TAKAFUL GUIDE 2007

Dubai International Financial Centre
FWU Group
HSBC Amanah Takaful
Solidarity
Takaful IKHLAS
Takaful Re
Qatar Financial Centre

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Islamic Finance *news*

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Takaful: The Outlook for the Gulf

By Dubai International Financial Centre

By just about any standard, and especially when compared to mature economies in the West, insurance markets in the Gulf Cooperation Council (GCC) states are underdeveloped. As a percentage of gross domestic product, for example, insurance premiums in the region are very low, hovering at between 0.5%–2.0% of GDP. In per capita terms, regional premiums stand at about one-quarter of the global average of US$550. Against this backdrop, consider that regional premiums are now rising faster than the rate of inflation – especially in high-growth areas like Dubai.

With all these indicators pointing towards stagnation, why is the regional insurance sector now experiencing a period of unprecedented growth? The answer, in one word, is Takaful.

Here in the Gulf and across the world, the rate of growth of Takaful is far outstripping that of conventional insurance. Today, the global average annual premium growth rate stands at about 2.5%; by comparison, Takaful premiums in the GCC are currently increasing by a phenomenal 40% a year. (In the wider Middle East, the Takaful market segment is growing by 20% per annum).

Today, there are more than 60 Takaful companies operating in 23 nations, led by Malaysia, the global leader. Worldwide, total Takaful premiums are currently estimated to be in excess of US$2 billion, representing roughly 9% of the global insurance market. Recent projections show that the industry could be worth as much as US$7.4 billion by 2015.

The principles of Takaful were laid down more than 1,400 years ago. Grounded in our sense of a common good, Takaful represents, in many ways, humanity at its best. The word itself roughly translates as "shared responsibility," and that is very much the guiding spirit of Takaful. It is a guarantee that no one will be left out, left alone or left behind.

In its modern form, however, Takaful has existed for barely more than two decades. At this year's World Takaful Conference, the consensus was that this nascent industry has a bright future ahead of it, but that there is a great deal of work to do in order to get there. "There is clear evidence of growing demand for insurance from the GCC region as regional economies are booming and regulatory frameworks are becoming global in nature," said Abdullah Kubursi, regional vice president of AIG. "There is a huge potential for growth for Islamic products in this part of the world as Muslims are becoming more affluent and aware of the advantages of Takaful."

Increasingly, conventional insurers and reinsurers are also showing great interest in Shariah-compliant insurance. Consider, for example, that last year the world's largest reinsurance firm, Swiss Re, launched its first re-Takaful product. That is a very healthy trend because, by nearly all accounts, the rise of interest in Takaful has not kept pace

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with the global growth in Islamic financial services, and especially Islamic banking. In particular, the re-Takaful industry must flourish to cover the demand created by this US$2 billion industry. Just as conventional insurance companies require the security provided by reinsurers, so do Takaful firms. This is one of the single most important issues facing the industry today.

According to research from AIG, the GCC region has a potential to reach collective gross premiums of more than US$20 billion, nearly four times the current level. To foster such growth in the UAE, the government recently approved legislation to more effectively regulate the market. New guidelines from this legislation include forbidding brokers from acting as both brokers and consultants, and stipulating that bank guarantees must be at least AED1 million (US$272,301) for the main branch of an insurance company.

While such regulation is crucial to fostering growth in both the conventional and Takaful segments, education is equally important. "Historically, there has been no insurance culture in the Islamic world," says Dr. Saleh Malaikah, chief executive officer of Salama Islamic Arab Insurance Company. "So there is a huge need to educate people about its benefits".

In the UAE, the Dubai International Financial Centre (DIFC) is taking a lead role in increasing awareness about Takaful and its benefits. Home to a range of both Takaful and re-Takaful firms, such as Group One Takaful and Takaful Re, the DIFC facilitates capital flows between the vast region stretching from Western Europe to East Asia. As an agent of change, the DIFC welcomes both conventional and Islamic financial services organizations under its roof.

> "To foster growth in the UAE, the government recently approved legislation to more effectively regulate the market"

In particular, the DIFC is committed to actively promote the growth and development of the Islamic insurance industry in accordance with Shariah principles. The Takaful market is one of the fastest growing in the world, and firms domiciled in the DIFC complement the regional market and help it grow. By providing the right environment and infrastructure to enable the industry to realize its potential, and in cooperation with the government, the DIFC is laying the foundation for the future growth of Shariah-compliant insurance and reinsurance.

However, the growth of Takaful cannot happen in isolation. New synergies must be created to drive the industry's long-term expansion. Together, financial services professionals, Takaful practitioners and Shariah scholars must find common ground and accelerate the pace of global integration. This has to happen within the framework of the development of the overall Islamic financial services industry.

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UAE report continued...

Likewise, Takaful providers would be well served by greater integration across geographies and product lines, operating within an established framework based on agreed principles. Fortunately, the industry is moving in precisely that direction. Consider, for example, that Standard & Poor's has begun issuing credit ratings for the sector, a highly significant development in the ongoing institutionalization of Takaful.

Moving forward, the industry must continue along this path of closer coordination and more transparent regulation. Through such cooperation, Takaful and re-Takaful providers will be able to capitalize on the region's ongoing economic boom, which is being driven by not just sustained high oil prices but also increasing levels of foreign direct investment, especially in infrastructure projects.

As more re-Takaful players establish offices in the Middle East, they will increase the retention of local business in the regional market, thereby providing local governments with long-term funds to spur infrastructure growth, government revenue and increased employment.

Most importantly, the people who call the Gulf region home will benefit from something that they have lacked for far too long: the security provided by insurance, fully in line with the principles of Shariah.

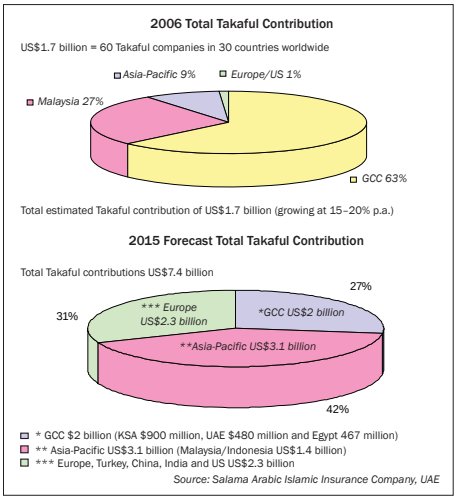
Dubai International Financial Centre

This report was authored by the Dubai Financial Centre (DIFC)

Insurance in an Islamic Framework

By Bassel Issam Hanbali

Although the Takaful industry can be traced back to the 1970s, with the establishment of the Islamic Insurance Company of Sudan, the industry remains in its early stages. However, it represents an explosion in the financial services industry. The charts below show the estimated growth of this Islamic system of insurance and assurance in the coming decade.



At present there are more than 95 Takaful operators, including windows, and more than five re-Takaful operators worldwide. Most Takaful companies write only general Takaful (Islamic non-life insurance) business. However, the trend of Takaful companies writing family Takaful or Islamic life insurance, as seen in Malaysia, Europe and the US, is catching on in the GCC.

New Takaful companies are being incorporated throughout the world and particularly in the GCC. However, the under-development of the Takaful market is highlighted by the fact that its contributions account for less than 0.05% of the world's insurance premiums.

The world Takaful market size and growth

In 2000 the Takaful market worldwide was worth US$550 million.

Of the US$340 million that can be seen from Arab countries, US$219 million relates to NCCI, and hence the penetration of Takaful is negligible compared to the total market size.

The market opportunities that will be addressed by GCC Takaful operators, particularly in Bahrain, have been created through three different forces:

- a significantly under-developed life assurance and insurance industry in the region;
- a lack of structured long-term savings products with protection benefits in the region; and
- the growing inability of institutions and corporations to provide adequate pensions on retirement to employees in the region.

According to the table on the next page, Bahrain-based Takaful providers could create a competitive advantage from the

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Bahrain report continued...

promising future of the Takaful industry locally, regionally and internationally by taking advantage of the:

- experience of sponsors in Islamic asset management;
- significant distribution capabilities; and
- strategic alliances with world class insurance companies or other financial services, especially banks that will help in product structuring, distribution network and market know-how.

Country	Amount (US$ m)*	% of total
Malaysia	143	27
Other Asia-Pacific	50	9
Europe, USA	6	1
Arab countries	340	63
TOTAL	**538**	**100**

** Estimated figures*
Source: Takaful International – Bahrain

Competitive environment

Takaful players in Bahrain have to compete with existing Takaful companies, local and international life and non-life insurance providers, as well as banks and other asset management companies. It will be seen that Takaful companies are, on the whole, limited by size, as reflected by the industry itself. The main international competitors to Solidarity in Bahrain are the American Life Insurance Company (ALICO) and Eagle Star, a subsidiary of the Zurich Financial Services Group; both have been operating in some of the countries of the target market for a number of years and have significant market share in a number of countries in the region. However, Takaful providers should distinguish themselves from these companies by offering competitive insurance solutions that comply with the guiding principles of Shariah. The importance of this feature can not be under-estimated, as one of the primary reasons behind the slow growth of insurance in the region has been the lack of acceptability of insurance products in the Islamic faith. The reputation of Bahraini Takaful providers was built on partnering with Islamic banks, which helped convince the potential target market, in the region and the world, of the Shariah compliant nature of their offerings and hence gave an extremely important edge on domestic and international competition.

As mentioned above, the competitive environment in Bahrain and the region is potentially to face competition from banks and asset management companies. However, Solidarity will be targeting a niche client base, namely those interested in planning for their financial needs with principled means. It is anticipated that this client base consists mainly of individuals and businesses who, while wishing to invest in competitive financial tools, would like to protect their valuables Islamically.

Execution strategy

The central strategic themes of Takaful providers in Bahrain are to:

- Draw upon the unrivalled Islamic banking and asset management experience of sponsors to offer a wide variety of asset classes that can be used for products;
- Create strategic alliances with technical insurance partners, banks and other financial services that are world finance

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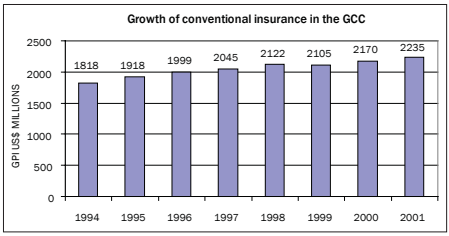
Bahrain report continued...

leaders with knowledge about life and non-life insurance products and through this platform offer innovative products that will satisfy different customer requirements;
- Use the widespread and extensive retail banking network of partners to distribute products locally, regionally and internationally;
- Focus on developing tailor-made products for specific key markets;
- Benefit from the positive climate of Takaful and increased demand for Shariah compliant products;
- Offer competitive products by using detailed risk assessments;
- Build a lean operating structure, aimed at keeping fixed costs at minimum levels and offer sales staff industry-leading commissions on sales or contributions received;
- Maintain administration staff at minimum levels by centralizing administration in Bahrain throughout the region;
- Emphasize the Islamic validity of products and highlight their competitive edge with key marketing messages;
- Assemble a strong management team, experienced in insurance, asset management, risk management and operations; and
- Build a service-oriented company that offers clients fast, friendly and efficient services.

