

# TAKAFUL: GROWING FROM STRENGTH TO STRENGTH



Takaful is an important growing sector in the Islamic finance industry, with continuous positive growth momentum in key markets and estimations of continued double-digit growth globally. While the GCC and ASEAN are expected to continue to lead the global takaful markets with their substantial growth, emerging markets within Europe and Africa are also showing significant growth potential.

**MALAYSIA**  
WORLD'S ISLAMIC FINANCE  
MARKETPLACE

## Takaful: Where Are We Now?

Islamic finance has witnessed a tremendous growth across the globe over the last decade, representing one of the fastest growing sectors in the global financial system since its inception in the late 1960s. As a case in point, Islamic financial industry has registered 17.3 per cent Compounded Annual Growth Rate (CAGR) in the past five years (between 2009 and 2014).<sup>1</sup> To date, total global financial assets of the Islamic financial industry are estimated to be around USD2tn and expected to surpass USD3tn by 2018.<sup>2</sup> In addition, there are over 600 Islamic financial institutions (IFIs) operating in about 75 countries around the world: ranging from banking,

capital market to Takaful sectors.<sup>3</sup>

Takaful is an important growing sector in the Islamic finance industry with continuous positive growth momentum in key markets such as the GCC and ASEAN. Globally, the takaful market was estimated to continue its double digit growth momentum of about 14 per cent in 2014, reaching around USD26bn by end of 2015 and projected to surpass USD42bn by 2020 (2014E: USD23bn).<sup>4</sup> Nevertheless, the size of the takaful industry is still small in comparison to other Islamic finance sectors, comprising a market share of 1.1 per cent only.<sup>5</sup>

### Key Takaful Markets: GCC and ASEAN

Eventhough takaful comprises of a very small Islamic banking and finance market share, the industry has witnessed remarkable growth across jurisdiction particularly over the last decade. In key Islamic finance jurisdictions such as the GCC, the region has demonstrated a fertile ground for takaful market, exhibiting a continuous growth at double digit for over a decade.<sup>6</sup> In 2014, the gross takaful contribution in the GCC region was estimated to reach over USD8.9bn, which registered an average growth at about 12 per cent as compared to the previous year.<sup>7</sup> Within the region, Saudi Arabia dominates the takaful industry, absorbing over 77 per cent of the total contribution in the region.<sup>8</sup>

The strong growth of the takaful industry in Saudi Arabia is prominently driven by strong regulatory support and initiative. For example, the Saudi Arabian Monetary Agency (SAMA) stipulates that all insurance companies in Saudi Arabia have to be established based on the cooperative business model. Although the legislation seems to be departing from the existing takaful model, it actually aims to enforce insurance company in Saudi Arabia to introduce a Shariah compliant model for their insurance business.<sup>9</sup> After Saudi Arabia, the UAE is the second largest takaful market in the GCC region. The UAE's gross takaful contribution accounts for 15 per cent of the total gross takaful contribution in the region.<sup>10</sup>

<sup>1</sup> IFSB Stability Report 2015

<sup>2</sup> ISRA estimates

<sup>3</sup> MIFC

<sup>4</sup> Global Takaful Insight, 2014

<sup>5</sup> Deloitte, 2013

<sup>6</sup> World Commerce Review, 2012

<sup>7</sup> Ernst & Young, 2014

<sup>8</sup> Ernst & Young, 2014

<sup>9</sup> Deloitte, 2013

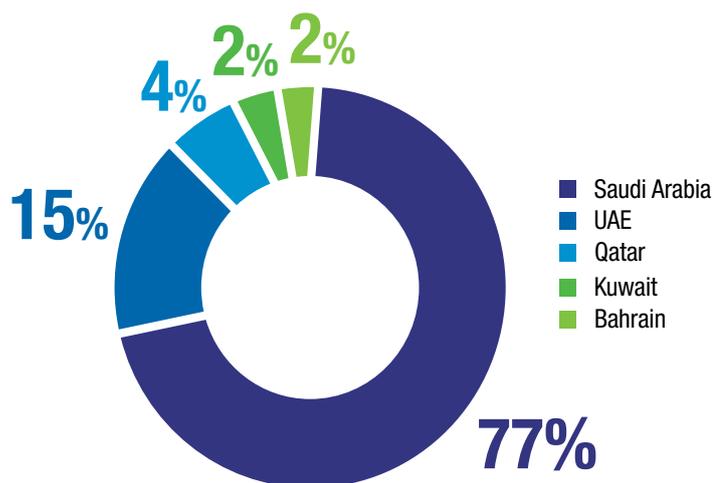
<sup>10</sup> Global Takaful Insight, 2014

