

# CSFI

## CENTRE FOR THE STUDY OF FINANCIAL INNOVATION

5 DERBY STREET  
LONDON W1J 7AB

TEL: 020 7493 0173  
FAX: 020 7493 0190

**Islamic finance and insurance: Takaful for the layman – and can it be made to work?**  
**A round table discussion with Mohammad Khan (PWC) Andy Haynes and Abid Shakeel (Salaam Halal Insurance), and Anila Preston (ReOrient Legal) held Tuesday, November 18, 2008, at the London Capital Club, 15 Abchurch Lane, EC4N 7BW, from 12:30-2:15.**

When it comes to Sharia finance, banking tends to grab the headlines but the need for Islamic insurance – or takaful – is becoming increasingly important. Insurance faces two hurdles within Sharia. On the one hand offering insurance might be seen as akin to gambling, while the investment side is constrained by bans on stakes in companies dealing in weapons, alcohol etc. The question is whether takaful can be offered in the West on a competitive basis.

The first speaker outlined what takaful is within the UK. It is an Arabic word meaning mutuality or “guaranteeing each other”. It is very similar to conventional insurance but with an important structural difference. Customers are pooling their risk not outsourcing it and the insurance company looks like a mutual outfit within a shareholder wrapper. The key issue is how the capital providers make money when charging interest is not allowed. The answer is that they take two fees – one for running the insurance entity and one for managing the investments.

What ultimately makes a takaful compliant is approval by a board of Sharia scholars. Most insurance vehicles are not contentious but some can be, such as term insurance which can be seen as gambling on someone’s life. There are other constraints such as prohibited investments, a lack of skilled people, and the need to comply with national laws. But there are also opportunities. Europe is home to 20 million Muslims with little access to Islamic products. Muslims are increasingly aware that these now products exist, providers are now starting to provide them, and both sides know they can be priced competitively. Meanwhile in the Gulf governments are planning \$1.9 trillion of infrastructure, much of which does not have insurance because the culture does not exist. Overall there is a chicken and egg situation – which comes first: the demand for takaful or the supply?

The second speaker described the birth of the UK’s first takaful insurer. It has launched with a motor insurance policy targeted at British Muslims from generally poor socio-economic areas. It established a need among 600,000 Muslims and set out a vision of being a provider of compliant insurance products that will also appeal to non-Muslims looking for ethical products. To comply with Sharia, the “premium” is in fact two fees – a takaful contribution plus a wakala fee to cover the admin. In other words the commission is effectively declared up front.

The speaker said most of the challenges were similar to a standard insurance start-up: drawing up a business plan; securing the investment; recruiting an executive team; securing reinsurance; and planning for claims and settlement. The major difference was the

need to get Sharia compliance and FSA approval at the same time. The reason takaful could be competitive was that the only extra expense for a takaful insurer was the cost of running a Sharia board. The FSA's attitude towards takaful got the thumbs up from the speaker and from members of the audience. Some contrasted it with the attitudes of French and German regulators. The UK also has other advantages. Islam is the fastest growing religion particularly among young members of society, which presents the potential for an increase in demand.

The last speaker said the UK has the potential to develop as an innovative player in takaful and retakaful, the Sharia compliant version of reinsurance. Currently a takaful insurer must go to a haram – non-compliant - reinsurer simply because no approved ones exist, yet. Lloyd's of London now has a takaful insurance syndicate and a retakaful offering may be in the pipeline. Conventional insurers can enter the takaful or retakaful market in a number of ways: joint ventures, capital injections, acquisitions and ground floor investments. Certainly Retakaful will be a highly lucrative area because of the potential to meet insurance needs for major business insurance contracts across the world. Right now the financial world needs positive opportunities and, given that Asia and the Middle East may be the last regions left standing post-crunch, takaful looks a doubly enticing prospect.