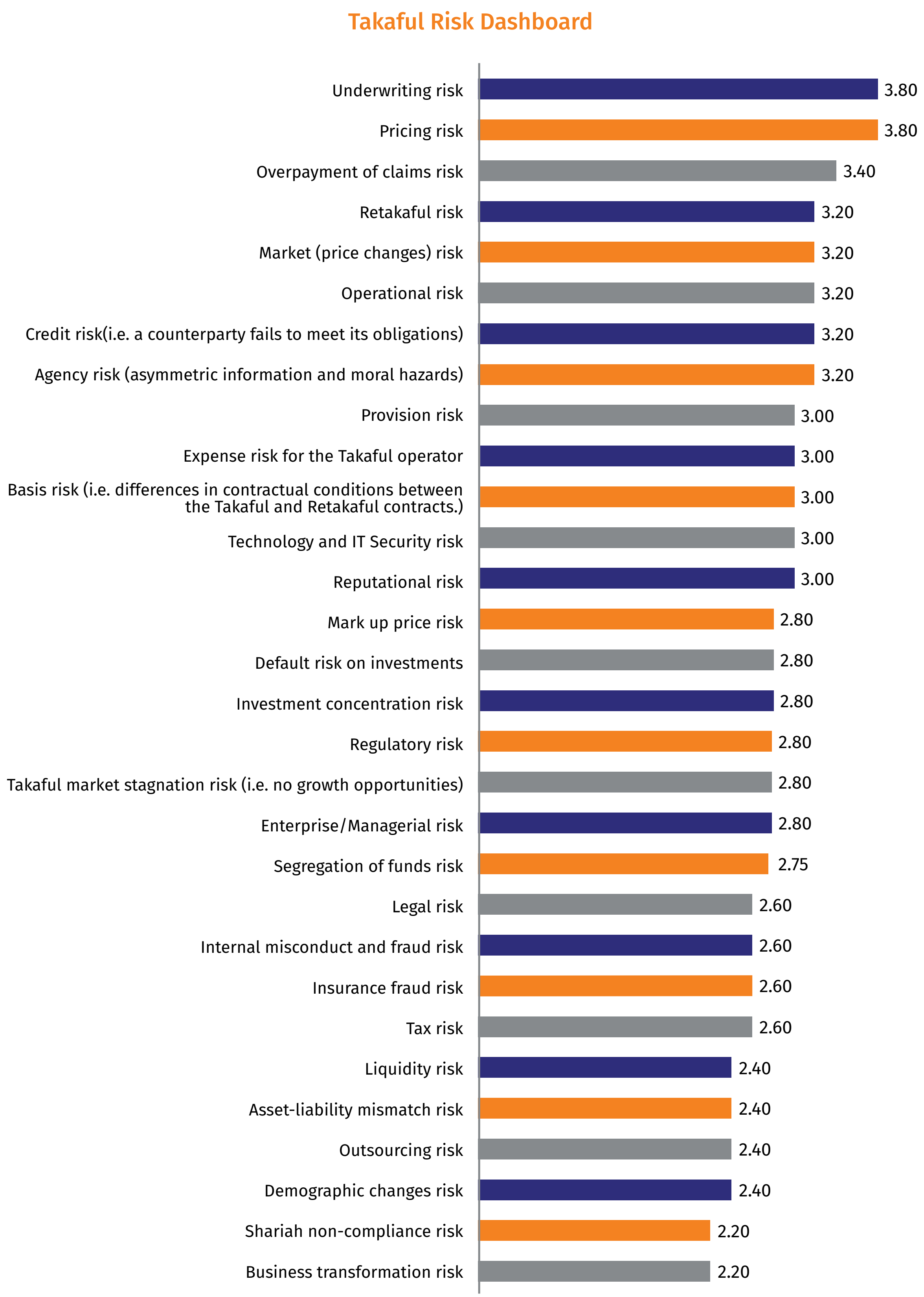


Figure 17. Annual Premium Growth Rate

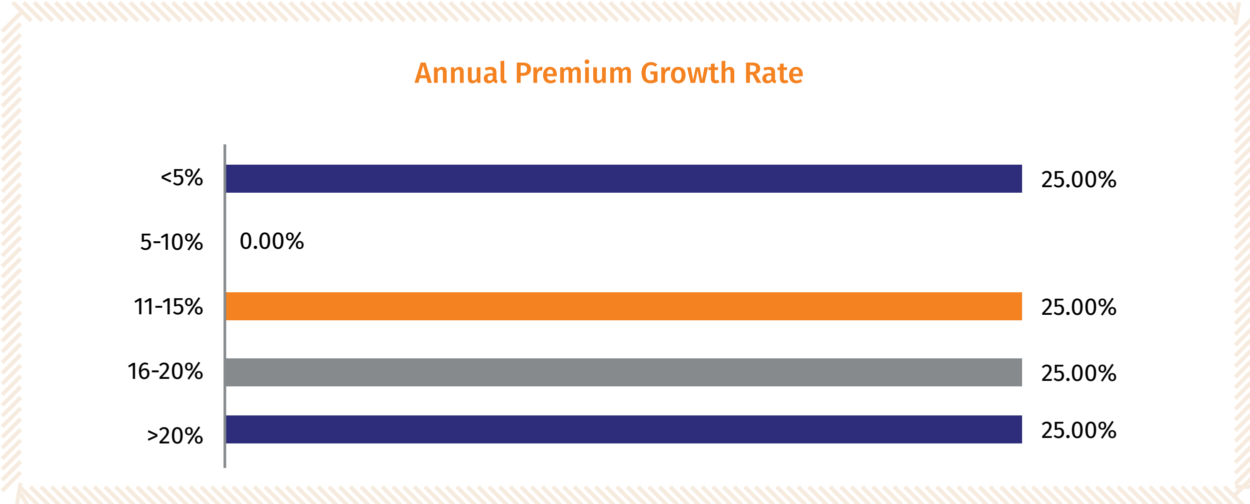


Figure 18. Takaful Market Segments Driving Growth

Figure 19. Distribution Channels Driving Growth

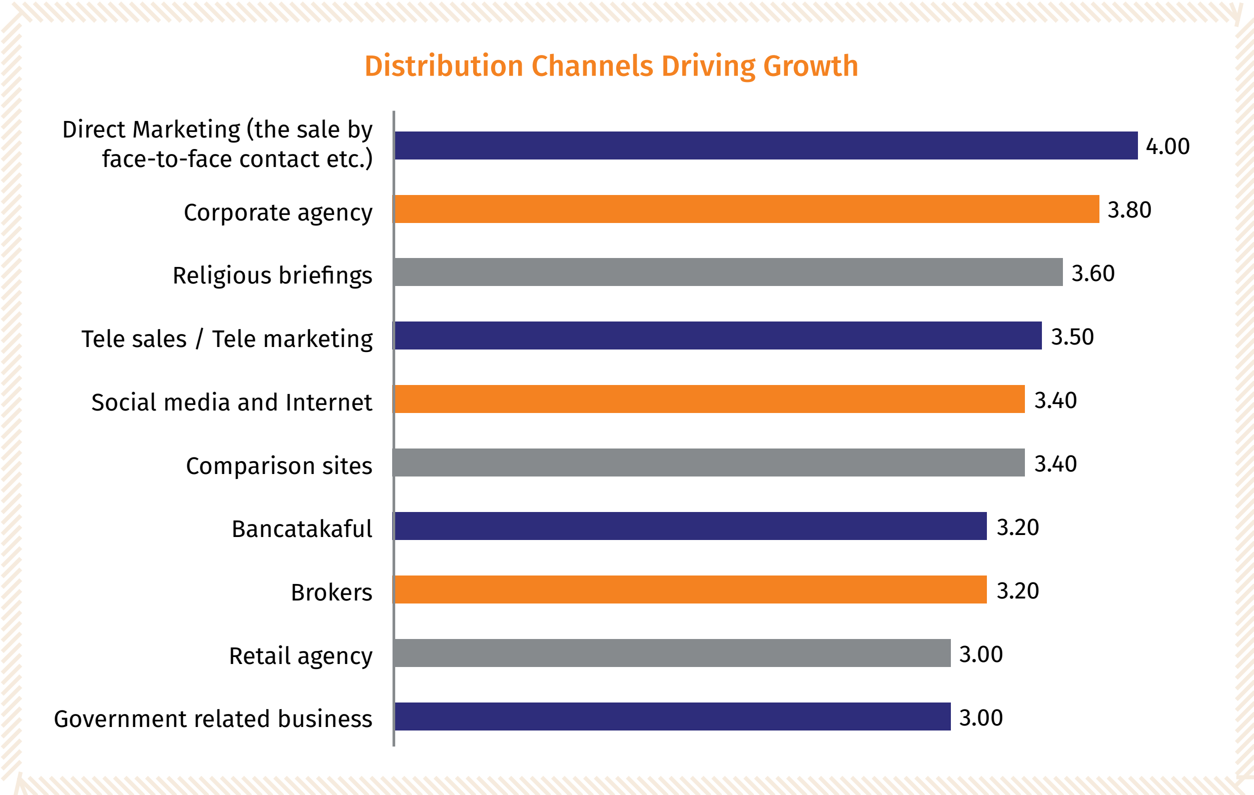
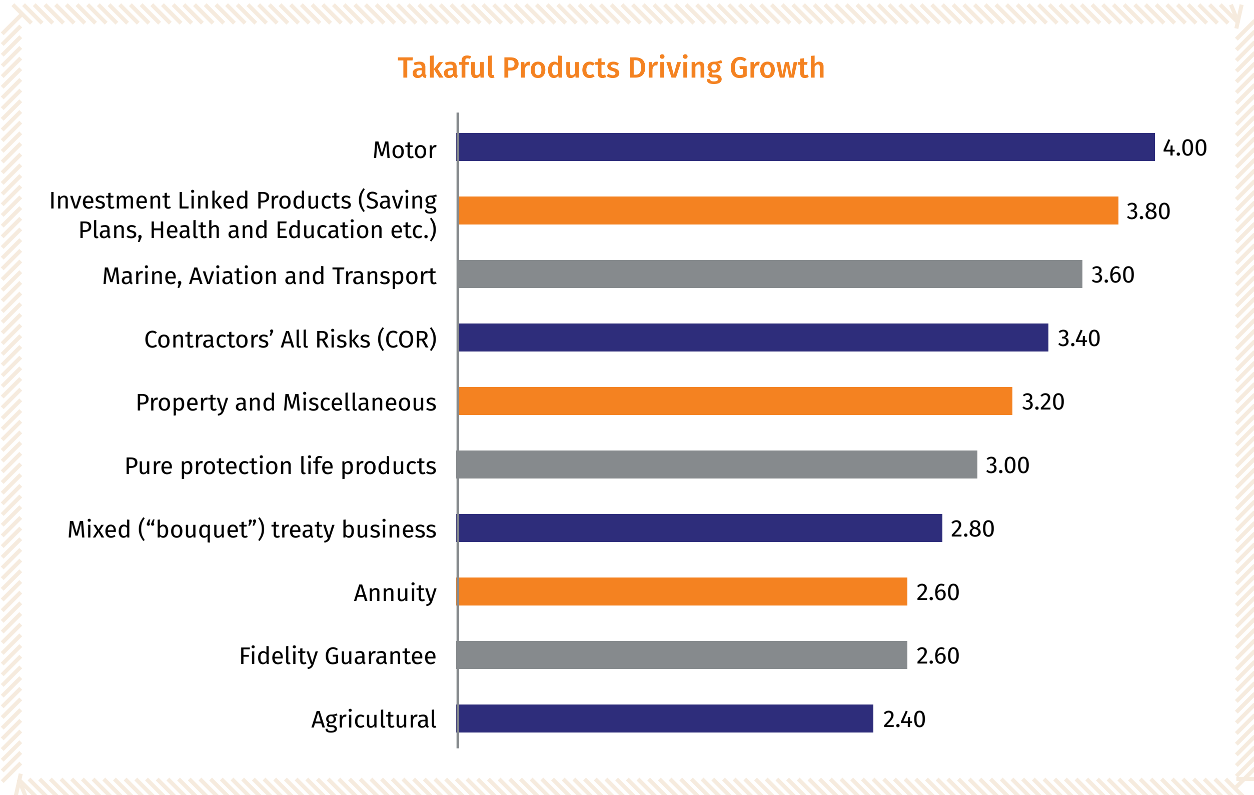


Figure 20. Takaful Products Driving Growth



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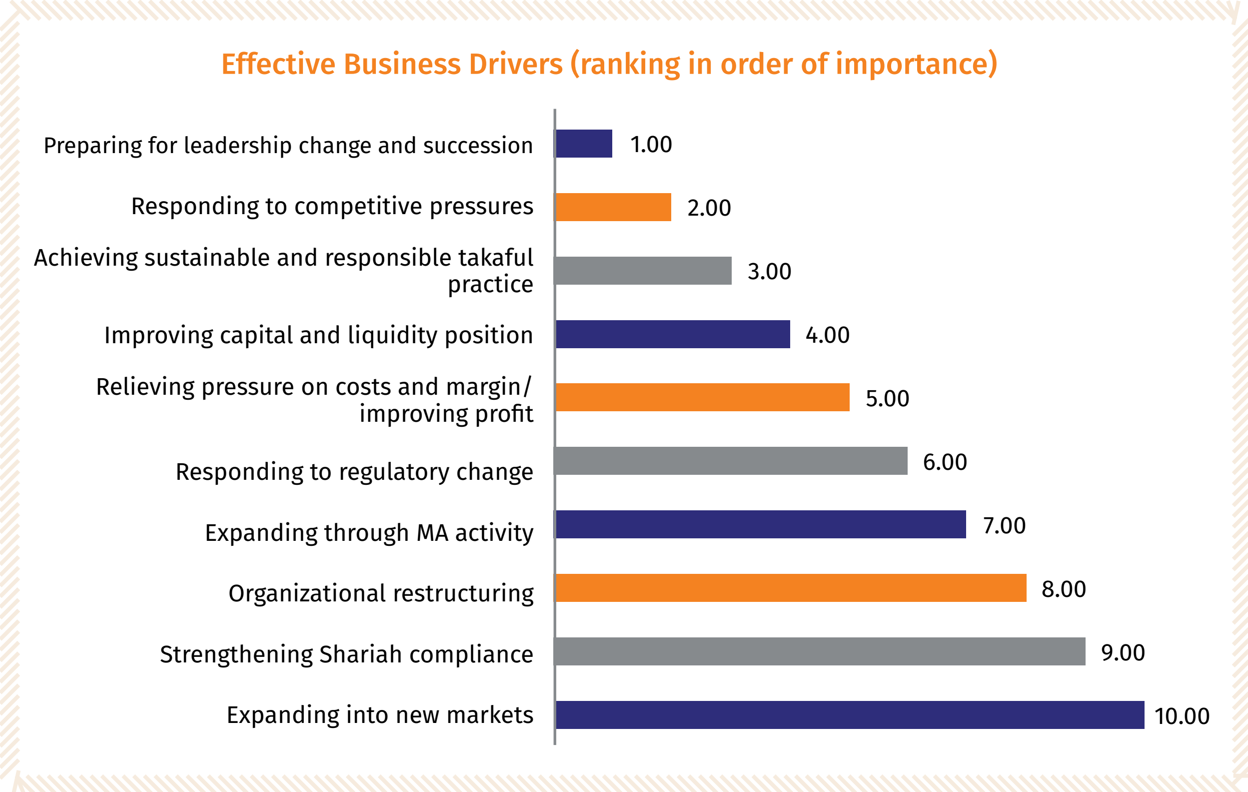


Figure 22. Revenue Growth Drivers

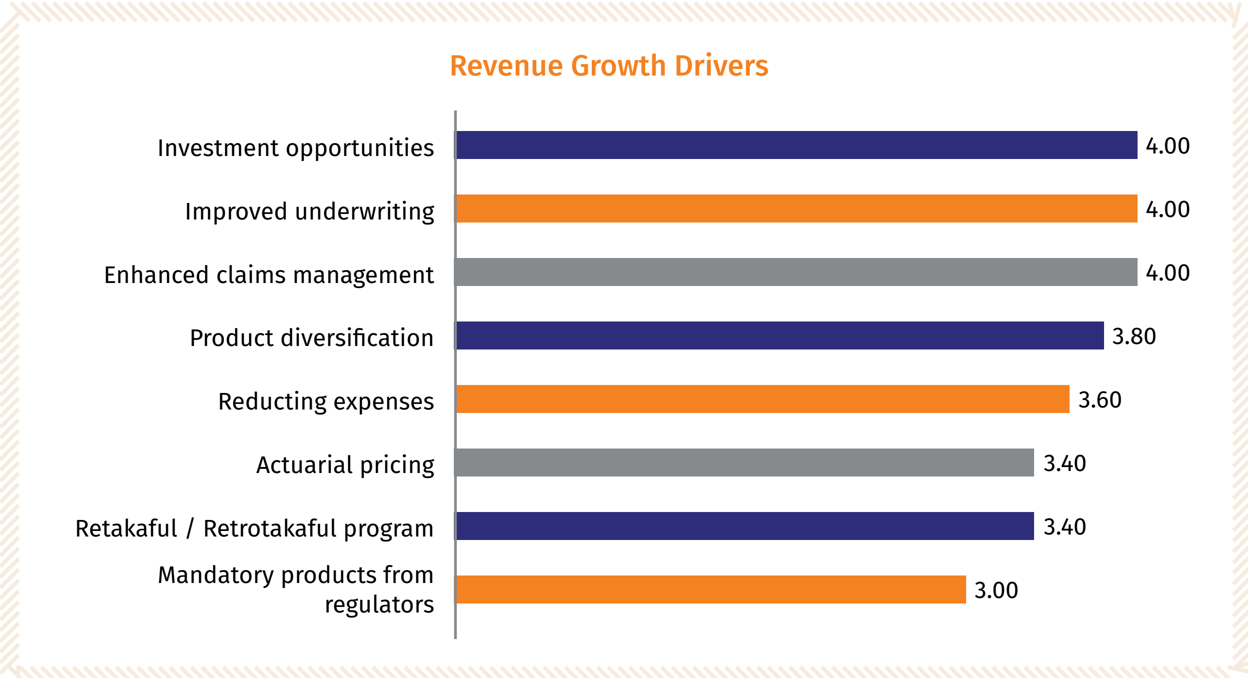


Figure 23. InsurTech Innovations Driving Growth

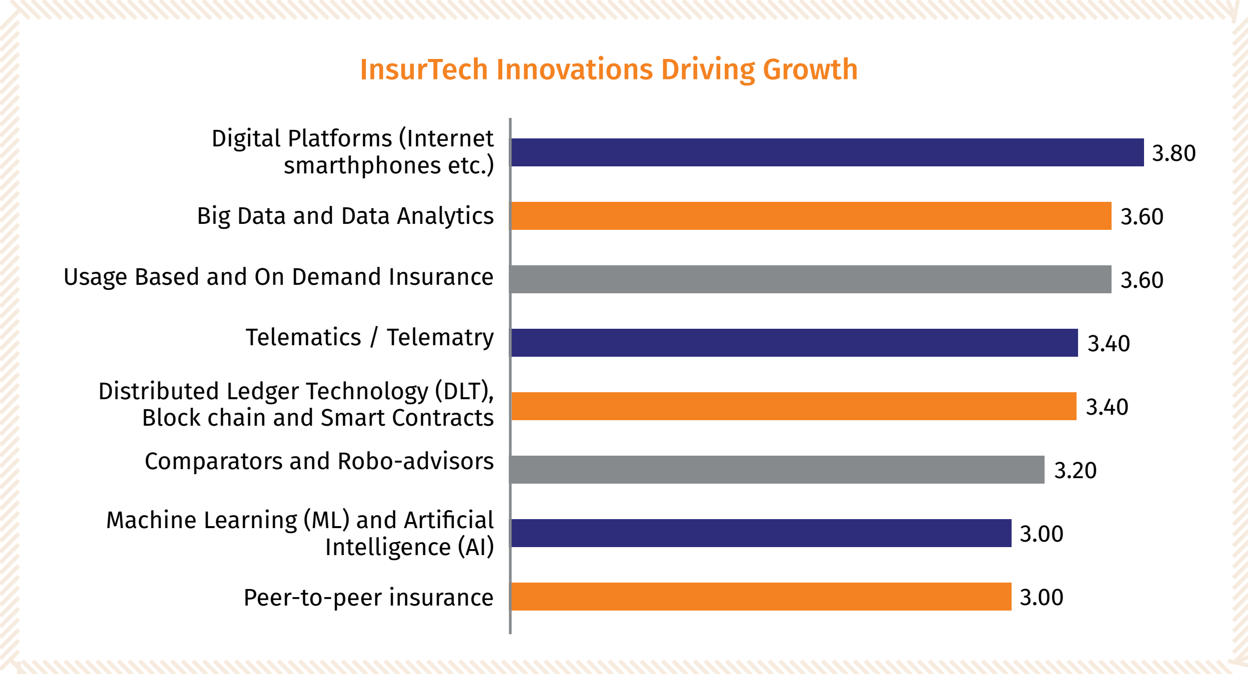


Figure 24. Leveraging Technology for Revenue Growth

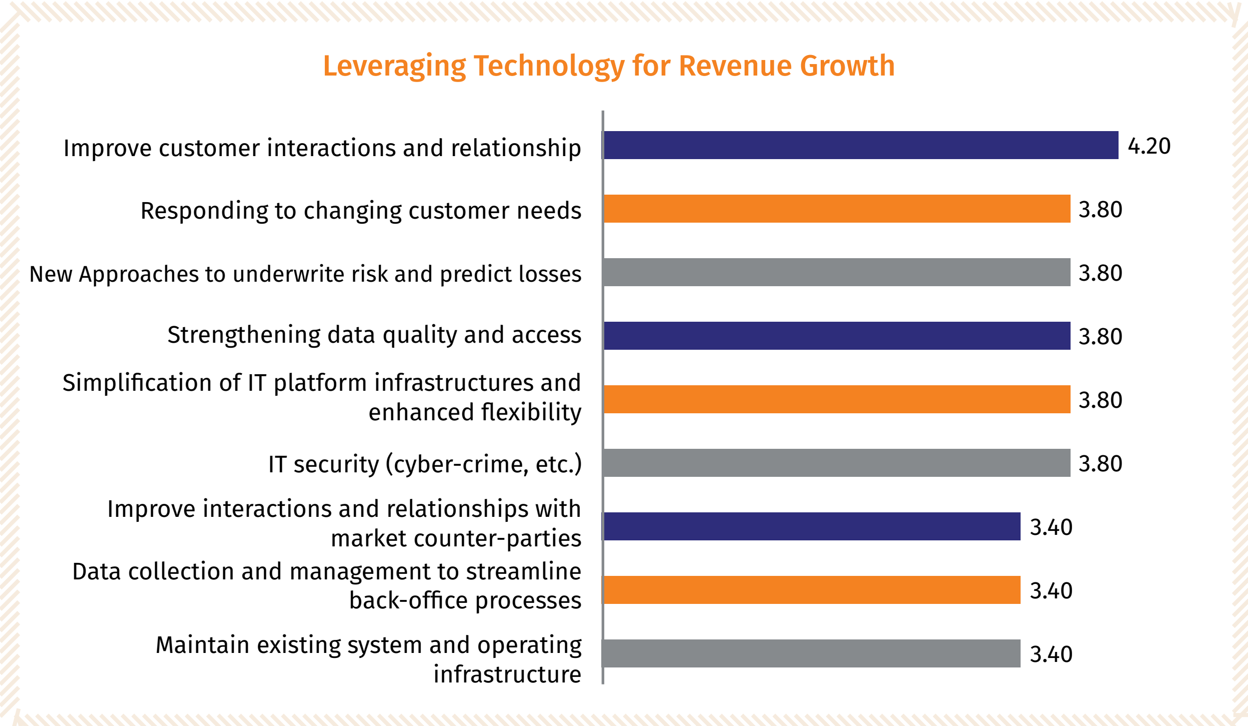


Figure 25. Risk Management Infrastructure and Risk Governance Driving Growth

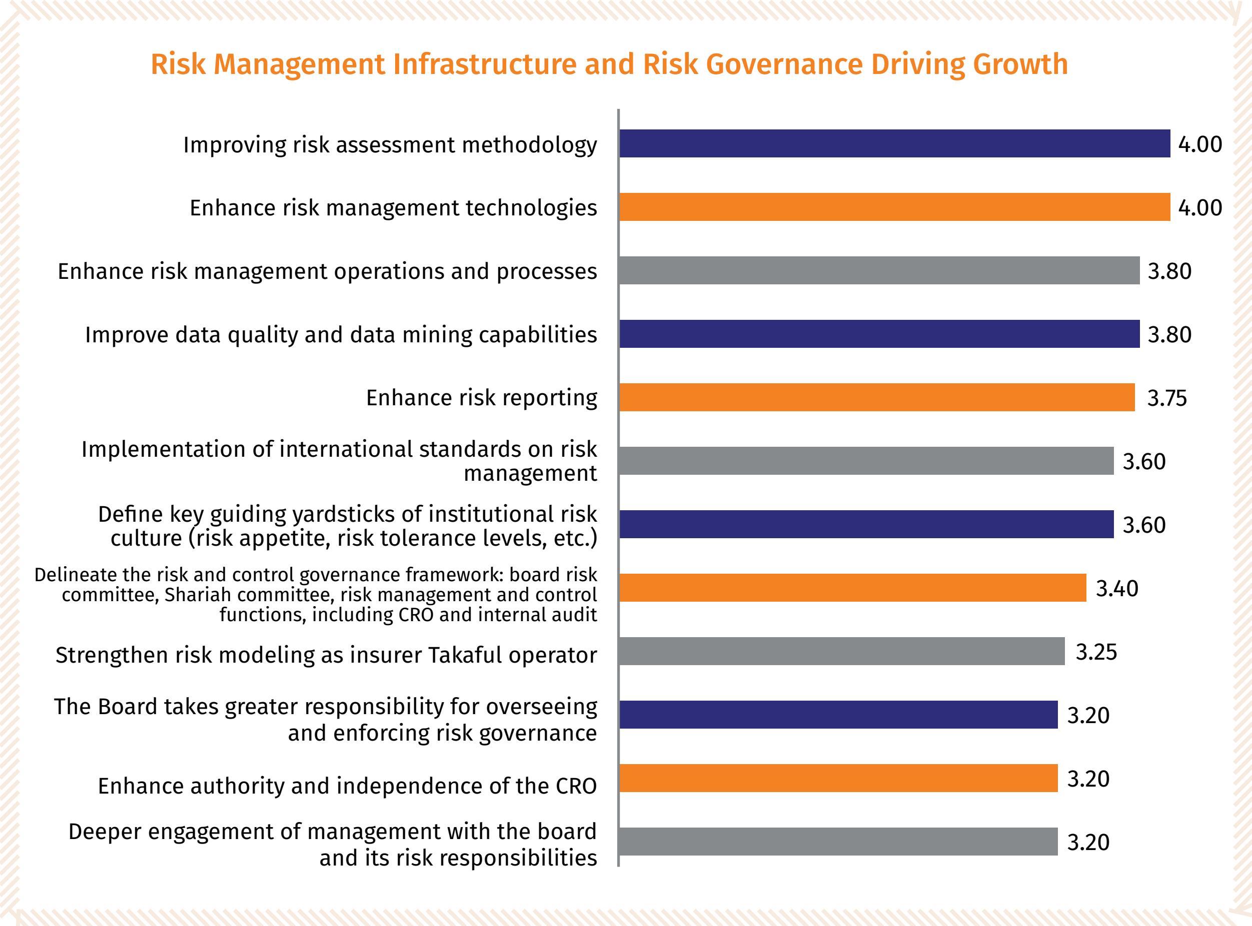


Figure 26. Areas of Human Resources and Talent Development to Improve Institutions' Position

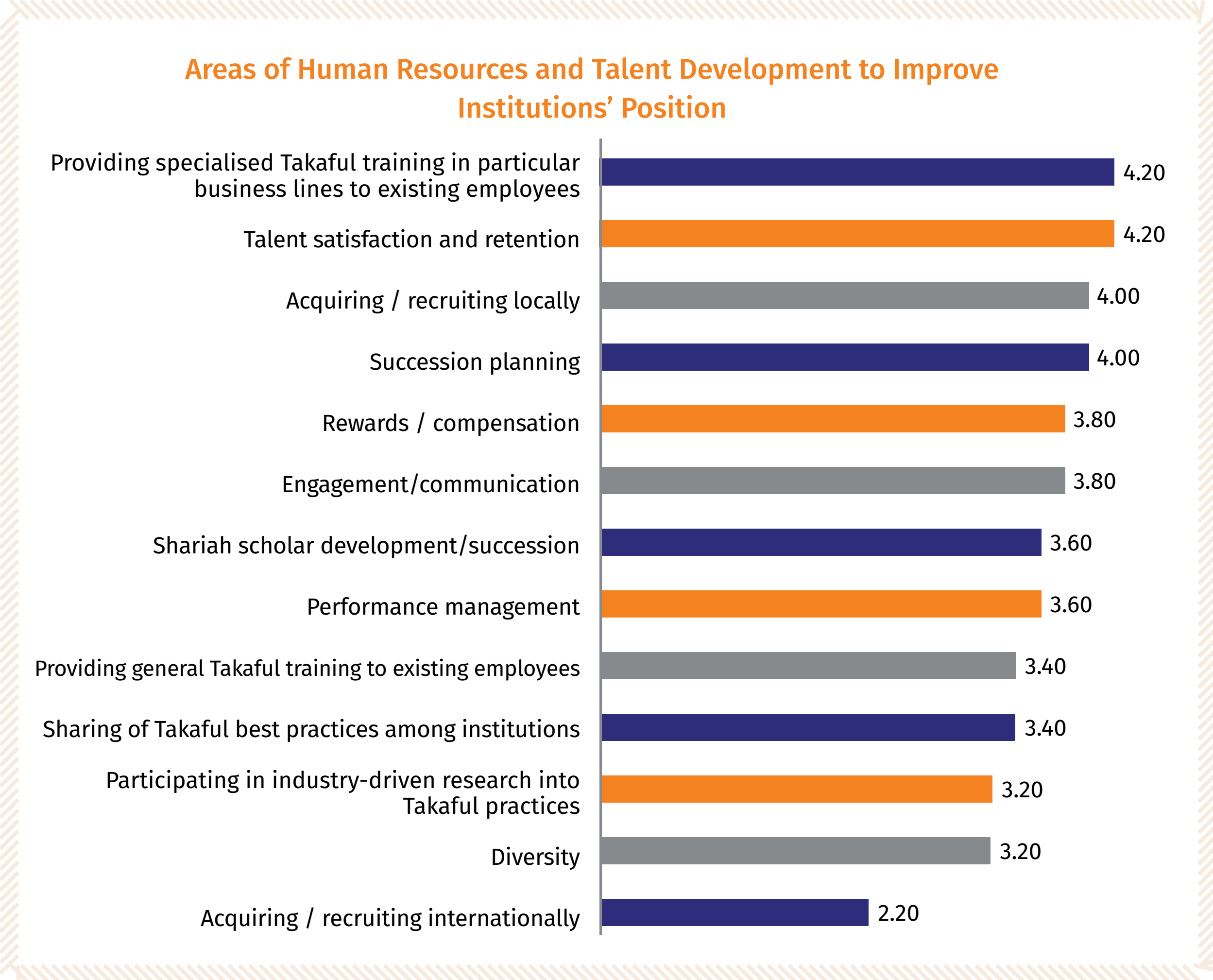
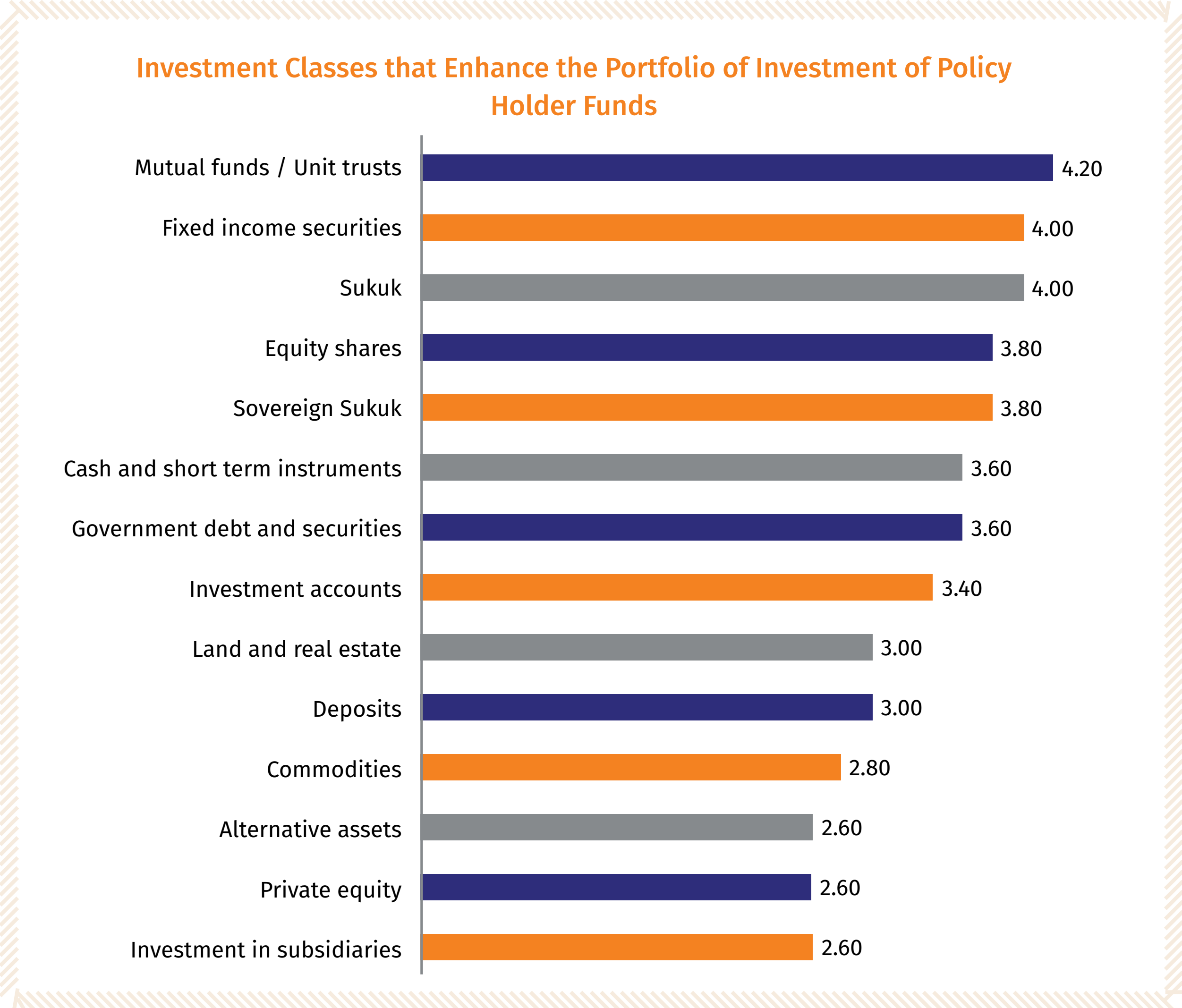


Figure 27. Areas of Customer-Centricity for Institution

Figure 28. Investment Classes that Enhance the Portfolio of Investment of Policy Holder Funds



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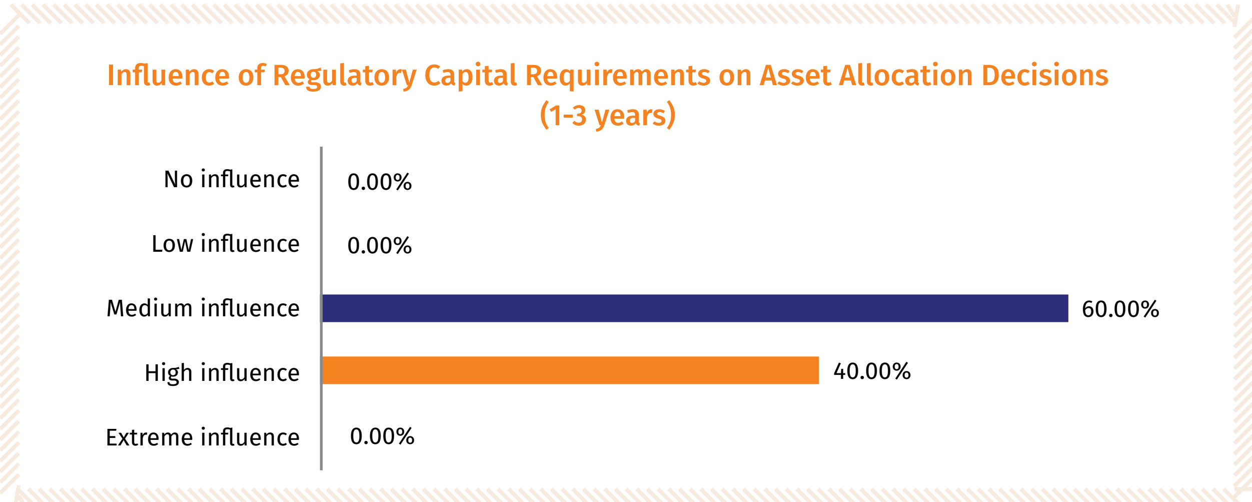
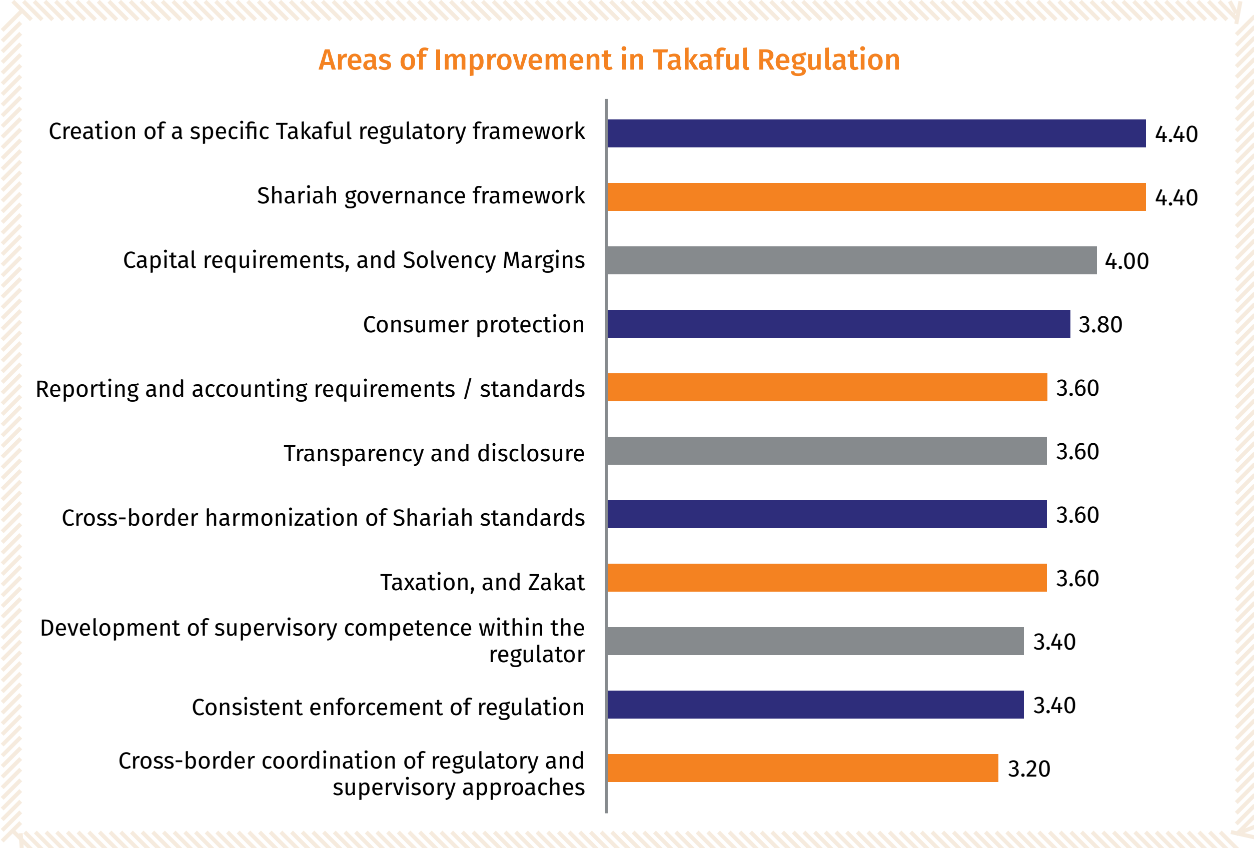