Market size and growth of the GCC markets

The annual growth of conventional insurance in the GCC market has been low, at around 3% between 1994 and 2000, and, furthermore, the rate of growth has been slowing (with the exception of 1998). This slow rate of growth can be attributed principally to:

- the economic downturn of the region;
- the softening of premium rates and the lack of awareness of the importance of insurance;
- the high proportion of the expatriate population who buy insurance products from internationally recognized western insurance companies; and
- a limited range of products.



Future outlook for Takaful

Potential for Takaful in the GCC with a specific focus on the Bahraini market:

- There is a definite preference for Takaful over conventional insurance in the GCC, particularly in Bahrain, although this varies by country. This is not, however, at the cost of quality and price.
- Takaful companies compete with conventional insurance companies for life and non-life insurance products.
- There is a favourable outlook upon Takaful from regulators, as progressive regulators, such as the Central Bank of Bahrain, help to encourage the development of Islamic financial services.

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Bahrain report continued...

- Awareness and a preference for Takaful is beginning to develop.
- There is a growing trend amongst conventional insurers to introduce Takaful products, thereby increasing the awareness of Takaful.

External challenges for Takaful

- The industry needs to achieve critical mass.
- The industry lacks professional human resources; yet the efforts of institutions like the Bahrain Institute of Banking & Finance (BIBF) help in increasing the number of skilled resources.
- There is a lack of conviction from the public on the religious validity of Takaful, and in particular life insurance. This is exacerbated by the fact that Shariah approval criteria are not standard across countries.
- Expatriates account for large portions of the population and normally opt for buying insurance in their home countries.
- The absence of re-Takaful companies affects the growth, as only around 5% of the risk is reinsured.

Internal challenges for Takaful

- Takaful is a young industry and is still developing.
- There is a lack of dynamic and professional management in the Takaful companies.
- Takaful companies are under-capitalized, thereby limiting their capacity to write different classes of insurance.
- Takaful companies have lacked the necessary backing of big industrial houses and Islamic banks and have had to rely heavily on general Takaful products, especially motor Takaful.

Critical success factors

- Increase public awareness.
- Develop a wide product range, and offer competitive rates and service.
- Inject professionalism into the management of Takaful companies.
- Genuinely operate on Islamic principles and appoint a learned and recognized Shariah board.
- Seek the active support of Islamic banks and large institutions for captive business.
- Build strategic alliances with Takaful companies in the GCC to offer GCC-wide Takaful protection.
- Build strategic alliances with different financial services, mainly banks, for wide distribution networks.
- Focus on all of the GCC for obtaining critical mass.
- High capitalization in order to attract large volumes of business.
- Utilize new and innovative distribution channels; and extensively benefit from technology.
- Increase the knowledge of the Shariah board through professional industry-related workshops and even academic qualifications; and hence boost their involvement in all business aspects.

Conclusion

This is an exciting time for Takaful in Bahrain and the region. To take advantage of this positive climate, Bahraini Takaful providers need to approach the market in the most professional manner, and create consumer

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Bahrain report continued...

confidence through the genuineness of their products and services. Educating the public about the concept, products and benefits of this unique Islamic financial system will allow it to rise to the challenge of global competition, by unleashing the creativity and entrepreneurial flair of financial services manufacturers who share and believe in the Islamic financial system.

In short, providers of family and general Takaful products in Bahrain and the region need to apply best business practices in their operations, aiming to assist in the growth of the personal living standards of Muslim and non-Muslim communities through wealth creation and protection. As financial professionals, we are witnessing the birth of a new era of Islamic financial services taking place across the region and beyond. The future for Takaful is bright and we look forward to seeing it grows in leaps and bounds year on year.

The author is the head of communications and marketing at Solidarity. He leads the company's international marketing team, with the key objective of strengthening the organizational brand image and maintaining awareness, recognition and attractiveness of the products among the targeted groups globally. He is also a member of the corporate communications committee for Ithmaar Group. He can be contacted by email at: bassel.hanbali@solidarity.cc.

Takaful in the UK: Ripe for Development

By Benjamin J. MacFarlane

Takaful is a scheme of insurance that applies to both general and life insurance. In Arabic Takaful means "joint guarantee" and it is the only form of insurance that is fully compliant with Islamic Shariah law. The basic fundamentals underlying the Takaful concept are very similar to cooperative and mutual principles, to the extent that the cooperative and mutual model is one that is accepted under Islamic law. Takaful is perceived as cooperative insurance, where members contribute a certain sum of money to a common pool. The purpose of this system is not profit, but to uphold the principle of "bear ye one another's burden."

The basic principles of Takaful insurance are as follows:

- Policy-holders cooperate among themselves for their common good
- Every policy-holder pays his subscription to help those that need assistance
- Losses are divided and liabilities spread according to the community pooling system
- Uncertainty is eliminated in respect of subscription and compensation
- No advantage is derived at the cost of others

Growth and development

Outside the Middle East, London is one of the main wholesale transacting centers for Islamic finance. The value of the global Islamic finance market has grown to over US$300 billion. In the UK domestic market alone the Muslim community consists of between 1.5 to 2.0 million people and some 350,000 households. In the past there have been very few Islamic financial products available for this sizeable market. However, this lack of Shariah complaint financial products for the resident UK Muslim community is changing dramatically.

The UK regulators do not seem to have any objection, in principle, to Shariah compliant financial products. Players like Lloyds TSB, Royal Bank of Scotland, Islamic Bank of Britain, ABC International Bank, United National Bank and HSBC Amanah are all offering Shariah compliant products in the UK. They have teamed up with Muslim institutions to try to address the regulatory issues that have so far discouraged the launch of Islamic housing finance and other products. The market in the UK is growing significantly with a range of Takaful products including Shariah compliant bank/mortgage products. Each sector relies on the other for real growth. One of the unique selling points for these special products and services in the UK and elsewhere is that they are ethically based and therefore appeal to non-Muslims as well as Muslims.

The total volume of Islamic home financing schemes offered by various financial institutions in the UK is set to reach US$2 billion by 2009 and, according to the UK Treasury, since 2003 the Islamic mortgage market has grown to over US$1 billion – an increase of about 50% in the last year alone. HSBC Amanah is the only Islamic mortgage provider that currently offers Takaful to

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UK report continued...

provide cover for building, contents and mortgage endowment.

Moody's, the credit ratings agency, estimates that total Takaful premiums were worth more than US$2 billion in 2005 and predicts that this will rise to US$7 billion by 2015.

International companies moving into Takaful include AIG, the world's biggest insurer, and Allianz, Europe's second largest insurer. Aviva, the UK's biggest insurer, has made an offer for a stake in a Takaful business in Malaysia. AXA, the French insurer, is also considering entering the Takaful market in Asia and the Gulf region.

Reinsurers like Munich Re, Swiss Re, Hannover Re and Converium have also taken stakes in the re-Takaful market. All these international reinsurance companies have re-Takaful businesses. One Lloyd's syndicate with a Takaful reinsurance offering did not continue this year, but apparently for reasons unconnected with the strength of the market. Lloyd's continues to have the structure to take in Takaful business, and will consider any applications for other Takaful syndicates.

In the 2007 budget, the then UK Chancellor Gordon Brown introduced two key measures to encourage growth in Islamic finance, namely a new regime for Sukuk giving comparable tax treatment to conventional securitizations, and guidance clarifying the treatment of diminishing Musharakah and Takaful products. This new legislation will create the framework for London to emerge as an undisputed global leader in the Islamic finance industry.

The Financial Services Authority and Takaful

Even though Takaful involves the payment of a "donation" rather than a "premium," and investment of the "donations" has to be Shariah compliant, the Takaful arrangement will be caught by the regulation of insurance and investment products in the normal way. Any Takaful operation must therefore operate in compliance with the Financial Services and Markets Act (FSMA) 2000.

The FSMA, which came into force in December 2001, governs the regulatory regime in the UK. It provides that carrying on a regulated activity, or purporting to do so, in respect of a specified investment by way of business in the UK, requires authorization by the Financial Services Authority (FSA), unless the person carrying on such activity is exempted. Effecting or carrying out contracts of insurance is included in regulatory activities.

It is a criminal offence to carry on a regulated activity in the UK without being authorized by the FSA. Also, any agreement entered into by a person in contravention of the requirements to be authorized will be unenforceable against the other party, who will thus be able to recover any money or other property paid or transferred by him under the relevant agreement.

In order to become authorized by the FSA there are certain "threshold conditions" that the applicant must satisfy. Some of these specific threshold conditions are:

- There must be sufficient financial resources to meet claims as they fall

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UK report continued...

due. In particular, there should be a solvency margin as determined and agreed with the FSA. Such a margin represents the excess of assets over liabilities and provides a "cushion" against any unexpected claims.

- There must be adequate resources.
- Adequate systems and controls need to be in place in order to ensure that risk is managed properly.

An applicant also needs to satisfy the FSA's risk assessment process. This involves an assessment of the risk posed by an applicant against a number of probability and impact factors.

Takaful insurers may have some difficulty in technically meeting their solvency margin, because the FSA solvency rules are based on encouraging a spread of investments. However, given the present limited size of the Islamic investment market, the opportunity for investing widely in Shariah compliant products is not available to the Takaful insurer.

In order to satisfy the "adequate resources" threshold, there must be competent and prudent management, who will be responsible for managing the various risks involved in the Takaful operation. In addition, there must be sufficient expertise, so that legal, accounting and underwriting matters can be efficiently managed. There is also a requirement for an efficient and reliable IT system to process applications, handle claims and deal with general administration.

Since the FSA in discharging its general functions must have regard to the desirability of facilitating innovation in the market, the international character of financial services and the desirability of maintaining the competitive position of the UK will also be major drivers. Therefore, although the FSA may be relatively unfamiliar with Takaful as a product, it will be receptive to any application for authorization to conduct Takaful business in the UK that fulfils FSA conditions.

> "Although the FSA may be relatively unfamiliar with Takaful as a product, it will be receptive to any application for authorization to conduct Takaful business in the UK that fulfils FSA conditions"

Conclusion

Insurance, especially life insurance, has a vital role in providing protection against the unforeseeable to all members of society, and no less so in the Islamic community. However, traditionally within the Muslim culture there has been a rejection of the commercial principles behind conventional insurance as being haram. The Takaful or co-operative insurance model, which is Shariah compliant, is ripe for development and has

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UK report continued...

been greeted with enthusiasm by Muslim and ethically conscious investors alike.

There has been tremendous growth in Takaful in the UK. Standard & Poor's, the credit ratings agency, has cited the growth of Takaful insurance as being "substantial." The UK's FSA is open to encouraging Takaful products in the UK, although providers are required to comply with its regulatory framework. There are also high hopes for Takaful reinsurance. However, the re-Takaful market is unlikely to do well without a groundswell of Takaful primary insurance operations. The success of re-Takaful is inherently bound up with the success of the Takaful market generally.