The country has demonstrated an ambitious step towards a more robust and resilient takaful industry. The UAE Insurance Authority Board enacted Resolution No. 4 of 2010 concerning Takaful Insurance (the Takaful Regulations) which, among others, prohibits insurance company to offer takaful products via Islamic windows.<sup>11</sup> In addition, the UAE has also established Shariah governance framework for takaful so as to ensure beginning-to-end Shariah compliance in the takaful business operations.<sup>12</sup> Elsewhere, Qatar contributed to 4 per cent of the market share in the GCC region, recording an average gross contribution growth at 26.6 per cent for the period 2009-2013<sup>13</sup> and collected total gross takaful contribution of US\$384m in 2014.<sup>14</sup> The gross takaful contribution is projected to double from USD273.4m (QAR995.6m) in 2011 to USD577m (QAR2.1bn) in 2016.<sup>15</sup> The strong growth and huge prospects of the takaful industry in Qatar is substantiated primarily by strong economic growth, regulatory backup to make subscribing insurance as compulsory, heavy investment in government infrastructure due to Qatar's national development plan to 2030, the host of FIFA World

Cup in 2022, the rise of the expatriate population and the introduction of new insurance regulation.<sup>16</sup> The remaining 4 per cent of the 2014 total GCC gross takaful amount is contributed by both Kuwait and Bahrain equally.<sup>17</sup>

It is worth noting that the significant number of total gross takaful contribution collected has made the region an indisputable leader in the takaful industry across the globe. This is particularly true given the domination of GCC in the total market share of takaful which accounts for almost two-third of the global takaful contribution in 2014.<sup>18</sup> In particular, Saudi Arabia registered almost half (48 per cent) of the global gross takaful market share contribution in 2014.<sup>19</sup> The remaining GCC countries contributed to 15 per cent of the global gross takaful market share.<sup>20</sup> Overall, the positive growth of the takaful industry in the GCC region are supported by a number of key drivers, prominently stable economic growth, increase of disposable income, increase of awareness towards the need for insurance and protection, and more importantly towards Shariah compliant insurance due to religious reason.<sup>21</sup>

**Share of Gross Takaful Contribution in GCC, 2014**



Source: Global Takaful Insight, 2014

<sup>11</sup> <http://www.clydeco.com>

<sup>12</sup> Deloitte, 2013; Global Takaful Insight, 2014

<sup>13</sup> Market Attractiveness and Future Prospects of the Qatari Takaful Insurance Industry report, 2013

<sup>14</sup> IFN, Sept 2015

<sup>15</sup> Zawya, 2014; Insurance Research Centre, 2014

<sup>16</sup> <http://www.companiesandmarkets.com>; Insurance Research Centre, 2014

<sup>17</sup> Global Takaful Insight, 2014

<sup>18</sup> Global Takaful Insight, 2014

<sup>19</sup> Global Takaful Insight, 2014

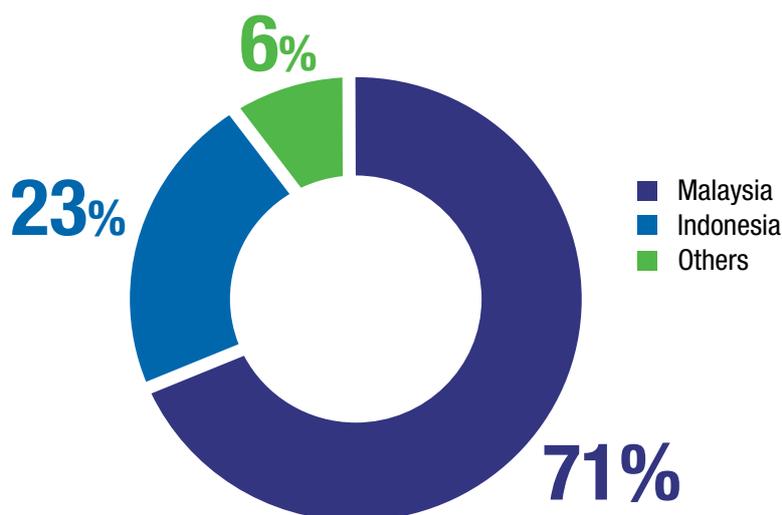
<sup>20</sup> Global Takaful Insight, 2014