Figure 30. Areas of Improvement in Takaful Regulation



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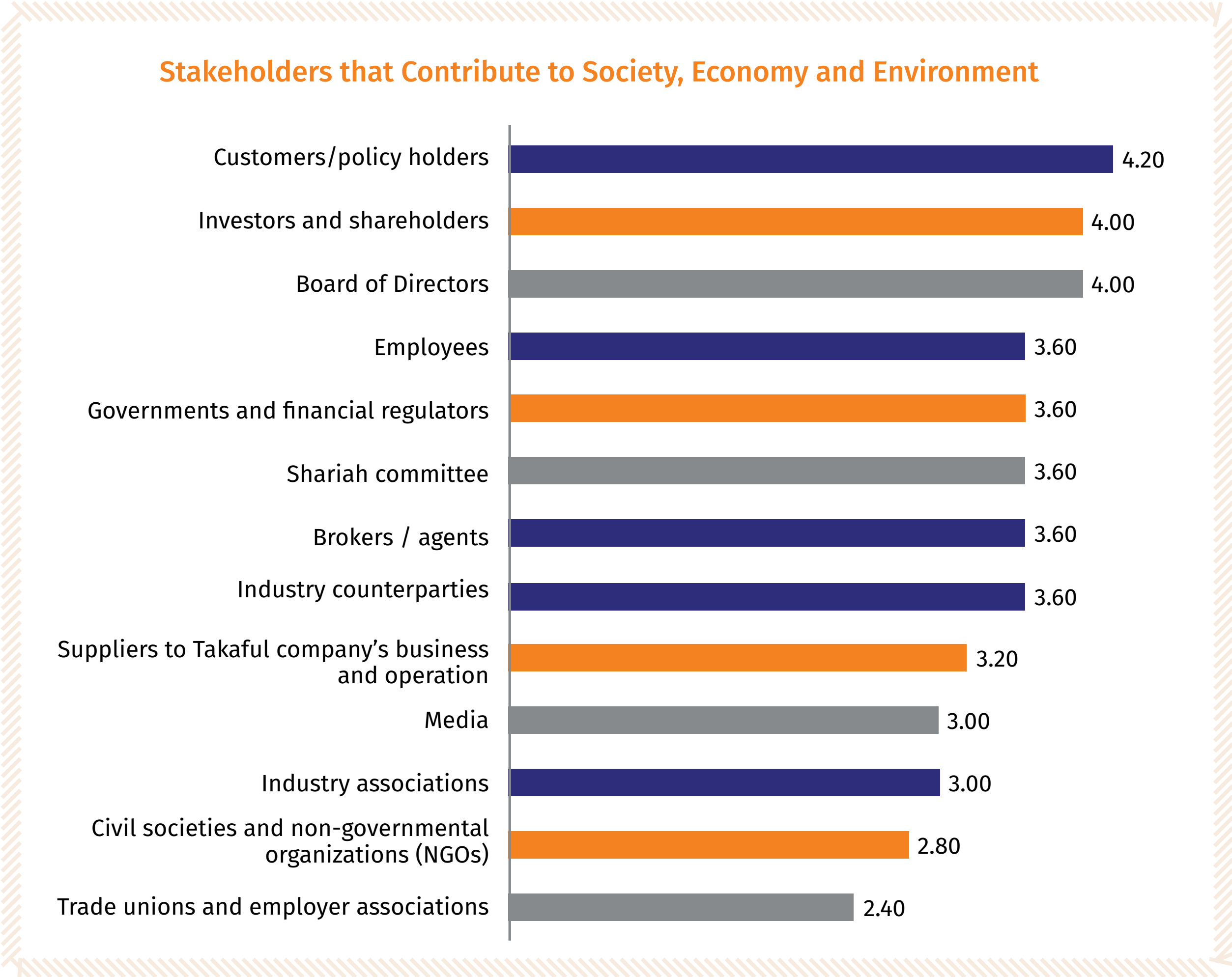


Figure 32. Values Institutions Promote

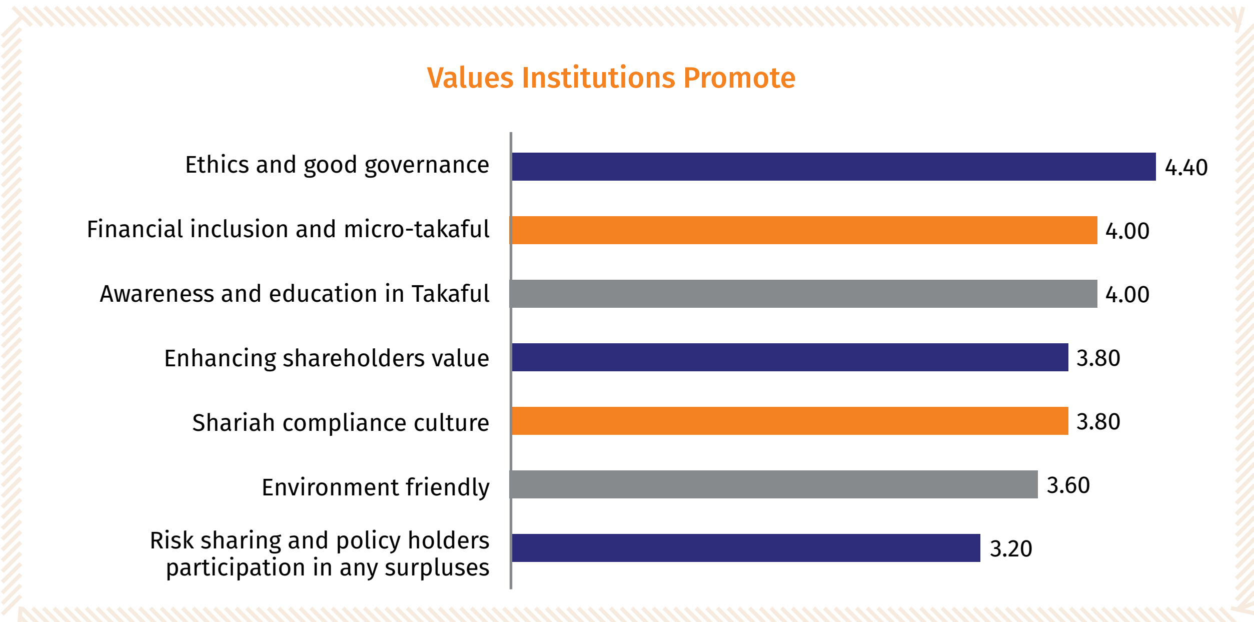
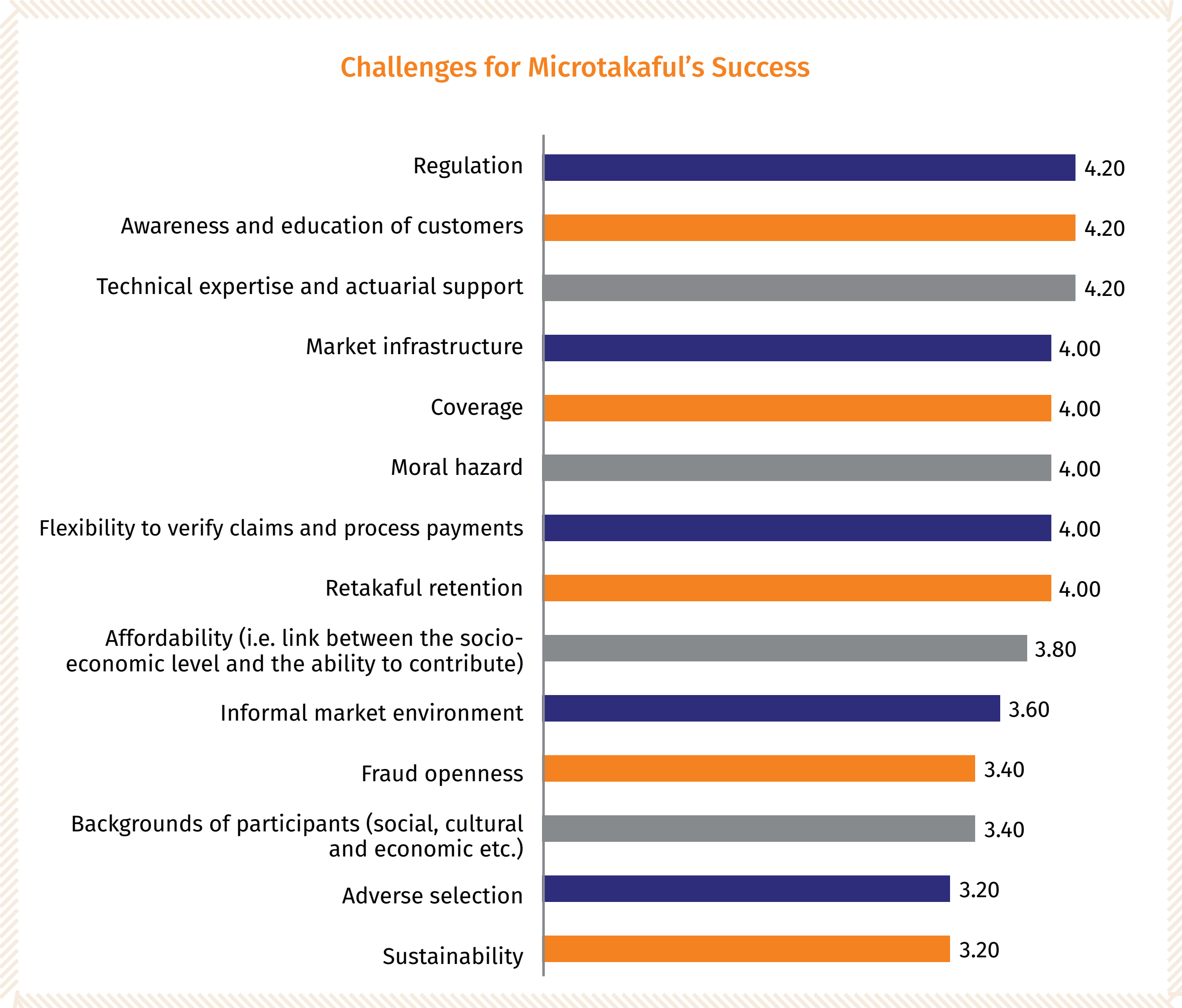


Figure 33. Challenges for Microtakaful's Success



Group 5: North Africa

Figure 1. Type of Takaful Operations

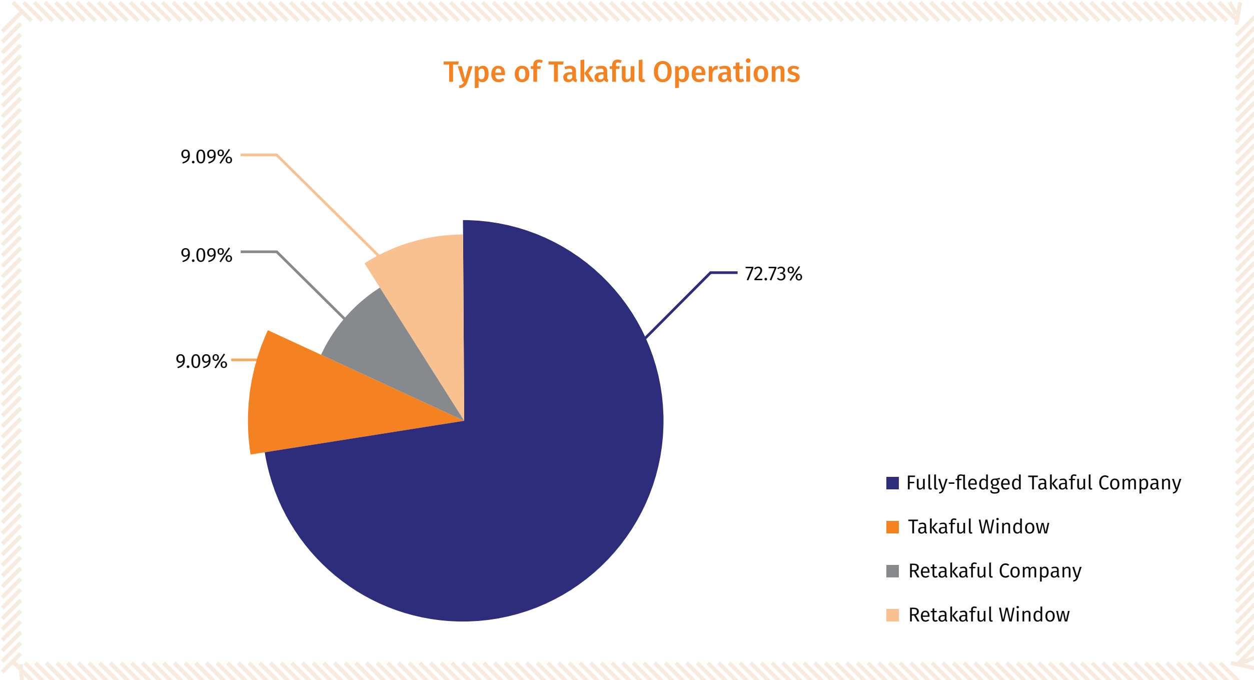


Figure 2. Takaful Models

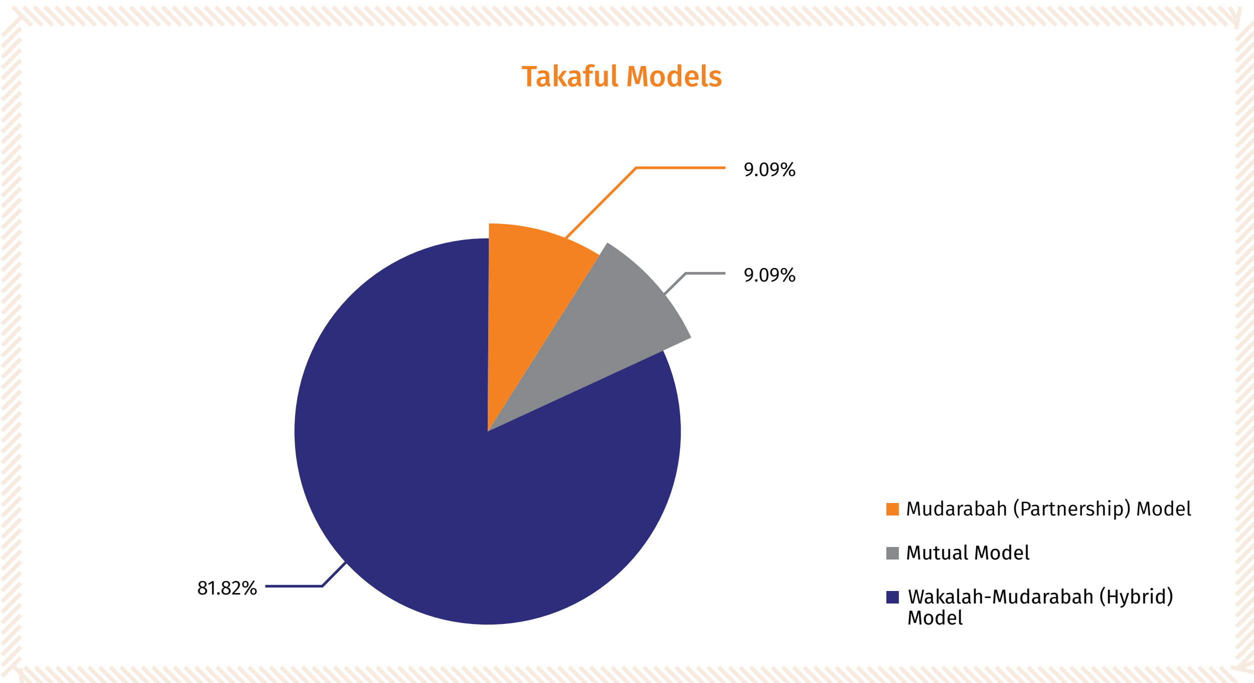


Figure 3. Nature of Takaful Operations

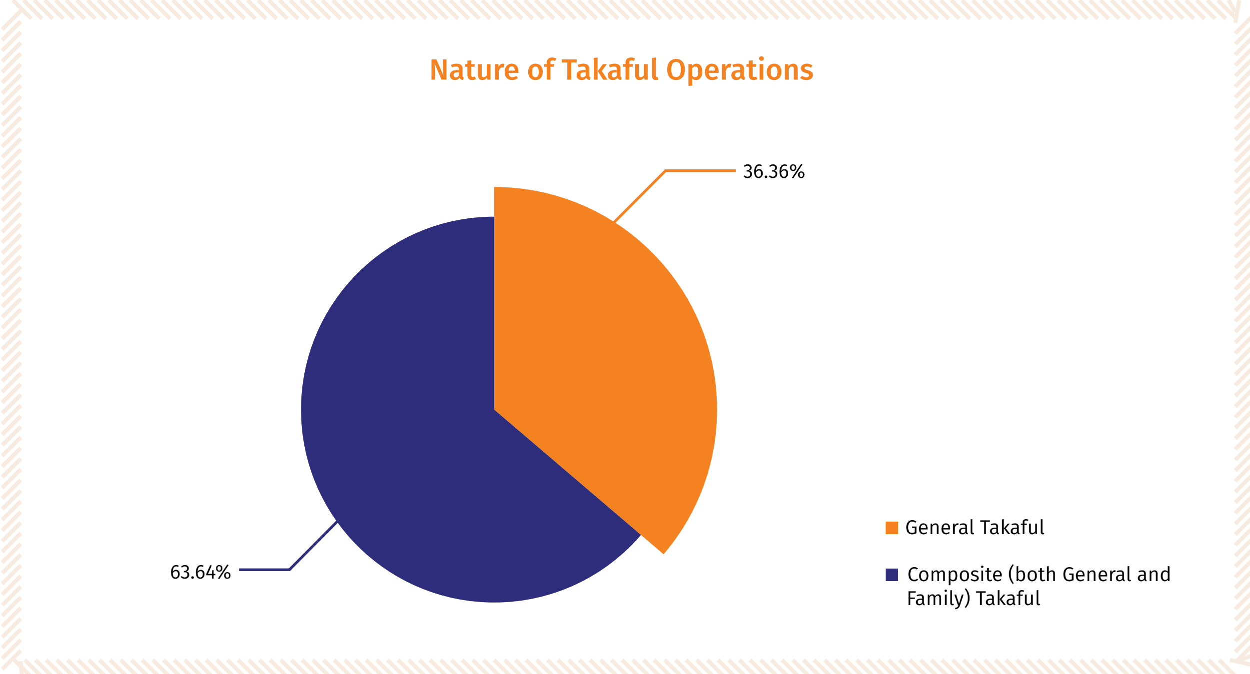


Figure 4. Total Gross Annual Takaful Contributions

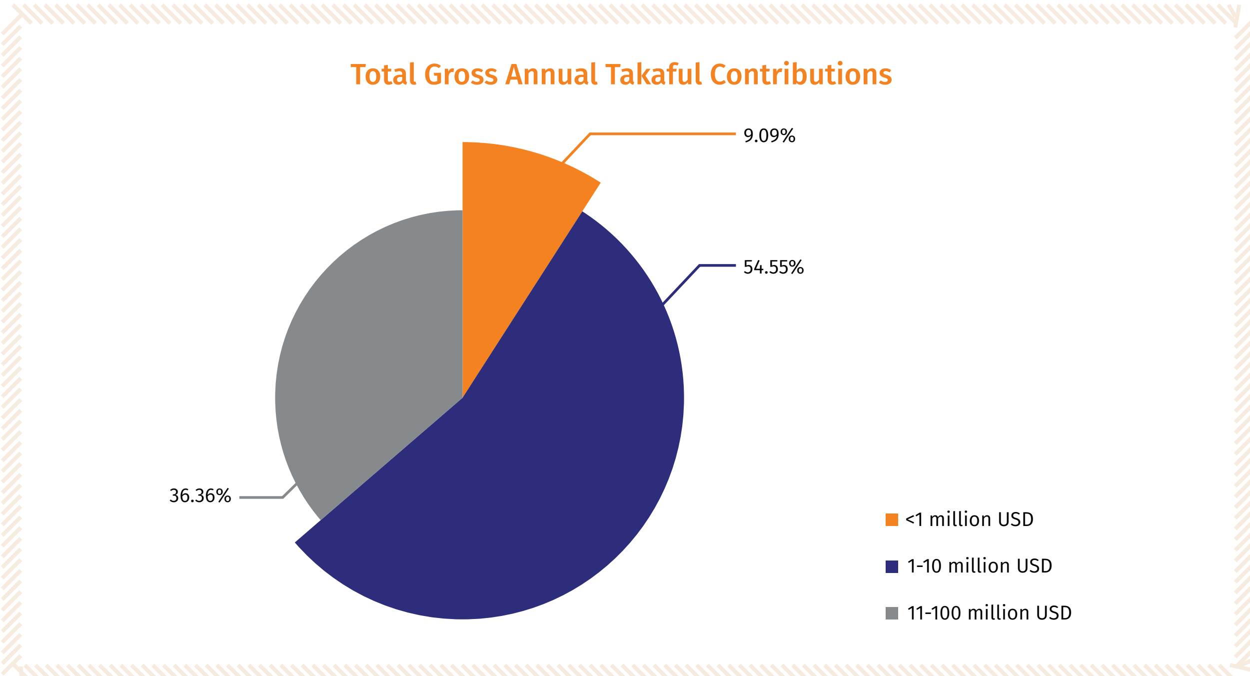


Figure 5. Overall Expense Ratio

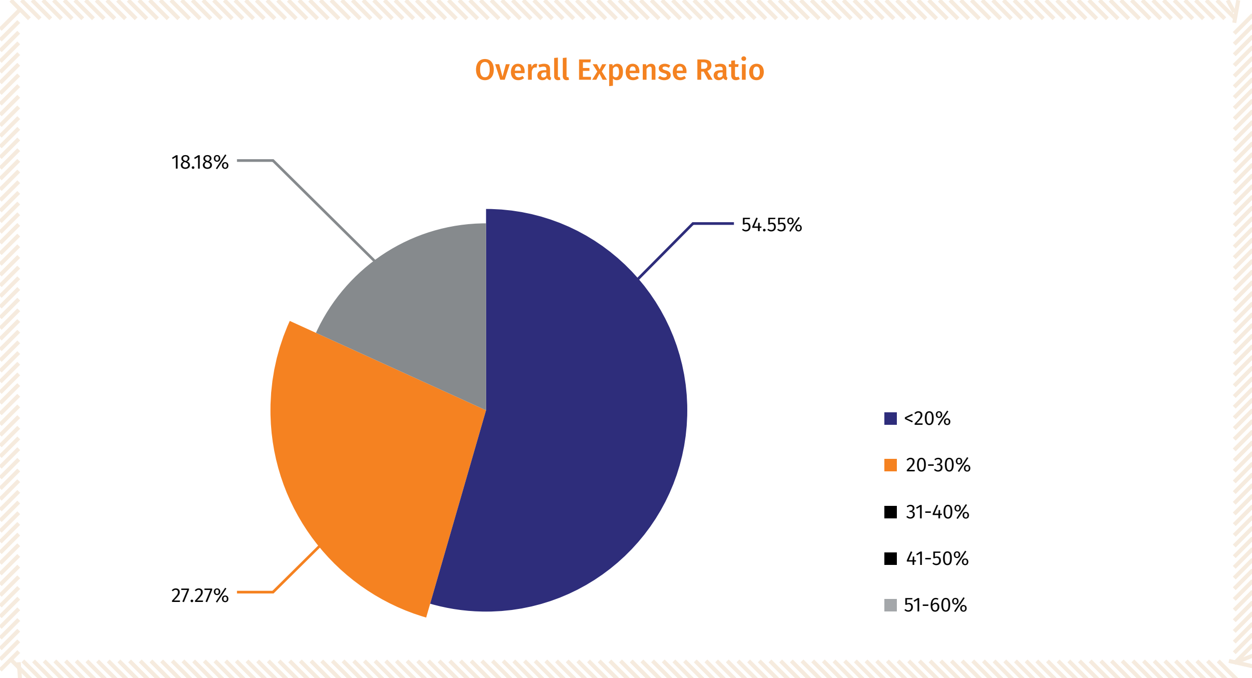


Figure 6. Average Retention Ratio

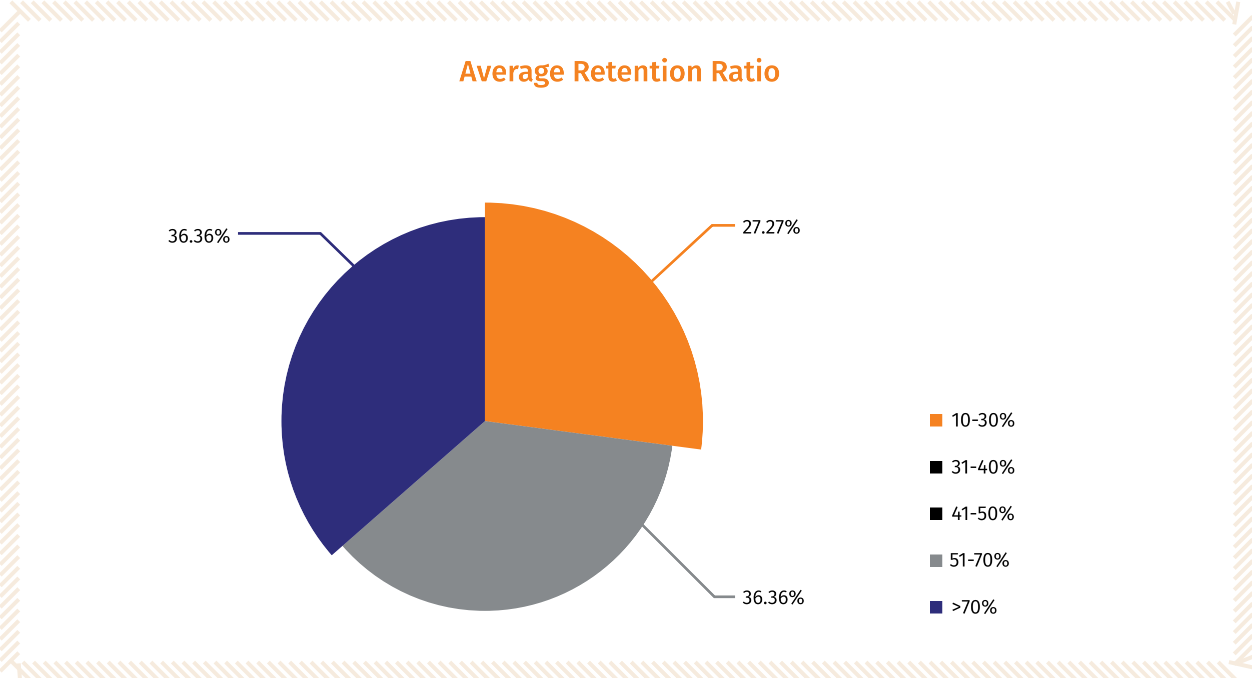
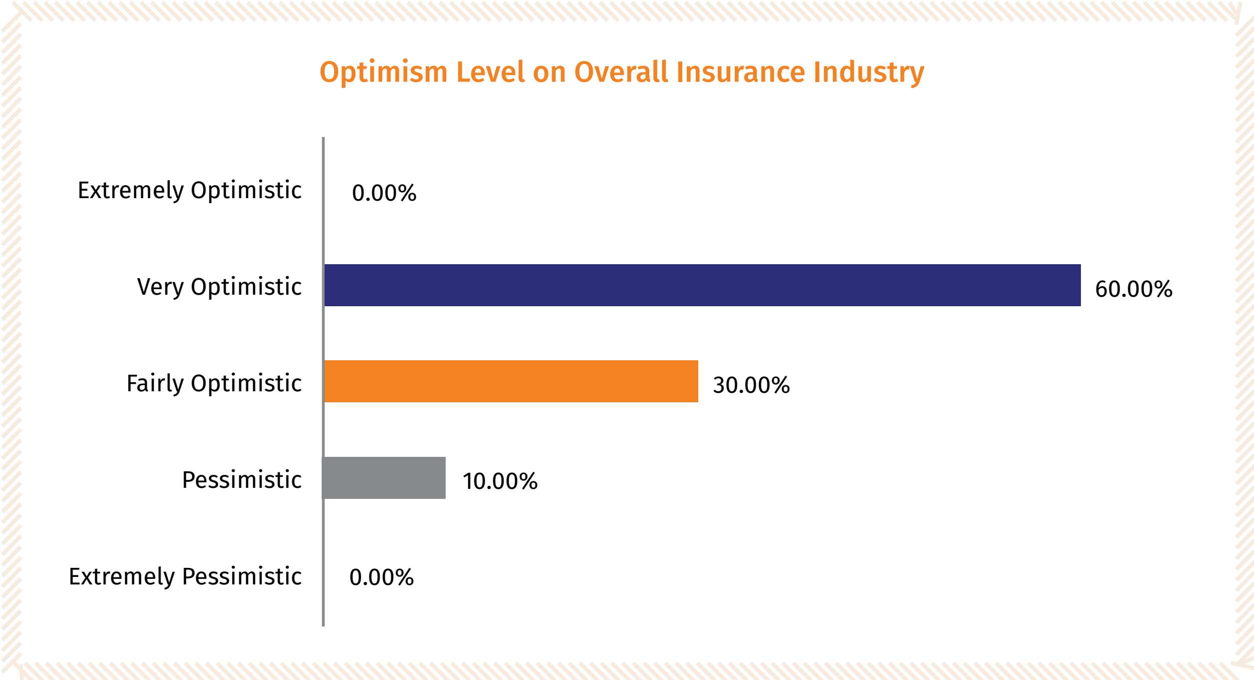


Figure 7. Optimism Level on Overall Insurance Industry



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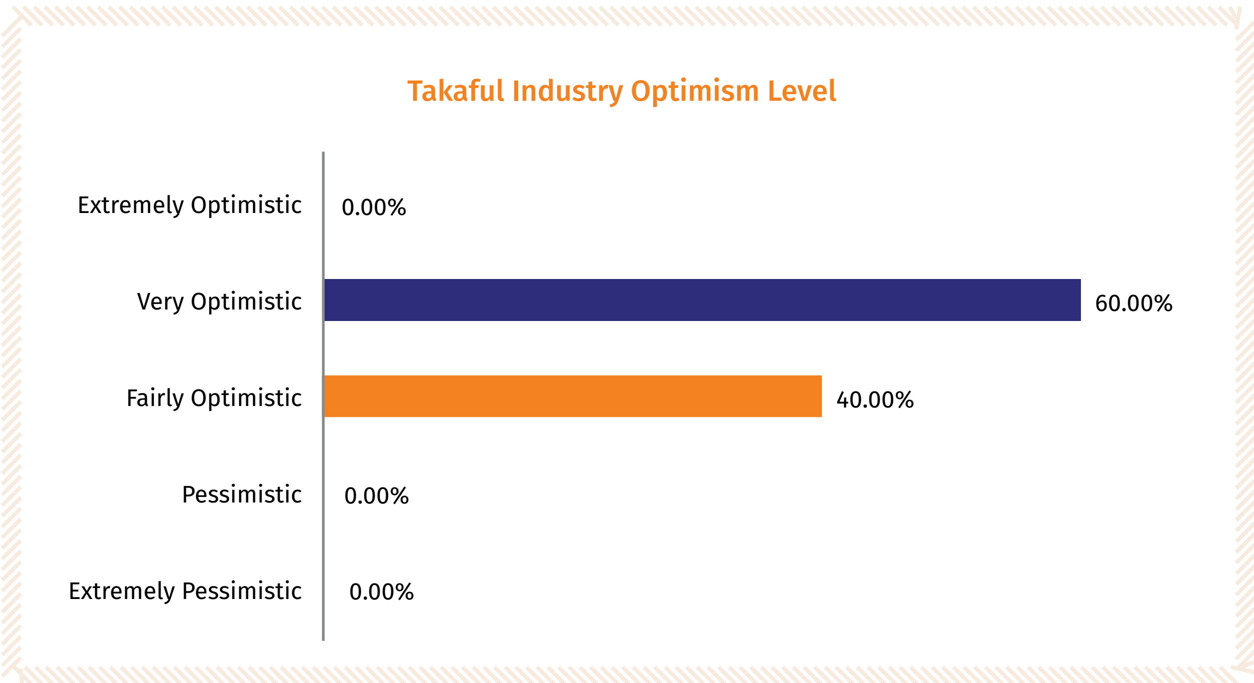

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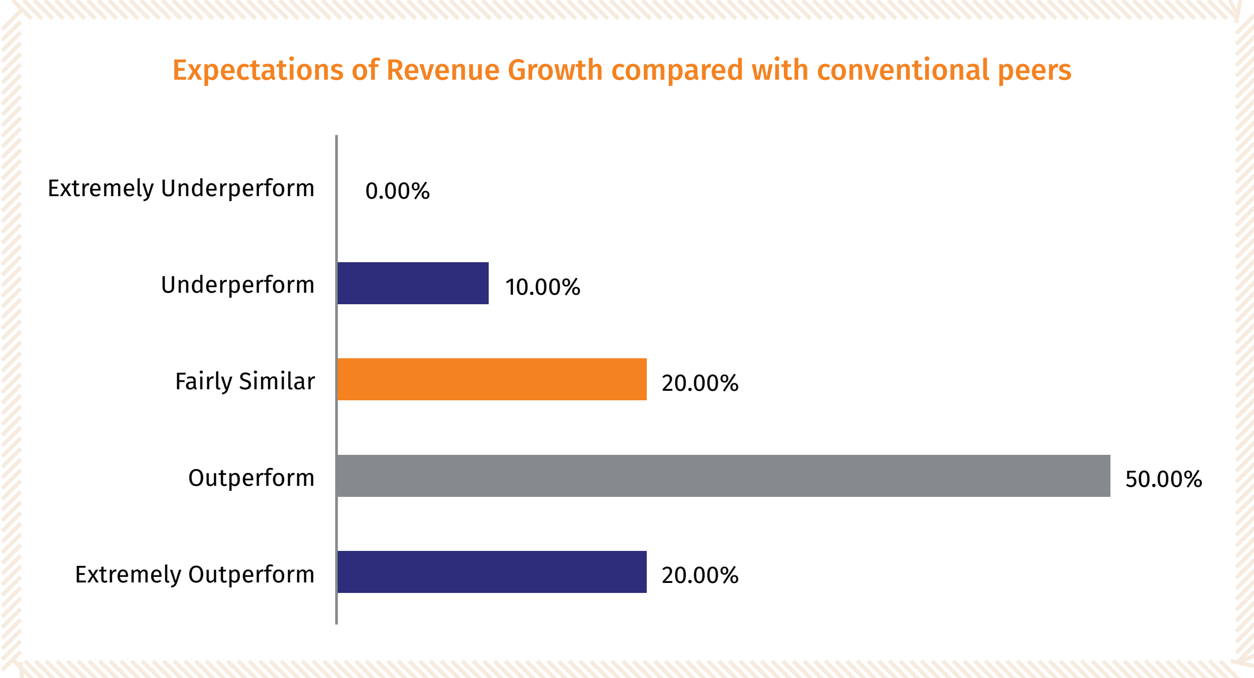


Figure 10. Revenue in Personal Lines - Short Term

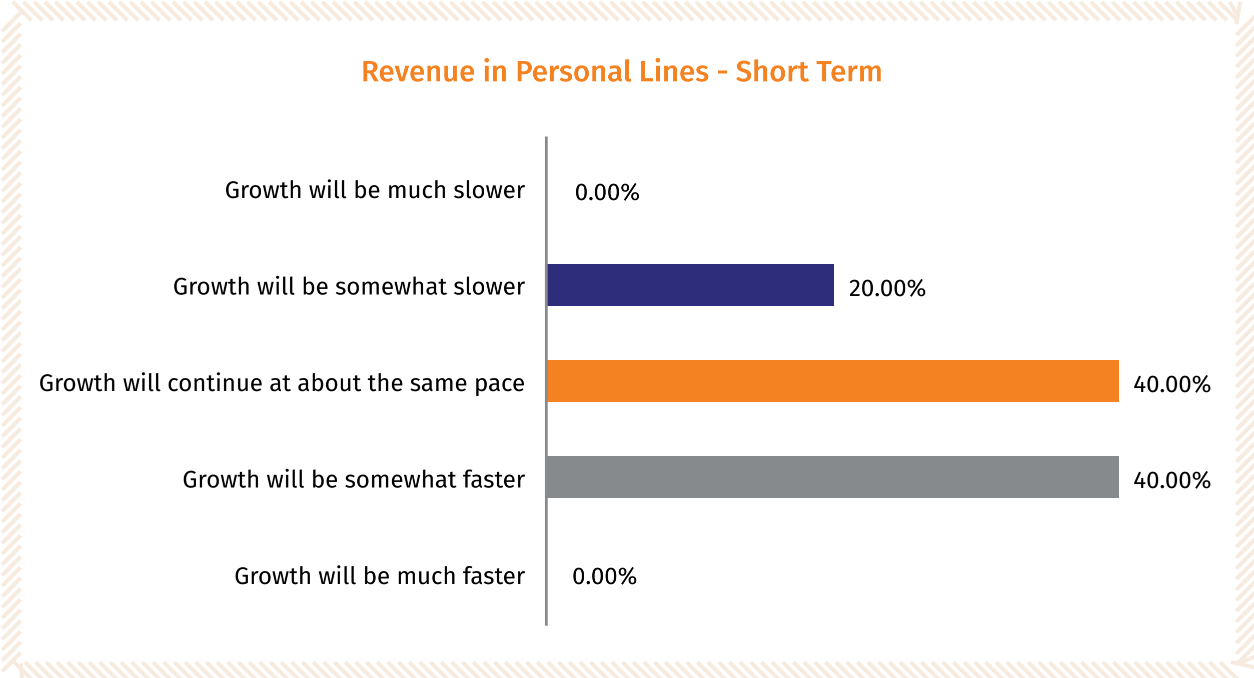


Figure 11. Revenue in Personal Lines - Long Term (2018-2021)

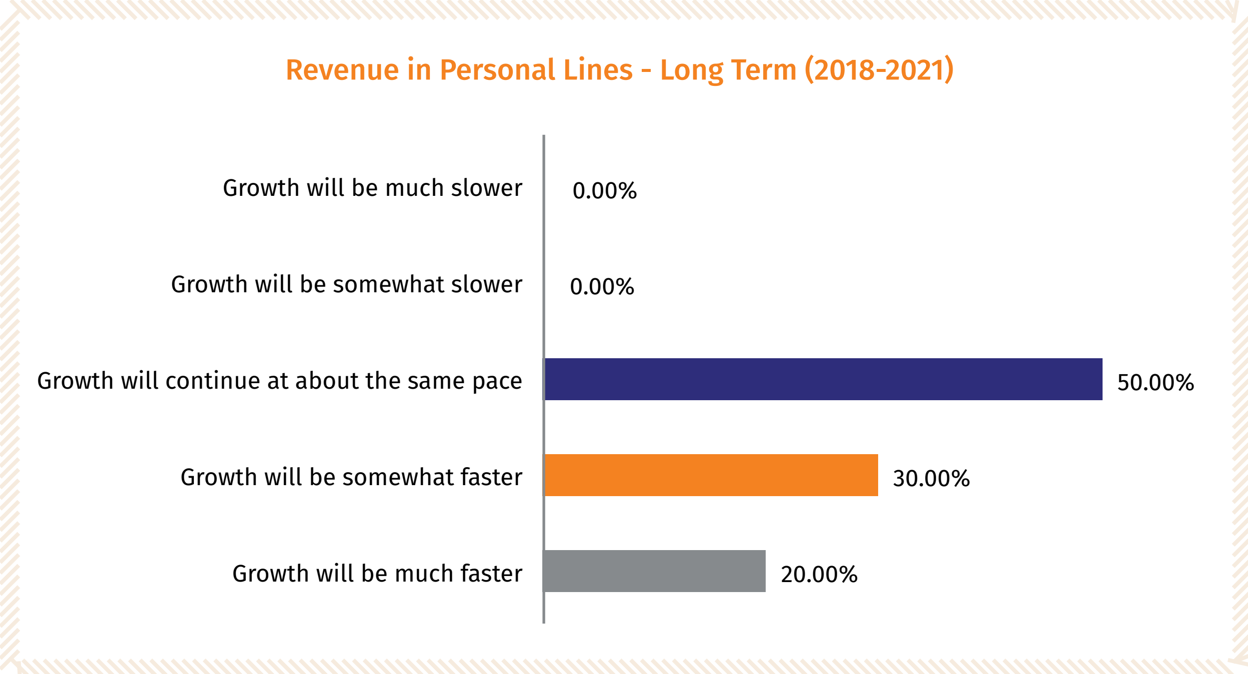
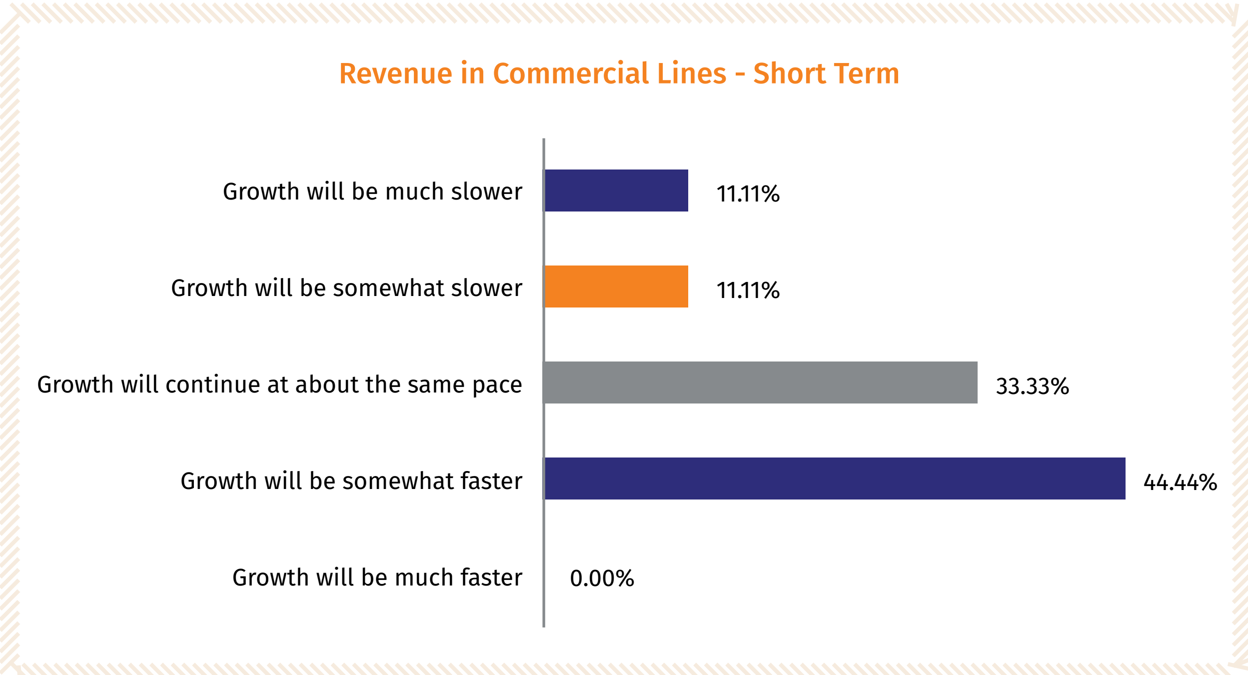