The range of Islamic investment opportunities needs to be broadened for the UK market to become an attractive opportunity to be exploited either by specialist Takaful insurers or conventional insurers with Takaful operations. The development of Islamic capital and investment markets is a pre-requisite to its growth, as the Takaful providers concerned need to be in a position to spread their investments in Shariah compliant products.

B.J. MACFARLANE & CO.

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Islamic Finance *news* Interviews Sohail Jaffer of FWU Group

How did the initial concept of FWU Group develop?
FWU entered the market with the aim of creating high performance investment solutions with broad and flexible applications for institutional investors and high net worth private clients. This modular product approach remains unchanged today, acting as the beacon for all market development.

The relatively recent meteoric rise of Islamic finance has obviously catapulted FWU Group into the spotlight. How has this changed the direction of the company?
Islamic finance and banking is poised to transform from a regional business into one of global scale. Several global brands are active players in the market and have successfully replicated their success from one market to another.

The FWU Group has established an international division and an executive board to focus on its fast-expanding international business. It is also an active member of the Islamic Financial Services Board (IFSB). The FWU Group now has regional hubs in Dubai and Kuala Lumpur to service its Takaful product and bank distribution partners.

How did FWU Group come to focus on both Takaful and asset management?
The FWU Group decided to optimize its natural synergies with asset management by establishing an asset management subsidiary in 1999. The group's dynamic entrepreneurial culture, strong commitment to product innovation and wealth of international managerial talent influenced its entry into the emerging Takaful market relatively early.

There are currently only a few international Takaful suppliers. The major challenges faced by Takaful suppliers include raising customer awareness and education; expanding product innovation, creative product design and marketing; gaining brand recognition; offering attractive investment choices for customers in family Takaful-linked investment plans; intelligently deploying technology to enhance customer experience and overall consumer satisfaction levels; finding an AA-rated international reinsurance company willing to accept a re-Takaful solution and offer individual risk-bearing capacity; and widening the penetration of bank and alternative distribution channels.

The bancassurance industry has not consistently fulfilled its promise to perform. How do you see the bancaTakaful market being different?
For bancaTakaful to be successful, product differentiation, customization and consumer pricing for different bank channels like direct sales force, bank branches and e-commerce is absolutely vital.

You've witnessed great success so far, most recently in Malaysia with the announcement of partnerships with Takaful Ikhlas and AmBank Group, where do you foresee your next major markets being and why?

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interview continued...

Major markets of interest to FWU include Indonesia, India, Pakistan, Egypt, Turkey, Morocco and South Africa.

The main catalysts are young demographics, a growing awareness of financial planning and an increasing propensity to save and accumulate capital.

What do you put your success down to?
Product development, process innovation, tailoring product features to match the needs of the bank distribution partner, teamwork, deal structuring, management and implementation and after-sales customer care. Also an entrepreneurial culture, passion for excellence, strategic vision and ability to transform top-level business vision into ground-level market reality, customer relationship management and working proactively with regulators, trade associations and industry bodies like the IFSB.

You offer a specialized product, so surely exclusivity must come into the equation when speaking to possible suitors. How do you manage this?
FWU's private label approach, customized product design and differentiated investment approach for each of its bank distribution partners offers the advantage of exclusivity. Each bank distribution partner uses their own product name and brand, selects their own funds target universe, decides on the market positioning, promotion campaign and sales incentives.

Finally, where do you see the Takaful industry in 10 years from now?
The Takaful industry needs to cater to the growing needs of both Muslim and non-Muslim customers around the world. Interestingly, several global insurance brands like AIG, Allianz, AXA, Prudential, Fortis and Tokio Marine and reinsurance companies like Hanover Re, Munich Re and Swiss Re have already entered into the Takaful business.

There is scope for players to craft and intelligently redeploy business skills and successful distribution models in the development of new markets. Islamic centers of product excellence include Malaysia, Bahrain and the UAE, but Indonesia, Saudi Arabia and Pakistan are fast-evolving and building their product expertise in this important business segment. The major regional and international players are well positioned to export and adapt their distribution capabilities and customer-centric value proposition to the mature regulatory, tax and accounting regimes of the major OECD jurisdictions.

New Takaful products expected by customers include Shariah compliant home finance investment repayment schemes, annuity plans, group life savings plans and customer bank deposit guarantee schemes.

FWU is today one of the larger independent financial service providers operating internationally. The FWU GROUP has a total of six subsidiaries, namely ATLANTICLUX Lebensversicherung S.A., Luxembourg, PREMIUM SELECT LUX S.A., Luxembourg, FWU Commission Factoring GmbH, Munich, FWU Payment Services GmbH, Munich, FWU Pension Management GmbH, Munich and FWU Malaysia.

The Value of Financial Protection: Takaful

By Keith Driver

Financial protection is a necessity. We all have lifestyles to maintain and ambitions to fulfill. So we need to be protected against misfortunes which could so abruptly put an end to our aspirations. You as an individual need to have protection and you need to know that if anything unfortunate happens to you, your loved ones will receive financial support.

To achieve that peace of mind, you may choose to buy conventional protection or you may opt to buy Takaful cover.

The range of products is similar, embracing both personal and corporate needs. Broadly speaking, there is family protection (life cover) and general protection (non-life cover).

> "Takaful products provide for up to 30% of profit to be returned to the customers"

But when you buy Takaful protection, you make one important leap forward. You will feel good about your choice. That's because Takaful emphasizes community spirit and social responsibility.

The name comes from the Arabic word *Kafalah* which means taking care of each other. The concept goes back more than 1,400 years. The roots of Takaful, and by some indications conventional insurance as well, come from Arab traders sharing risks on marine trading voyages. They would pool resources so as to share in each other's losses from misfortune, and share in any surplus left over.

Takaful aims to promote mutual assistance and responsibility between a group of individuals. When you buy Takaful cover, you contribute, or donate, a sum of money into a common fund. This fund is managed by the Takaful operator. When you suffer loss to your livelihood, funds are mobilized to give you financial assistance. At the same time, you know your contribution is helping and protecting others.

Conventional insurance is frequently structured as a commercial enterprise operating on the premise that the person who agrees to cover risk should reap profit from that transaction.

Takaful, on the other hand, does not include profit or gain at the expense of others. If claims on the common fund are low, the residual amount is distributed as a profit between the individuals and the fund operator. The ratio of profit-sharing between the parties is agreed in advance in the Takaful certificate,

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general report continued...

or contract. Takaful products provide for up to 30% (or more) of profit to be returned to the customers.

If, for example, your house is not damaged during the agreed protection period, you may receive a profit-share payment or a credit which you may use for future coverage. There are even unique arrangements to pro-rata profit-share if you make claims below your premium/contribution amount.

There are other benefits, too. Takaful products do not invest their funds in business sectors considered improper under Islamic principles. Far from being a restriction, this represents opportunity. If you belong to the growing numbers of consumers seeking ethical, moral investment avenues, you will find Takaful a very attractive proposition indeed.

Takaful investments are closely monitored, so you can also be assured of a high level of transparency. You know that the fund has a responsible investment policy that avoids unnecessary risks and you will know what profits the fund makes.

HSBC Amanah TAKAFUL

This article was authored by Keith Driver, chief executive officer of HSBC Amanah Takaful, Malaysia. He can be contacted at keithdriver@hsbc.com.

ACCOUNTING

Takaful Accounting

By Omer Morshed

Accounting is essentially the recording and presentation of economic transactions relating to defined business operations, usually a legal entity. It does not seek to deal with the legality, in Shariah or otherwise, of the business conducted and the transactions undertaken by the entity, but simply to record and report on these.

A number of Takaful models are in use in different parts of the world, some of which are, in my view, not compliant with the essence of the Shariah but based simply on artificial transactions created in order to achieve results as close to conventional insurance as possible. I have included these models within the scope of dealing with issues relating to accounting.

The nature of Takaful operations, in terms of detailed accounting, is largely similar to that of conventional insurance operations. Both receive premiums/contributions, investment income, pay claims, maintain reserves, have assets and liabilities, etc... Differences exist in certain limited areas, the basic ones being as follows:

- The method used to remunerate the Takaful operator. In Takaful operations there is strictly no profit or loss to be made from underwriting, although in some models this is allowed. This has a bearing in terms of reserving as well as in the treatment of underwriting surpluses or deficits.
- The nature of mitigating risks (re-Takaful vs reinsurance).
- The nature of investments, which, by their very nature, excludes fixed income investments.

Given the similarities with conventional insurance with respect to most economic transactions, it stands to reason that accounting methods for these transactions should be similar. It is therefore, in my view, not necessary to define all encompassing accounting standards for Takaful operators separately (as has been done by AAOIFI), but instead to deal with issues where the nature of Takaful operations is different from conventional insurance.

One other area which is likely to affect accounting for Takaful operators is that of regulation. In some cases (like in most countries in the Middle East, Africa and parts of South Asia), regulation of insurance is weak and does not always deal with accounting, providing at best broad formats for producing financial statements. In other jurisdictions, including Pakistan in the post Insurance Ordinance 2000 environment, both the Ordinance and subsequent subsidiary regulations provide detailed guidance on issues such as the maintenance of separate statutory funds (in the case of life insurers) as well as a framework for accounting. Although this paper deals with Takaful accounting in generic terms, it does focus on the Pakistani regulatory environment.

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accounting report continued...

Major differences

The major differences between conventional insurance and Takaful:

- Underwriting surplus or deficit to be borne by the participants (policyholders) in the case of Takaful.
- Similarly, re-Takaful is to be done strictly in a risk pooling basis and not on a risk cession basis
- Investments to be either in equity or in other Shariah complaint savings instruments. Fixed income is not allowed.

Underwriting Surplus/Deficit

The distribution of underwriting surplus or deficit either partially or wholly to policyholders is something which has been in vogue in conventional insurance for some time, especially in the case of health insurance (where even pure administrative services contracts are common) and life insurance (where large "profit commission" payments are common in some countries).

Takaful is operated through two models:

- Al Mudharabah Model, whereby cooperative risk-sharing occurs among participants yet the Takaful operator shares also in any operating surplus as a reward for its careful underwriting on behalf of participants. Examples of this model include Takaful Malaysia (Malaysia), Takaful Nasional (Malaysia) and Takaful International (Bahrain).

- Al Wakalah Model, whereby cooperative risk-sharing occurs among participants with a Takaful operator earns a fee for services (as a Wakeel or agent) and does not participate or share in any underwriting results as these belong to participants as surplus or deficit, under the Al Wakalah Model, the operator may also charge a funds management fee and a performance incentive fee (as Bank Aljazira does).

Although the two models involve certain major differences in approach, the accounting issues which arise are common. These include the following:

- Segregation of assets, liabilities, income and expenditure between the Takaful operator, the various Mudharibahs and (if separately maintained) the various Takaful funds (risk-pools) [these various "funds" being referred to hereafter as "accounting entities]

- Setting aside reserves for meeting outstanding claims, future claims (from accepted risks) and contingencies in the process of ascertaining surplus/deficit.