<sup>21</sup> World Commerce Review, 2012

Moving to ASEAN, the region is also a key player in the takaful industry, contributing to around one-third (30 per cent) of the global takaful contribution estimated at USD4.2bln of the gross takaful contribution in 2014.<sup>22</sup> Key Islamic finance countries in the ASEAN region such as Malaysia and Indonesia are the two main players in the takaful industry within the region, contributing to more than 90% of the ASEAN takaful market share. Malaysia dominates the takaful market within the ASEAN region, contributing to almost two third of the takaful market share (71 per cent).<sup>23</sup> The country has taken progressive and impactful regulatory initiatives to ensure efficiency, healthy and sustainability takaful business operations as well as to protect the interest of participants. Among the notable initiatives taken by the Central Bank of Malaysia (BNM) for the takaful industry in particular is the implementation of the Takaful Operational Framework (TOF) 2012, Islamic Finance Service Act (IFSA) 2013<sup>24</sup> and the recently-issued concept paper on Life Insurance and Family Takaful for Everyone (LIFE)

framework, 2013. LIFE, in particular, was drafted to provide a wide range of operational flexibility, product disclosure, delivery channel and market practices to the takaful industry in Malaysia.<sup>25</sup> Moreover, the country has also announced BRIM takaful plan in its National Budget 2014 to offer protection for low income households (income less than RM 3,000) in the event of death and permanent disability due to accident.<sup>26</sup> Meanwhile, Indonesia, a home for the largest Muslim population in the worlds, contributed to 23 per cent of the takaful market share in the ASEAN region for 2014.<sup>27</sup> Currently, there are a total number of 45 Islamic insurance institutions, offering both general and family takaful products and are expected to increase to 20% in 2015.<sup>28</sup> In 2014, the country has passed the law which requires conventional insurance companies to spin off their Islamic windows into full-fledged entities within 10 years.<sup>29</sup> This will help to reshape the future direction of the takaful industry by spurring mergers in the takaful market so as to meet the new capital requirements.<sup>30</sup>

**Share of Gross Takaful Contribution in ASEAN, 2014**



Source: Global Takaful Insight, 2014

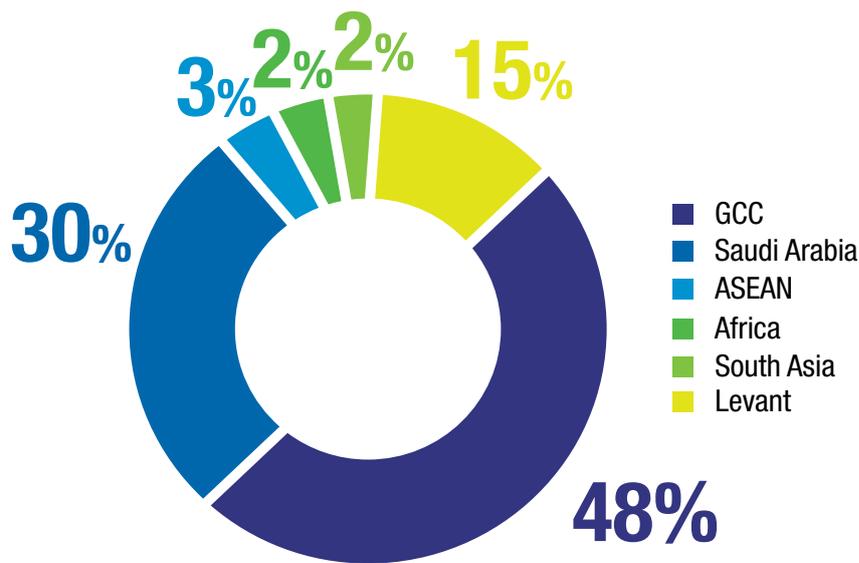
<sup>22</sup> Global Takaful Insight, 2014  
<sup>23</sup> Global Takaful Insight, 2014  
<sup>24</sup> Deloitte, 2013  
<sup>25</sup> BNM, 2013  
<sup>26</sup> Global Takaful Insight, 2014  
<sup>27</sup> Global Takaful Insight, 2014  
<sup>28</sup> www.medanbisnisdaily.com  
<sup>29</sup> Reuters, 2014  
<sup>30</sup> Deloitte 2013; Global Takaful Insight, 2014