Figure 12. Revenue in Commercial Lines - Short Term



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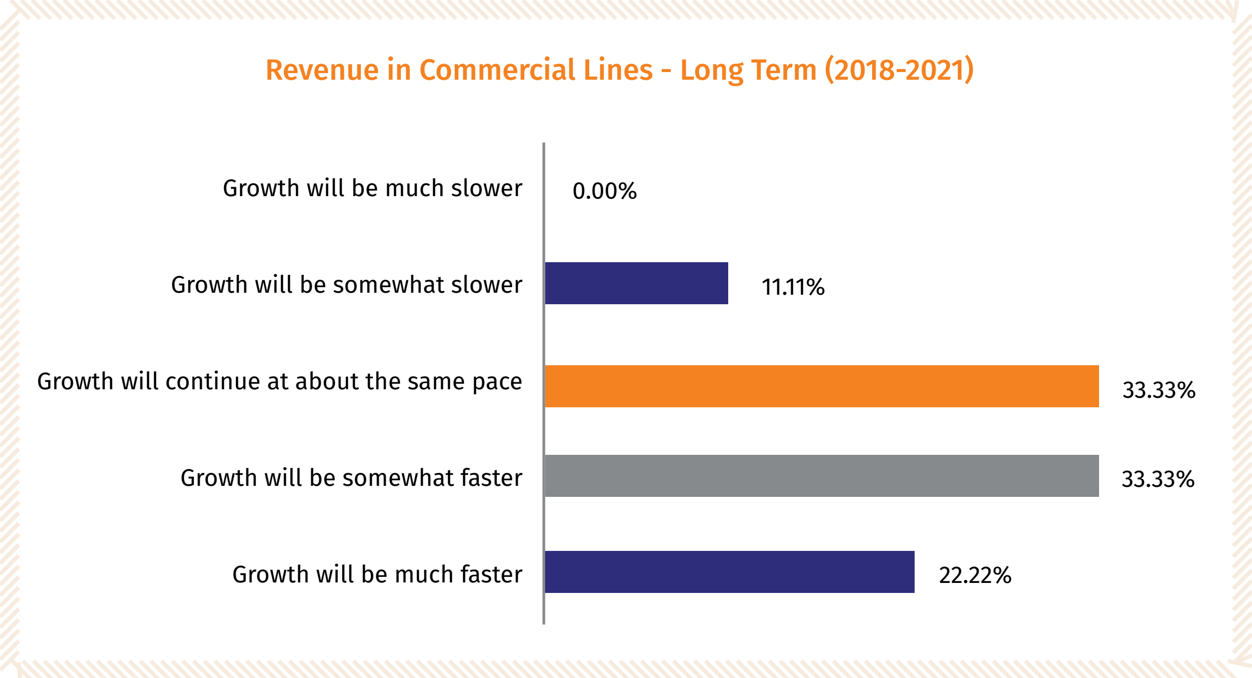
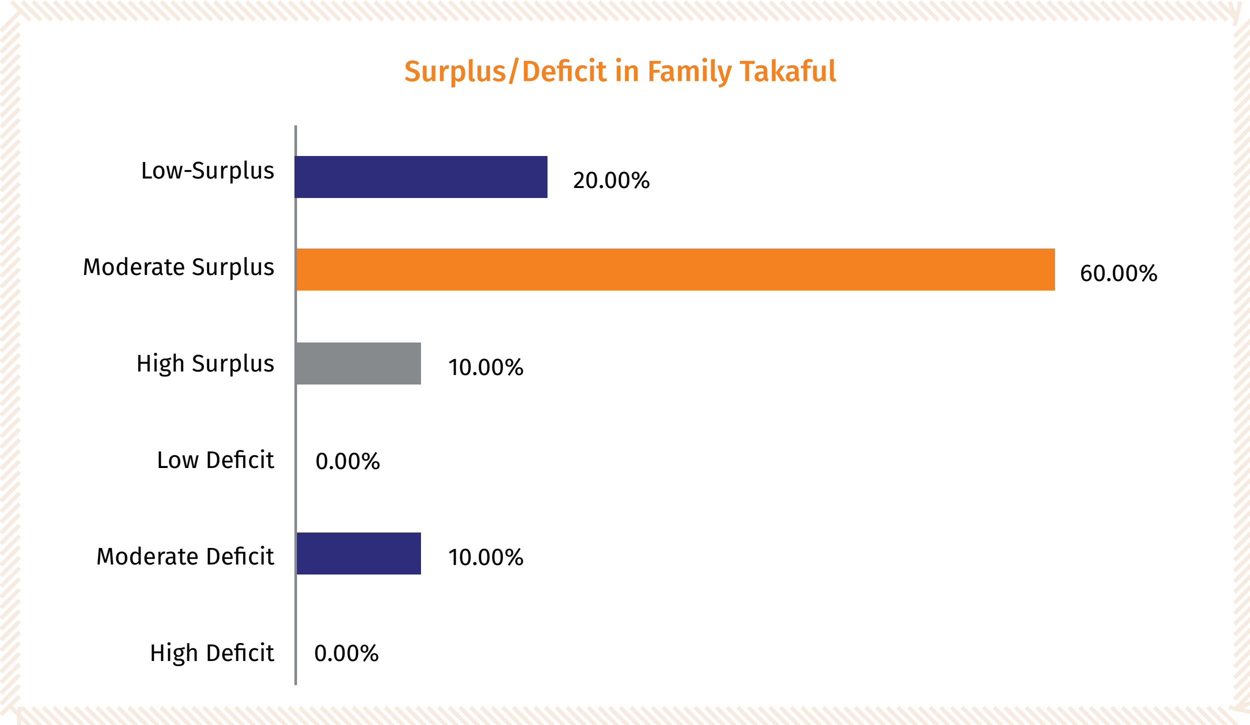


Figure 14. Surplus/Deficit in Family Takaful and General Takaful



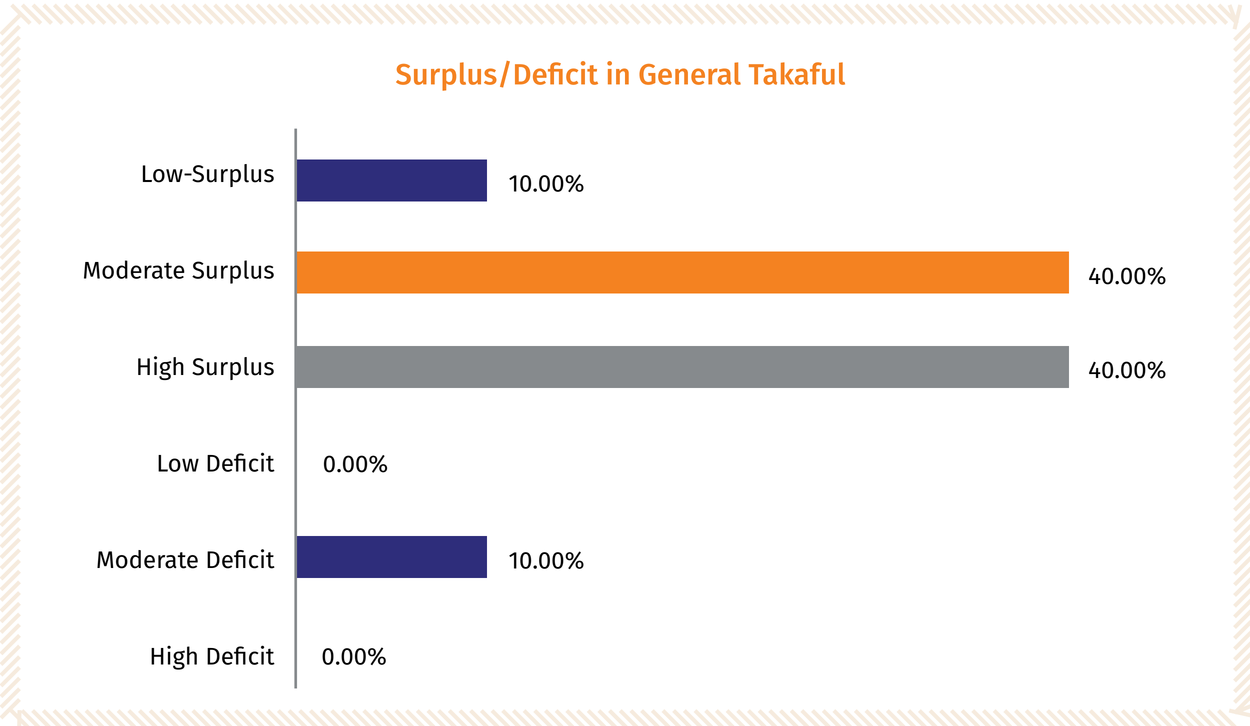


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Figure 16. Takaful Risk Dashboard

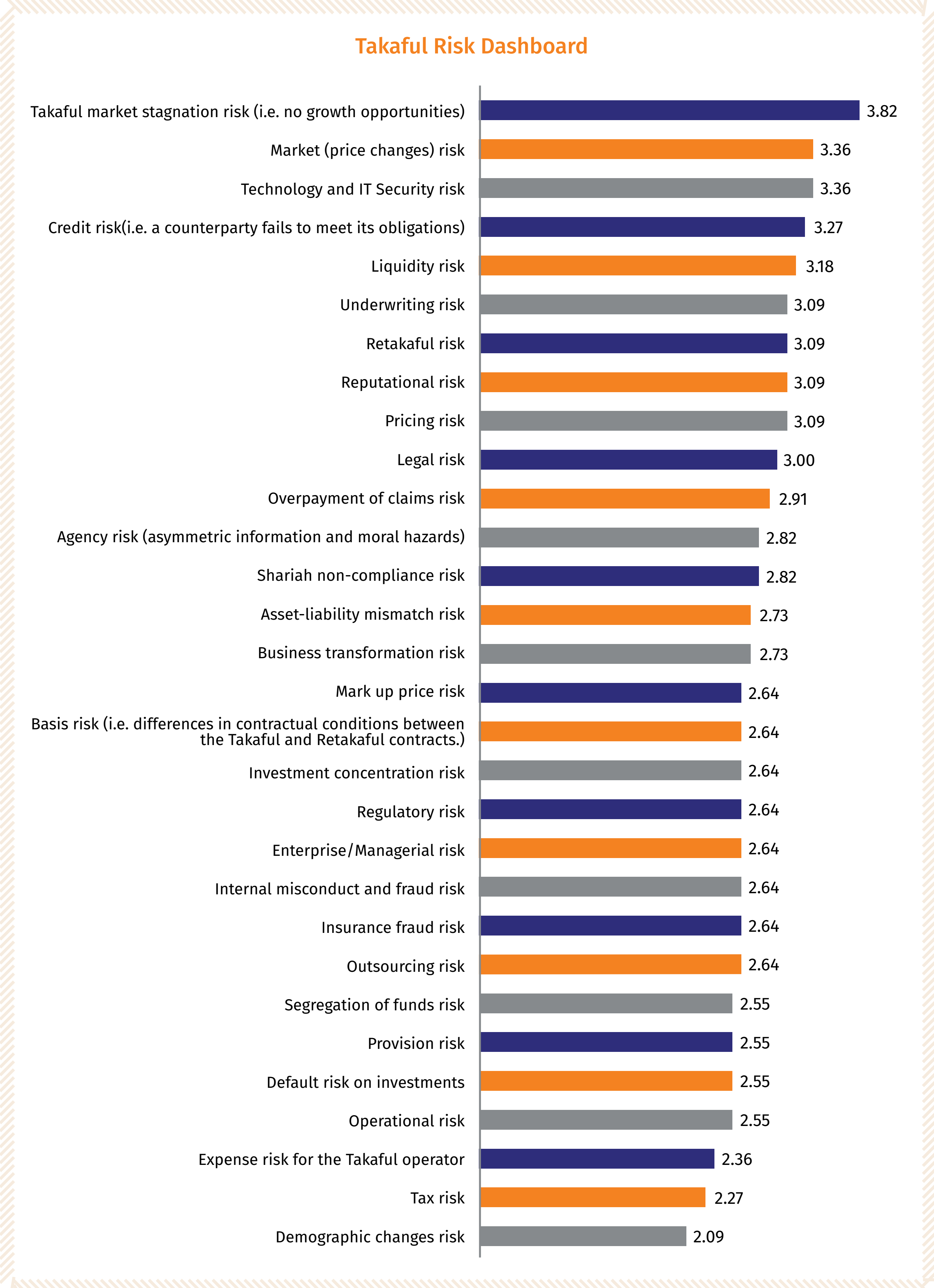


Figure 17. Annual Premium Growth Rate

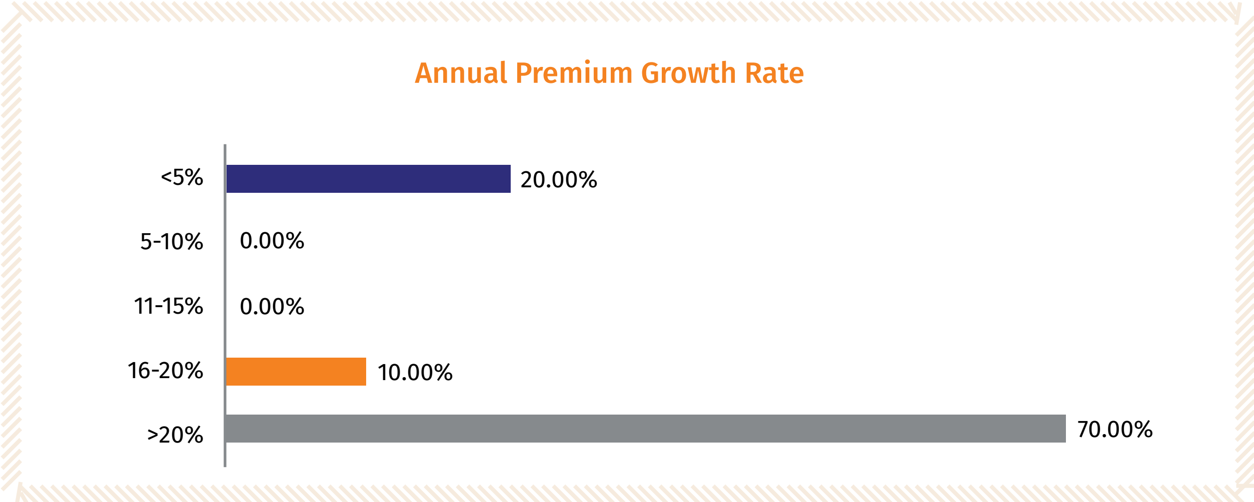


Figure 18. Takaful Market Segments Driving Growth

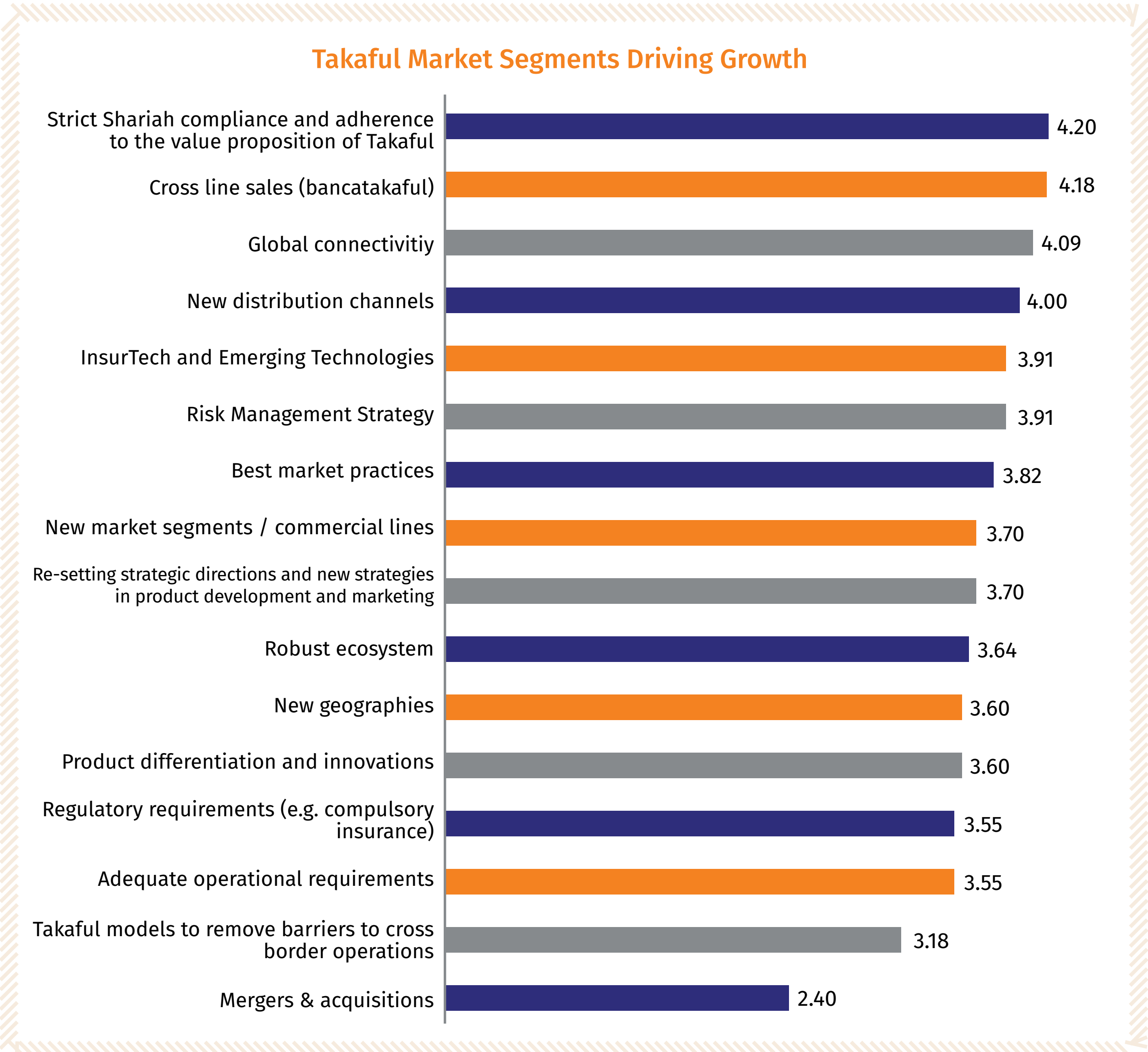


Figure 19. Distribution Channels Driving Growth

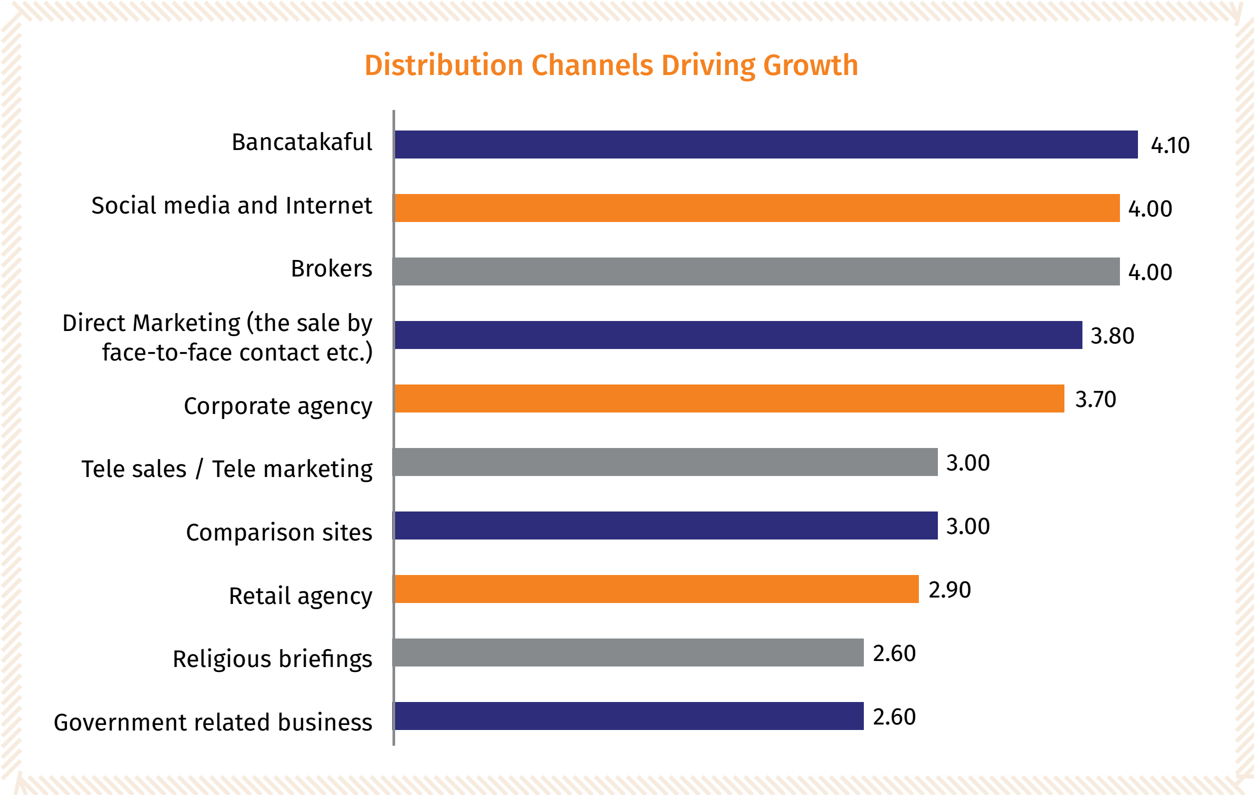
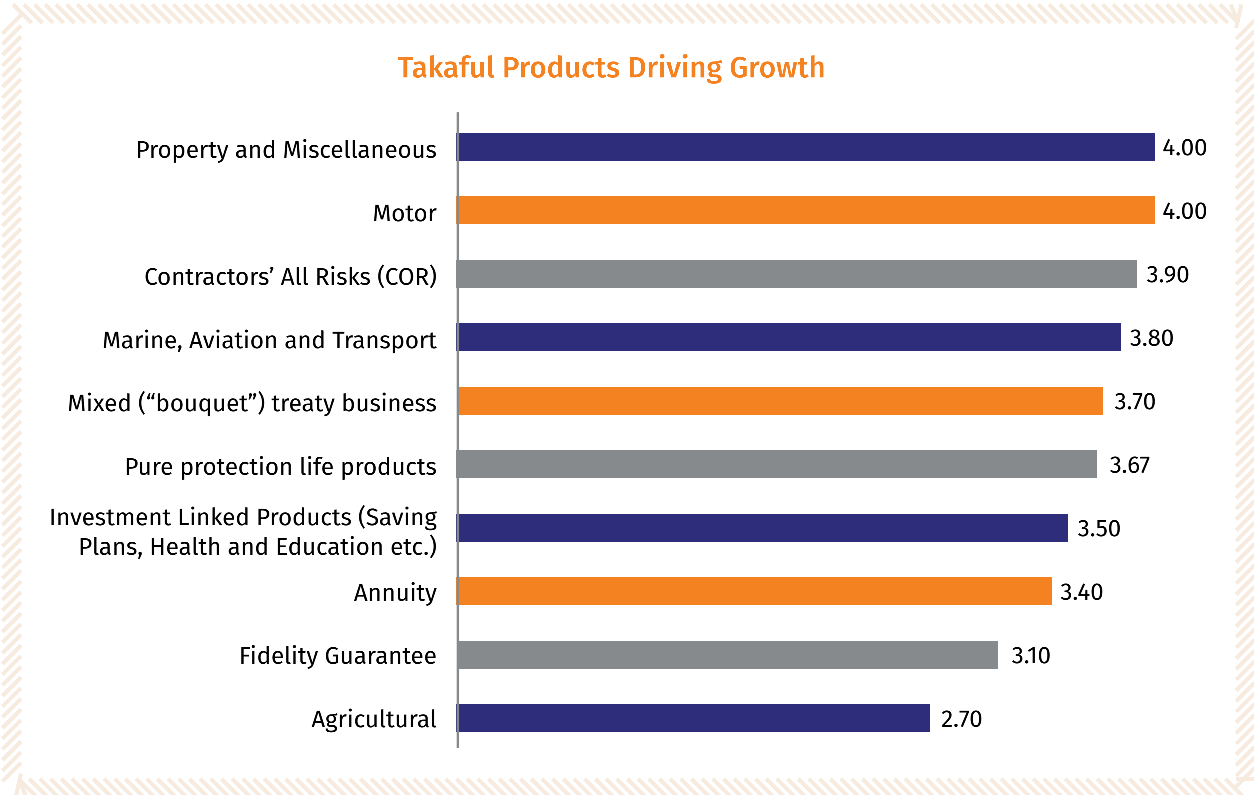


Figure 20. Takaful Products Driving Growth



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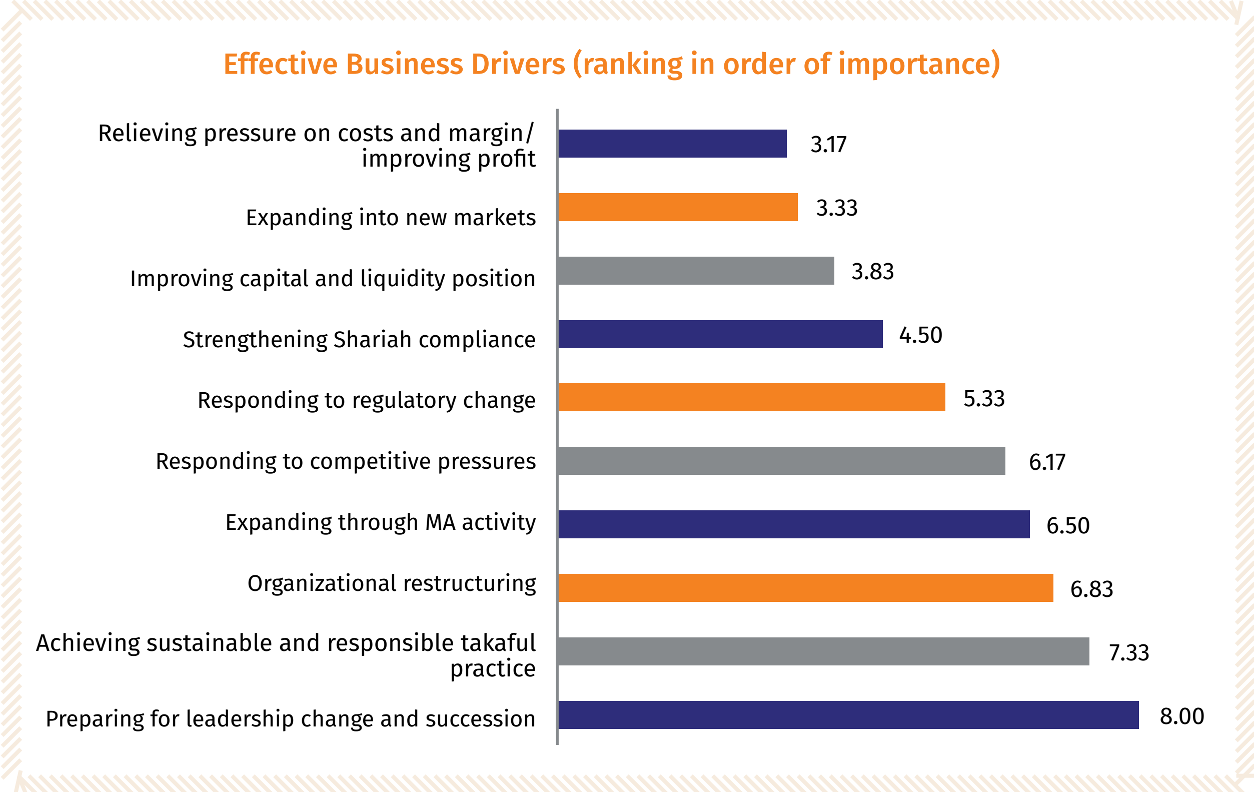


Figure 22. Revenue Growth Drivers

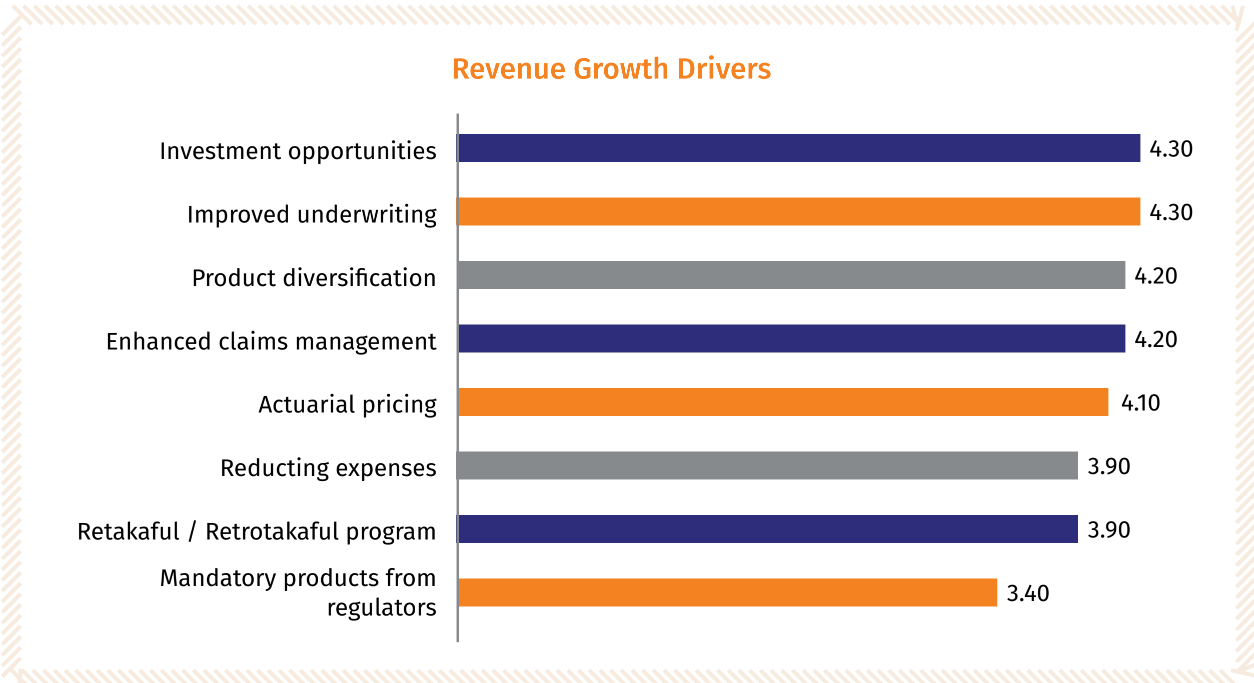


Figure 23. InsurTech Innovations Driving Growth

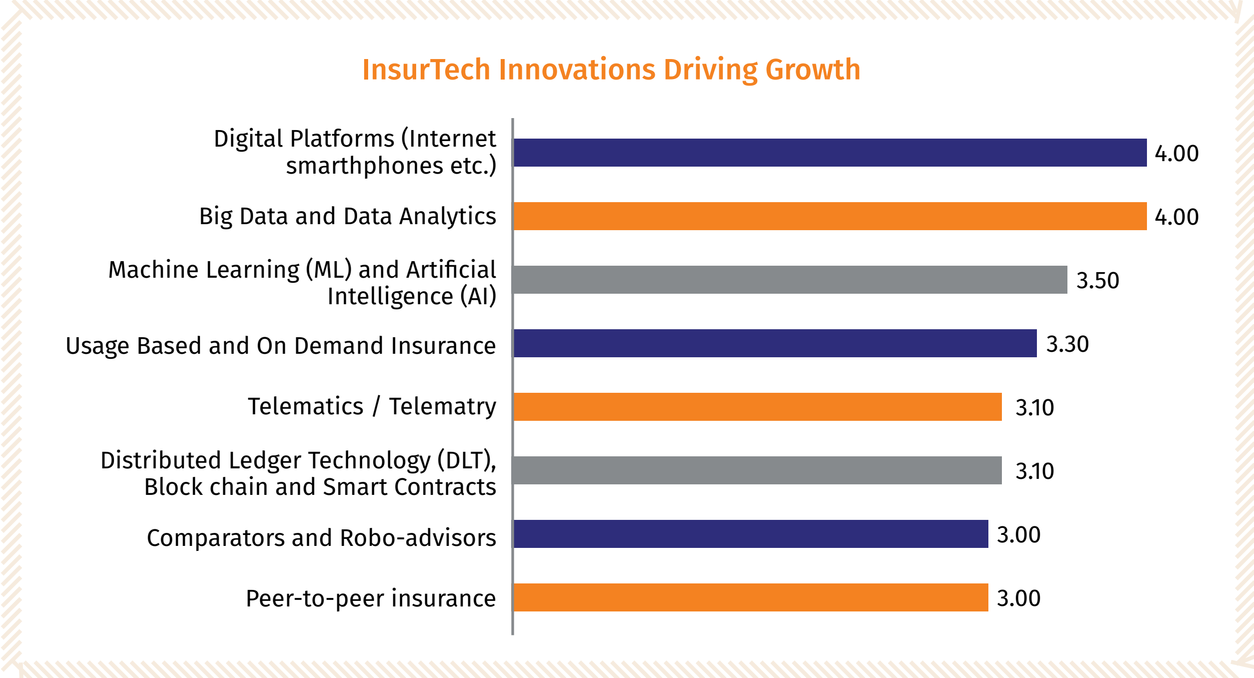


Figure 24. Leveraging Technology for Revenue Growth

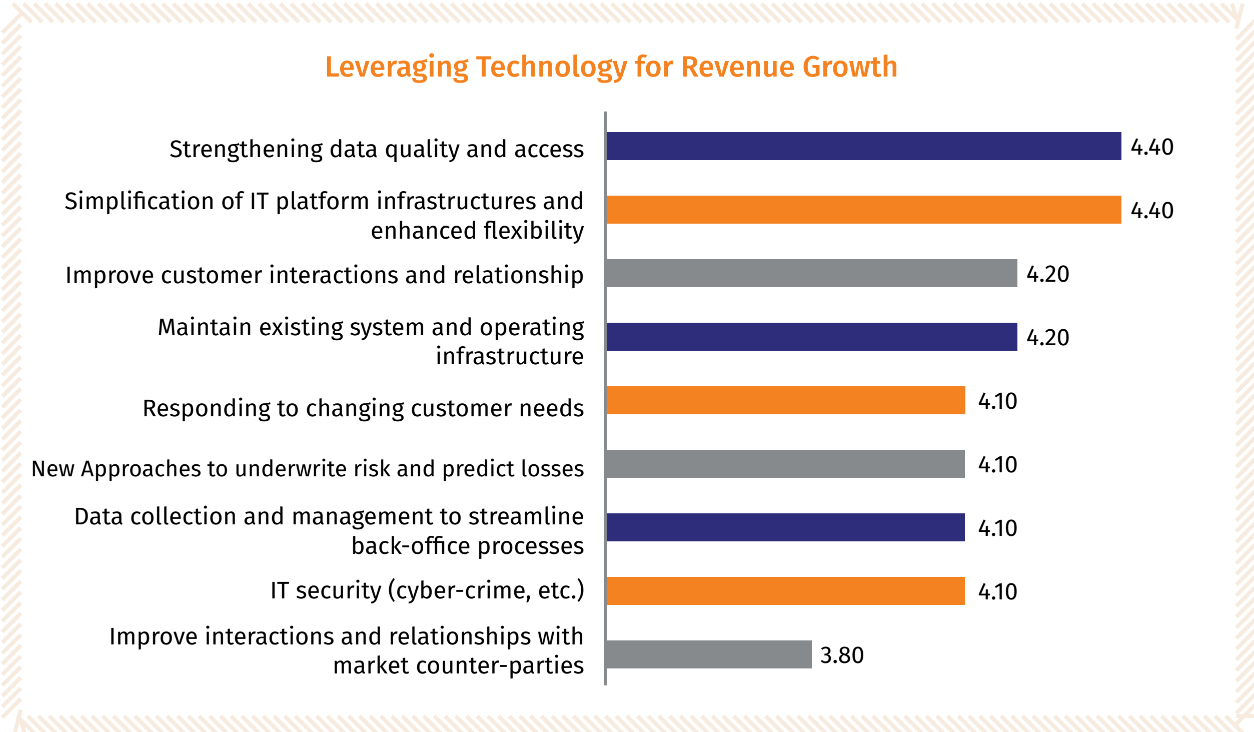


Figure 25. Risk Management Infrastructure and Risk Governance Driving Growth

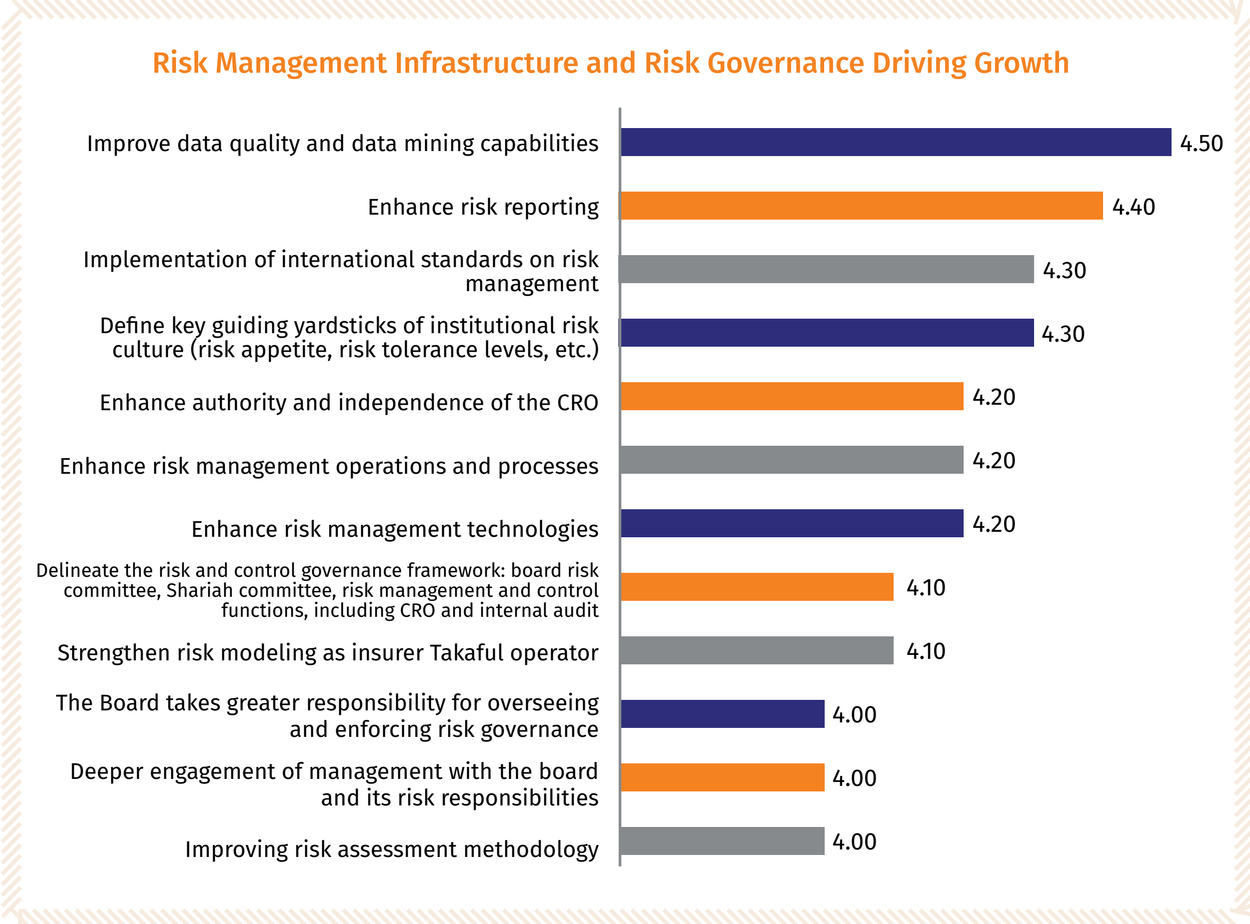


Figure 26. Areas of Human Resources and Talent Development to Improve Institutions' Position