- Definition of bases for recognition of revenue and expenditure (cash vs accrual), this having an impact on determination of surplus/deficit.

- Accounting for Qard-e-Hasan

Accounting for re-Takaful

Accounting for re-Takaful should, in theory, be similar to accounting for reinsurance. There is, however, a significant difference in that re-Takaful, if undertaken in a purely Shariah compliant sense, is essentially a risk pooling mechanism and, therefore, the Takaful operator has to share in any surplus or deficit

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accounting report continued...

arising in the pool, thereby necessitating the recognition of such surplus or deficit in preparing the accounts of the Takaful fund.

In practice, currently the vast majority of Takaful funds reinsure in a conventional way under dispensations granted under the doctrine of necessity, on the basis that adequate capacity is not available with re-Takaful operators. Even where risks are ceded under conventional re-insurance contracts, however, there are often profit commission terms whereby a proportion of any surplus which arises is paid back to the ceding entity.

Interestingly I have seen a re-Takaful treaty issued by one prominent re-Takaful entity which, for all intents and purposes, was exactly the same as that issued by conventional re-insurers. Such treaties would, in my view, need to be treated as conventional treaties for the purpose of accounting.

Where re-Takaful is undertaken in a pure sense, it is clear that the Takaful fund must consider any surplus or deficit in the re-Takaful pool which needs to be taken into account in preparing its financial statements. Where the re-Takaful operator has extended a qard-e-hasan to the re-Takaful pool, it is my view that such a qard needs to be reserved for separately by all ceding Takaful funds, as this is effectively going to be recouped from future surpluses. The only event in which a reserve to reflect the qard-e-hasan need not be created is where the Takaful fund withdraws from that re-Takaful pool for future years.

Where conventional re-insurance is undertaken, any vested profit commission must certainly be accounted for fully. There are two views on the treatment of any unvested "accrued" profit commission, one stating that it should be recognized and the other that it should not be (until it vests). My own preference is for the former, as this is more equitable. In any case, any accrued profit commission may be used as an asset when determining any contingent reserve to be set up.

Accounting for investments

Accounting for investments in Takaful could generally follow the same principles as in other Islamic financial institutions. I am not, therefore, undertaking any detailed discussion on recognition of income from Shariah compliant financial instruments, but limiting myself to two issues:

- The recognition of dividends declared on equity investments.
- The recognition of unrealized capital gains.

In my view, the underlying principle for any accounting, especially where this affects the actual value paid out, must be equity. Confusion is often caused because recommendations on accounting principles are made at the level of a continuing entity. In my experience a useful way to look at any issue relating to which period any revenue or expenditure should fall, is to hypothesize a single participant Takaful entity, with the single participant exiting at a point in time, to be replaced by another single participant entering at that very point in time.

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accounting report continued...

If the above exercise is carried out, it is clear that the following will emerge as the proper treatment of investment income while preparing Takaful fund or Mudarabah fund accounts:

1. All dividends from ordinary shares which have gone ex-dividend before the balance sheet date should be recognized as accrued investment income.

2. Investments should be marked to market for the purpose of computing capital gains, so that even unrealized gains are recognized.

It goes without saying, however, that tax that will eventually fall due needs to be separately provided for.

Conclusion

As indicated in the opening paragraphs of this article, Takaful accounting is only a recording and presentation of transactions emanating from the basic Takaful business model. Much work continues to be done on the model itself, and therefore, as a consequence, much work still needs to be done on accounting concepts.

Experience has also taught us that, whatever the theoretical concepts are, when the concepts are actually implemented, new issues arise which need to be dealt with. Takaful accounting has yet to benefit from a period of such experience, and will, no doubt, need to develop further.

The author is a partner at Sidat Hyder, a management consulting, technology services and outsourcing practice established and operating since 1986. Its core specialty areas include:

- Actuarial & Insurance Consulting
- Human Resources Consulting
- Business Systems Consulting
- Information Solutions & Services

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Bancassurance : A Strategic Pact for Takaful

By Sohail Jaffer

The Takaful industry has been successful in distributing products through its agency sales force, direct channels, e-commerce and to a limited extent, via certain retail banks. Product customization for the different bank channels (retail, mass affluent, private banking), customer referrals and gaining brand loyalty are important critical success factors. Product packaging, customer convenience, customer care and transparency of product terms, conditions and pricing are also important catalysts to increase the share of the Takaful business across multiple distribution channels.

Several enterprising banks have included bancassurance in their product offerings, and some of the new Takaful operators are offering certain general Takaful products online. The distribution of Takaful life and savings products through bank channels is relatively new. Nonetheless, the advent of web-based point of sale and online administration systems has allowed sales process through branch banking network.

Bancassurance

Consumer banking in Islamic countries is on the rise with the arrival of new Islamic banks such as the Emirates Islamic Bank and new Takaful companies emerging in the UK, Saudi Arabia, Bahrain, Pakistan and Malaysia. These companies are actively looking for new strategies and many are moving into the realm of bancassurance. Islamic savings, education, marriage and retirement plans are therefore becoming more attractive. The average maturity of such plans is between 15 and 20 years and customer retention in good performing plans is much longer than direct investment in mutual funds.

> "Banks are keen to work with strategic product partners who offer a bespoke family Takaful investment-linked program"

Banks are keen to work with strategic product partners who offer a bespoke family Takaful investment-linked program, the opportunity to 'white label' such a program and open investment architecture. Clearly, the ability to tailor suitably diversified risk/reward investment portfolios, select top quartile performing funds from major international brands and control defined portfolio risk levels are powerful drivers for the retail value proposition. Furthermore, product certification by an independent Shariah board of experts and ongoing compliance monitoring with high ethical standards has made a positive impact on transparency, disclosure of different terms and conditions, charges and frequency of reporting.

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BancaTakaful continued...

The following are reasons for why bank distribution partners generally prefer a 'white label' family Takaful-linked investment:

- Customers are more comfortable with a bank's 'own brand' equity.
- Banks can blend their own Islamic mutual funds with quality third party Shariah compliant funds.
- All customer assets of the family Takaful-linked investment business are in the bank's custody and it also gains the corporate bank account of the life insurance company supplying the product.
- Banks have access to the web-based point-of-sale and online administration system without having to integrate new systems or build new interfaces.
- Due to the life cycle nature of the product, banks enhance customer relationships and retention rate.

The distribution of Takaful life and savings products through bank channels is relatively new, but the sales process through the branch banking network has been facilitated by the advent of web-based point-of-sale and online administration systems. Abu Dhabi Commercial Bank (ADCB), for example, has introduced a Shariah-compliant Takaful and savings scheme in joint arrangement with Dubai Islamic Insurance and Reinsurance Company and FWU Group. ADCB's "Meethaq" Takaful and Savings Program offers investment-oriented life Takaful products to UAE residents. In addition to the benefits of customer convenience, the 'white label' advantage of using own brand equity, transparency of product terms and conditions, open investment architecture and efficient online processing have all proved attractive to major bank distribution partners.

> "The distribution of Takaful life and savings products through bank channels is relatively new"

Global Revolution

The Islamic banking industry is growing at an average rate of 15% – 20% per annum and the estimated size is approximately US$300 billion. There are nearly 300 Islamic banks and financial institutions whose assets are predicted to grow to a trillion dollars by 2013.

Major OECD financial institutions that are active in the market for Sukuk (Shariah compliant asset backed security), infrastructure and project finance, structured products and asset management, private equity and venture capital include Deutsche Bank, UBS and Citigroup.

Further, international players for the distribution of retail banking products including Takaful are HSBC Amanah, Standard Chartered and ABN AMRO. Global insurance and

continued...

BancaTakaful continued...

reinsurance brands who are recent entrants in the Takaful market include AIG, Allianz, AXA, Fortis, Prudential, Tokio Marine, Hannover Re, Munich Re and Swiss Re.

In the UK, there are three new Islamic financial institutions: British Islamic Insurance Holdings (a Takaful Company), Islamic Bank of Britain (retail banking) and the European Islamic Investment Bank.

> "The Asia Pacific region will be the key to this growth"

Recently DBS in Singapore launched the Islamic Bank of Asia with a capital of US$500 million.

In the UAE, two new Islamic financial institutions have been established: Noor Islamic Bank in Dubai and Hilal Bank in Abu Dhabi.

Interestingly several GCC Islamic financial institutions like the Dubai Islamic Bank, Kuwait Finance House and Al Rajhi Bank have expanded their activities into Malaysia, Pakistan and Turkey.

With the entry of several major international banks, the level of product sophistication has increased significantly, especially with investment banking. This includes Sukuk issuance, project finance, private equity, asset management and Takaful.

Within Europe the more attractive markets are the UK - increasingly becoming the premier center for international Islamic banking and finance, France, Germany and Turkey.

The Takaful market is undergoing a period of rapid growth, whilst still in its infancy, and has proven to be increasingly popular among investors looking for an ethical alternative. With global demand among non-Muslim investors also growing, Takaful products are likely to be stellar performers over the next few years.

There are signs that Islamic financial solutions have yet to tap the demographic of potential investors around the world despite being extremely popular in Islamic countries such as Iran, Pakistan, Saudi Arabia and other GCC countries. With a growth of between 15% and 20% per annum expected for the global Takaful market, total worldwide direct Takaful premiums covering both non-life and life are expected to reach US$7.4 billion by 2015. The Asia Pacific region will be the key to this growth, accounting for an estimated US$3.1 billion in annual premiums written; the GCC markets will contribute another US$2 billion and an additional US$2.6 billion from Europe, Turkey, China, India and the US. Approximately, 52% of the projected total annual Takaful premiums would be non-life, with an impressive gain in life/family Takaful segment increasing to US$4.9 billion. Malaysia and Indonesia will continue to be at the forefront of the Takaful business with over US$1.4 billion in premiums.

The Takaful industry stands on the brink of transforming itself from a regional industry to a full-scale global one. There is a growing recognition among global investors that

continued...

BancaTakaful continued...

Takaful does indeed represent an effective and viable alternative to conventional insurance.

> "The regulatory environment for Takaful is a major stumbling block"

Challenges

The potential for Takaful is unquestionable. However, there are still many hurdles to overcome if it is to realise its potential. The market is still in its infancy with between US$2.5 billion and US$3.5 billion in annual premiums and the handful of Takaful suppliers globally need to rise above these challenges if their products are to prove successful. These can be overcome through raising customer awareness and education; expanding product innovation; creatively designing product and marketing; and gaining brand recognition.

Finding "AAA rated" international reinsurance companies that are willing to accept re-Takaful solutions, as well as offering individual risk-bearing capacity and widening penetration of bank and alternative distribution channels is another issue.

Another major hurdle is in the interpretation of Islamic Shariah law. There is a widely held perception that life insurance is forbidden under Islamic law. The view is supported when taken in the context of conventional insurance. However, life Takaful can be accepted if practised according to Islamic tenets. There are very few life Takaful products available at present, but as investors become comfortable to accept them, we can expect this number to increase substantially in the future.