**New Emerging Takaful Market**

Through the successful demonstration of the takaful industry in the GCC, it has managed to successfully attract cross border interests and opportunity for Shariah compliant insurance in non-key Islamic finance jurisdictions such as Africa and Europe.<sup>31</sup> In the African region, Sudan leads the takaful market, recording gross takaful contribution at CAGR of 23.4 per cent during the period 2009-2013.<sup>32</sup> Family takaful contributed to 58% of the total takaful contribution in 2013.<sup>33</sup> Currently, there are 15 takaful operators in Sudan offering both general and family takaful products with five of them providing micro takaful products.<sup>34</sup> In addition,

there are other African countries which show their sentiment to further spur the takaful industry through various proactive regulatory initiatives. For instance, Kenya's Insurance Regulatory Authority (IRA) plans to increase insurance penetration from 3.1 per cent in 2012 to 3.5 per cent by 2018 via the issuance of the guideline and timeframe for the development of the takaful industry in Kenya.<sup>35</sup> Meanwhile, Nigeria has also released guidelines and registration requirements for takaful alongside the guideline for takaful operation in 2013. Elsewhere, Tunisia has incorporated a dedicated chapter in its insurance code for legislative framework governing takaful operation in 2014.<sup>36</sup>

**Share of Global Gross Takaful Contribution, 2014**



Source: Global Takaful Insight, 2014

Moving to Europe, the region offers huge untapped potential takaful market. Despite the fact that Shariah compliant insurance product has been offered in Luxembourg more than a decade ago (2012), the region does not somehow exhibit an exciting development in the takaful sector. Currently, London-based Principle Insurance is the only dedicated Takaful Operator in Europe,<sup>37</sup> offering motor and home takaful products since 2008.<sup>37</sup>

Nevertheless, some Shariah compliant insurance products have been offered by conventional insurance/reinsurance companies in Europe. For example, Munich-re, Hannover-re, Swiss-re and Scor introduced re-takaful solutions so as to cater to the Muslim needs for Shari'ah compliant reinsurance services. Swiss Life has launched the Europe's first family takaful products mainly to facilitate French customers looking for Islamic investment solution.<sup>39</sup>

<sup>31</sup> World Commerce Review, December 2012  
<sup>32</sup> Market Attractiveness and Future Prospects of the Sudanese Takaful Insurance Industry" report, 2015  
<sup>33</sup> Market Attractiveness and Future Prospects of the Sudanese Takaful Insurance Industry" report, 2015  
<sup>34</sup> Islamic Finance News, June 2015  
<sup>35</sup> Deloitte, 2013  
<sup>36</sup> Deloitte, 2013  
<sup>37</sup> World Commercial Review, Dec 2013  
<sup>38</sup> www.meinsurancereview.com  
<sup>39</sup> World Commercial Review, Dec 2013

In Germany, FWU Group introduced a family takaful saving plan in 2012 which was distributed via financial intermediaries. Despite the lackluster growth of takaful in the European region, but given the maturity of the market in Europe, the takaful industry will