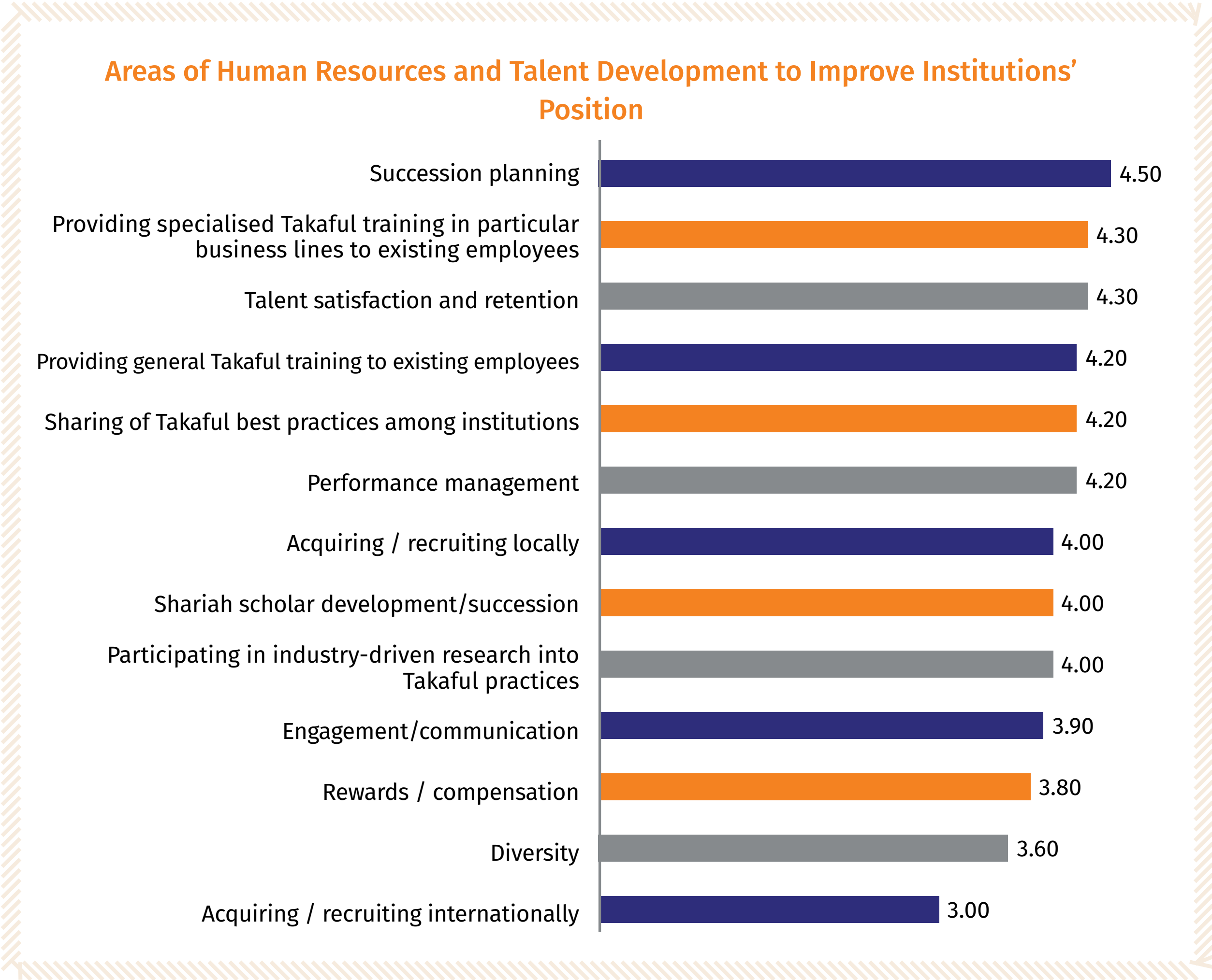


Figure 27. Areas of Customer-Centricity for Institution

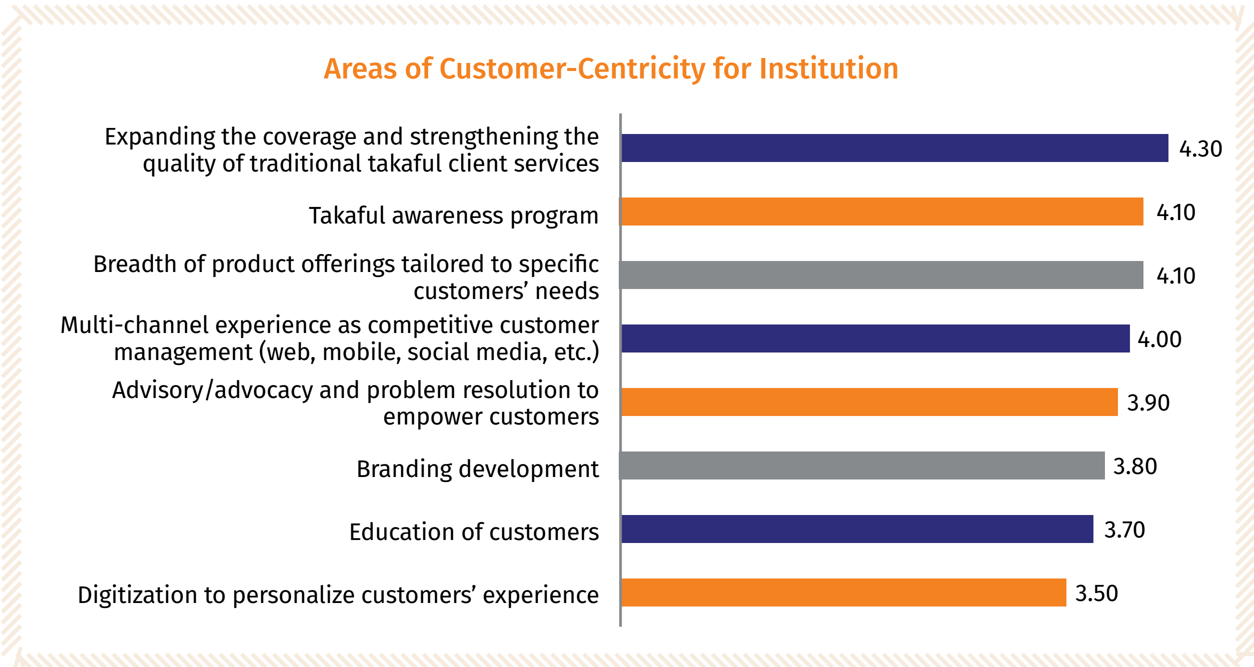


Figure 28. Investment Classes that Enhance the Portfolio of Investment of Policy Holder Funds

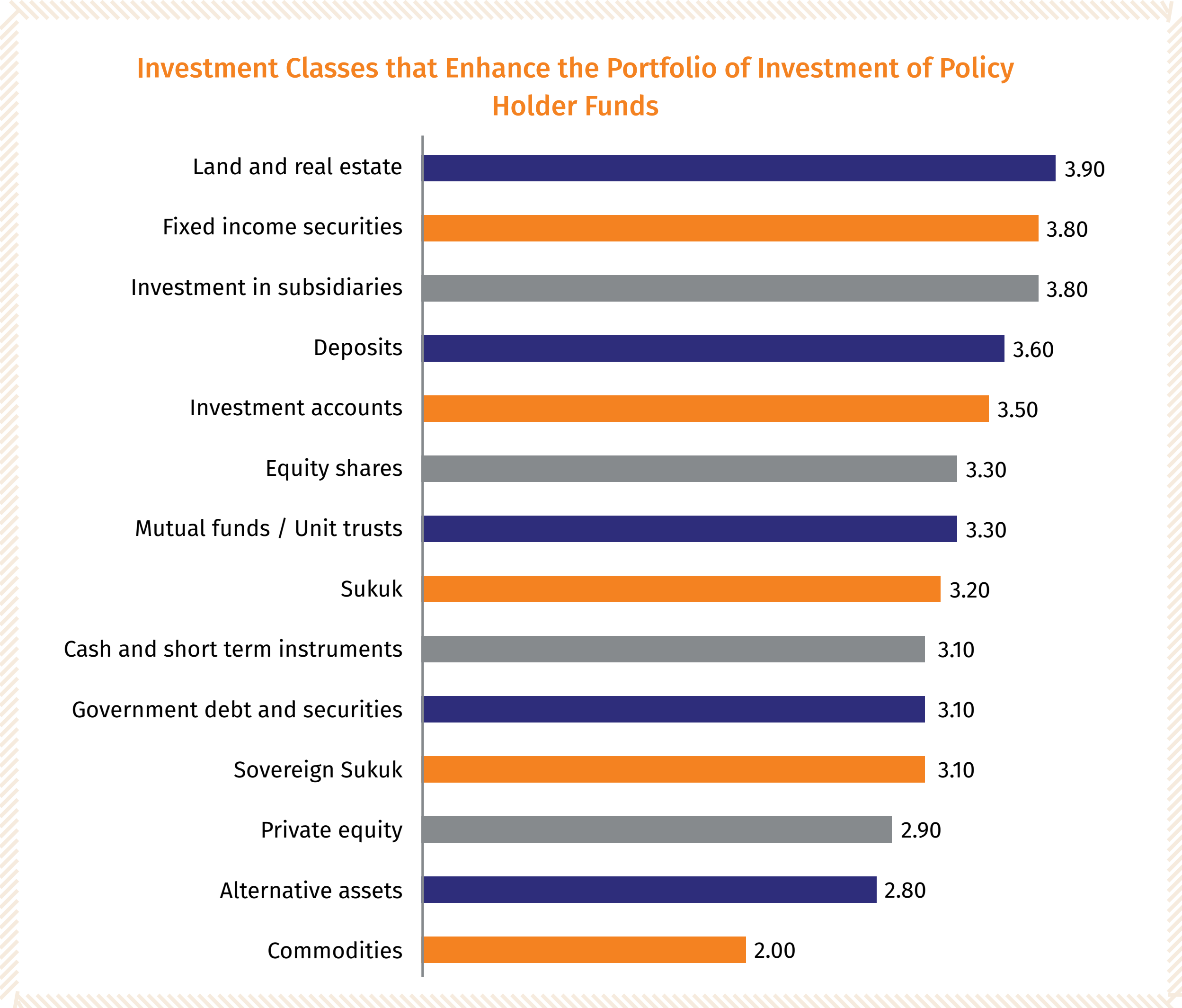


Figure 29. Influence of Regulatory Capital Requirements on Asset Allocation Decisions (1-3 years)