Regulation

The regulatory environment for Takaful across the world is a major stumbling block. For the most part development has come under regulations for conventional insurance. This has not prevented the establishment of a Takaful industry but it has created uncertainties, making it difficult for Takaful to compete on an equal footing with conventional insurance.

With the aim of establishing a global and uniform set of regulations – to remove the uncertainties, promote cross-border activities and enhance the global marketability of Takaful structures – the Islamic Financial Services Board (IFSB) and the International Association of Insurance Supervisors (IAIS) have identified four critical areas which need to be addressed urgently: corporate governance, financial and prudential regulation, transparency, reporting and the market conduct and supervisory review process.

Conclusion

The Takaful industry is one of the most fast paced in the world. There is a latent demand from customers and investors who require financial services that are in line with Islamic principles. Many affluent markets in Muslim countries offering the prospect of high premiums/contributions, conventional insurance companies are displaying

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BancaTakaful continued...

significant interest and a growing Muslim population in countries like the USA, the UK, Germany and France reflects that the scope for global spread is real.

There is also the possibility for GCC and international cross-border players to package premier products and services for their middle income and affluent customers and process these through major bank distribution and other financial intermediaries.

However if Takaful is to fulfil its potential it must overcome many hurdles. Lack of uniform regulation and disagreement between certain Shariah scholars on Takaful create uncertainty and may slow the development of the industry. Raising customer education is crucial to expanding the reach of Takaful products, plus training financial planners and investment advisors. Takaful providers must enhance product innovation and continue to offer a high level of customer service. They must be able to understand evolving customer and market-specific needs and be willing to renew or re-engineer product design and consumer benefit packages and expand customer reach across various distribution channels. The future over Takaful operators is in their own hands. The next few years will certainly be interesting.

The author is a partner at FWU Group and can be contacted ons.jaffer@fwugroup.com. He is a regular contributor to Islamic Finance *news*.

Applying Insurance Credit Ratings to Takaful Companies

By Kevin Willis

Insurance ratings are a useful tool designed to help policyholders, professional counterparties and investors in the insurance, reinsurance and capital markets make better-informed financial decisions. To this end, Standard & Poor's (S&P) has a 20-notch insurance rating scale that goes from 'AAA' ('Extremely Strong') down to 'CC' ('Extremely Weak'), and an array of rating types aimed at different users.

This article will look at the composition of an S&P rating and focus specifically on how the rating process can be applied to the concept of Takaful. Standard & Poor's has examined the dynamics of the Takaful market from the perspective of providing insurer financial strength ratings. We find that although the operational structures and corporate governance concepts for Takaful may be unusual, Standard & Poor's can apply its conventional insurer financial strength criteria to primary Takaful and re-Takaful companies.

What do ratings achieve?

A rating provides any policyholder, broker, risk manager, investor, regulator or other interested party with an easy-to-assimilate credit opinion which, like the tip of an iceberg, is supported by an often unsuspected depth and breadth of underlying analysis. Moreover, behind every rating there stands a published 'Rationale' that can be obtained from the rated company. These rationales explain the exact strengths and weaknesses of the rated entity, and the expectations and assumptions upon which the rating decision itself has been based.

Ratings differentiate the strong from the less strong, and thereby help establish something that is rather more robust and scientific than a simple, subjective ranking of companies. What the ratings do not do, though, is to differentiate 'appropriate' from 'inappropriate'. A company rated 'AAA' promises to be extremely strong not just today but also well into the future, which is essential information when very long term or long-tail or large covers are being sought. However, its policies may be inflexible, its tariffs and quality of service may not necessarily be of the best, and its financial instruments may offer disappointingly low returns to investors.

> "Lower-rated securities can prove attractive to many investors"

Meanwhile, an alternative provider rated 'BBB' ('Good') would still give the confidence of being investment grade in terms of its ability to pay claims, while potentially offering attractive contract terms, conditions and

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Inside View

Giving insight to insurance ratings


STANDARD & POOR'S

Issue one

INSIDE VIEW

Understanding Insurance Ratings

An Insurer Financial Strength Rating is an opinion of the financial strength and credit worthiness of an insurance company, evaluating its ability to meet its financial commitments to policyholders.

Operating on a scale rising from 'CC' (extremely weak) to 'AAA' (extremely strong) (see *rating definitions*, p2) ratings help policyholders and their intermediaries make informed decisions with regard to the carrier they choose.

Assigning a rating

Standard & Poor's employs one of two approaches when assigning a rating, depending on the type of information we can expect to receive from the companies we rate. Hence ratings are based on either an 'interactive' or public information ('pi') process.

Interactive ratings involve in-depth meetings with a company's senior management, and may include confidential information. The 'pi' ratings are based solely on information in the public domain (see p2).

An Insurer's Financial Strength Rating is an opinion of its ability to meet its commitments to policyholders.

A wide array of people such as regulators, intermediaries, risk managers, the public and institutional investors use ratings including, not least, the insurance companies themselves. Increasing numbers of insurers are choosing to adopt 'interactive' ratings over 'pi' ratings. To attain an interactive rating

The rating scale

Ratings range from the highest category, 'AAA', to the lowest, 'CC'. Interactive ratings may also include a 'plus' or 'minus' designation to show relative standing within the category.

Ratings grades of 'BBB' and above are considered 'secure', 'BB' and below are 'vulnerable'.

Ratings grades of 'BBB' and above are considered 'secure', in that they are regarded as having financial security characteristics that outweigh any vulnerabilities and are highly likely to meet their financial commitments.

Conversely, insurers rated 'BB' or lower are regarded as having vulnerable characteristics that may outweigh their strengths. 'BB' indicates the least degree of vulnerability with the 'non-investment grade' range; 'CC' the highest.

Outlooks

An 'outlook' notation indicates the possible direction a rating may move over the intermediate-term. Internal or external factors during the period could lead us to change the outlook. Outlook designations include:

- 'Positive': may be raised.
- 'Negative': may be lowered.
- 'Stable': unlikely to change.
- 'Developing': may be changed.

More on outlooks will come later in this series of guides.

The losses incurred by insurance and reinsurance sector in recent years, combined with an increased focus on risk management and solvency measures, means that the financial strength characteristics of companies are continuing to grow in importance. Inside View brings clarity to the ratings process used by Standard & Poor's - making it an essential guide for all who need to assess security within the insurance and reinsurance market.

This guide is free to subscribers and is published fortnightly by E-mail. Each issue looks at a new subject, steering policyholders and other rating users through the processes and methodology that lie behind insurer financial strength ratings, helping insurance buyers have a clearer understanding of insurers' financial characteristics.

Inside View is available in English, French, German and Italian.

For further information on Inside View please visit our website at **www.europeinsurance.standardandpoors.com**

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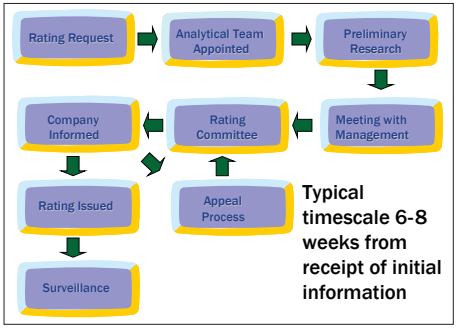
If you would like more information please contact Fleur Hollis on +44 (0)20 7176 7212.

ratings report continued...

levels of service. Ultimately, it is a question of risk relative to reward, which is why lower-rated securities can prove attractive to many investors because they offer significantly better returns.

A rating, therefore, is no panacea and does not remove the need for careful thought on the part of ratings users, whoever they may be.

The rating process



Applying ratings criteria to Takaful companies

Corporate governance and enterprise risk management

The religious rigor that Takaful companies adopt necessarily inhibits their operational flexibility, and certainly imposes additional corporate governance pressures because they must devise products and services that receive the necessary Shariah board approval.

Takaful companies must also operate in the same regulatory environment as all other insurance companies. Nevertheless, Standard & Poor's has sophisticated techniques capable of monitoring any situation that may arise affecting a company's risk management process. Our evaluation of enterprise risk management (ERM) includes the assessment of risk management culture, risk controls, emerging risk management, risk and capital models, and strategic risk management. An insurer's ERM practices can be rated Weak, Adequate, Strong, or Excellent.

Capital and financial flexibility

A major factor for determining financial strength is the ability to maintain and support a company's capital base, particularly in times of strain. As a business expands, the risks that capital is supporting grow and capital will need to increase.

Of particular significance is the ability to raise funds to counter any capital erosion. With traditional insurers, capital support comes from profit retention, and short or long-term capital raising. Due to the specificities of the *qard-al-hassan* (interest-free loan) arrangement within the Takaful operations, shareholders are obliged to support any shortfall in the underwriting pools of the policyholders. Still, Takaful companies have access to the same capital-raising solutions, or alternatives such as supplementary calls on participants, depending on the structure of the venture. The effectiveness of these facilities can be monitored by Standard & Poor's.

Reinsurance use and exposure

Through the requirement to operate according to Islamic principles, Takaful companies must seek to employ risk-sharing techniques with companies operating under the same

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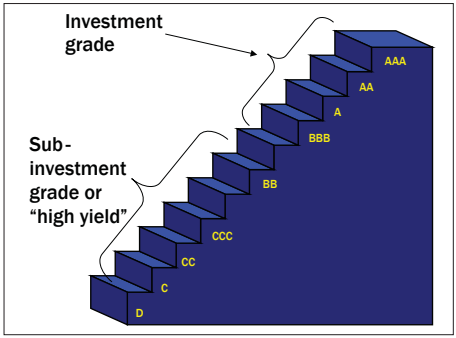
ratings report continued...

banner. Re-Takaful is part of the solution, and for the burgeoning number of re-Takaful companies, this Islamic requirement is a boon to their competitive position.

The rating scale



To some extent, however, there is also a niche constraint, because the availability of re-Takaful is dependent on the continued growth of the Takaful market itself. Standard & Poor's will review the credit risk and protection available to Takaful companies in the same way as for any other insurer.

Conclusion

For Takaful companies, the lack of development of insurance in the Islamic world gives Takaful a significant opportunity to broaden the markets of the interested parties. These include:

- Existing regional insurers and reinsurers
- New regional insurers and reinsurers
- The investment community
- Governments
- The population

It is difficult to put an exact value on the potential size of the Takaful market because it will depend on the ability of Takaful to meet policyholders expectations. However it seems probable that Takaful companies will attract new clients from the existing "traditional" insurance franchises, and to some extent competitive advantages may be eroded.

> "Takaful companies will attract new clients from the existing "traditional" insurance franchises"

The significant factor is that the expected rapid growth in insurance penetration across Arab and Asian markets should enable successful business models to prosper. By applying the same rating process to both Takaful and non-Takaful companies Standard & Poor's will enable the marketplace to see the relative financial strength of insurance providers.

STANDARD &POOR'S

Kevin Willis is director and lead insurance analyst for the Middle East region, Standard & Poor's Rating Services.