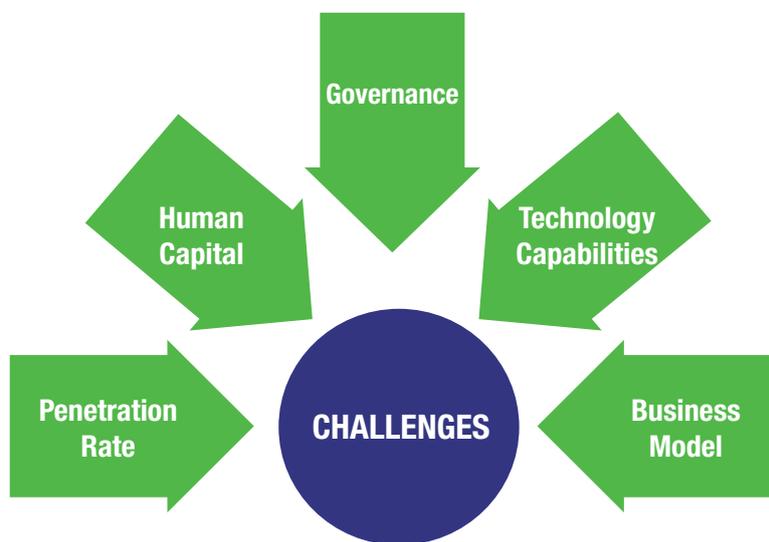
potentially expand provided that the right products and regulatory supports are available.<sup>40</sup> The main potential market for the takaful industry in Europe remains in UK, France and Germany, the home in which Muslim communities is concentrated.<sup>41</sup>

**Global Outlook**

Overall, the takaful industry exhibits a promising growth across the globe, despite comprising only 1.1 percent of the total Islamic finance market share.<sup>42</sup> Both the GCC and ASEAN markets are expected to continue to maintain their positive growth.<sup>43</sup> Within ASEAN, key Islamic finance jurisdictions such as Malaysia and Indonesia will remain key markets for the takaful industry. Malaysia's successful takaful growth is mainly due to the supportive regulatory environment and conducive business atmosphere whilst Indonesia has taken advantage of the large potential untapped Muslim market. Both countries

continue to enhance market practices, widen delivery channels and strengthen regulatory infrastructures.<sup>44</sup> Meanwhile, Saudi Arabia and the UAE will remain as the key players in GCC region due to strong regulatory backup and the increase in awareness toward the need for insurance and protection. In Europe, the UK, France and Germany have full potential to develop takaful industry given the concentration of Muslim communities in these countries. Whilst in the African continent, Kenya, Tunisia and Nigeria are emerging takaful market niches marked by supportive regulatory initiatives.

**Challenges in Developing Takaful Industry**



Source: Deloitte, The Global Takaful Insurance Market Charting the Road to Mass Market

Overall, the growth of takaful market globally is driven by the exciting development of Islamic banking and finance as part of the natural progression and evolution of the Islamic financial industry. However, the industry continues to face numerous challenges

and issues in many aspects, notably low penetration rate, shortage of human capital, inadequate technology capabilities, ineffective governance practices, and lack of innovation in business model for new market niches.<sup>45</sup>

<sup>40</sup> World Commercial Review, Dec 2013

<sup>41</sup> World Commercial Review, Dec 2013

<sup>42</sup> Deloitte, 2013

<sup>43</sup> Global Takaful Insight, 2014

<sup>44</sup> Global Takaful Insight, 2014

<sup>45</sup> Deloitte, The Global Takaful Insurance Market Charting the Road to Mass Market.

**Disclaimer**

The copyright and any other rights in the selection, coordination, arrangement and enhancement of the information in this publication are owned by Bank Negara Malaysia. No part of this publication may be modified, reproduced, published or transmitted without prior permission in writing from Bank Negara Malaysia and the relevant copyright owner.

Although every effort has been made to check the accuracy and completeness of this publication, Bank Negara Malaysia accepts no responsibility or liability for errors or omissions, if any. The information published here is only up-to-date at the time of printing, and is not exhaustive and may be updated from time to time on the website: [www.mifc.com](http://www.mifc.com). Bank Negara Malaysia appreciates any feedback or suggestion for improvement.

Copyright © 2015 Bank Negara Malaysia.  
The MIFC logo is a registered trade mark in Malaysia.  
All rights reserved.