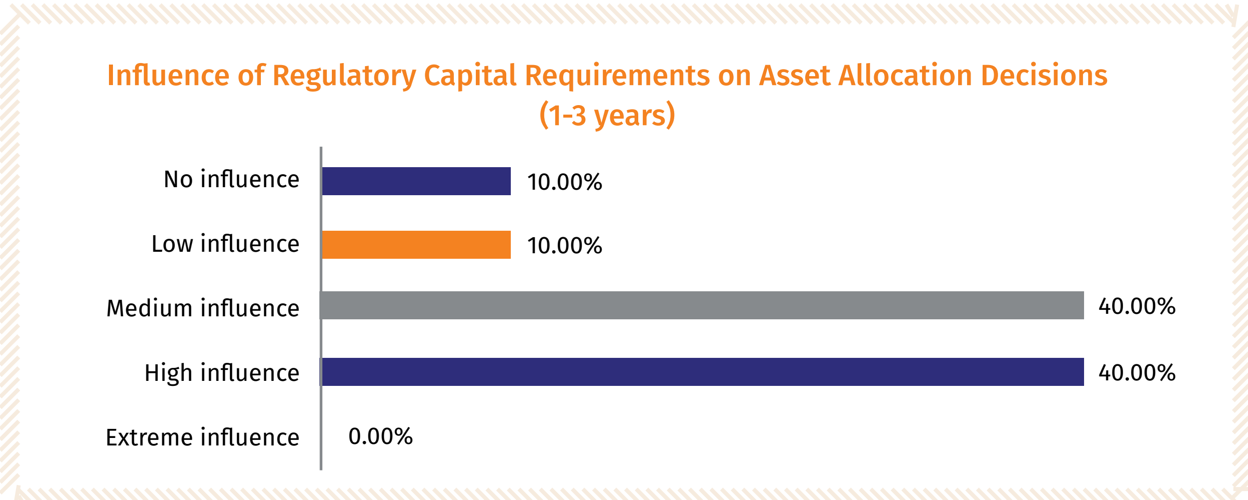


Figure 30. Areas of Improvement in Takaful Regulation

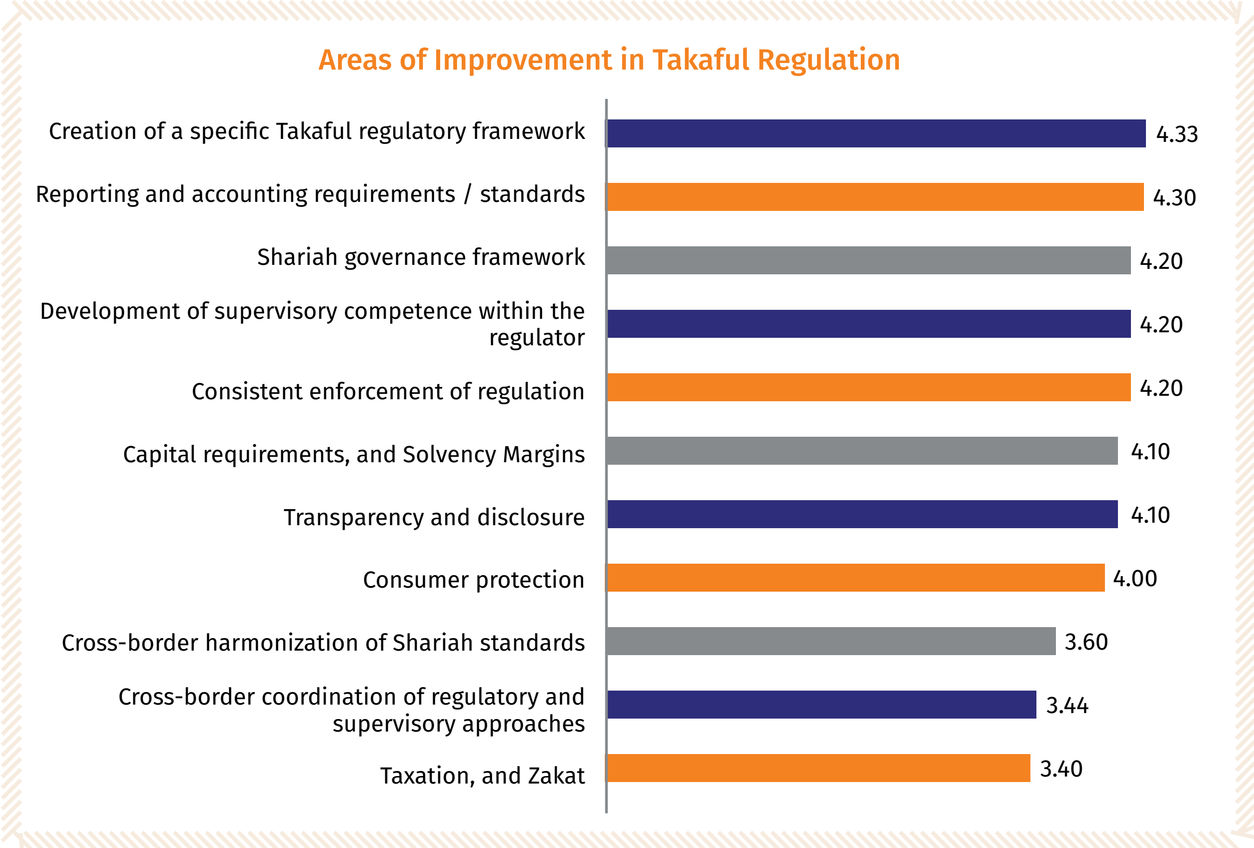


Figure 31. Stakeholders that contribute to Society, Economy and Environment

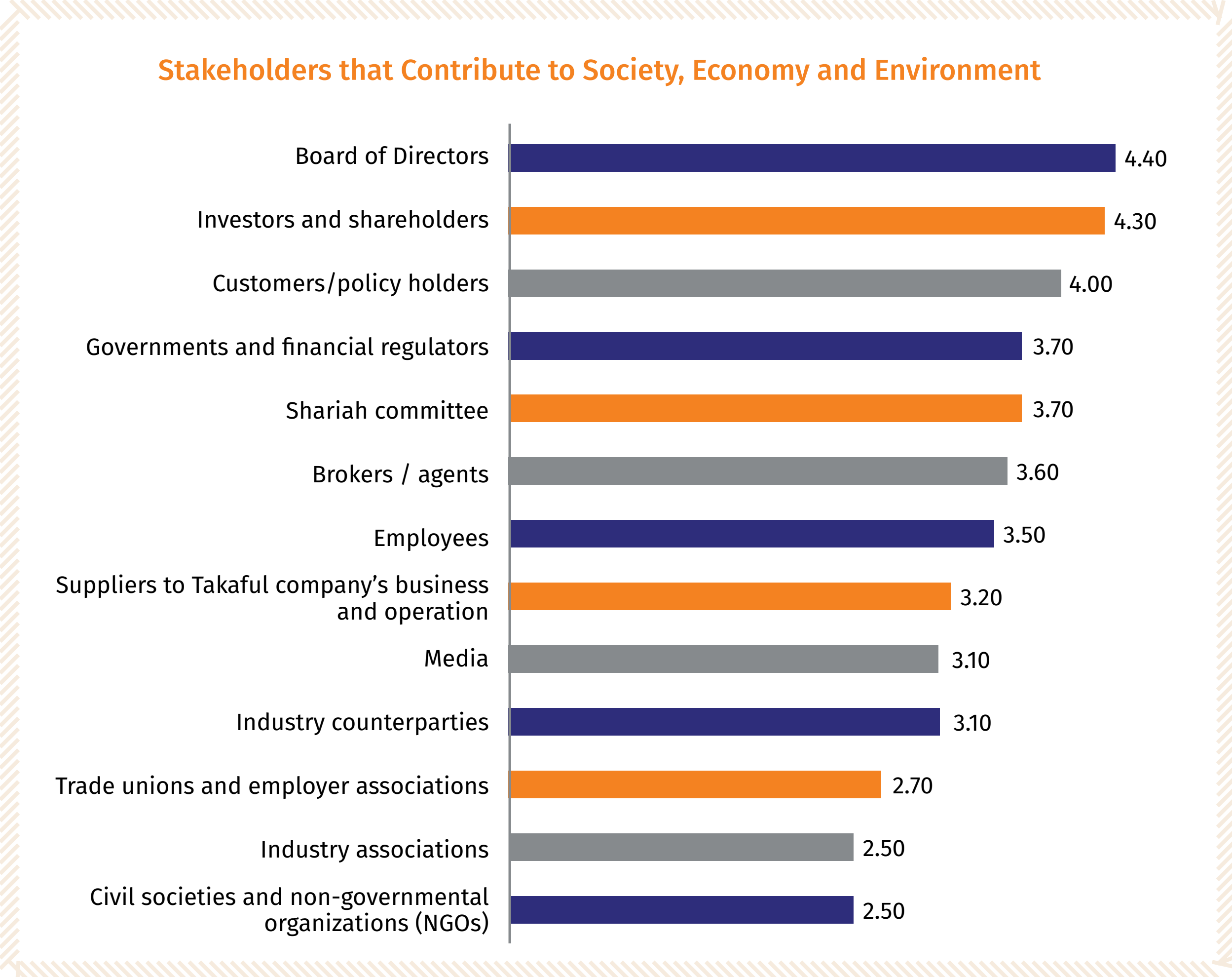


Figure 32. Values Institutions Promote

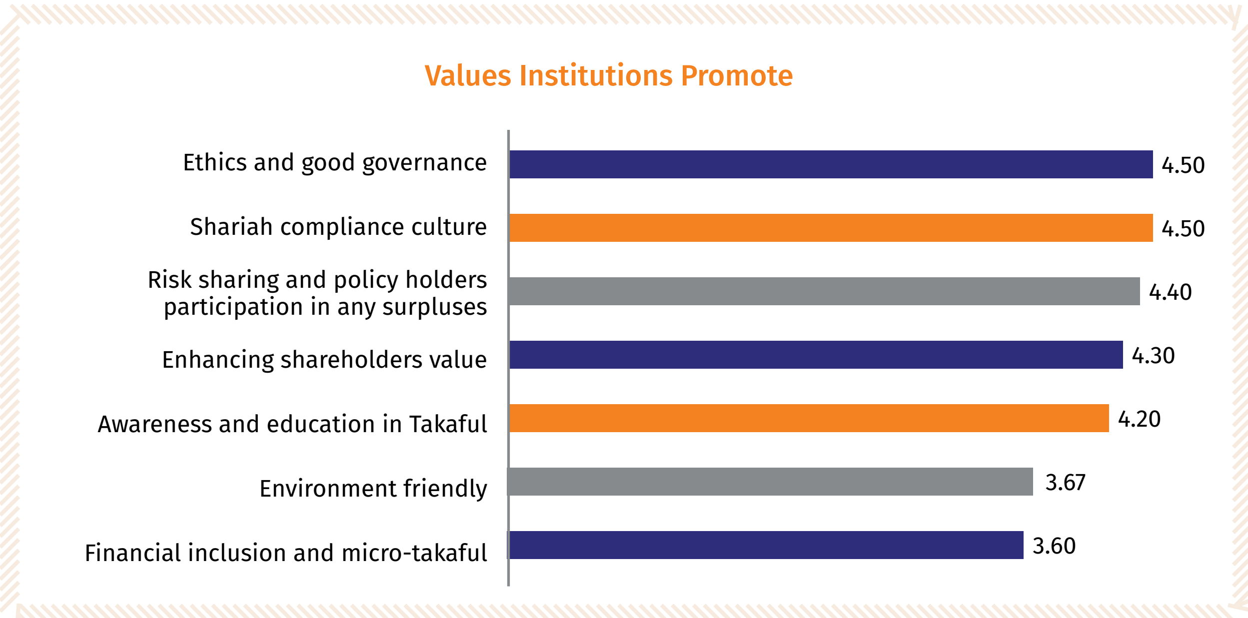


Figure 33. Challenges for Microtakaful's Success

Group 6: Sub-Saharan Africa

Figure 1. Type of Takaful Operations

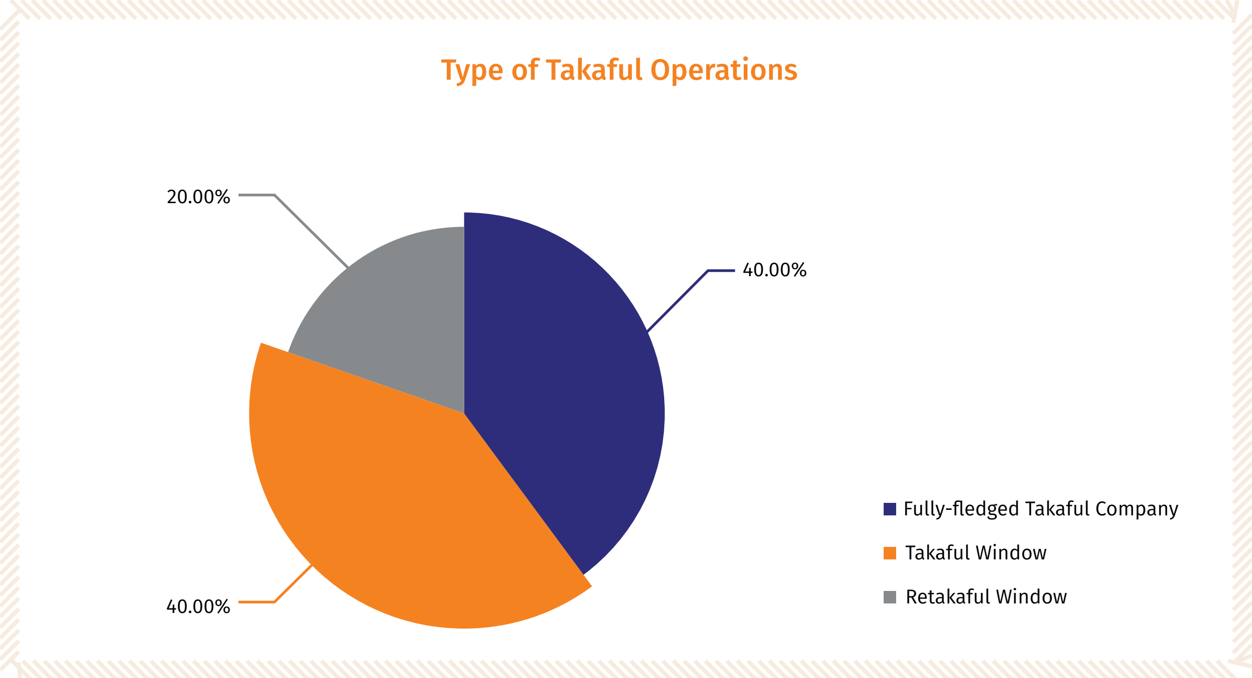


Figure 2. Takaful Models

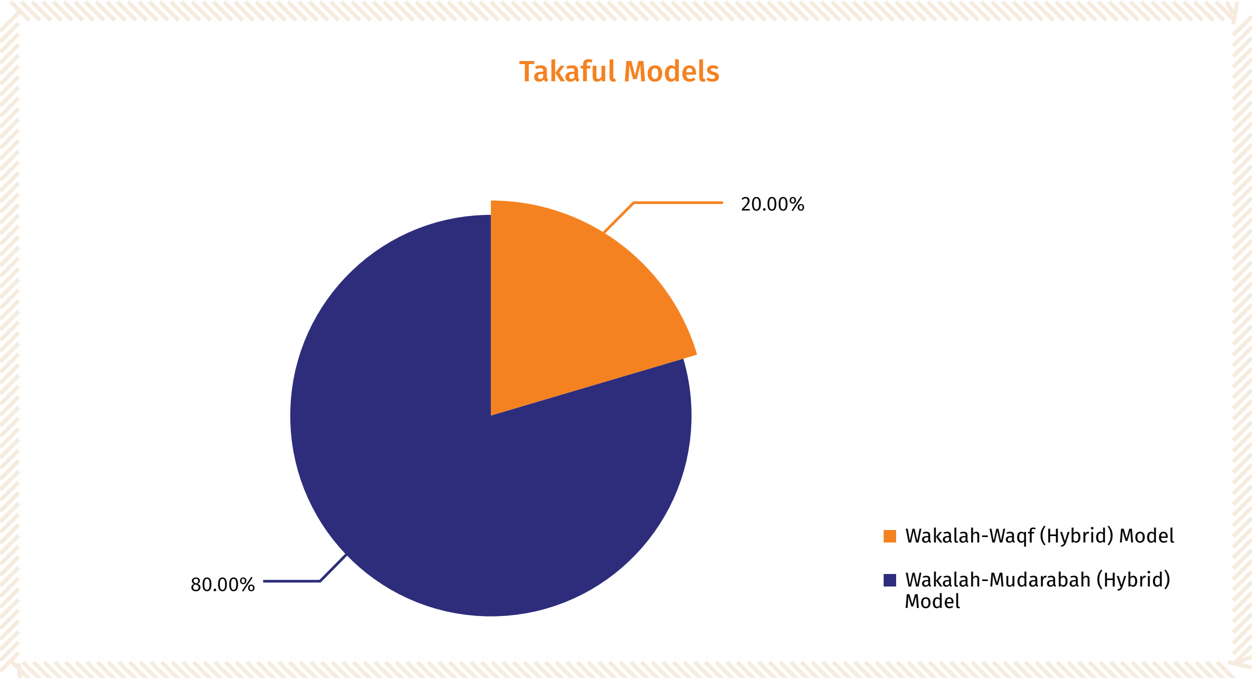


Figure 3. Nature of Takaful Operations

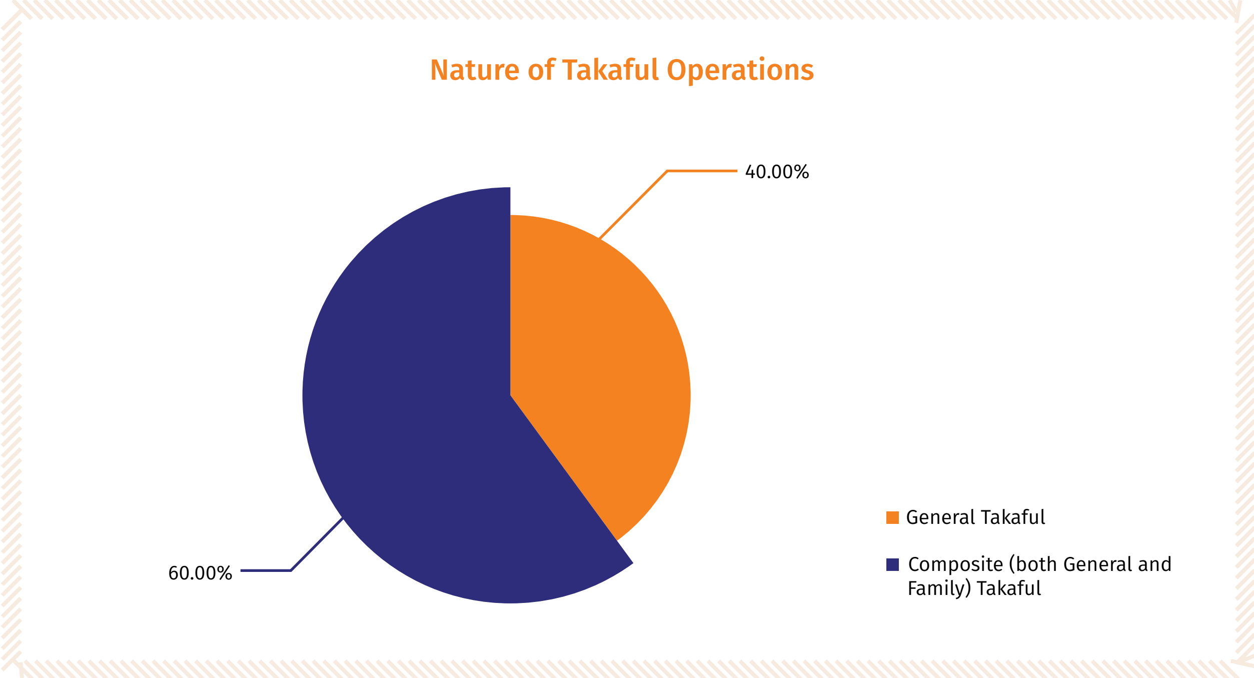


Figure 4. Total Gross Annual Takaful Contributions

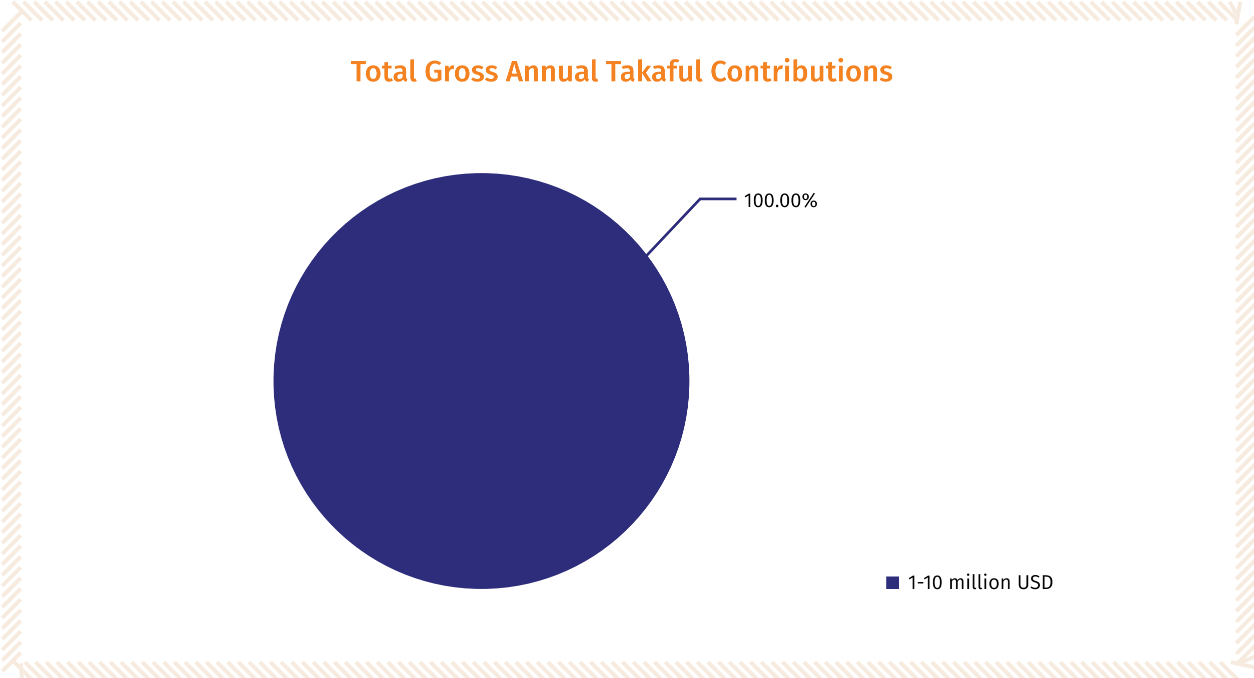


Figure 5. Overall Expense Ratio

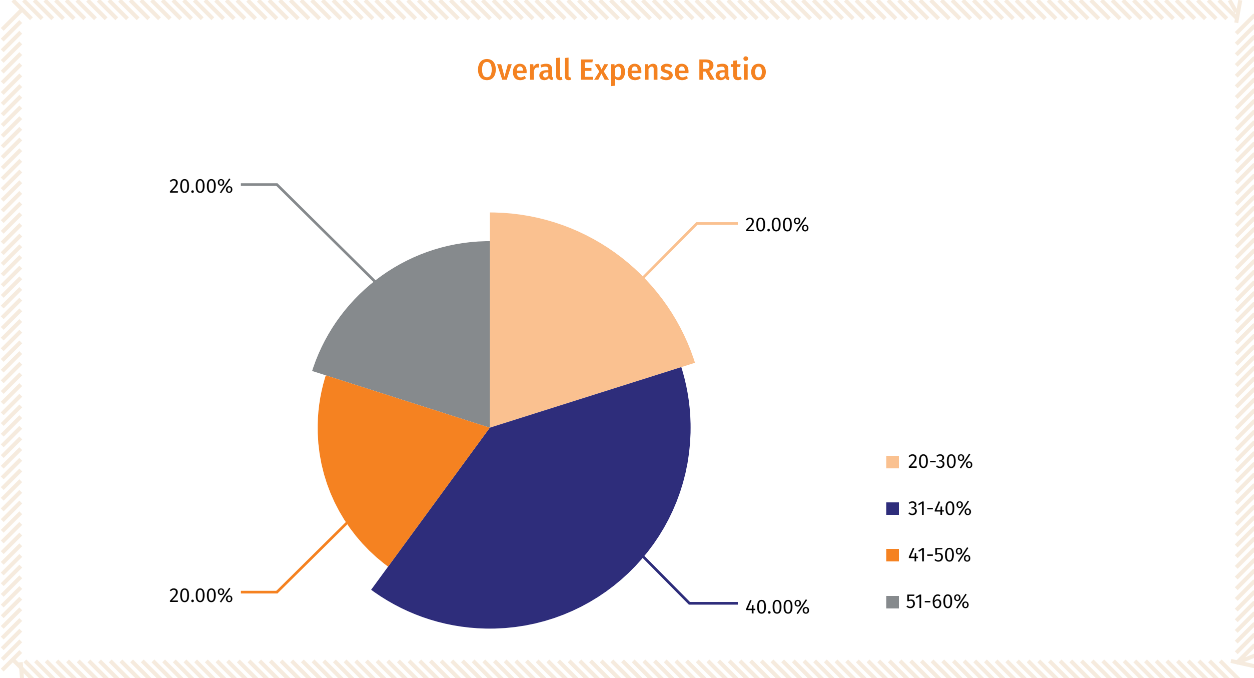


Figure 6. Average Retention Ratio

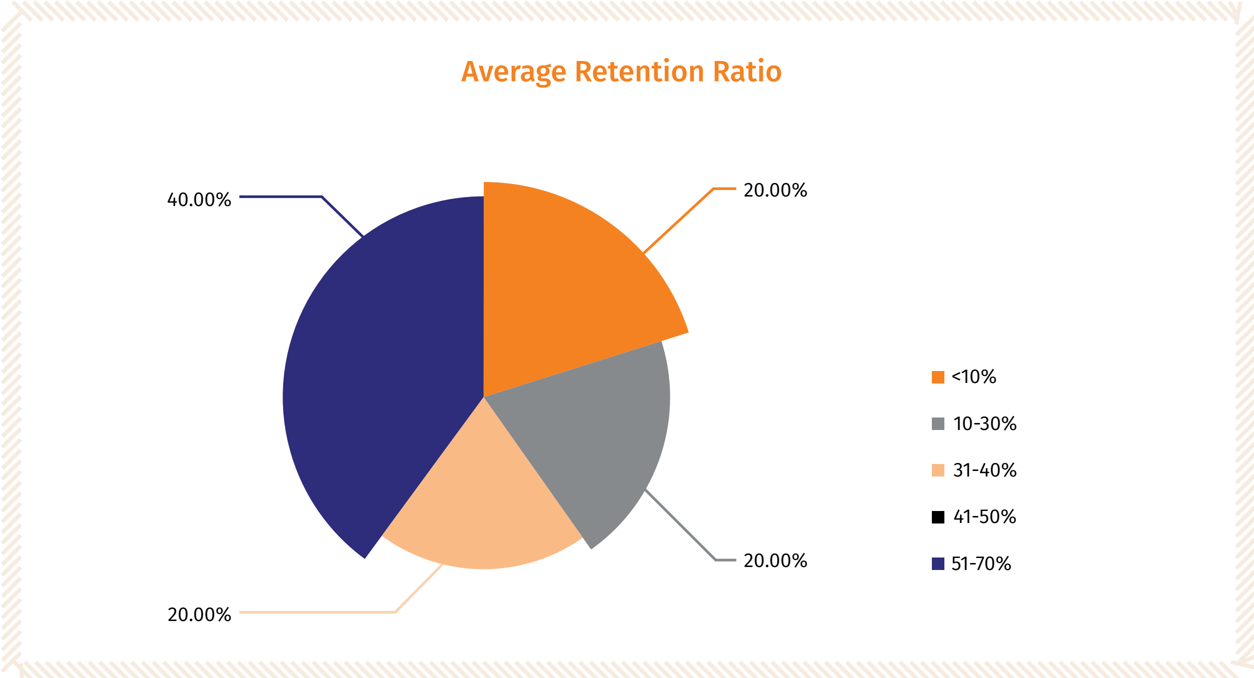


Figure 7. Optimism Level on Overall Insurance Industry

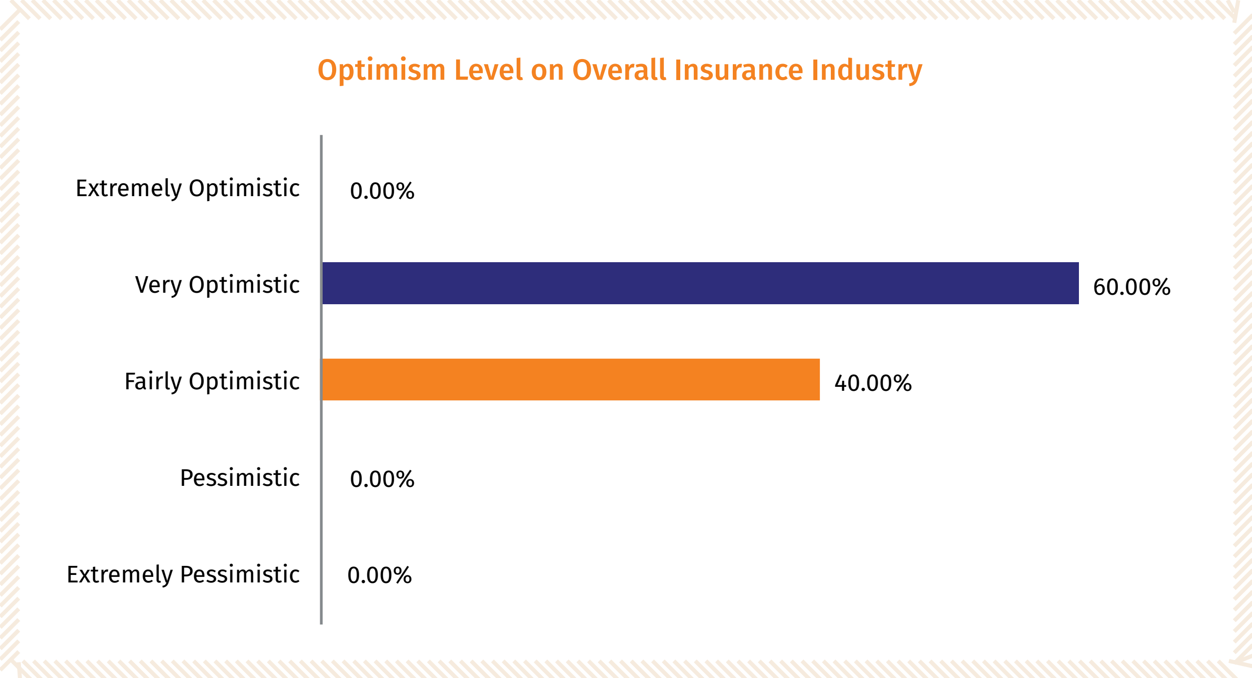


Figure 8. Takaful Industry Optimism Level

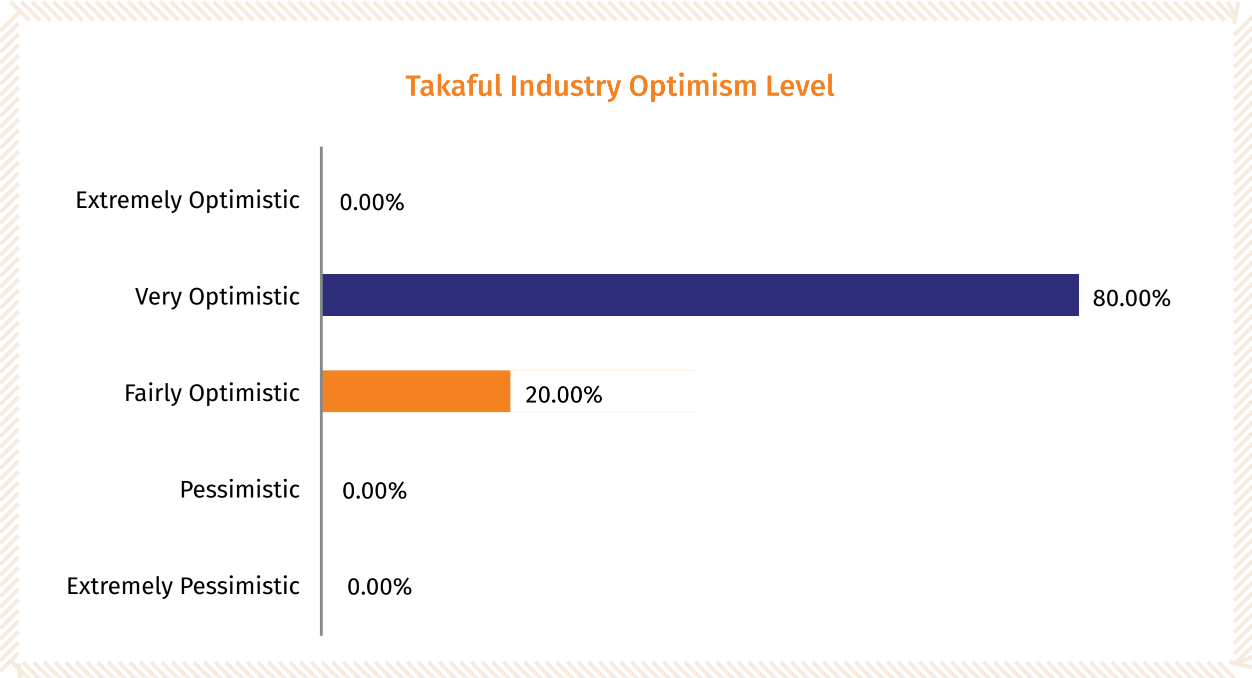


Figure 9. Expectations of Revenue Growth compared with conventional peers

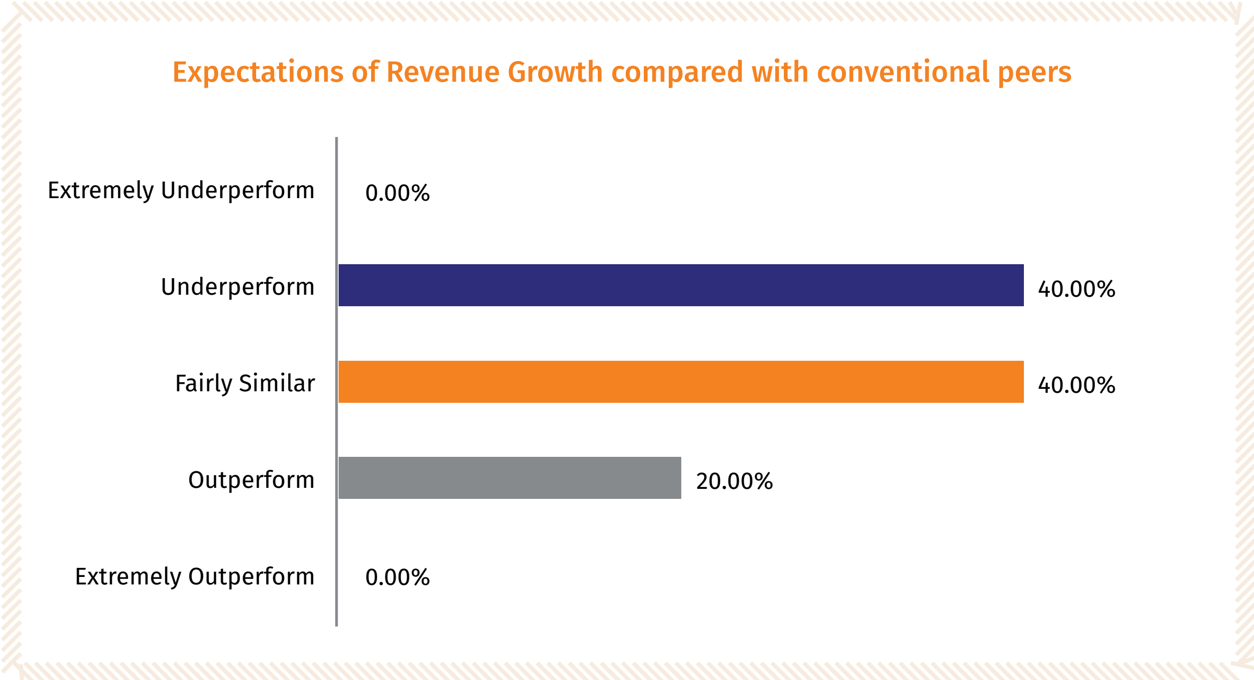


Figure 10. Revenue in Personal Lines - Short Term

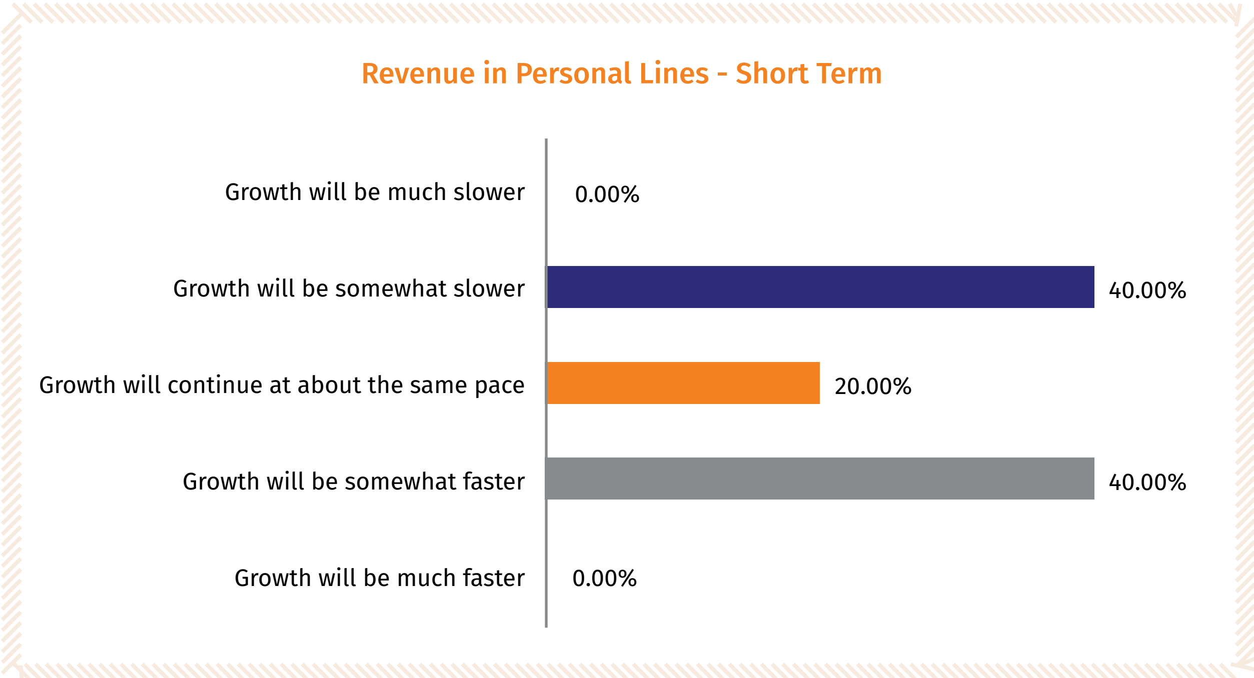


Figure 11. Revenue in Personal Lines - Long Term (2018-2021)

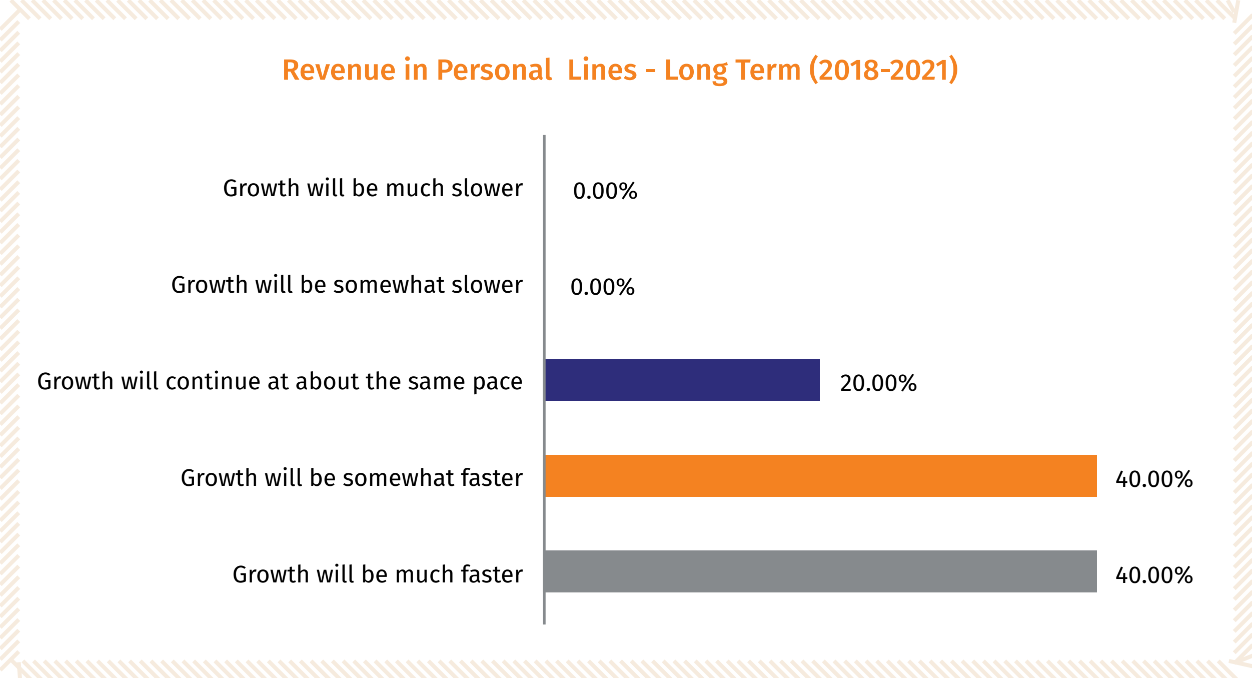


Figure 12. Revenue in Commercial Lines - Short Term

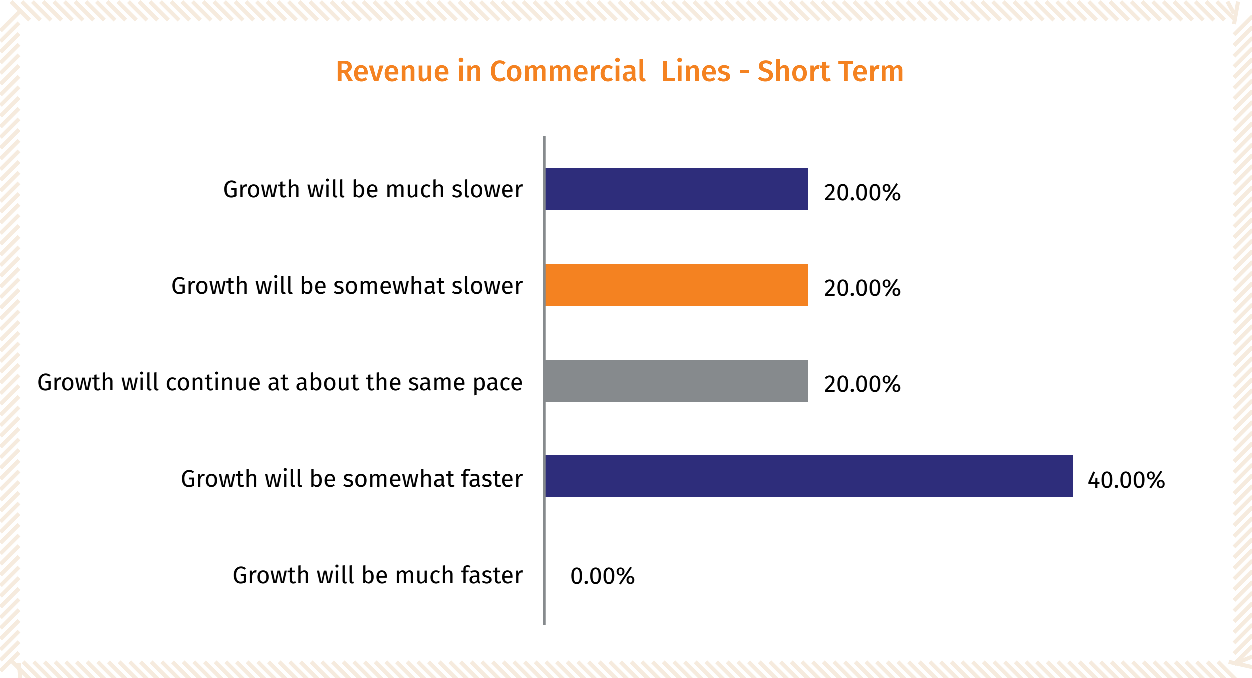


Figure 13. Revenue in Commercial Lines - Long Term (2018-2021)

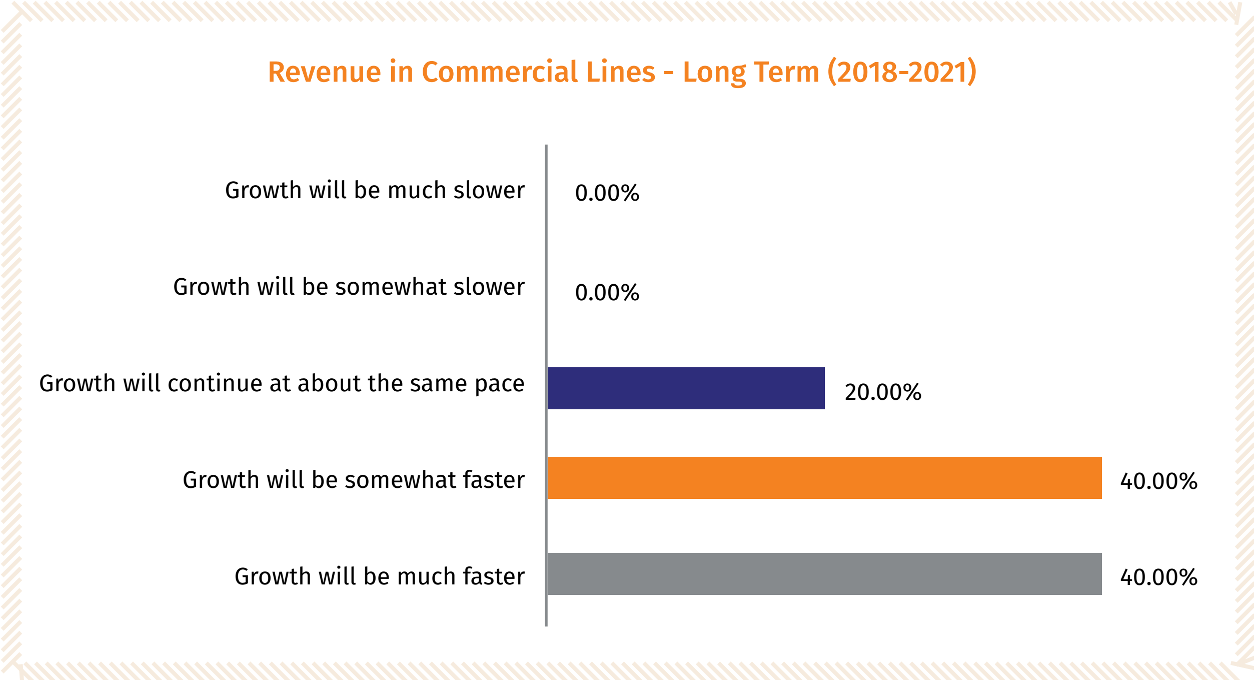
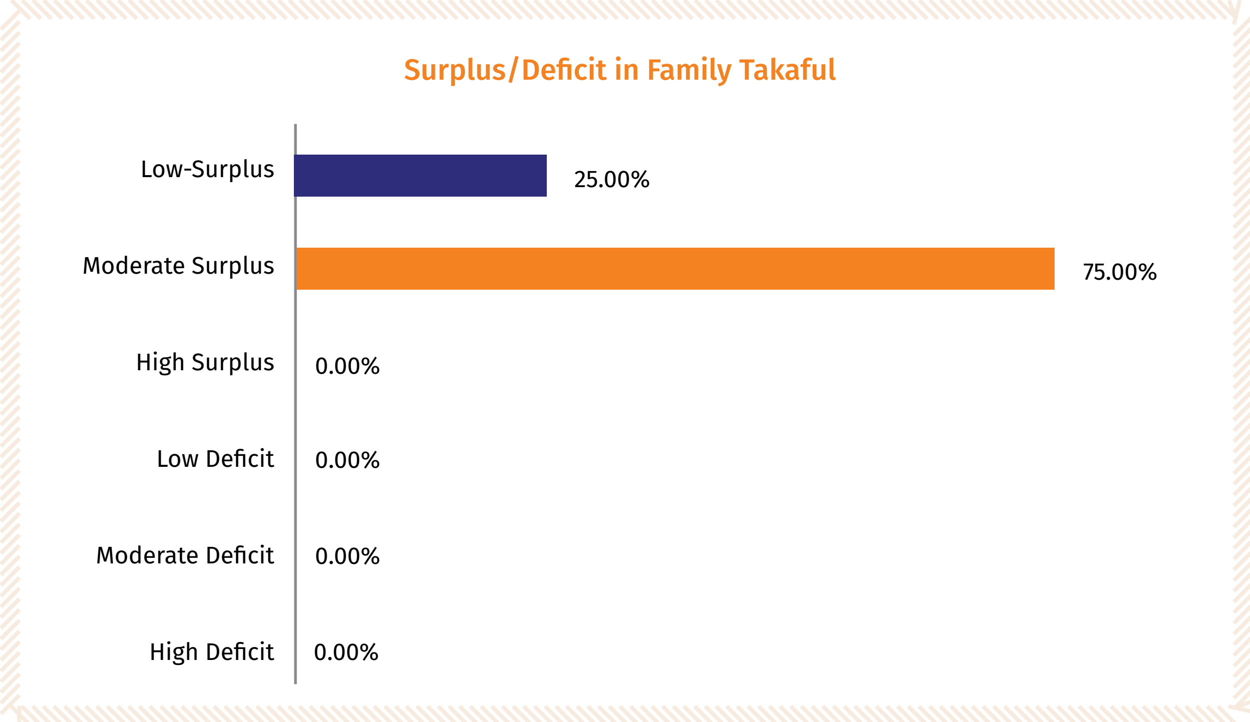


Figure 14. Surplus/Deficit in Family Takaful and General Takaful



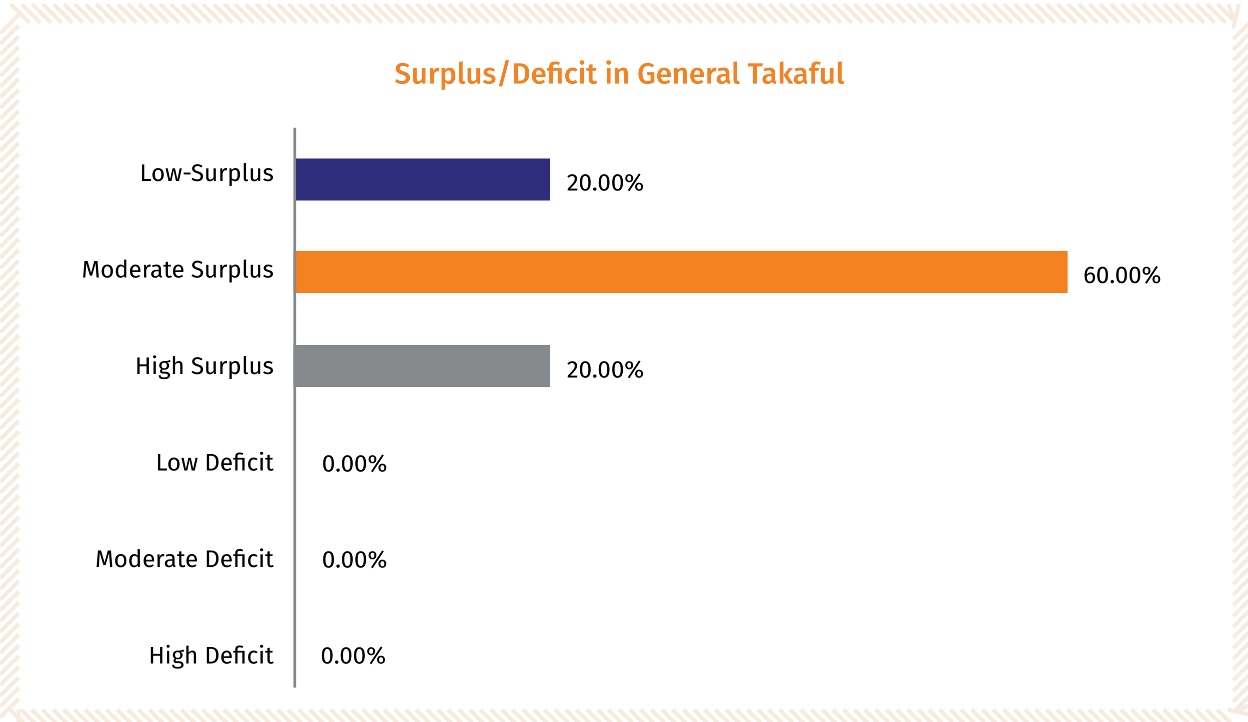


Figure 15. Takaful Industry Top Concerns

Figure 16. Takaful Risk Dashboard

Figure 17. Annual Premium Growth Rate

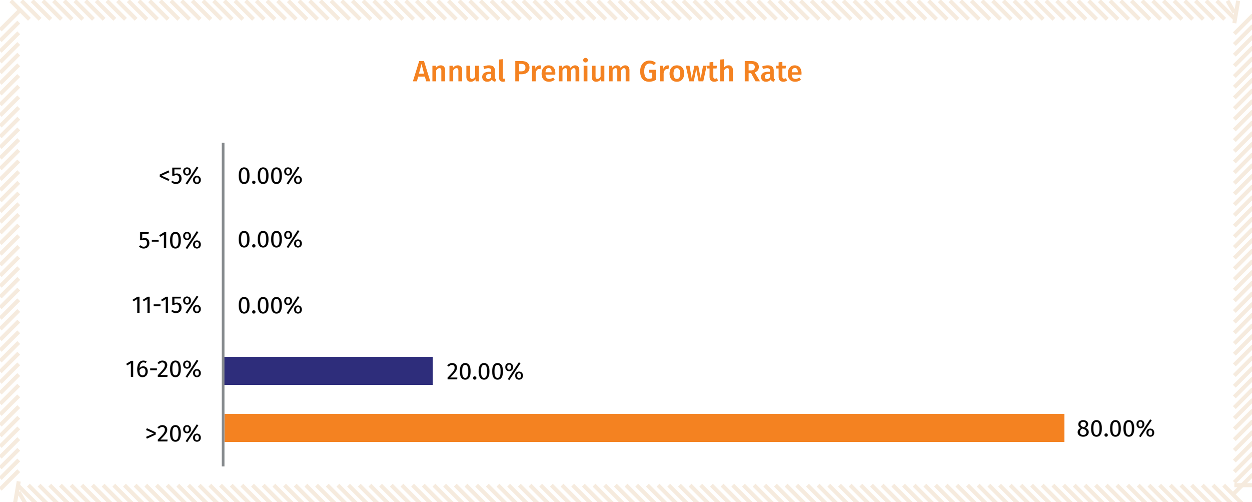


Figure 18. Takaful Market Segments Driving Growth

Figure 19. Distribution Channels Driving Growth

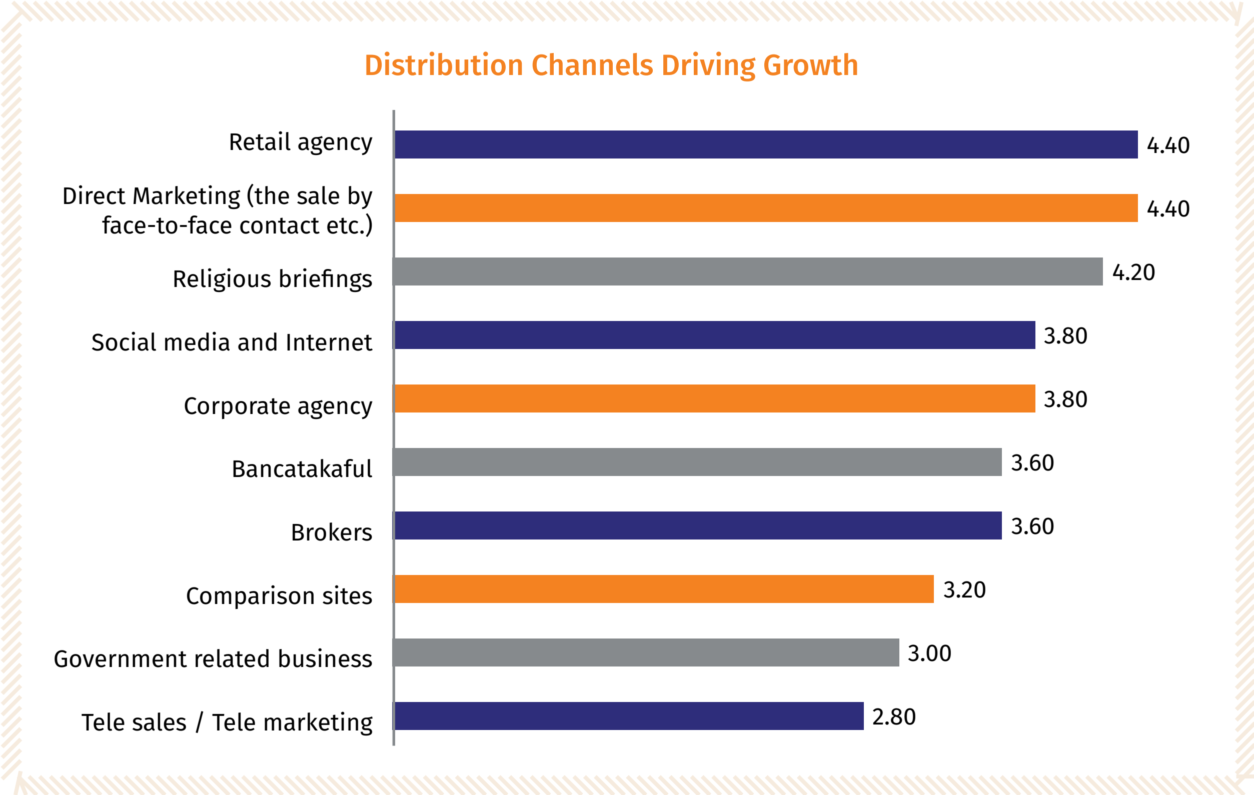


Figure 20. Takaful Products Driving Growth

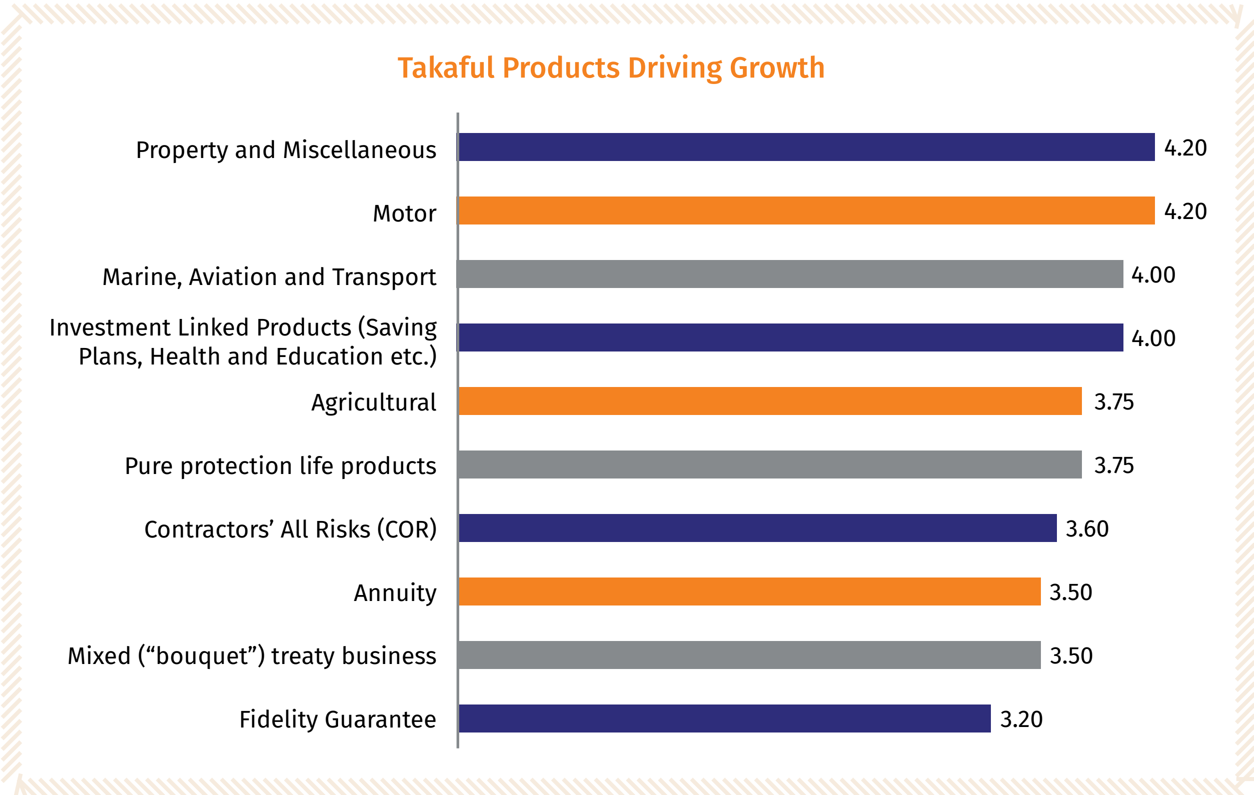


Figure 21. Effective Business Drivers (ranking in order of importance)