Takaful for Takaful Operators

By Professor Dr Mohd Ma'sum Billah

Re-Takaful or Islamic reinsurance is essentially about handling risk. It is a risk aversion method in which the Takaful ceding company resorts to either a conventional reinsurer or a re-Takaful operator to reinsure original insured risks against an undesirable future situation if the risk insured were above the normal underwriting or claim. Thus a Takaful ceding company may, based on limited financial resources, hedge against its possible incapability to meet all Takaful reinsurance protection from a financially capable reinsurer, which would take over the coverage of a large proportion of the risk.

Conceptually, the function of reinsurance is not against the principles of Shariah, but conventional reinsurance companies are not in compliance with the rules and practices of the Shariah.

Parties to re-Takaful

Re-Takaful operations involve two parties: the Takaful operator and the re-Takaful operator.

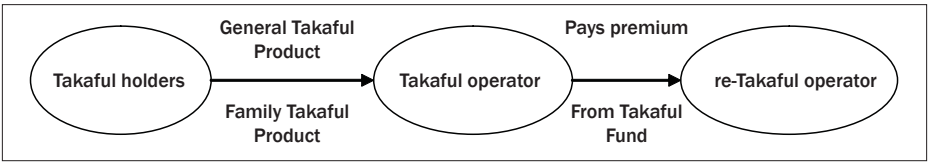
The competitiveness of the re-Takaful market is dependent upon the competitiveness of the direct Takaful market. Thus, re-Takaful operators cannot operate without the operation of Takaful operators. In addition, the Shariah laws leading the process of Takaful also apply generally to the re-Takaful operator.

Objectives and functions of Islamic reinsurance

Re-Takaful enhances Takaful activity by distributing risks. It is mainly for covering large risks and the large accumulation of risks subject to common loss. It also ensures that Takaful funds are managed to meet the indemnity obligations of the insured and reinsured and to assure the continuity of Takaful operations. This means that re-Takaful gives the underwriting capacity to the Takaful ceding company.

In summary, the objectives of re-Takaful are:

1. Protecting the Takaful operator from the threat of insolvency, underwriting and interest of the participants, forging co-operation among the participants and investing the accumulated fund in an Islamic way;
2. Providing underwriting flexibility and further consolidating the financial stability of the Takaful operator in order to compete with conventional insurance companies in accepting risks. This means re-Takaful companies build a very close continuing business interest in common between the Takaful ceding company and the reinsurer because they are both at risk;



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re-Takaful report continued...

3. Possibly allowing the Takaful operator to utilize the retained deposit reserves of the re-Takaful fund in the interest of its clients without paying interest as a process of making the reinsurance industry an interest-free business.

Re-Takaful contract

The reinsurance or re-Takaful operation is a company-to-company relationship and it is basically about handling risk where the agreement is between the Takaful operator and also the re-Takaful operator. Thus the original policyholders are not the parties to the reinsurance agreement. Nonetheless, the insured party may want to know that a professional and reliable reinsurer is administering the original policy, since this concerns its security. However, the insured party has not and cannot have any direct interest in the reinsurance contract. Some legal scholars emphasize that the contract of re-Takaful should stay between the Takaful operator and the re-Takaful operator,

Re-Takaful and reinsurance compared

FACTOR	RE-TAKAFUL	REINSURANCE
1. Riba and gharar	The re-Takaful operation does not earn commission as a profit or interest, because this commission is subject to riba and dilutes the purpose of setting up a Takaful operation. The re-Takaful operation is dependent on actual expenses spent by the Takaful operator in the process of re-Takaful.	The conventional reinsurance operation is subject to riba and gharar, which are not in line with Shariah principles. For instance, the reinsurance commission which the direct insurance company earns from the reinsurance treaty is framed in a way that renders the commission ribawi and implicates a high degree of gharar.
2. Principle of insurable interest	According to Islamic law as regards to insurable interest, specific financial interest in the subject matter of the insurance is a cardinal principle of the legality of the re-Takaful contract. Under Islamic law, the reinsured party does not get an insurable interest or to reinsure the property of the original insured party without permission from the policyholder. However, because the re-Takaful operation is based on the Mudarabah principle, it vested a right to reinsure on the insurer because the permission from the policyholder is automatically inherent in the contract of Mudarabah.	Insurable interest is vested in the reinsured party. The fact that the reinsured party has issued a policy and assumed liability to its original insured party has been held to give it insurable interest sufficient to enable it to reinsure. The point is that although the reinsured party (direct insurance company) has no actual legal interest in the property – the subject matter of the original insurance policy – it has assumed responsibility in regard to it, and has therefore put itself into a position, recognized by law, in which it would be prejudiced by its loss.

Source: Mohammed Burhan Arbouna, "The Operation of re-Takaful (Islamic Reinsurance) Protection" Journal IIUM, p 336.

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re-Takaful report continued...

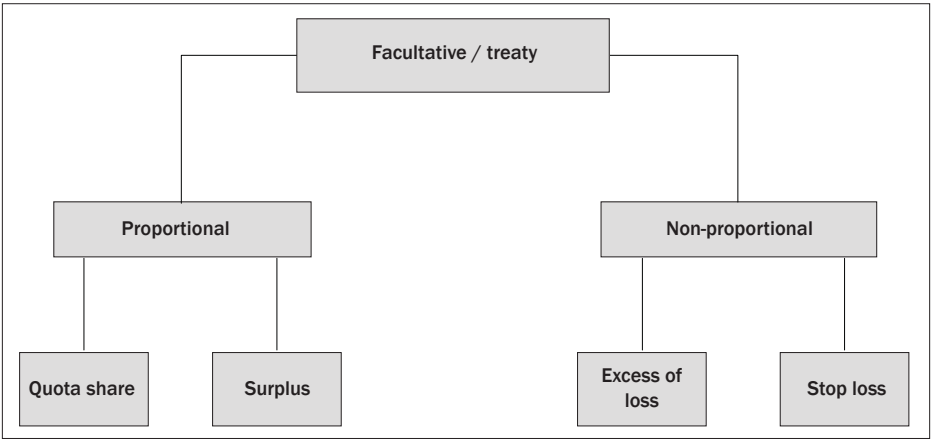
and the original policyholders of the Takaful fund are not involved in the contract in any way. Therefore, the operational and legal relationship of the re-Takaful and Takaful operators may be summarized as follows:

1. The re-Takaful operator assumes the responsibility to invest the fund on the basis of Mudarabah and shares the profits with the Takaful operators by mobilizing the premiums or contribution of Takaful companies.
2. The profit earned is distributed between the re-Takaful operator and the Takaful operators according to the percentage that has been agreed in the agreement certificates issued.
3. If any perils occur, the re-Takaful operator indemnifies the defined risks and settles expenses from the Takaful process from the gross premiums, reserves and profits from investment.
4. If there is a surplus, it should be proportionately accredited into the Takaful operators' account.
5. In the event of insolvency of the Takaful operators, the re-Takaful operator should provide a loan from the re-Takaful shareholders' fund, by which the Takaful operator settles claims and incoming premiums cover the loan.

Methods of re-Takaful

Re-Takaful methods apply for reinsurance. From the chart below it can be seen that facultative reinsurance refers to reinsurance of individual risks by offer and acceptance, wherein the reinsurer retains the "faculty" to accept or reject each risk offered. Then, from the treaty, it is divided into two: proportional and non-proportional.

Proportional comprises quota share and also surplus whereby quota share is the basic form of participating treaty where the reinsurer accepts a stated percentage of each and every risk within a defined category of business on a pro rata basis. Participation in each risk is fixed and certain. Surplus is the excess of assets over liabilities. Statutory surplus is an insurer's or reinsurer's capital as determined under statutory accounting



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re-Takaful report continued...

rules. The determinant to write business by an insurer or re-insurer is surplus.

Meanwhile, non-proportional consists of excess of loss and stop loss. Excess of loss is a form of reinsurance under which recoveries are available when a given loss exceeds the cedant's retention defined in the agreement. Stop loss is a form of reinsurance under which the reinsurer pays some or all of a cedant's aggregate retained losses in excess of a predetermined dollar amount or in excess of a percentage of the premium.

Conclusion

Reinsurance is best thought of as "insurance for insurance companies" or "Takaful for Takaful operators" – a way for a primary insurer to protect itself against unforeseen or extraordinary losses.

Re-Takaful operations are necessary for Takaful operators to share their risk and protect against unforeseen and extraordinary losses. The method of re-Takaful is actually similar to the method of conventional reinsurance. The only difference between the two reinsurances is in terms of the operational procedures – conventional reinsurance involves a high degree of gharar and riba through reinsurance commission, which the direct reinsurance company gets from the reinsurance treaty.

On the other hand, a re-Takaful operation is dependent on actual expenses spent by the Takaful operator in the process of re-Takaful. Moreover, conventional reinsurance's insurable interest is vested. Contrarily, under Islamic laws, the reinsured party does not get an insurable interest and is not able to reinsure the property of the original insured party without permission from the policyholder.

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SABB to insure you
SABB was awarded an insurance operating license for its SABB Takaful company, a joint venture 32.5% owned by SABB and 32.5% by the HSBC Group. The balance of the company's shares were offered to the public via an initial public offering.

BancaTakaful paving the way
Takaful Ikhlas credited its 90% growth in 2006 to bancaTakaful. General agencies and family agencies also contributed 30% each in premiums to the company.

UBL to get Takaful?
UBL Insurers received the go-ahead to set up a general insurance operation. The company also approached the Securities and Exchange Commission of Pakistan with a view to commencing general Takaful activities in the future.

Bahrain JV
Talks commenced for the formation of a joint venture insurance firm between Qatar and Bahrain. The proposal was raised following a major business mission by members of the Qatar Chamber of Commerce and Industry (QCCI) to Manama, in Bahrain.

Building consumer trust
The Insurance Board of Sri Lanka announced an increase in the capital requirement for insurers, from the then LKR25 million (US$230,000) to LKR1 billion (US$9.2 million) by 2010.

Pakistani aim for QIIC
It was announced that 2007 would see Qatar Islamic Insurance Company (QIIC) establishing Pak Qatar General Takaful and Pak Qatar Family Takaful in Pakistan.

Allez Bharti!
AXA and Bharti Enterprises India signed a memorandum of understanding to establish a joint venture general insurance company. The joint venture, to be headquartered in Bangalore, will see Bharti Enterprises holding a 74% stake and the French insurer AXA holding the remaining 26%.

Market support for Takaful
Annual insurance premiums and rates in Kuwait were said to be growing by 12%–15%, equating to KD150 million (US$518.9 million), aided by the increase in local development projects.

Six new Takaful companies were revealed to open in Kuwait in 2007, one of which is 10% owned by the Kuwait Insurance Company (KIC).

Bank Negara gave insurers green light
Insurance Australia Group (IAG) and AMMB Holdings were both given the go ahead to begin talks with Pan Global Insurance.

This move followed IAG's 30% acquisition in AmAssurance in 2006. AMMB Holdings, also a shareholder in AmAssurance, is IAG's current rival for Pan Global Insurance.

Increase in premiums needed
The Qatari government received calls from the Qatari insurance industry to raise motor insurance premiums, to aid with losses experienced from the surge in car prices, spare part costs and vehicle maintenance.