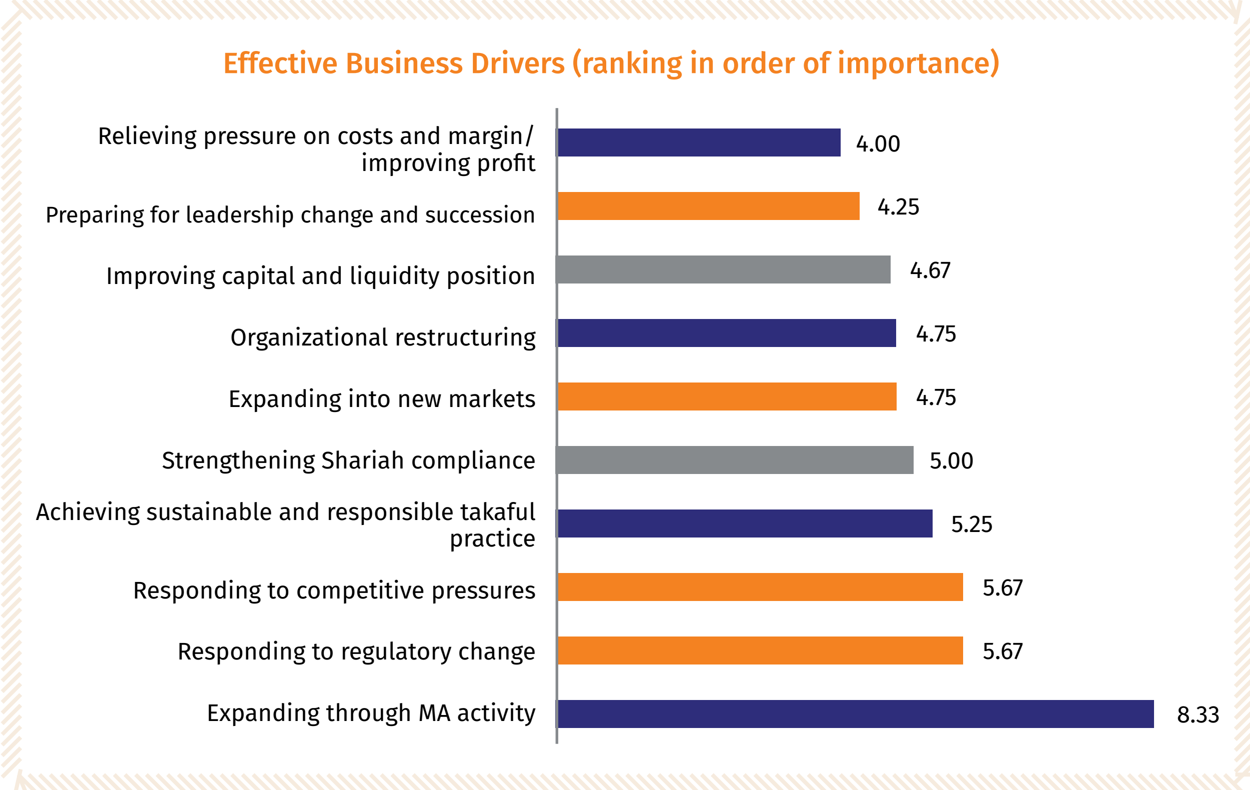


Figure 22. Revenue Growth Drivers

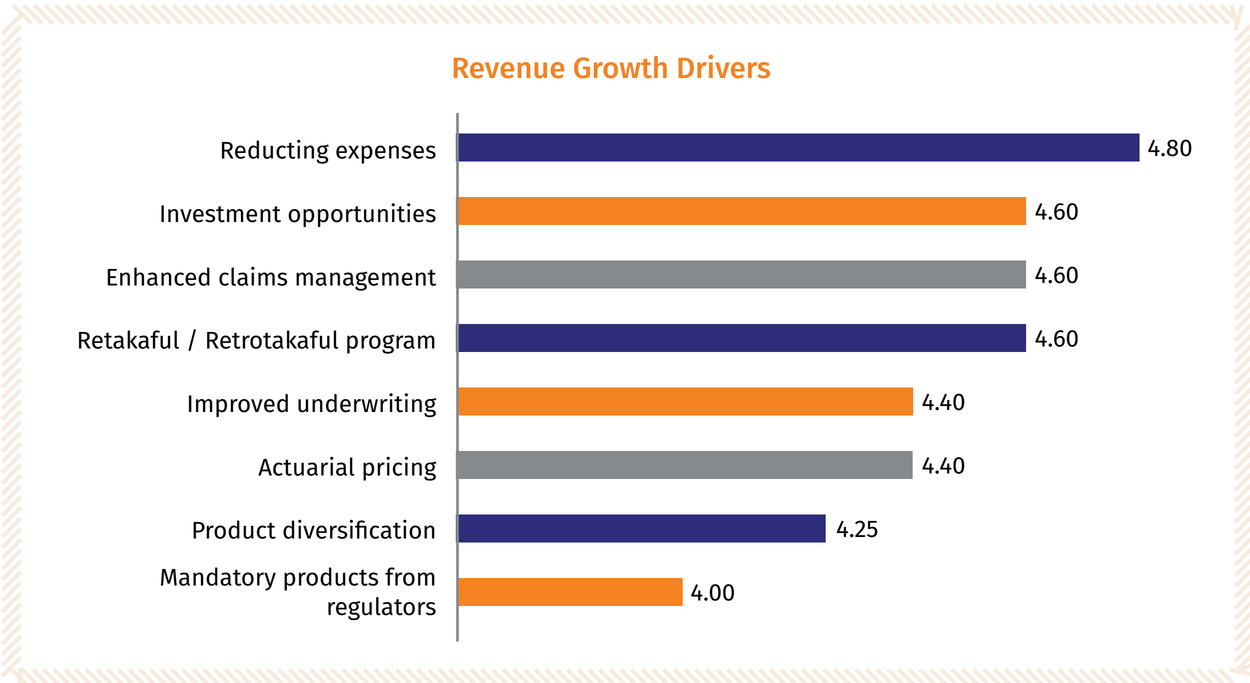


Figure 23. InsurTech Innovations Driving Growth

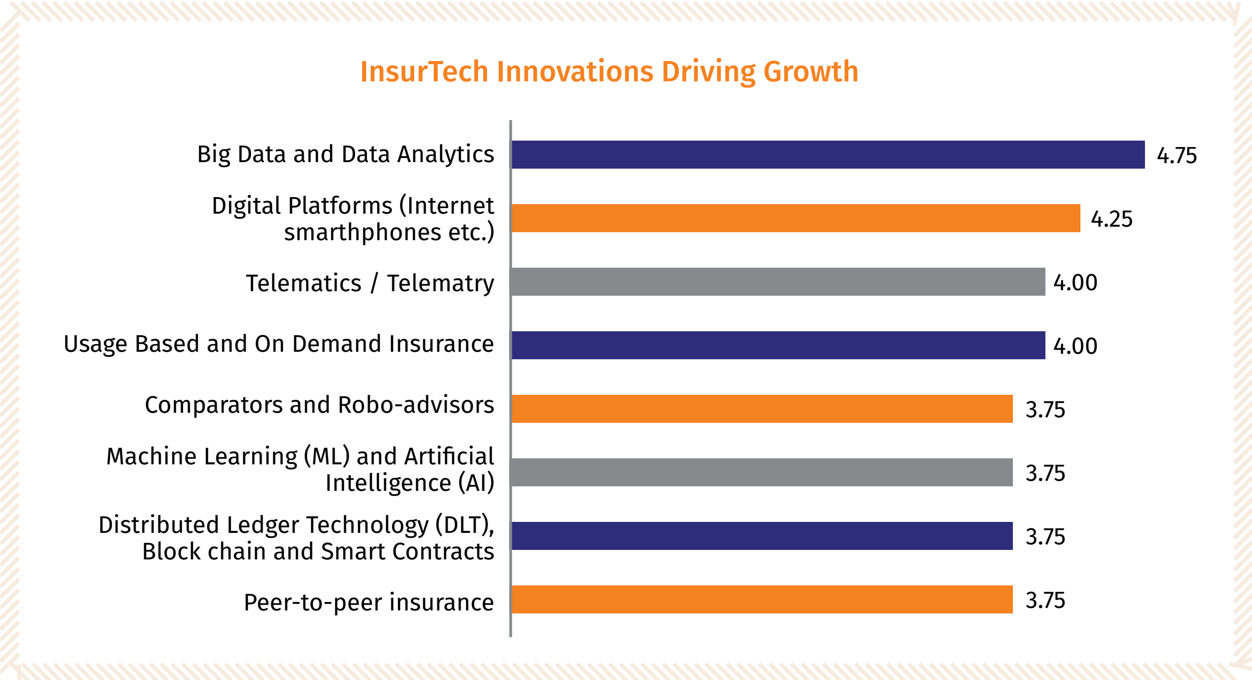


Figure 24. Leveraging Technology for Revenue Growth

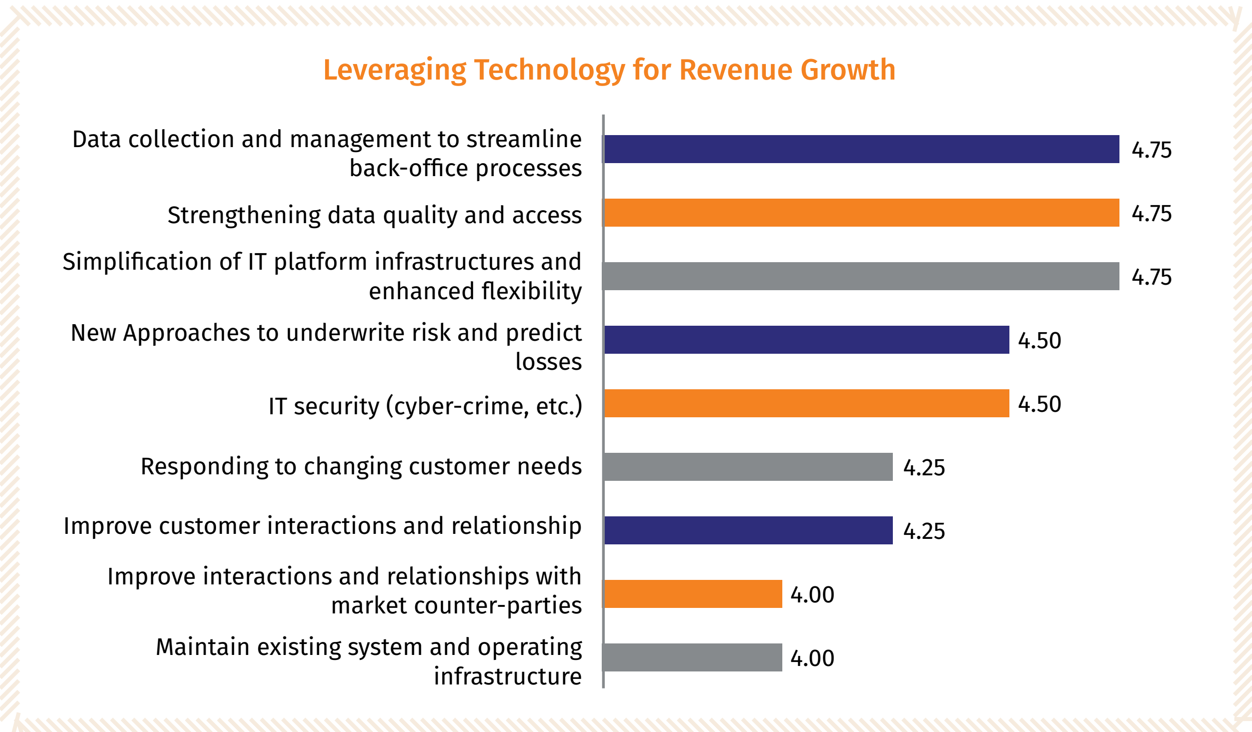


Figure 25. Risk Management Infrastructure and Risk Governance Driving Growth

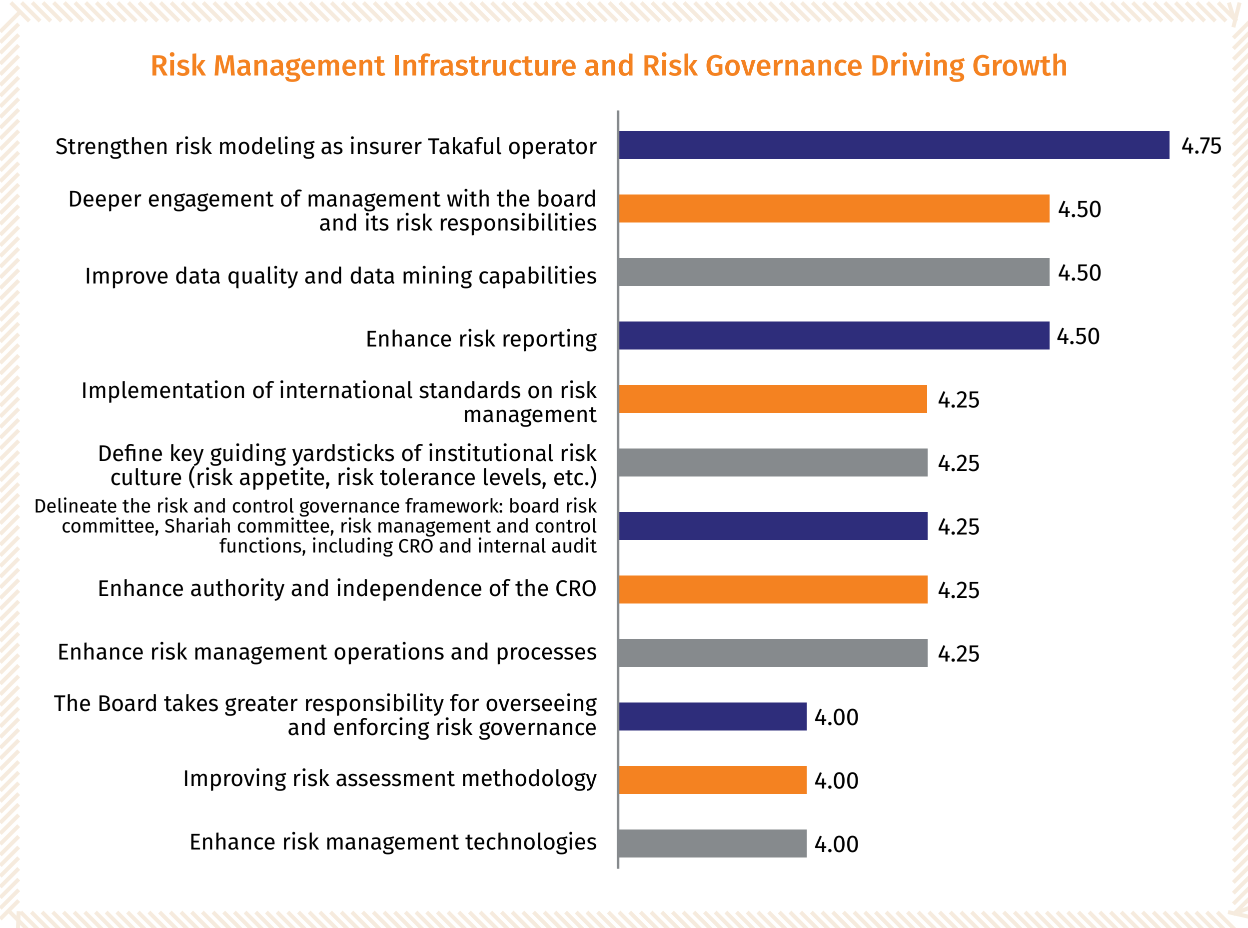


Figure 26. Areas of Human Resources and Talent Development to Improve Institutions' Position

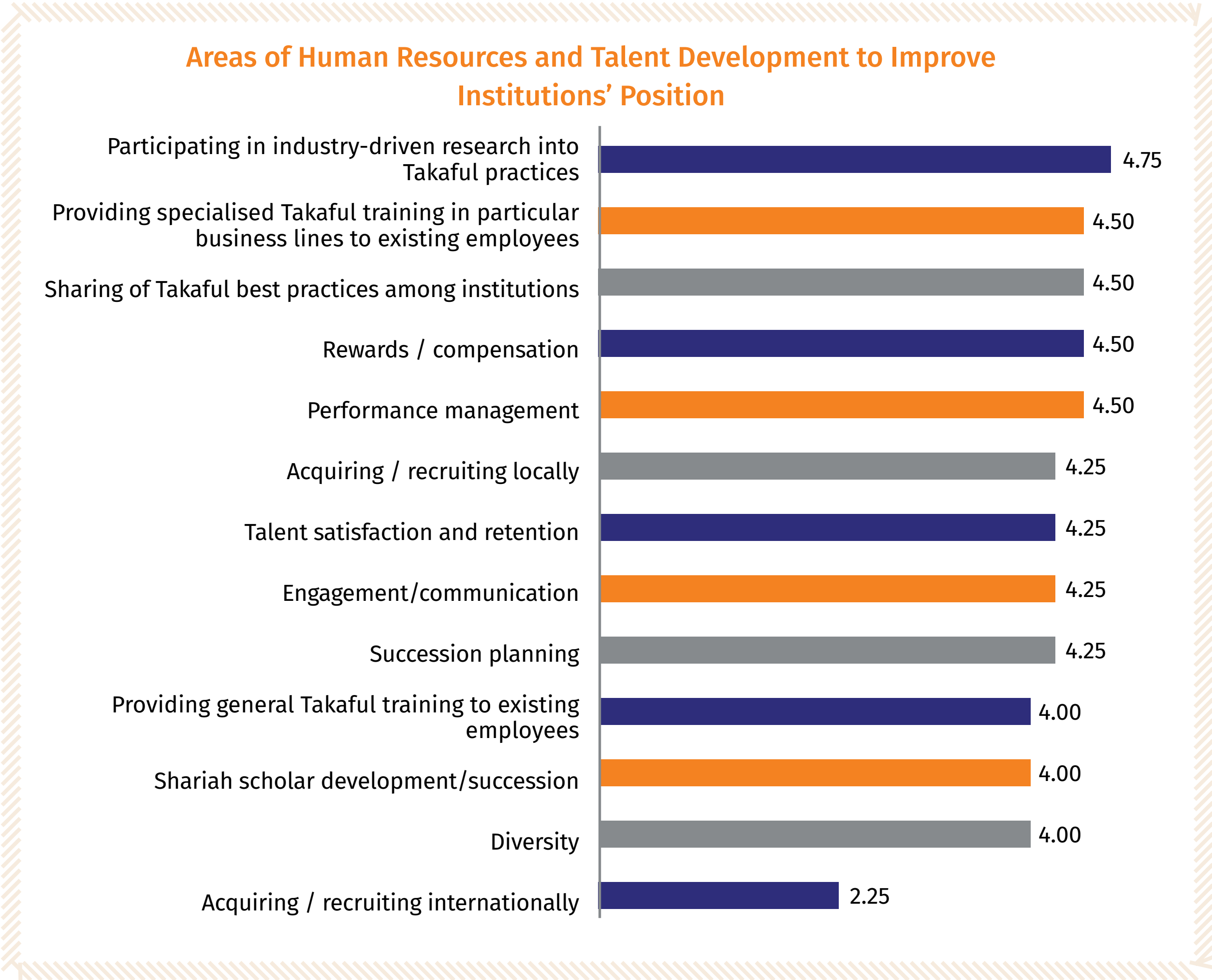


Figure 27. Areas of Customer-Centricity for Institution

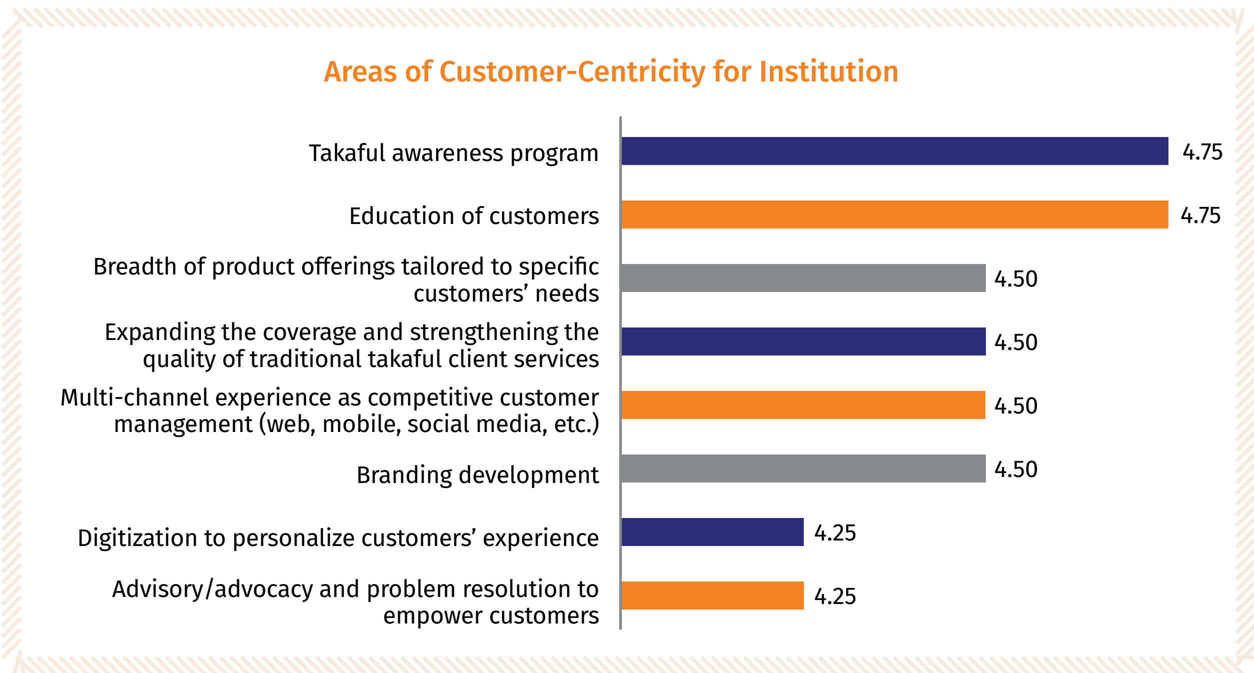


Figure 28. Investment Classes that Enhance the Portfolio of Investment of Policy Holder Funds

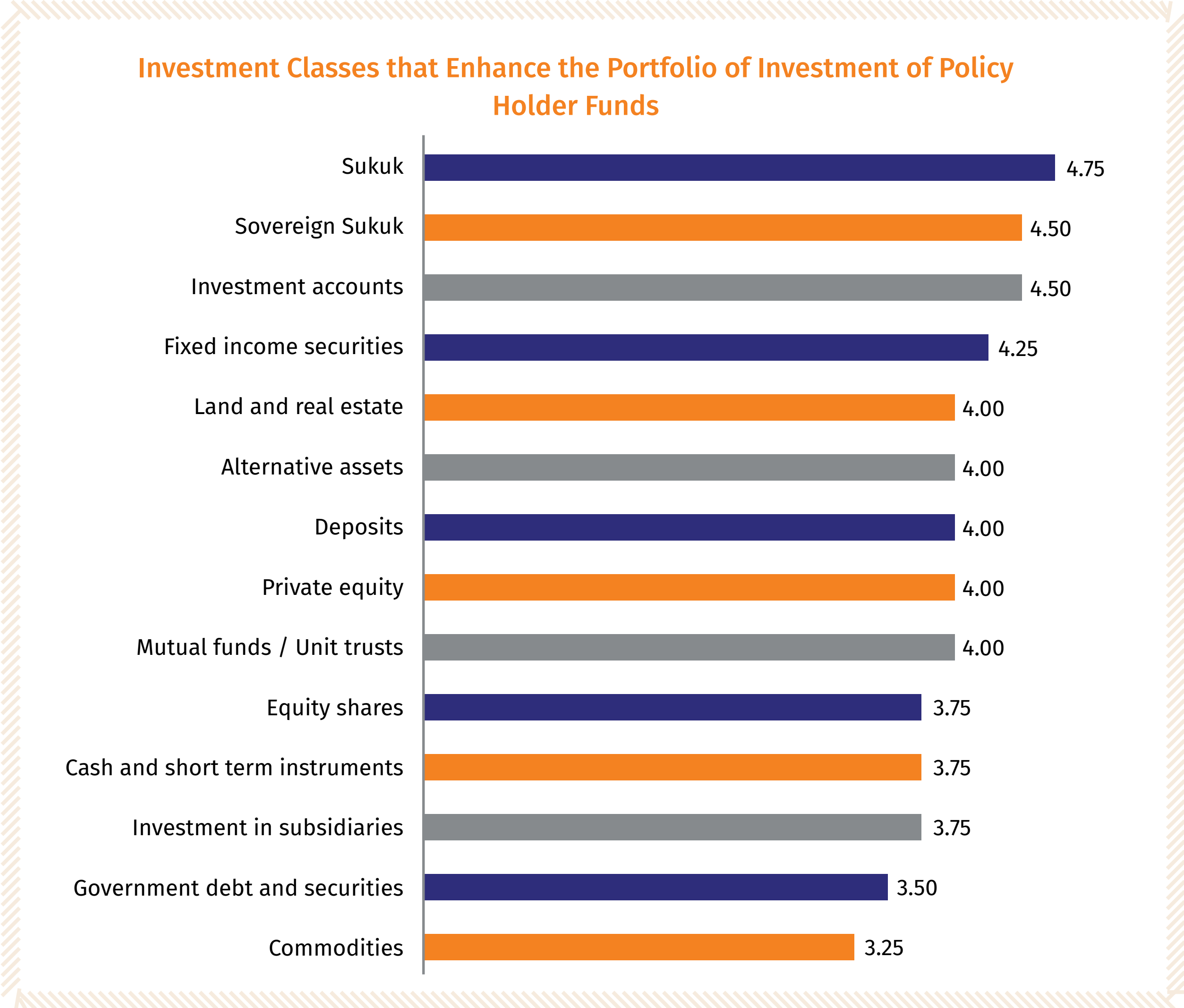


Figure 29. Influence of Regulatory Capital Requirements on Asset Allocation Decisions (1-3 years)

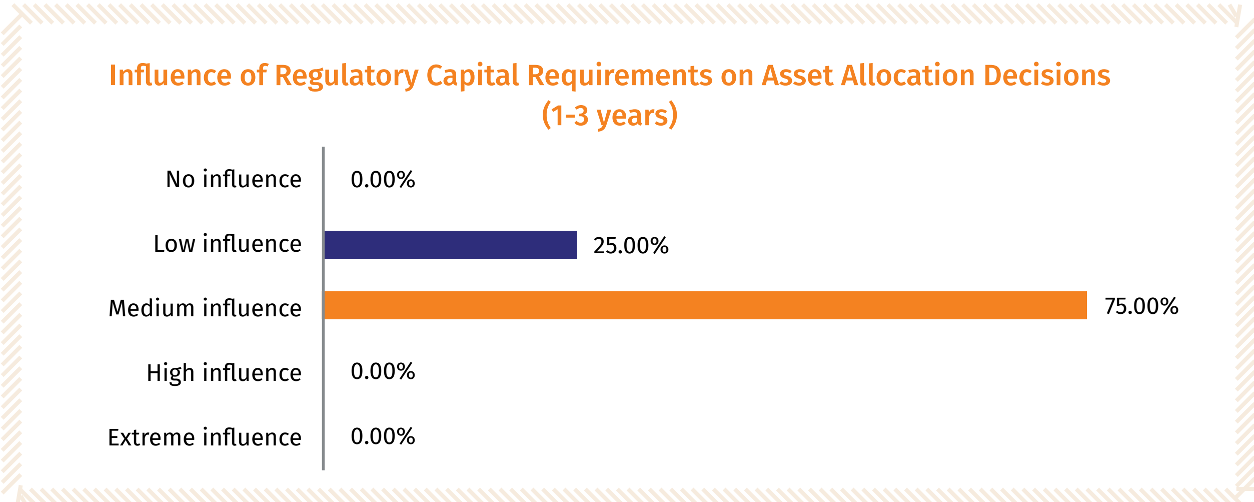


Figure 30. Areas of improvement in Takaful Regulation

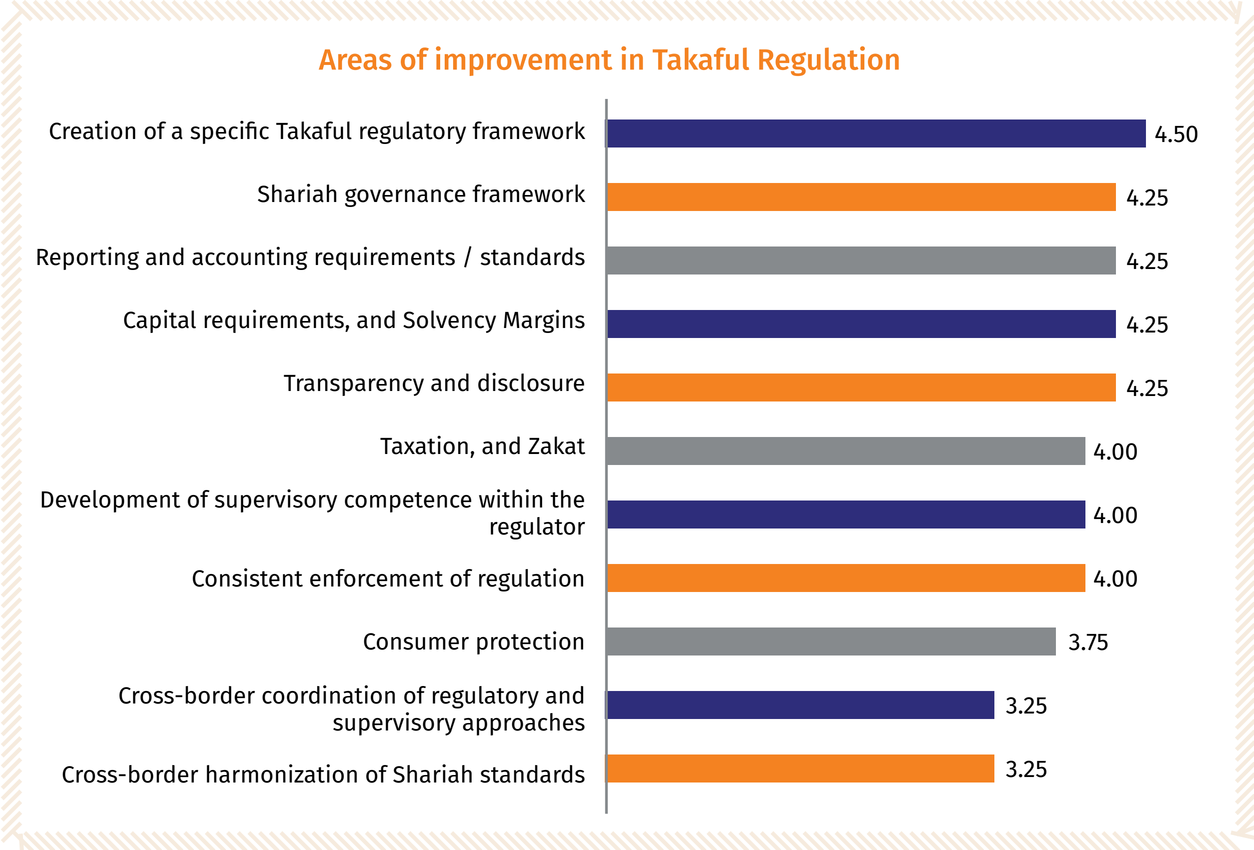
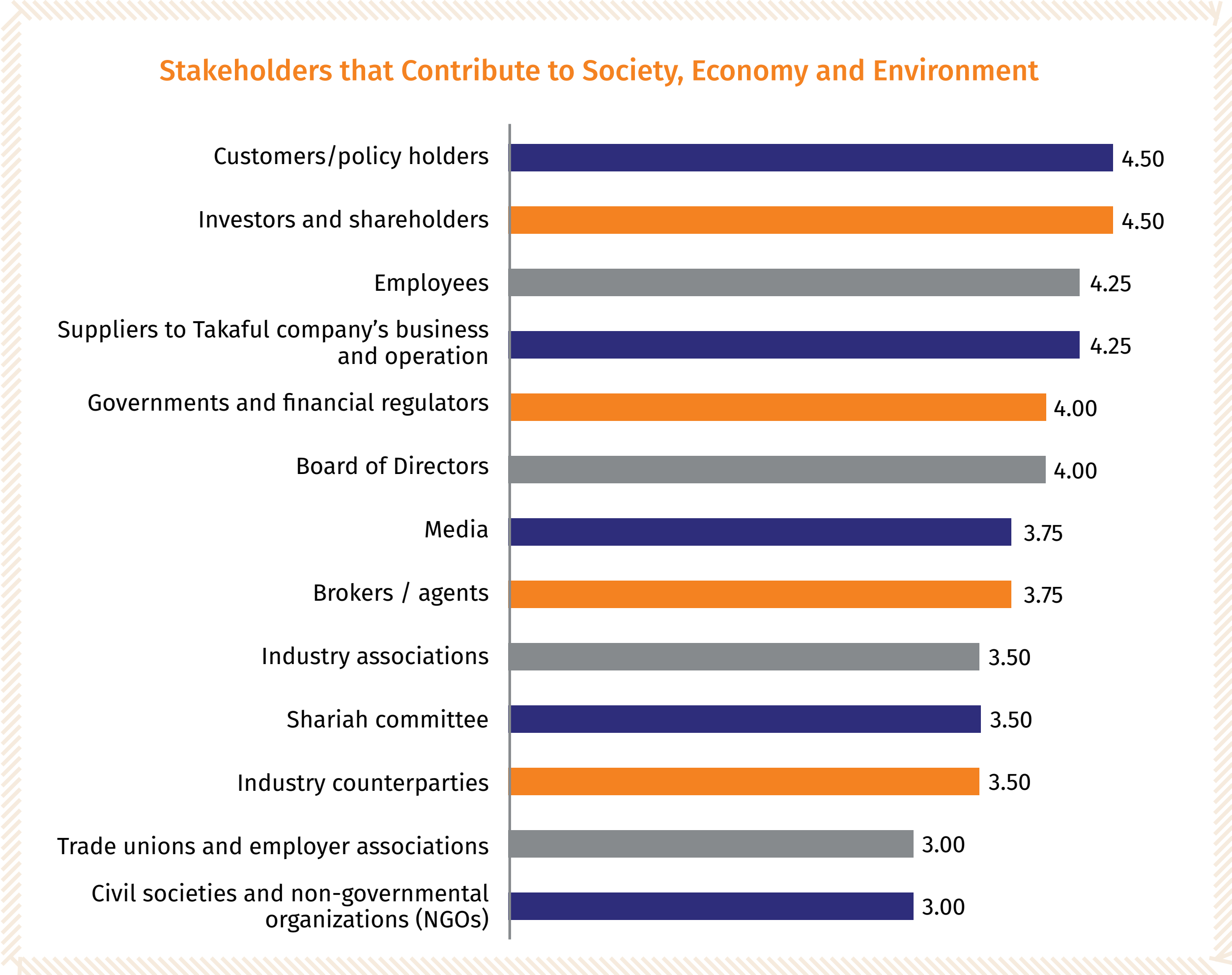


Figure 31. Stakeholders that contribute to Society, Economy and Environment



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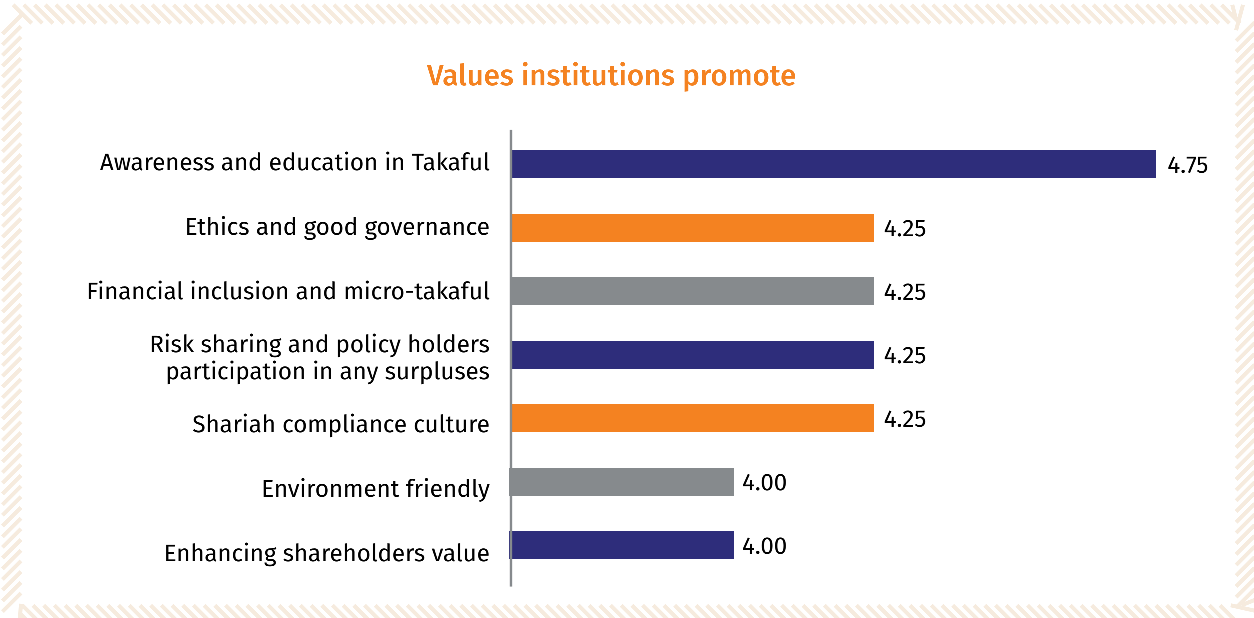
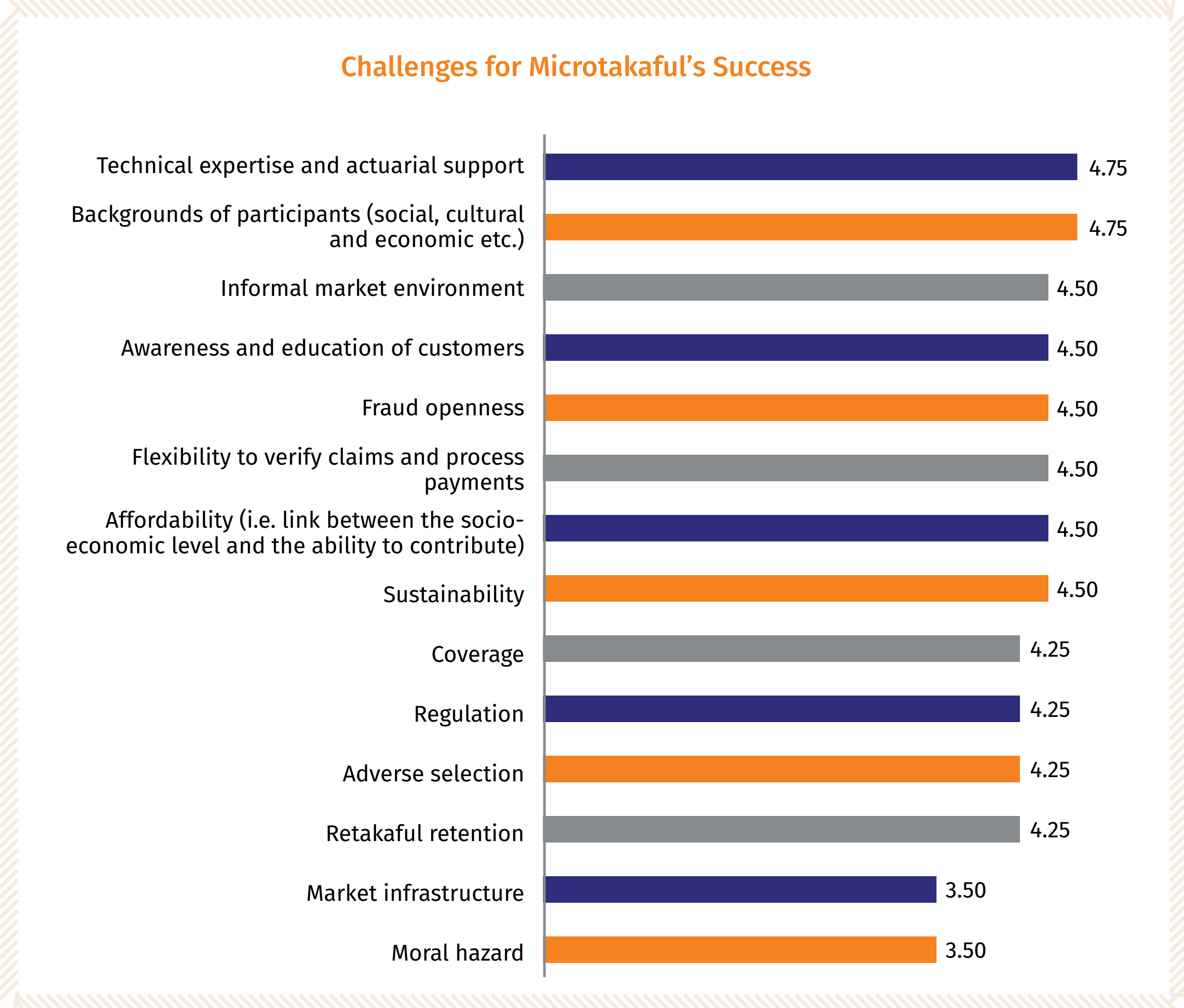


Figure 33. Challenges for Microtakaful's Success



Group 7: Europe, Turkey and others

Figure 1. Type of Takaful Operations

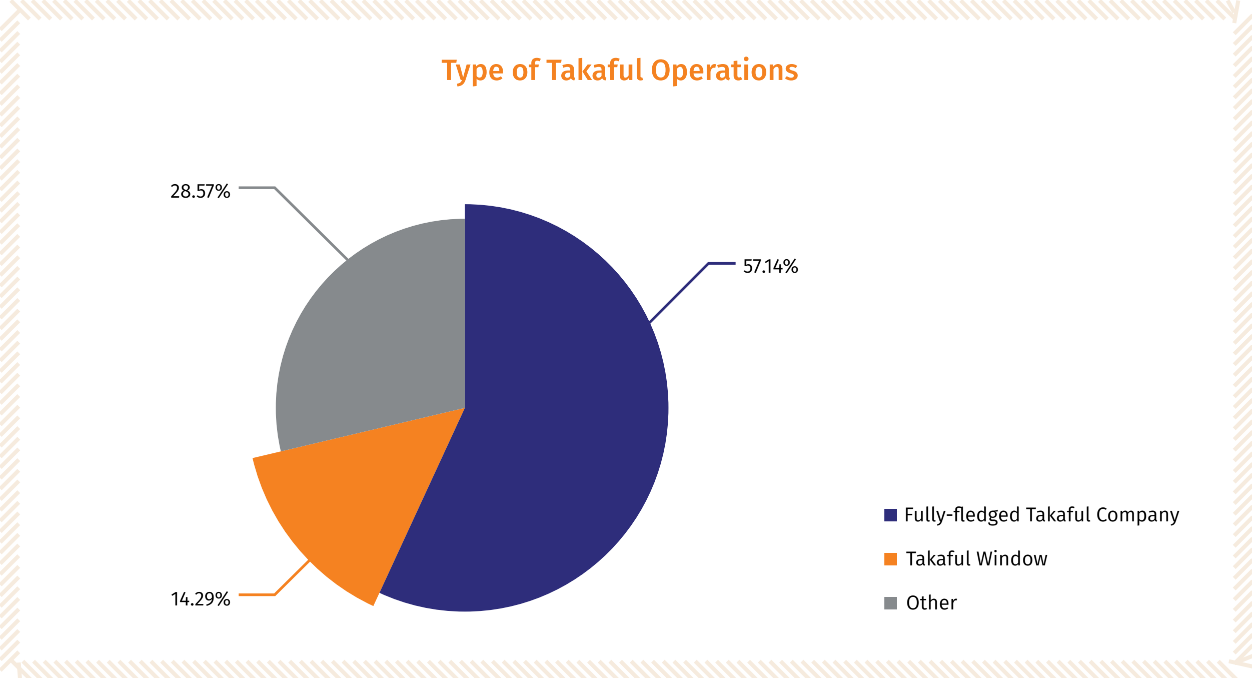


Figure 2. Takaful Models

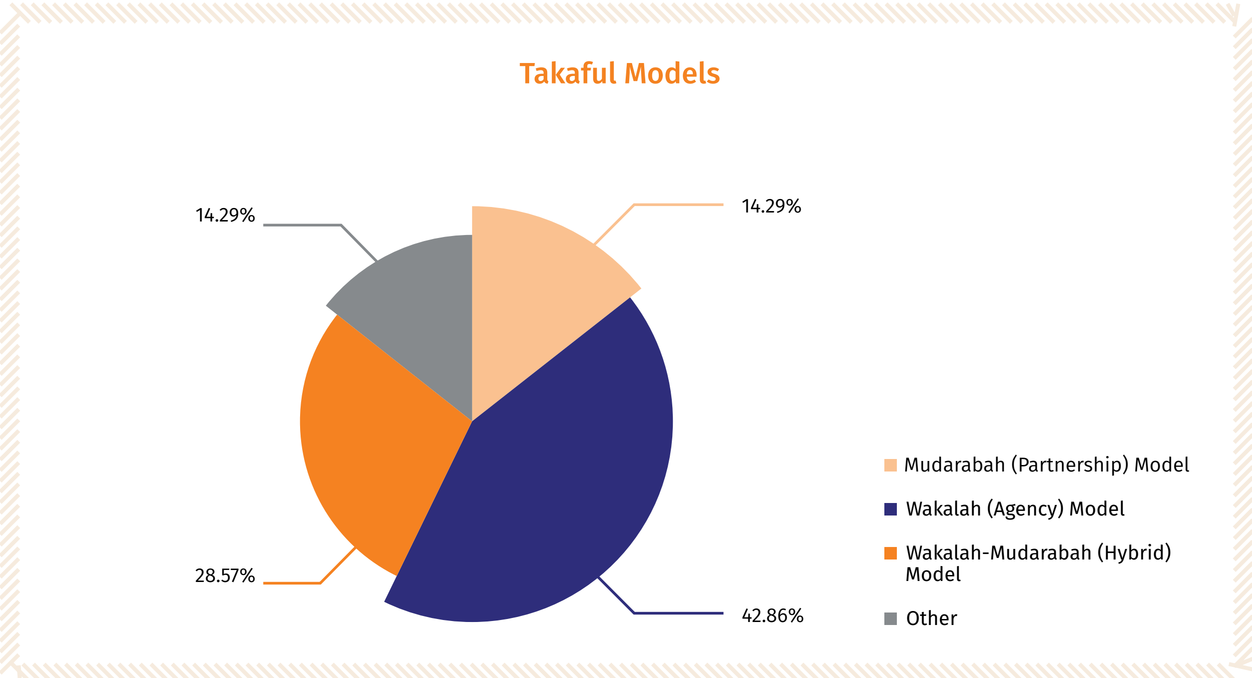


Figure 3. Nature of Takaful Operations

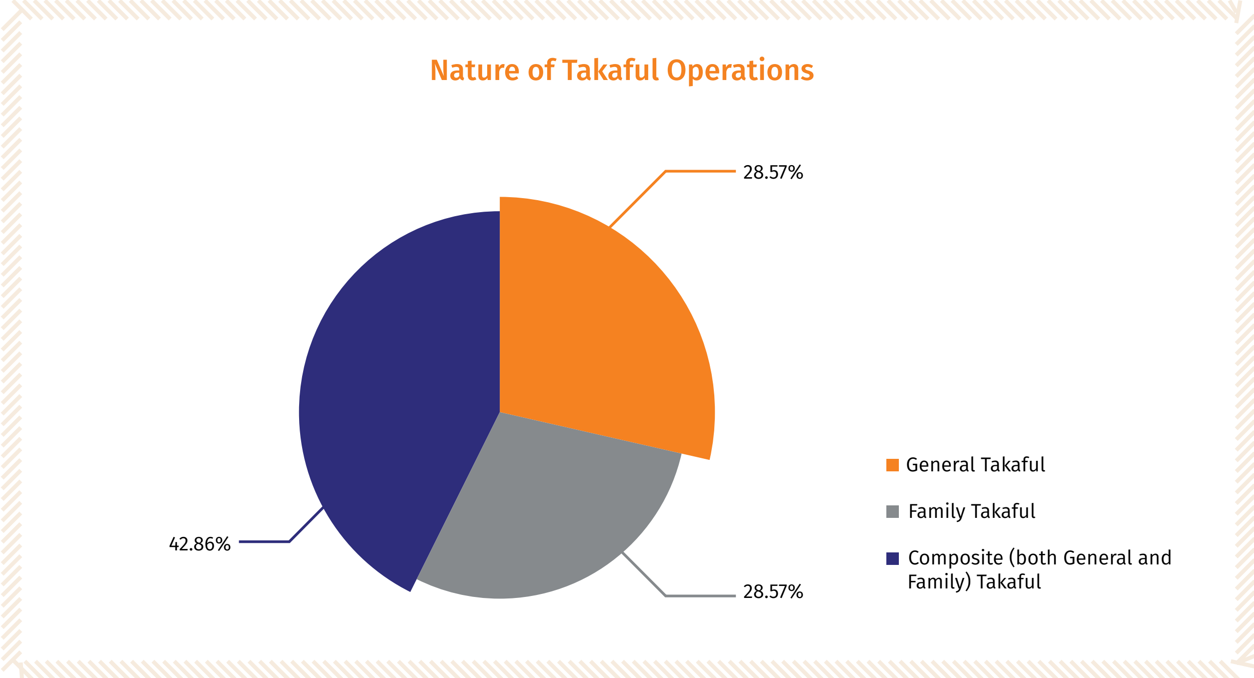


Figure 4. Total Gross Annual Takaful Contributions

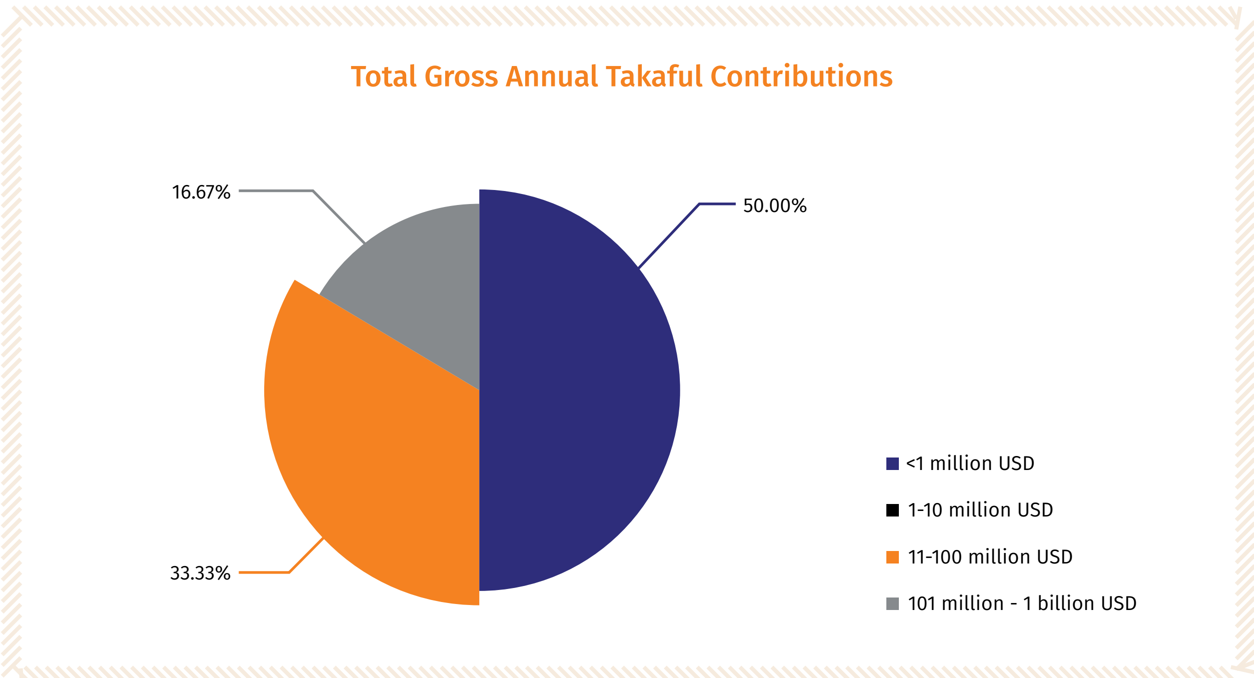


Figure 5. Overall Expense Ratio

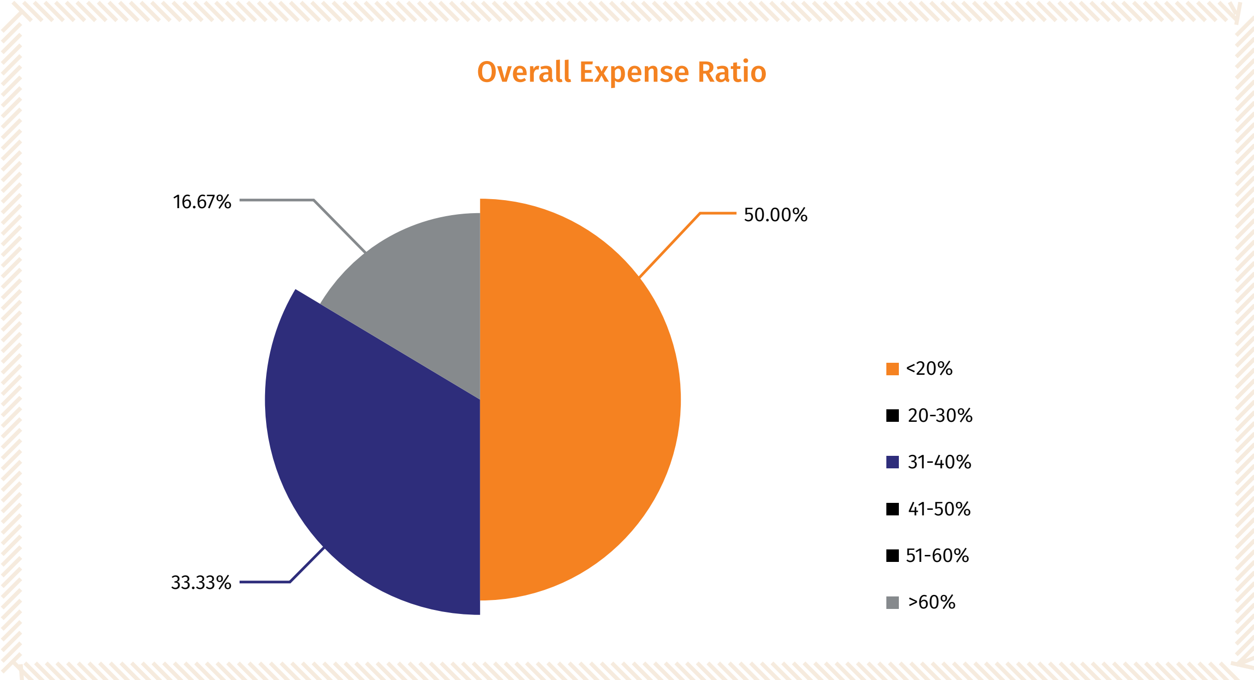


Figure 6. Average Retention Ratio

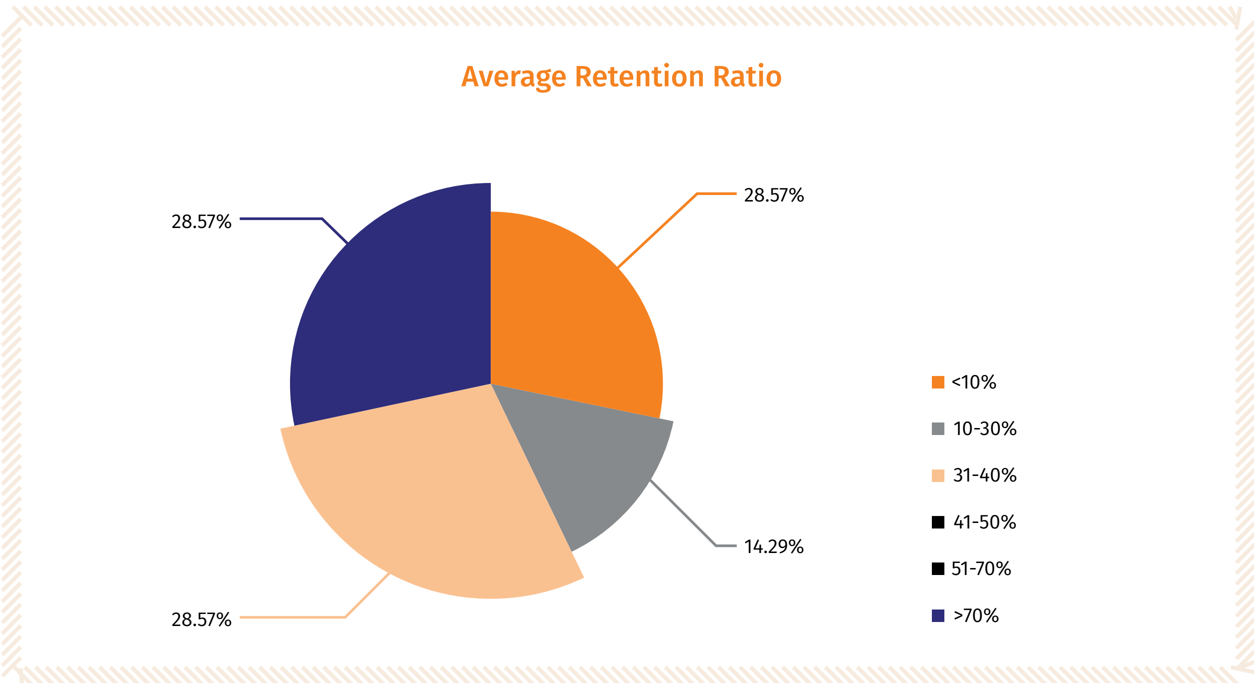


Figure 7. Optimism Level on Overall Insurance Industry

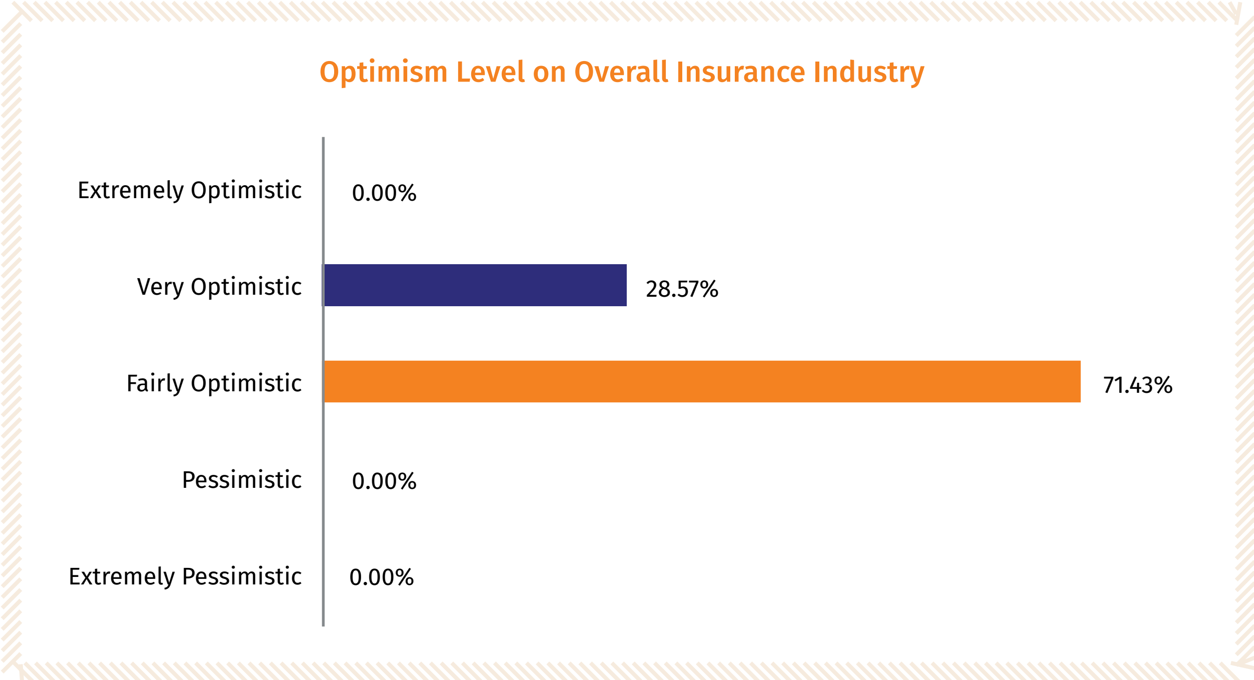


Figure 8. Takaful Industry Optimism Level

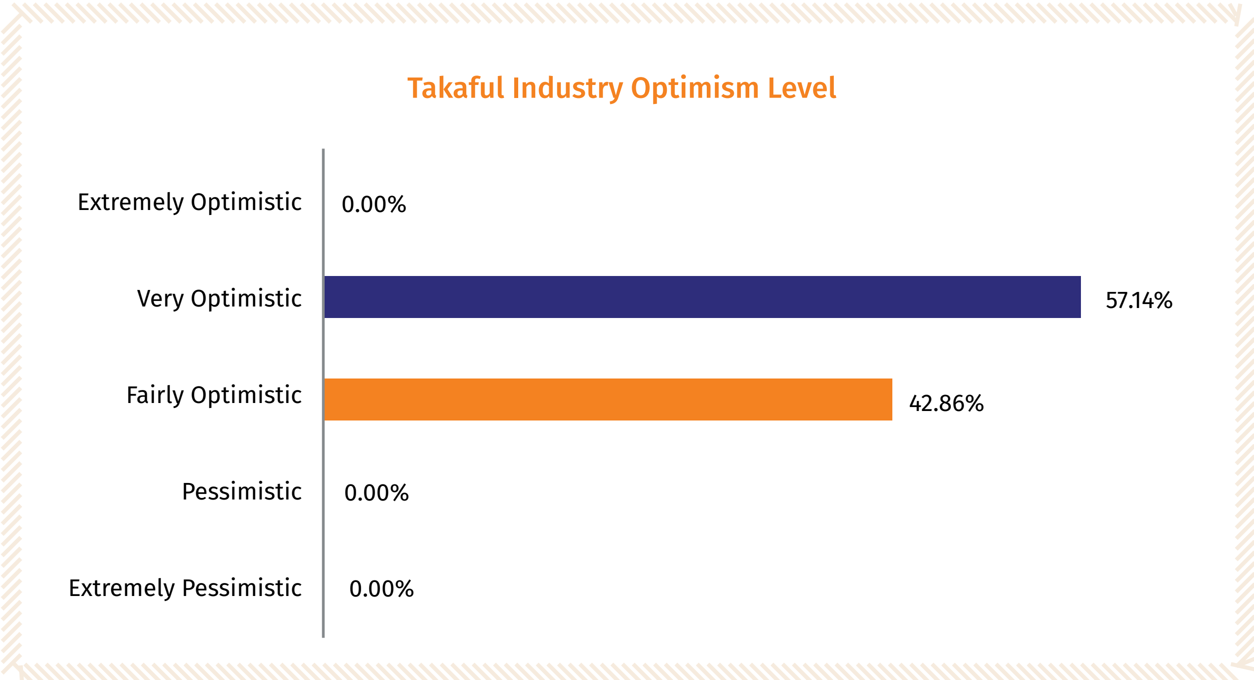


Figure 9. Expectations of Revenue Growth compared with conventional peers

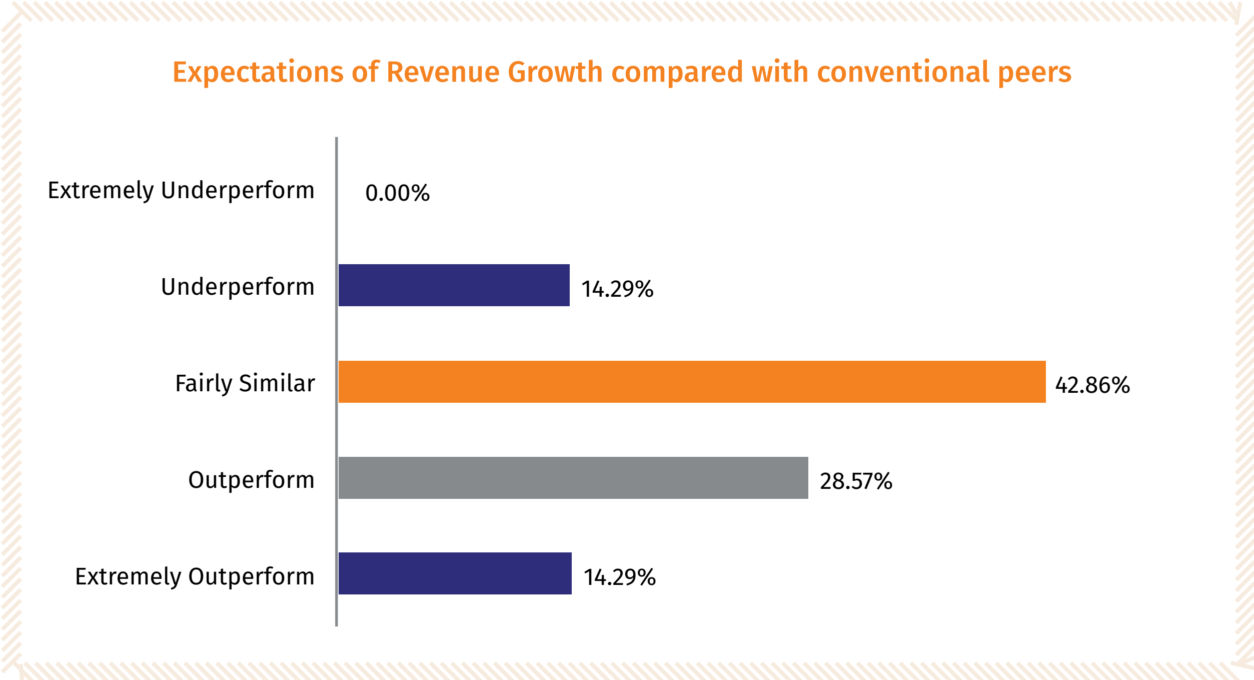


Figure 10. Revenue in Personal Lines - Short Term

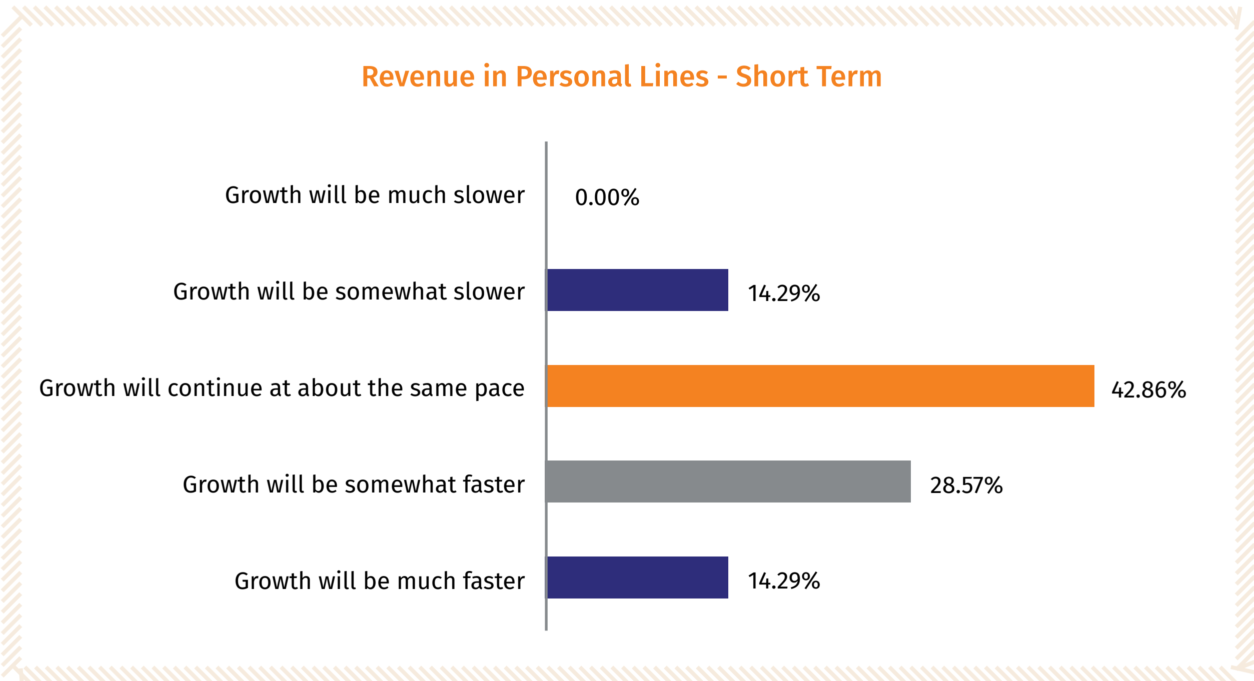


Figure 11. Revenue in Personal Lines - Long Term (2018-2021)

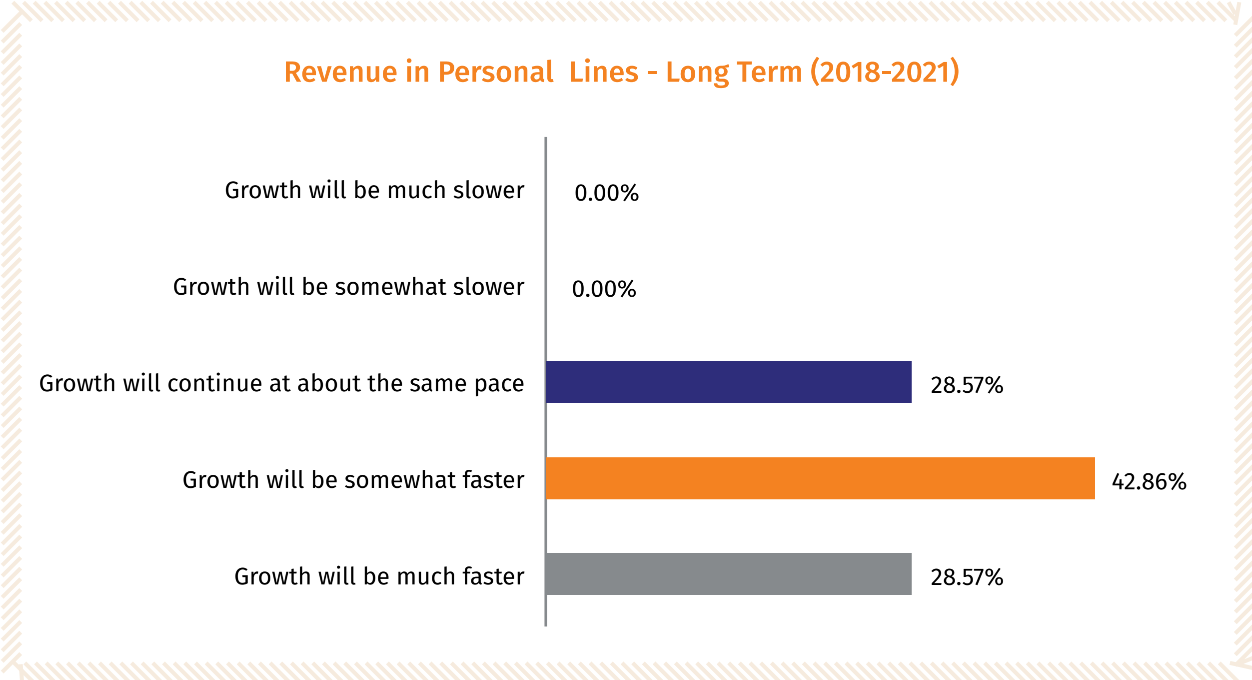
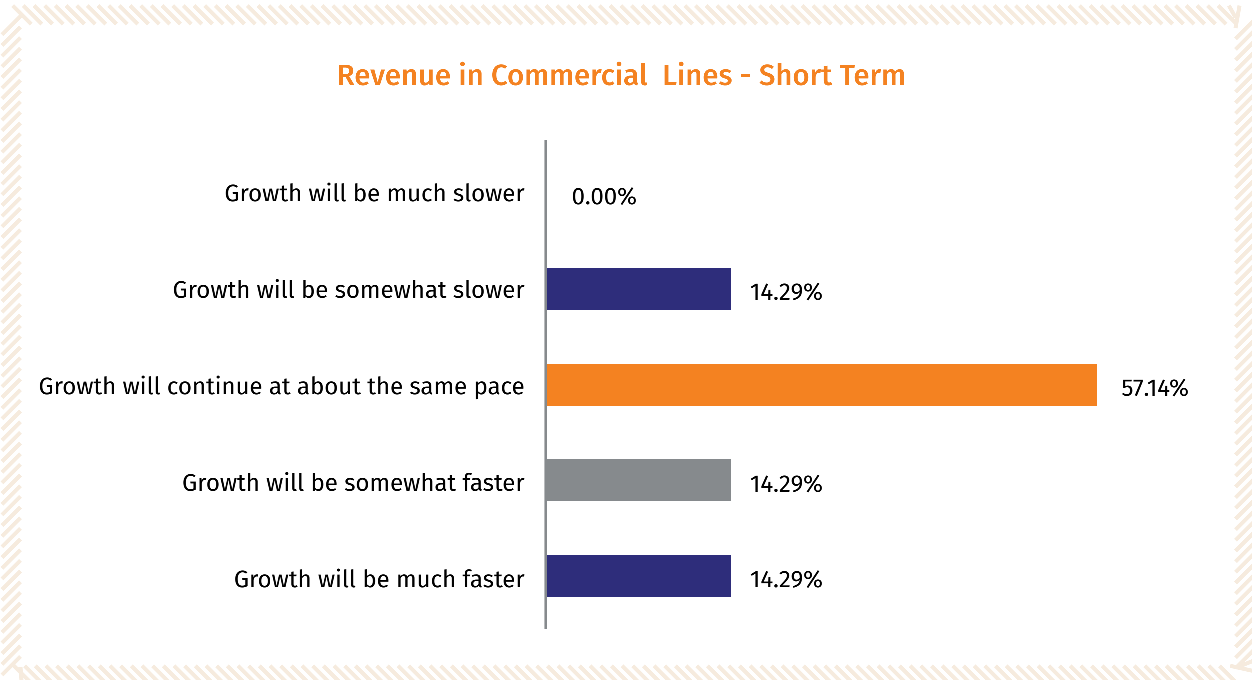


Figure 12. Revenue in Commercial Lines - Short Term



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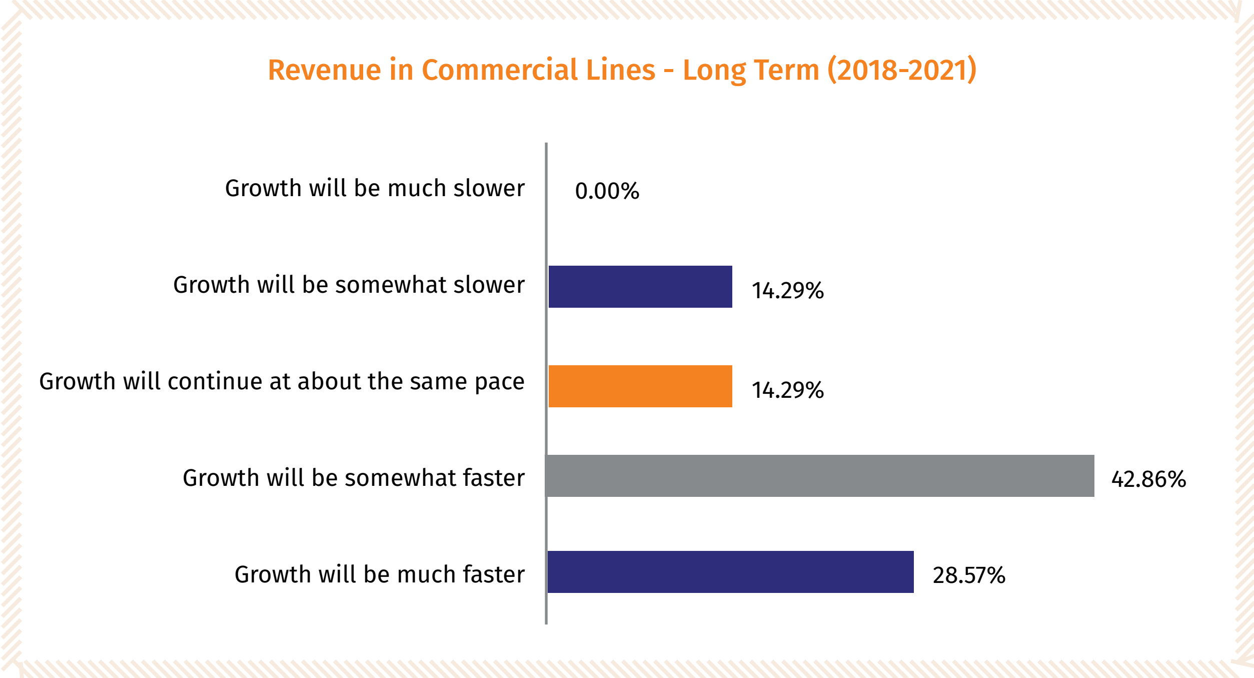
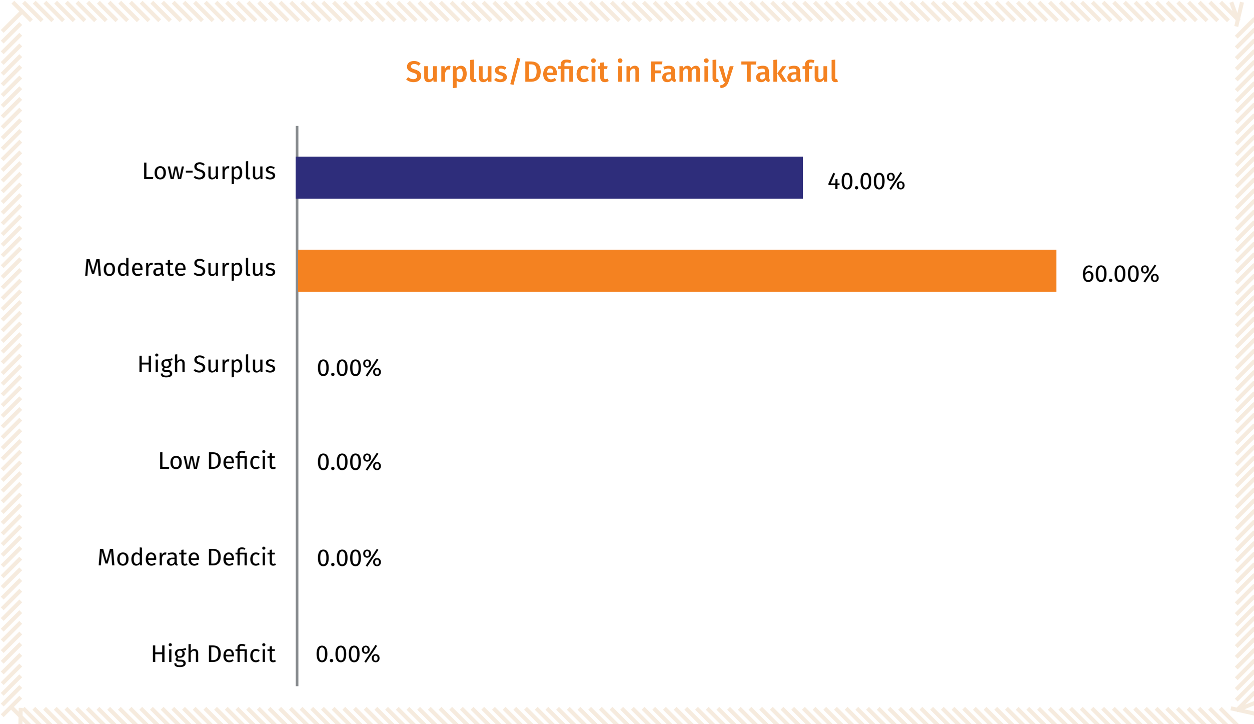
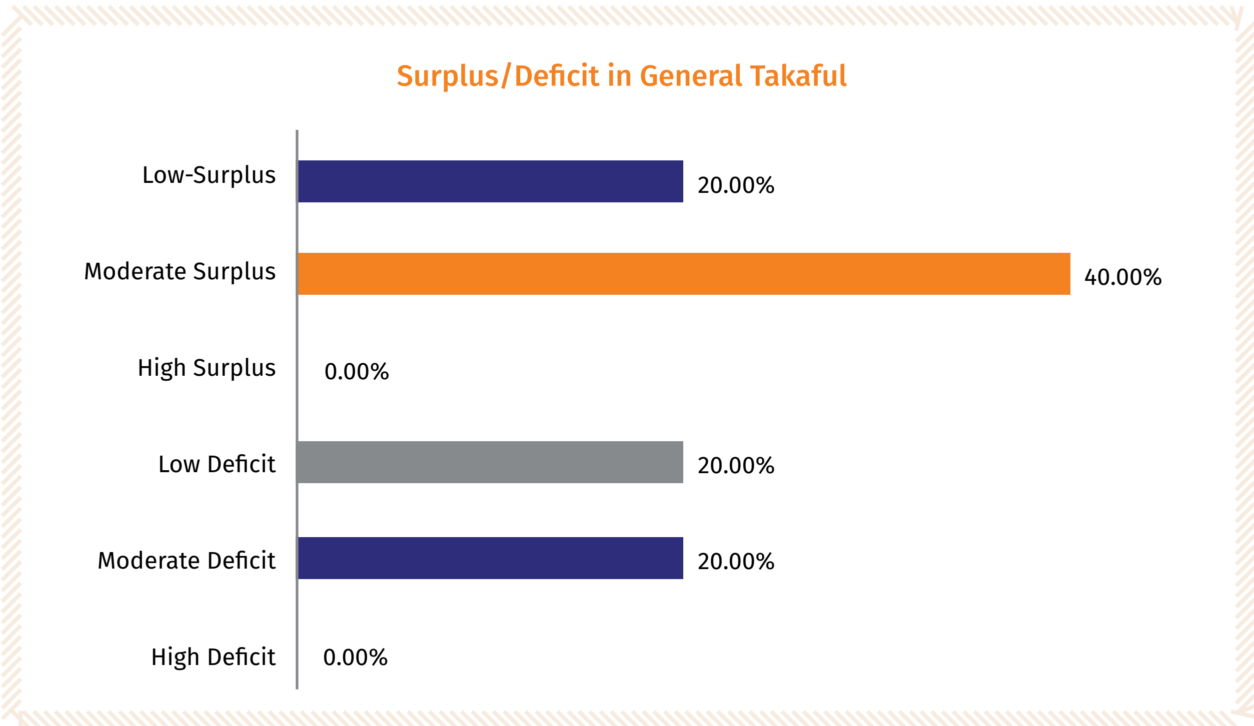


Figure 14. Surplus/Deficit in Family Takaful and General Takaful





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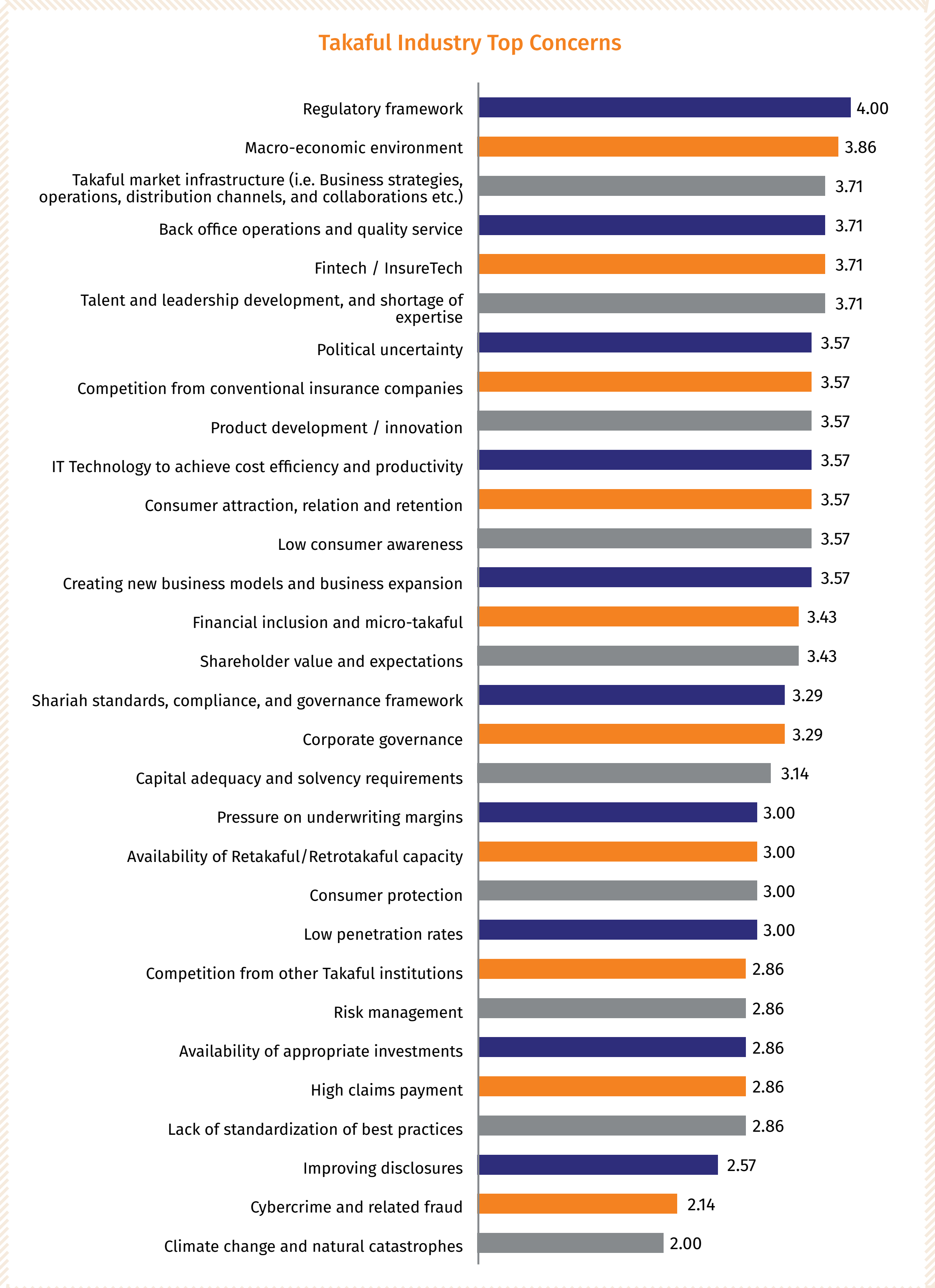