Takaful by MAA
MAA Holdings divulged plans to open a Takaful business in Malaysia via its joint venture company MAA Takaful.

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Bid for Garanti Sigorta
AIG, Aviva, ING and Groupama were among the key industry players eyeing Garanti Sigorta for the sale of its shares.

Ein Takaful launches
The Ein Takaful Insurance Company (ETIC) was officially launched in Kuwait. Avaan Leasing and Investment Company holds a 40% stake in ETIC, which was set up in 2006. The Mashaer Company owns 25%, with 10% belonging to the Kuwait Insurance Company and 25% to Imad al bahar.

AXA's Moroccan takeover
AXA France revealed it would take 100% control of AXA Assurance Maroc, its Moroccan counterpart.

The deal worth MAD5.9 billion (US$694 million) would see AXA procuring a 49% stake in AXA-ONA, a holding company held by AXA's local partner ONA. ONA and AXA would maintain commercial relations and broking partnerships via AGMA-Lahlou-Tazi.

The deal was awaiting regulatory approval.

Takaful for non-Muslims
Prudential BSN Takaful said they would aim to fortify its presence in Malaysia through public education before going regional, highlighting the significance of Takaful to Muslims and non-Muslims alike, as part of its expansion.

Booming Takaful industry
According to Ayman Al-Aimi, general manager of Bahrain Enaya AIG Takaful, Enaya would secure 30% of Bahrain's travel insurance market by the end of August 2007.

Shariah compliant housing solutions
Solidarity was mandated the sole provider of Takaful home financing protection and family protection products for Sakana Holistic Housing Solutions' mortgage finance customers.

BestRe's outlook positive
B.E.S.T Reinsurance Company (BestRe)'s outlook was revised from stable to positive by Standard & Poor's Rating Services, with its BBB long-term counterparty credit and insurer financial strength rating reaffirmed.

The company also revealed plans to uptake BancaTakaful to boost its position in the local market.

Takaful Ikhlas to launch new products
Takaful Ikhlas revealed plans to launch three new investment-linked products, pending approval from the central bank. Bancassurance products would be first, following the first such investment-linked product, Ikhlas Capital Investment-Linked Takaful, launched in December 2006.

Is free trade for all?
In light of the proposed Asian Free Trade Agreement, Filipino insurers were urged to consolidate in order to compete.

The Insurance Commission of the Philippines also began looking to implement new benchmarks to increase networking among local insurers.

Ohayo AXA!
AXA Life Insurance revealed plans to collaborate with Mizuho Bank to launch an individual variable annuity product via Mizuho.

New entrants to DIFC
Allianz Re, the reinsurance arm of the Allianz Group, was licensed operate as an authorized firm in the Dubai International Financial Center (DIFC), adding to the company's diversified portfolio comprising Singapore, Labuan, Zurich and Dublin.

Non-Muslims contribute
Malaysia's Takaful market was said to dominate a larger portion of the country's insurance sector, with 2007 seeing an increase in non-Muslim subscribers and new market players.

Nasser Yassin, executive secretary of the Malaysian Takaful Association, projected the number of non-Muslim subscribers to Takaful to grow from 20%–30% to 35% by the year end.

Flood insurance claims
It was expected that insurance claims for flooding in Jakarta in 2007 could exceed the US$200 million racked up in 2002, hitting an all-time high of US$452 million.

Alternative for Bahrainis
The Central Bank of Bahrain (CBB) approved the establishment of the US$20 million Aman Bahrain Insurance Company (ABIC), in line with the Gulf's booming growth and high demand for Takaful products.

Takaful Re starts well
Takaful Re posted a net profit of US$1.26 million in its first operational period. As at the 31st December 2006, the company recorded gross written premiums of US$15 million. This was despite its late licensing in December 2005.

Takaful BIBD record
Bank Islam Brunei Darussalam's (BIBD) Takaful arm earned double its profits from 2005, at US$1.4 million. The 47% increase was attributed to the company's high quality and proactive customer service, as well as innovative products offered at competitive premium rates.

Takaful BIBD also announced its bid to diversify into its Fire Takaful Scheme, diverting from motor insurance. The scheme would provide coverage for losses incurred by fire, as well as other accidents and disasters such as floods, lightning, earthquakes and theft.

The product, dubbed as the 'Five year plan' will correlate between the length of the deferment period and the annuity payout period.

Dip for insurers
UAE insurers experienced a loss of more than 57% at AED2.85billion (US$775.9 million) in 2006, due to exposure to stock investments sensitive to stock market declines.

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Allianz's new target
Allianz SE announced plans to penetrate the Middle East and North Africa reinsurance market, which is worth US$3 billion.

Takaful for maids?
Takaful Malaysia proposed plans to the Malaysian government to provide insurance coverage for foreign maids. Takaful Malaysia said it would work with a consortium of companies to execute the campaign.

AOICS mobilized
The Arab Orient Insurance Company Syria (AOICS) commenced operations on the 15th February 2007. The company's is aim was to gain US$4 million in gross premiums in the first year.

Five-bank pact
Mayban Fortis Holdings revealed its plan to sign a bancassurance partnership agreement with five unnamed domestic and overseas banks to maintain its pole position in the industry.

The agreement, to be made with a mixture of both Islamic and conventional banks, was expected to produce between five and 10 new bancassurance products in the initial period of two years. Maybank also planned to increase its product penetration of its customer base by an additional 20% come June 2008.

HSBC is keeping it fun
HSBC Amanah Takaful said it saw Takaful talent as its core business mover. In line with its bid to seek out talent, the HSBC group planned to launch several niche programs targeted to capture the right skill base across its business network.

Salama's profit boost
Salama Islamic Arab Insurance reported a 65% boost in net profits to US$51.8 million in 2006. The company also added health Takaful to its Saudi Arabian and Algerian operations, and revealed it would be offering family Takaful via a company in Senegal. Salama also raised the capital of the Jordanian Islamic Insurance and increased its capital by 100% to JOD8 million (US$11.29 million).

SCOR re-Takaful
The Monetary Authority of Singapore (MAS) authorized SCOR Asia-Pacific to apply to the Labuan Offshore Financial Services Authority (LOFSA) for a license to allow SCOR Asia-Pacific's non-life branch to expand and underwrite re-Takaful reinsurance contracts.

Hajj Takaful
Pak-Kuwait Takaful and Polani Group signed an agreement to provide Shariah compliant Umrah and Hajj Takaful. The agreement proposed Polani Group as the countrywide general sales agent for Pakistan, with the Umrah and Hajj package covering death, disability, loss of baggage and loss of passport.

More flexibility
Bank Negara Malaysia announced it would award greater regulatory flexibility to insurers with strong corporate governance standards and risk management practices.

The proposed regulatory regime, which included the new risk-based capital framework that is to be introduced, was expected to strengthen incentives for improved risk-management practices of insurance companies.

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AMAN's agreement
Dubai Islamic Insurance and Reinsurance Company (AMAN) signed an agreement with Boubyan Takaful insurance to provide operational and management aid. The agreement's three phases included the setting up of administrative and technical structure of Boubyan, managing the operations, and the maintenance which includes auditing and follow up.

AMAN became the first Takaful company to provide management and operation services to non-emirates customers.

No more Mudarabah
Takaful Nasional shifted its operating model to Wakalah from Mudarabah. The transition began with its general Takaful products, to be followed by family Takaful. The move was to standardize operating models with sister company Mayban Takaful.

Another HSBC's acquisition
HSBC Insurance Asia began talks with Jerneh Insurance to acquire its non-life insurance portfolio. Valued at HK$35 million (US$4.5 million), the portfolio comprised of 10,000 motor, medical, employee compensation and public liability insurance policies.

Arig's drop
The Arab Insurance Group (Arig) reported a dip in profits from US$48.2 million in 2005 to US$30.4 million in 2006. The dip, however, could not be attributed to company performance, as Arig recorded an improvement in performance in 2006, evidenced by a US$5.1 million increase of investment earnings in the year.

Maiden Takaful union
The International Insurance and Islamic Takaful Companies Union was successfully hosted by the Egyptian-Saudi Insurance House, attended by representatives from Sudan, Egypt, Jordan, Saudi Arabia, Bahrain, UAE, Lebanon and Qatar.

Huge market potential
Saudi Arabian health authorities anticipated mandatory healthcare insurance regulations to boost the market to SR30 billion (US$8 billion) by the end of 2007.

MARCH

World class potential
Dr Saleh Malaikah, chairman of Best Re, was optimistic about the Takaful market's potential. Contributions from Takaful operators stood at between US$2 billion and US$2.8 billion from the 85 dedicated Takaful operators and 35 window operations worldwide.

47% of contributions were from the Middle East, with 46% from South-East Asia and 7% from Africa, while the European and American market remained largely untapped.

Something's brewing
Stock trading for Takaful International was suspended by the Bahrain Stock Exchange following a request from the capital market directorate at the Central Bank of Bahrain.

Operating without a license?
AmIslamic Bank signed a tri-partite agreement with Takaful Ikhlas, FWU Group and AmIslamic. Takaful Ikhlas to act as the plan's trustee, and FWU to design and manage the products and act as a system provider. AmIslamic was still awaiting its Takaful license.

Family Takaful flies
The Malaysian insurance and Takaful industry saw a 17.8% growth to RM12.4 billion (US$3.57 billion) in 2006. Takaful contributions increased to RM1.7 billion (US$492 million), with total assets expanding by 17.9% to RM6.9 billion (US$1.99 billion).

The rise in profits was attributed to the stable growth in premiums and contributions, along with an improvement in risk management practices for underwriting and investment practices.

Going easy on foreigners
The Foreign Investment Committee (FIC) liberalized the Islamic banking, Takaful and re-Takaful markets for foreign investors, allowing 100% foreign equity ownership in Malaysian Islamic financial institutions.

Banking on family
BEST Reinsurance's new family re-Takaful business was expected to generate between US$5 million and US$7 million in turnover by 2009. The business is based in the Labuan International Offshore Financial Center (IOFC).

BEST is expected to post US$155 million in turnover this year, with US$80 million from its Labuan operations.

Al-Noor to the rescue
Al-Noor announced it would soon offer South Africans Wakalah and Waqf-based commercial, property, personal and marine import and export risk cover at competitive rates.

Bahrain's petrochemical interest
Takaful International of Bahrain expressed interest in investing in petrochemical and real estate developments in Sabah.

Second license issued
Takaful Pakistan became the second company to be licensed as a Takaful operator in the country. Takaful Pakistan is held by a consortium of six institutions domiciled in the Emirates and in Pakistan, with an excess of capital of PKR120 million (US$1.97 million).

Takaful Pakistan also issued its first policy to the president of Pakistan Bank on the day of its licensing.

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Healthy collections
Malaysia's insurance and Takaful sector posted combined premiums and contributions of RM26.6 billion (US$7.66 billion) in 2006. This 6.8% hike was expected to grow further as interest rates decline and consumers become accustomed to the high cost of living.