Figure 16. Takaful Risk Dashboard

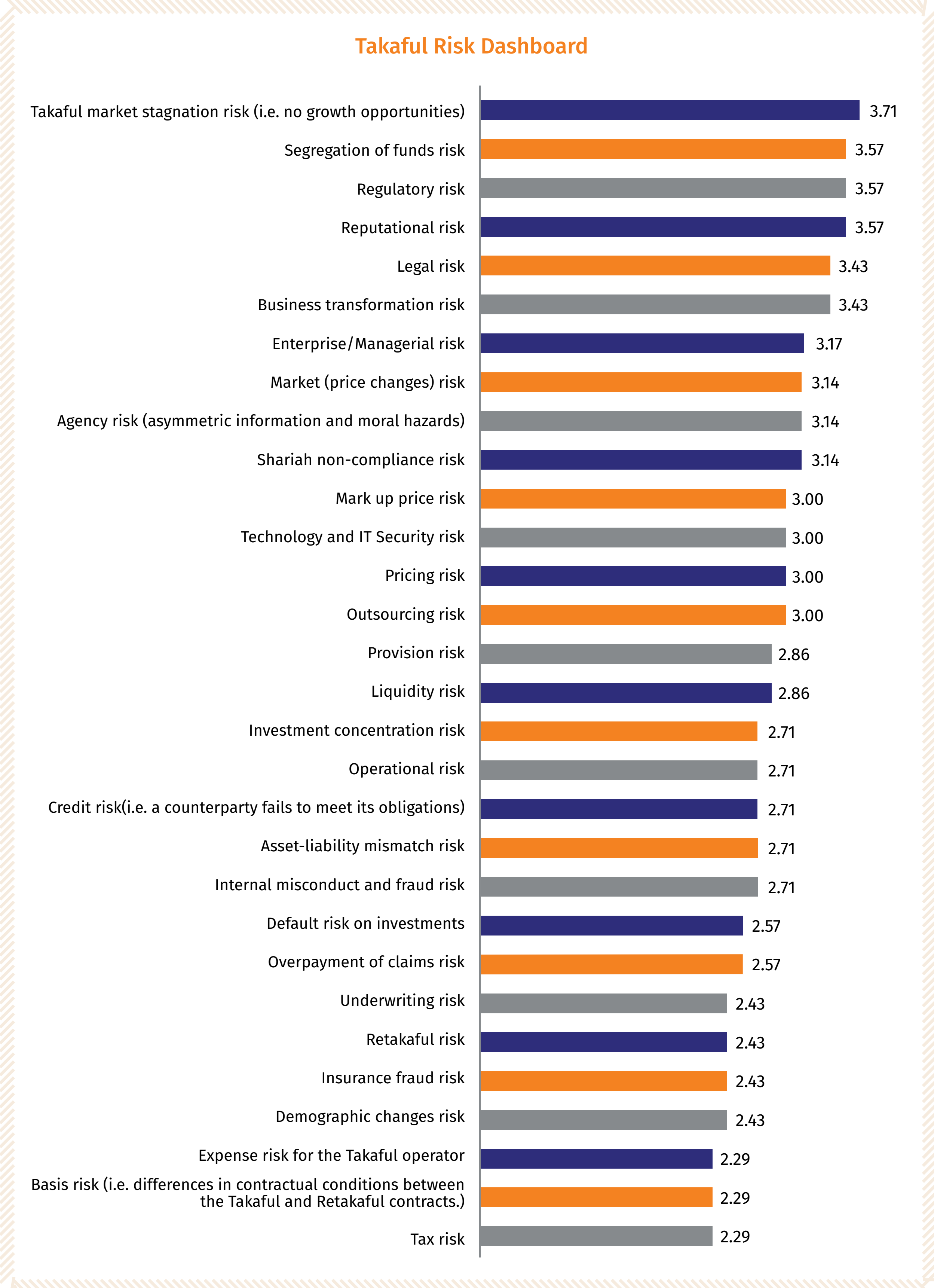


Figure 17. Annual Premium Growth Rate

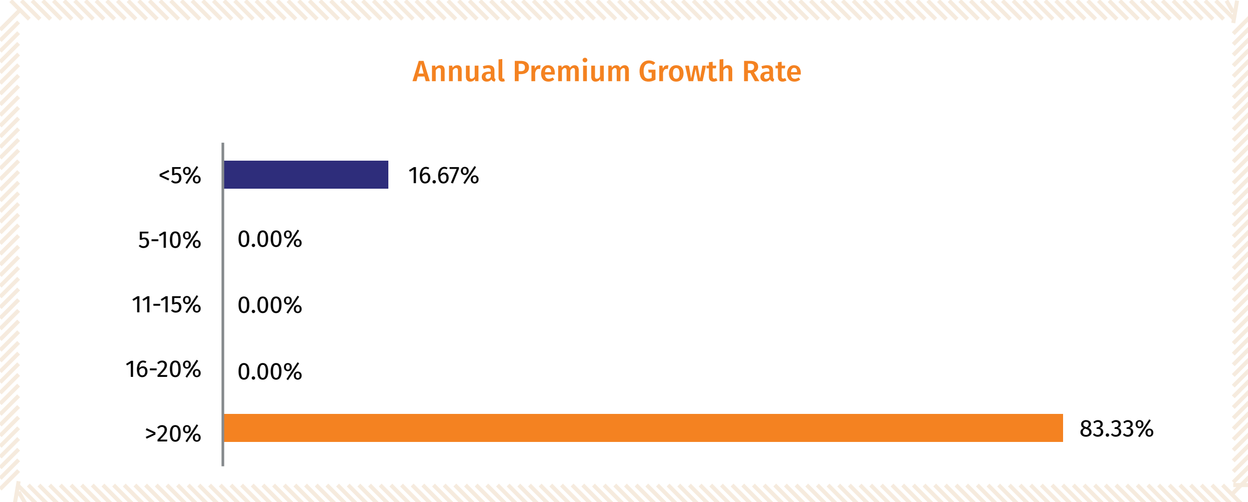


Figure 18. Takaful Market Segments Driving Growth

Figure 19. Distribution Channels Driving Growth

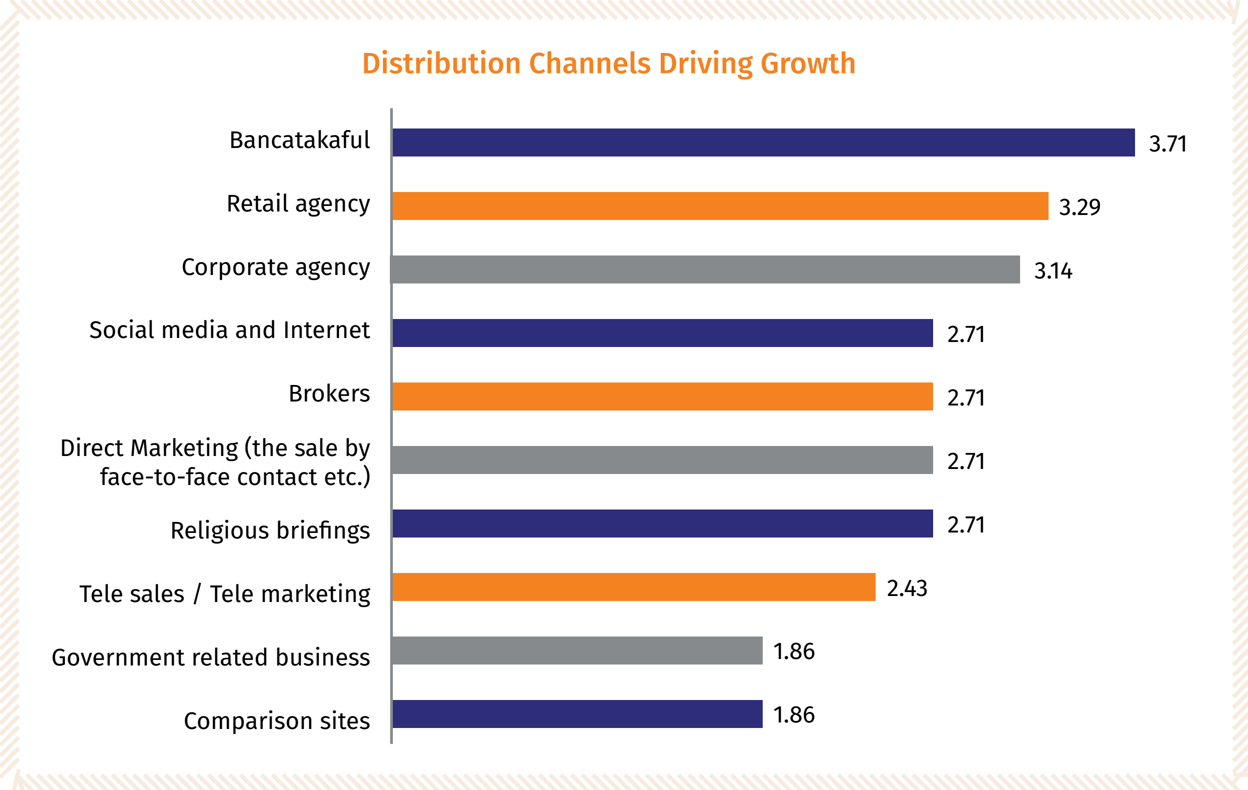
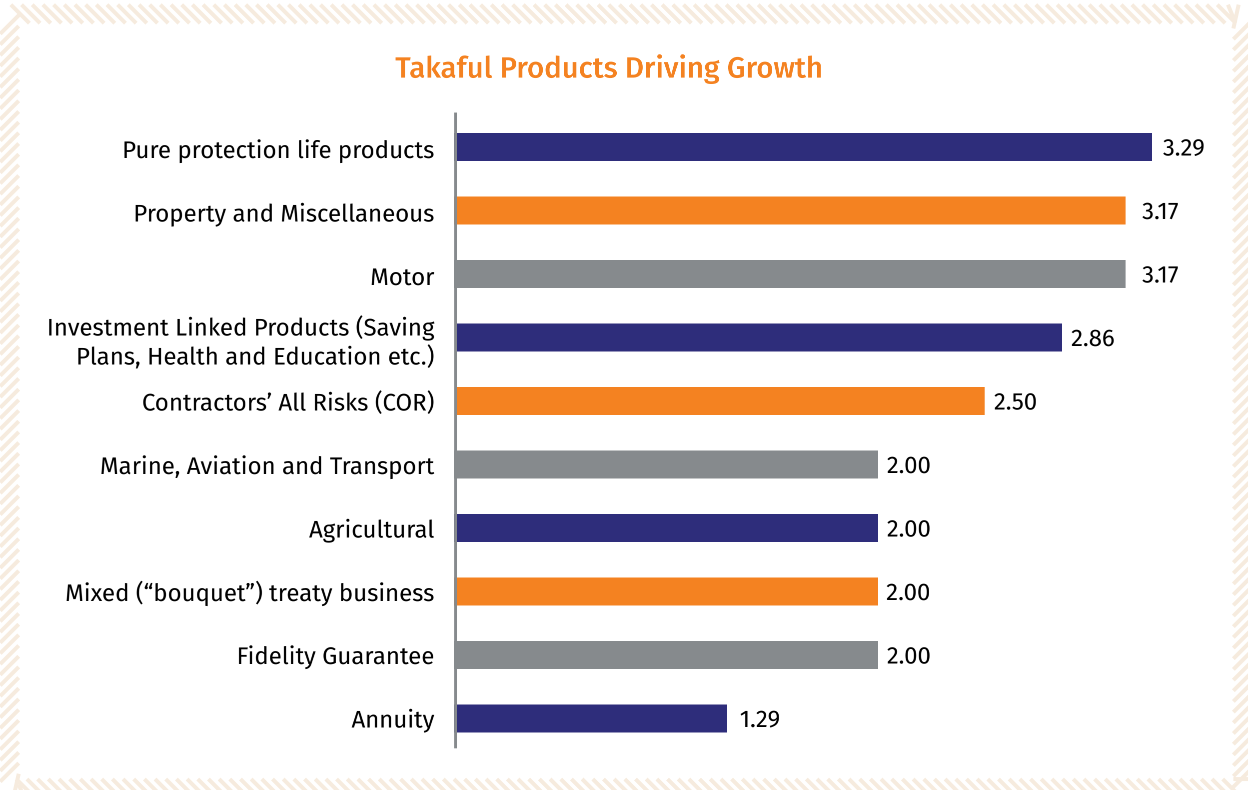


Figure 20. Takaful Products Driving Growth



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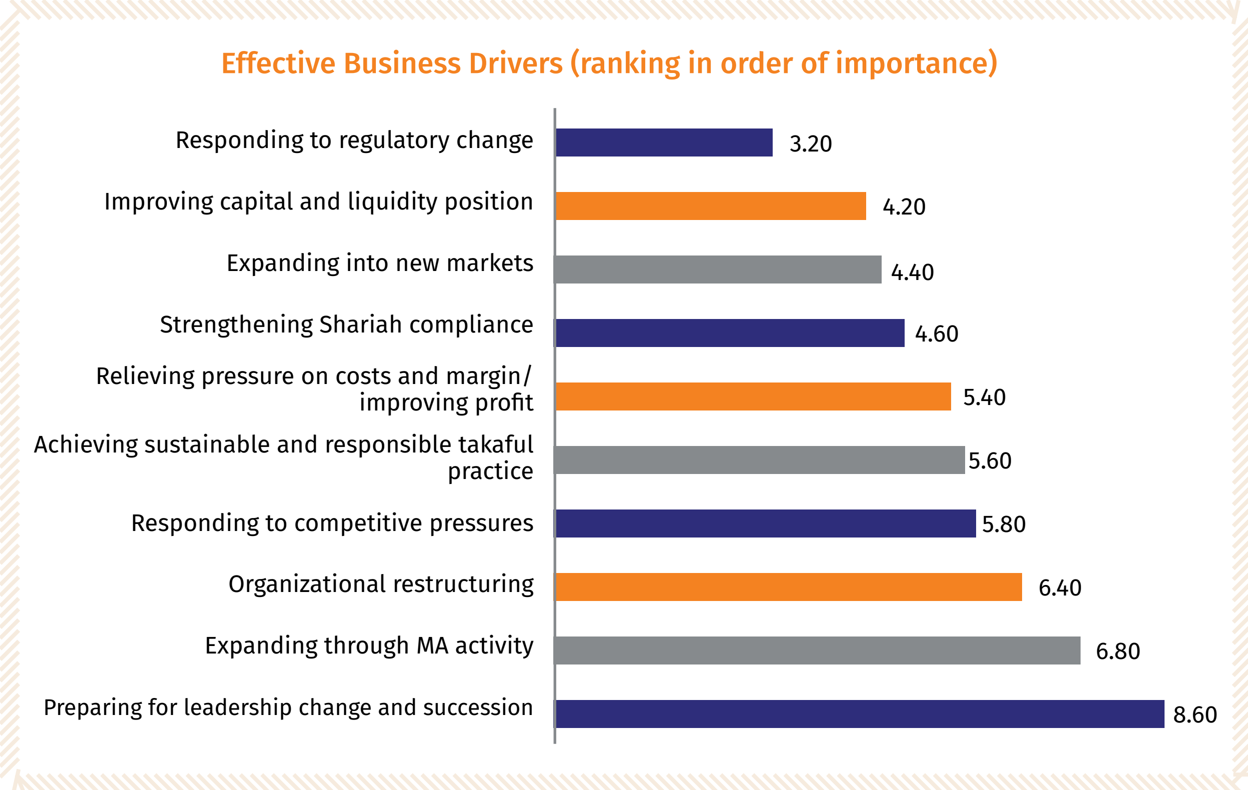
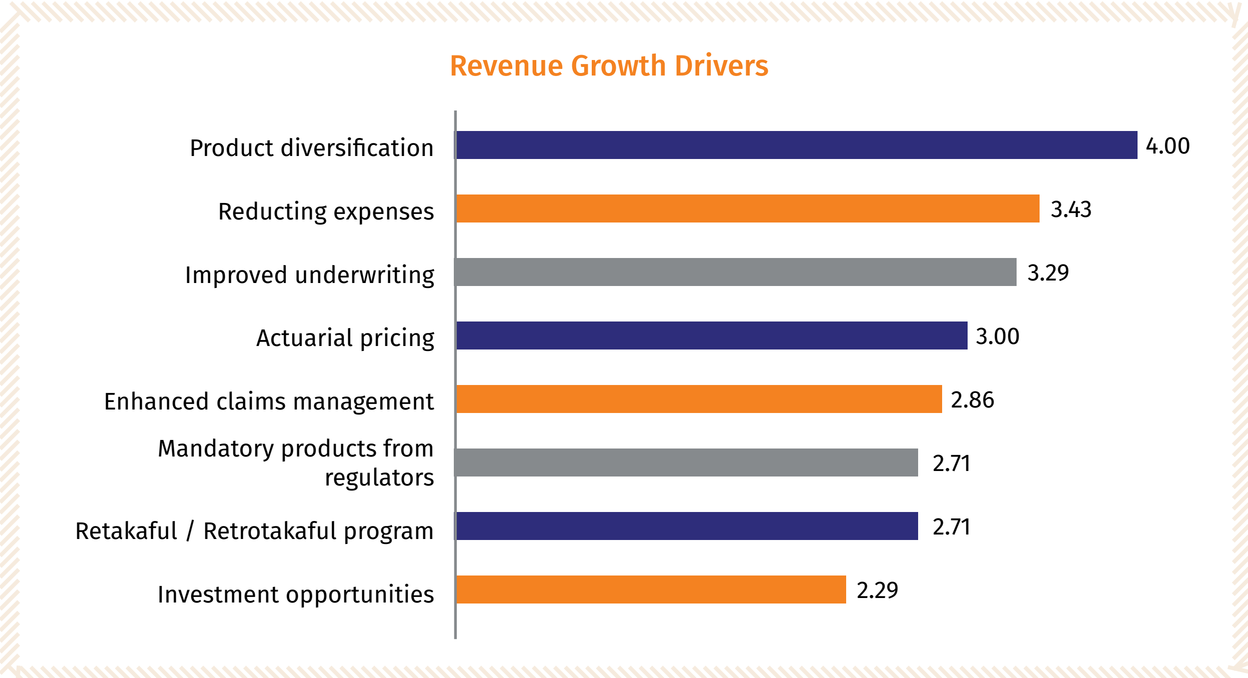


Figure 22. Revenue Growth Drivers



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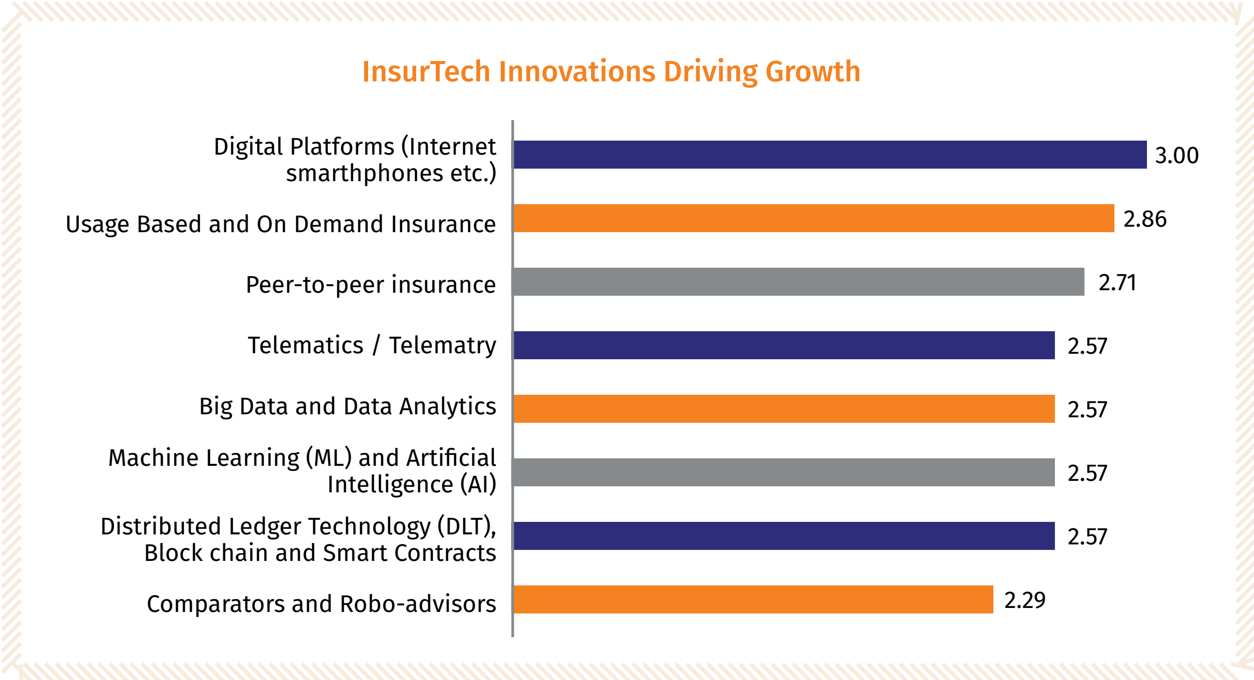

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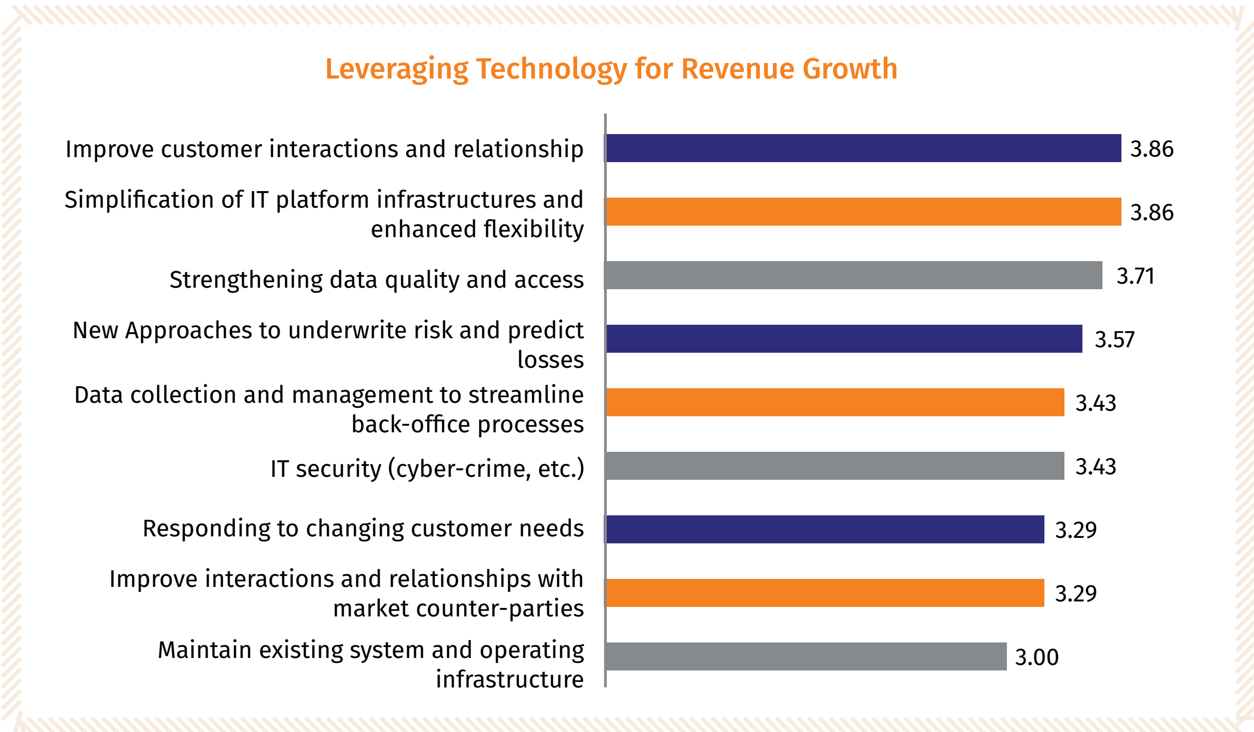

Figure 25. Risk Management Infrastructure and Risk Governance Driving Growth

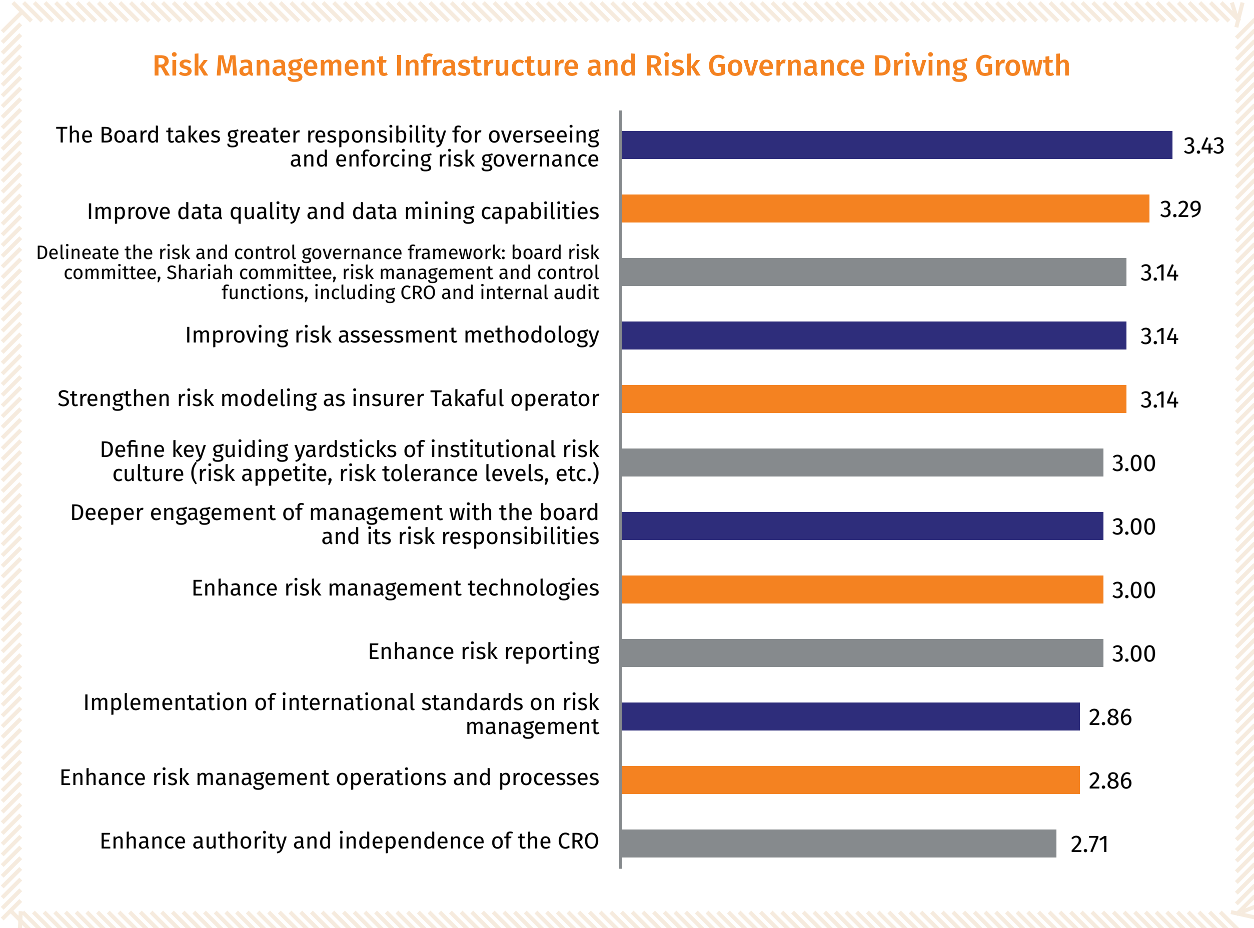

Figure 26. Areas of Human Resources and Talent Development to Improve Institutions' Position

Figure 27. Areas of Customer-Centricity for Institution

Figure 28. Investment Classes that Enhance the Portfolio of Investment of Policy Holder Funds

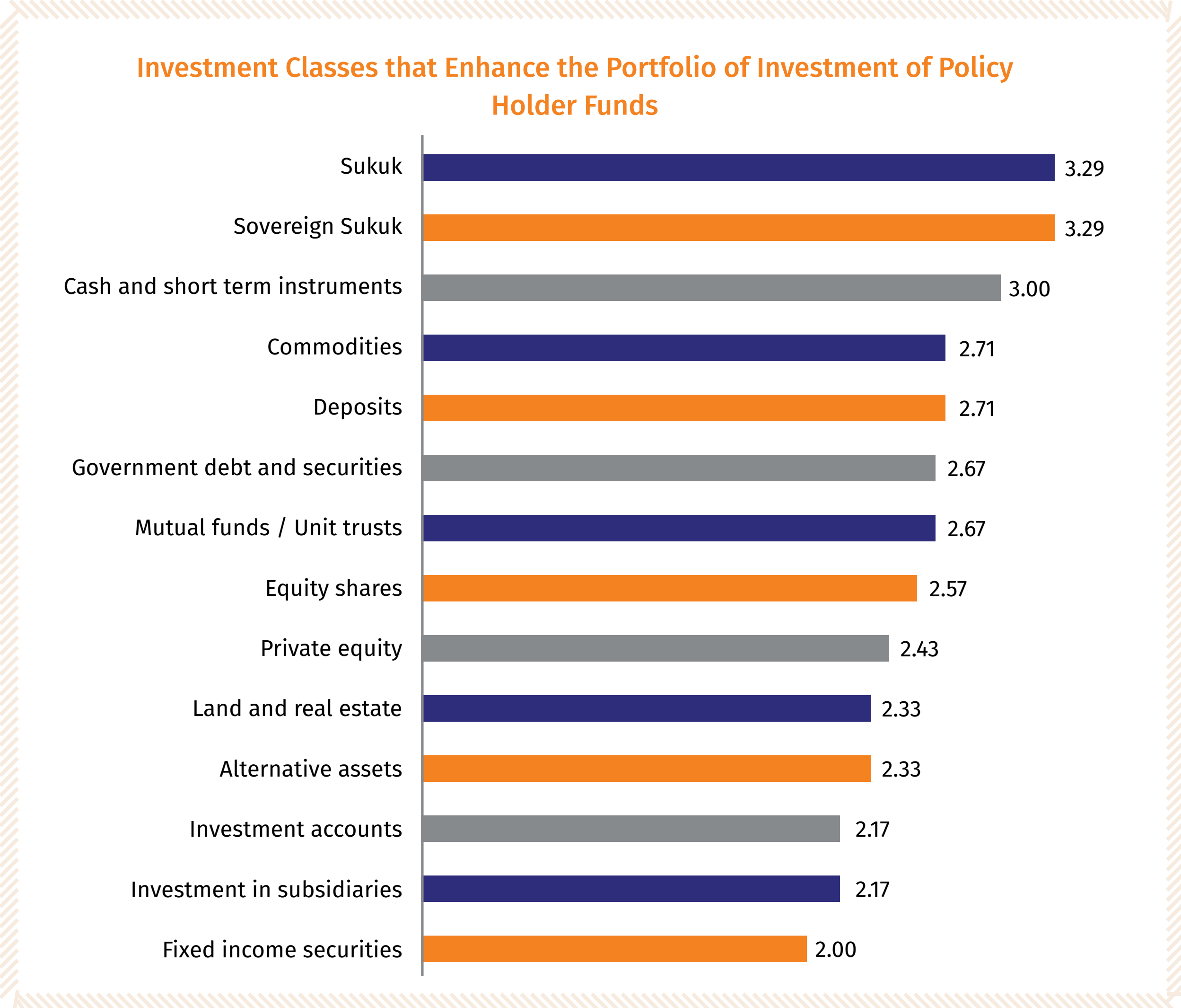

Figure 29. Influence of Regulatory Capital Requirements on Asset Allocation Decisions (1-3 years)

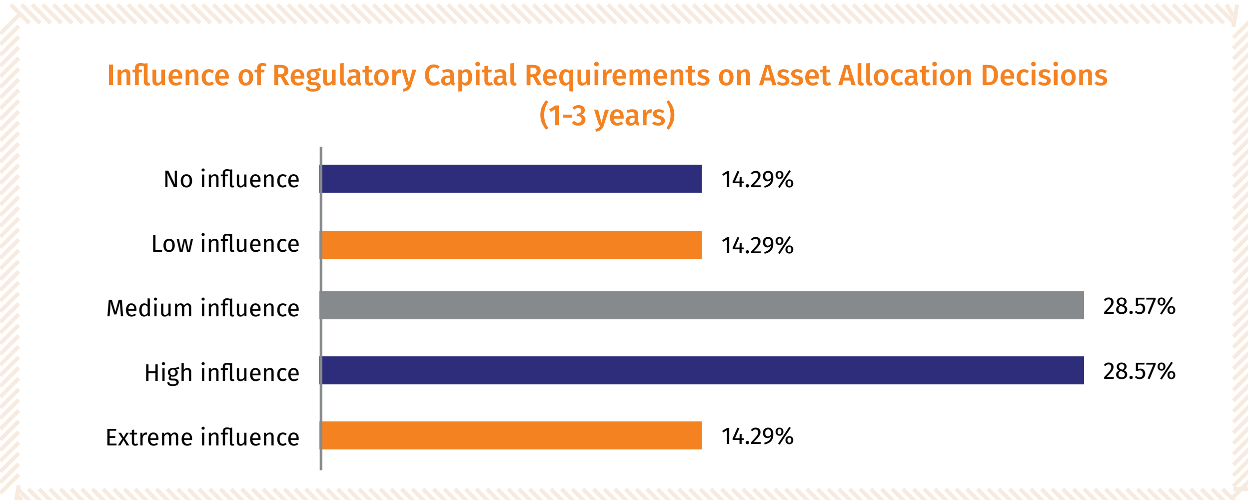

Figure 30. Areas of improvement in Takaful Regulation

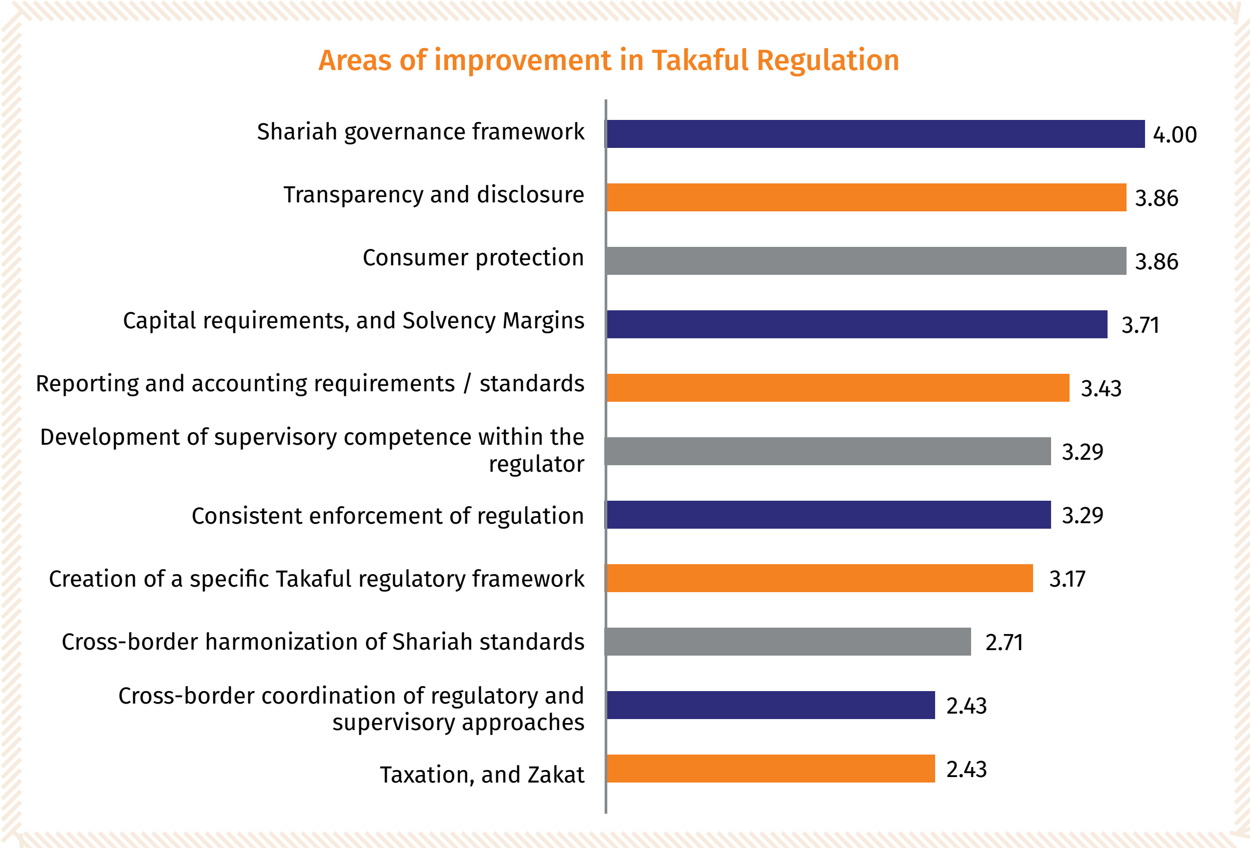

Figure 31. Stakeholders that contribute to Society, Economy and Environment

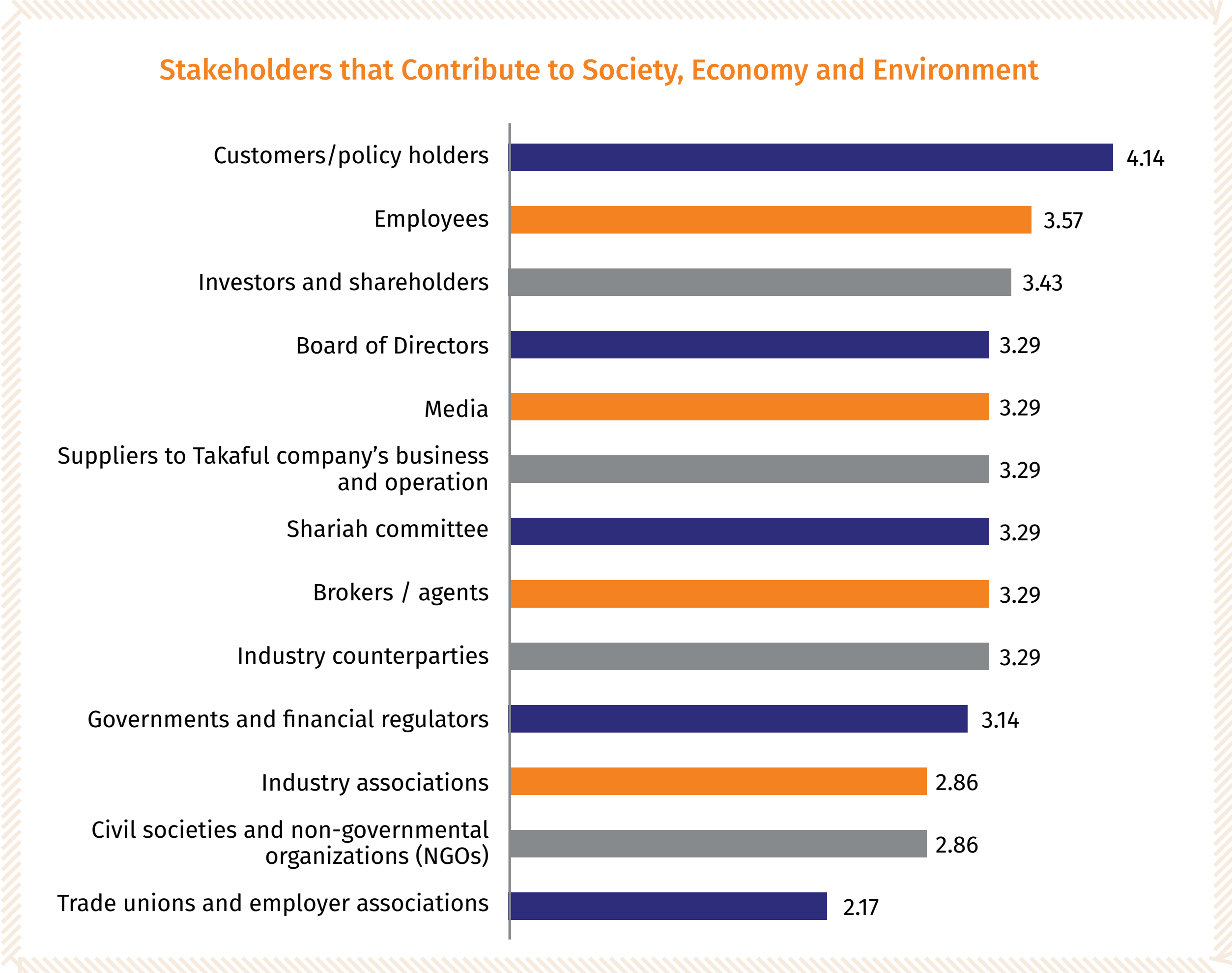

Figure 32. Values Institutions Promote

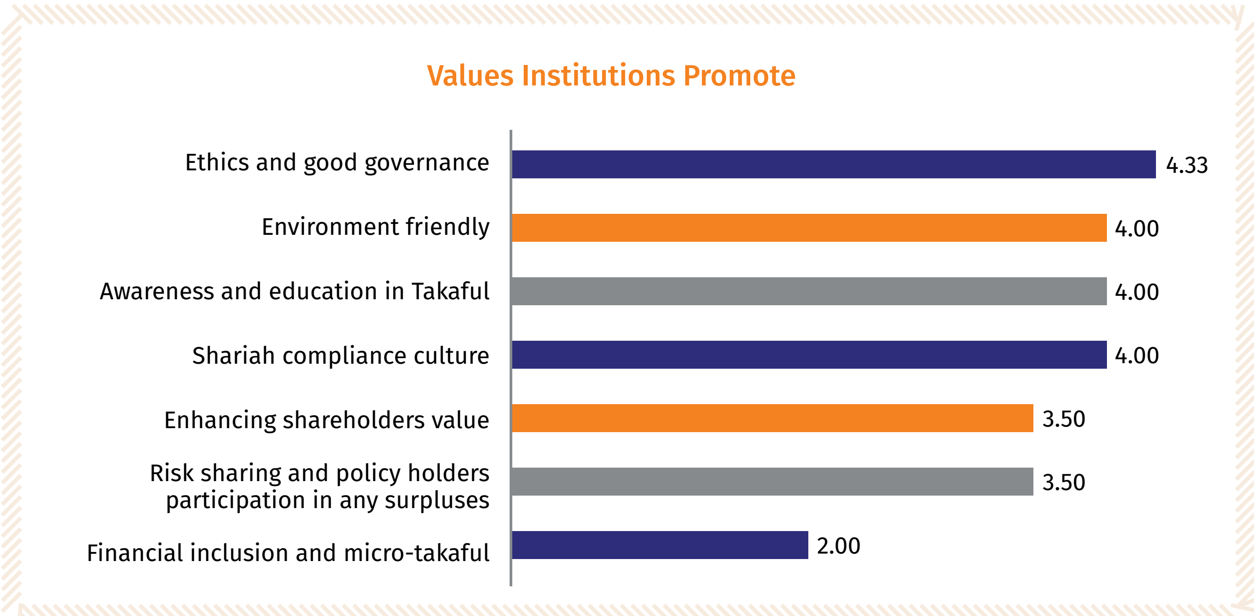

Figure 33. Challenges for Microtakaful's Success