Merhaba Turkiye!
Europe was eyeing the Turkish insurance and pensions market, as more players such as Mapfre of Spain, TBIH Financial Services Group of Austria, Eureko of Holland and Aviva of the UK secure deals with Turkish players.

In 2006, insurance penetration rates saw a slight increase from 1.6% to 1.7%, falling short of the 3.6% average in developing countries and 9% in developed countries.

Catastrophically below average
Swiss Re reported a dip below the long-term trend in losses due to natural catastrophes and man-made disasters in 2006. US$15.9 billion out of the US$48 billion in losses were covered by insurance companies.

Globally, only 30% of total economic losses were covered, due to low insurance penetration. Insurers predict that the effects of global warming will further aggravate the loss situation.

Diving into Takaful
Tokio Marine & Nichido Fire (TMNF) Insurance revealed plans to expand its Takaful business, in line with its acquisition of Singapore-based Asia General Holdings (AGHL). TMNF already had a stake in AGHL's operational companies – Asia Life Assurance Society, Asia Insurance Company, Asia Life and Asia Insurance.

Takaful here to stay
The Securities and Exchange Commission of Pakistan (SECP) expressed an interest for the industry to engage in discussions regarding how to best promote the growth of Takaful, with protection of public interest and a business-friendly environment being key concerns.

There was also a debate as to whether conventional companies should be allowed to operate Takaful windows in the country.

Commission un-Islamic
The National Shariah Board of the Indonesian Conference of Islamic Clergies (DSN-MUI) was debating the issuance of a new fatwa to cap the commission rate derived from Takaful sales. According to Muhammad Hidayat, a member of DSN-MUI's executive body, the commission rate of 50%–70%, at the time, was un-Islamic; he believed there should be a maximum 30% limit instead.

AXA's new acquisition
AXA Insurance Gulf acquired a 10% stake in United Insurance Company (UIC), procuring 150,000 in shares from four shareholders including Bahrain National Holdings, Bahrain National Insurance, Bahrain Kuwait Insurance and the Al Ahlia Insurance Company.

Amana shipping coverage
Laksiri Seva, a shipping and logistical service provider, mandated Amana Takaful Insurance (ATI) as its official insurance provider for all consumer cargo goods handled and dispatched by the company. ATI will also provide life insurance to the consignee, on top of safeguarding the contents of the consignment.

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Takaful pool to overcome challenges
State-controlled Pakistan Re-Insurance Corporation (PRCL) planned to establish a Takaful pool to launch its own Takaful business.

IPOs galore
Five Saudi Arabian companies aimed to raise SR266 million (US$70.9 million) via initial public offerings. The Saudi United Company for Cooperative Insurance, Arabian Shield Insurance, Saudi IAIC, SABB Takaful and Assurance Saudi Fransi.

AXA's Islamic endeavour
AXA Group revealed plans to launch Islamic life insurance products by early 2008. The company was currently seeking a vehicle that would allow it to sell across the Gulf. CEO Andrea Rossi however denied any plans to acquire Takaful companies, preferring instead to set up its own arm.

Takaful Nasional on track
Takaful Nasional was optimistic about achieving over RM1 billion (US$284.8 million) in premiums by the 30th June 2007. This would mark a RM200 million (US$56.9 million) increase from 2006.

Takaful Nasional's, then recently, launched International Currency Business Unit (ICBU) would also allow the company to venture into offshore Takaful business via international currencies.

NCCI compliant
The National Company for Cooperative Insurance (NCCI) appointed a Shariah Advisory Committee to assure the company's Shariah compliance.

Allianz makes the cross
Allianz Group of Germany was granted an operating license from the Central Bank of Bahrain. Allianz Group's 100% owned subsidiary, Allianz Takaful Bahrain, will serve as the group's global Takaful hub, undertaking family Takaful, while also focusing on investment-linked insurance, life insurance and health and medical insurance.

SABB goes public
SABB Takaful planned to raise US$9.3 million in a 35% initial public offering (IPO) of its capital. The IPO was up on offer from the 17th to 26th March 2007.

Healthier BC staff
Takaful International and Bahrain Credit (BC) signed a memorandum of understanding to provide health insurance to BC staff.

Takaful International's coverage would offer all BC staff health insurance cover, a move which is in tandem with the Takaful company's bid to encourage ties and boost the Bahrain insurance market.

Insurers aim high
Takaful Ikhlas revealed its target to rake in RM40 million (US$11.4 million) from its subscribers by the 31st March 2008, focusing on housing loan scheme customers.

Takaful Ikhlas was already close to clinching its targeted RM14 million (US$3.9 million) from housing loan subscribers by the 31st March 2007. The Malaysian government also appointed Takaful Ikhlas as a panel member of its Housing Loan Division, to provide special Takaful housing schemes to government servants.

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Fitch Roadshow
Fitch Ratings kicked off its inaugural Asia Insurance Roadshow in Kuala Lumpur on the 9th March 2007, where Fitch's insurance analysts focused on credit rating methodologies for Takaful companies.

Namaste AXA
AXA Asia Pacific – via its Bharti joint venture – announced it would expand into 20 cities in India by the end of 2007.

Takaful for Britons?
UK-based PPP Healthcare expressed its intentions to bring Takaful to the UK market. PPP Healthcare consistently records annual premiums exceeding US$1.95 billion, with a 25% market share.

Takaful's special mention
The CEO of Solidarity, Sameer Ebrahim Al Wazzan, was honored for his service as chairman of the board of directors of the Bahrain Insurance Association (BIA) since 2000.

Al Salam's endeavor
Al Salam Bank Bahrain acquired a 20% stake in the Aman Bahrain Insurance Company with a start-up capital of BD7.5 million (US$20 million).

Other major shareholders of Aman Bahrain include Al Salam Bank Sudan, Dubai Islamic Insurance and Reinsurance Company, as well as several individual investors.

Lloyd's re-Takaful
London-based Lloyd's revealed plans to offer re-Takaful from its newly incorporated offshore re-insurance unit in Labuan.

New QFC inductees
AIG MEMSA Insurance Company (AIGM) and Qatar Insurance Company International (QICI) were both authorized to operate from the Qatar Financial Regulatory Authority (QFCRA).

Takaful Re promising
Net profits of US$1.26 million, along with gross written premiums of US$15.04 million, spurred Takaful Re's growth in its first period of operations.

APRIL

Information MoU

The 14 member countries of the Arab Forum of Insurance Regulatory Commissions (AFIRC) signed a Memorandum of Understanding to enhance co-operation among regulatory members, facilitate the exchange of information, provide technical support and protect the rights of policy-holders in Arab markets.

Premium hike

Takaful Ikhlas aimed to up its premiums by 45% to RM320 million (US$93.55 million) come the 31st March 2008. Family Takaful was slated to contribute the most to the premium hike, following the 70% increase in family premiums in 2006. General Takaful made up the remaining 30% last year.

Home Takaful heats up

Takaful International and Alpha Fire Services (AFS) signed a Memorandum of Understanding to introduce Home Takaful products to AFS clients, and AFS CCTV and Fire and Safety solutions to Takaful International subscribers at attractive rates.

Attracting foreign money

MNRB Holdings, the owner of Malaysian Reinsurance (Malaysia Re), Takaful Ikhlas and MNRB re-Takaful, was anticipating a 20% rise in overseas operations income in the next three years. The group currently rakes in 12% in overseas contributions.

Takaful with heart

Bank Islam Malaysia (BIMB) launched two Takaful-linked savings products for children. Dubbed Tunai Didik-I and Tunai Kasih-I, the plans are expected to mobilize savings deposits of RM30 million (US$8.77 million) within their first year.

All out the window?

The Securities and Exchange Commission of Pakistan (SECP) was soon to make its stand on the allowance of Takaful window operations clear soon. SECP would also review Takaful rules in tandem with its crackdown on insurance operations. The insurance policy would allow the imposition of fines and removal of unit CEOs and directors if necessary.

Of high hopes and big capital

Newly established Al Amanah insurance company kicked off with KD10 million (US$34.58 million) in capital. The Shariah compliant firm would see its capital distributed over 100 million shares at KD0.10 (US$0.346) per share, and would act as a closed shareholding company.

Al Amanah is looking overseas to execute its insurance, reinsurance and investment activities.

Trading resumed

Takaful International resumed trading on the Bahrain Stock Exchange as of the 16th April. The resumption was based on a recommendation forwarded by the Capital Directorate at the Central Bank of Bahrain, and the handing in of Takaful International's audited financial data for the year ending on the 31st December 2006.

One to regulate them all

Financial services consultants Booz Allen Hamilton (BAH) called for the Gulf region to establish a dedicated insurance regulator. The body must have a clear mandate, BAH added. BAH was also optimistic for Takaful increasing penetration rates within the insurance retail sector.

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Takaful to reach American shores?
The Qatar Financial Center Regulatory Authority (QFCRA) signed a memorandum of understanding with the Department of Insurance of the state of Delaware, US, to establish a framework for cooperation.

Takful shapes the future
The Takaful market in the GCC region was expected to expand by up to 24 times to US$4 billion, according to rating agency Standard & Poor's (S&P). "If the world average insurance premium of US$550 per capita is achieved and applied to the Gulf states, the GCC insurance market has a potential size of US$20 billion," stated S&P.

Twofold growth
Amana Takaful Insurance posted a 57% growth in premiums for 2006. The company, which is listed on the second board of the Colombo bourse, achieved gross written premiums of LKR679.9 million (US$6.16 million), with general Takaful growing by 53.4% to LKR589 million (US$5.34 million), and life Takaful by 85% to LKR90.8 million (US$823,231).

On the re-Takaful side, the firm charted a profit of LKR220 million (US$1.99 million), up by LKR76 million (US$689,042) from 2005.

Takaful premiums soar
Takaful premiums were expected to exceed US$7 billion by 2017, according to international analysts. To support the growing market sector, the UAE will also establish a new regulatory body to oversee the UAE insurance industry, in line with the Federal Insurance Law.

Hyper premiums
According to Standard & Poor's (S&P), Islamic insurance premiums written in Saudi Arabia and Kuwait were growing 16 times faster than global conventional insurance.

Takaful premiums are currently witnessing an annual 40% growth, compared to the 2.5% global average for conventional premium growth in 2005. The Gulf Takaful market could reach US$4 billion if it matched global averages for insurance spending, with conventional insurance contributing an additional US$16 billion.

X-VISION ++ the answer?
India-based First Apex Software Technologies, along with Deloitte Consulting were assigned to provide business intelligence (BI) solutions to Malaysia's Takaful Nasional. Dubbed X-VISION ++, First Apex's BI solutions are insurance specific, promising to monitor and streamline Takaful Nasional's corporate performance.

SALAMA subscriptions skyrocket
SALAMA's IPO, which closed on the 26th March, had more than 4,000 subscribers, covering 521% of the offered shares. Electronic subscriptions represented 84% of all subscription methods used for the IPO.

Smoothing the process
It was reported that Pakistan had only 0.28% life insurance penetration, one of the lowest levels in Asia. In a bid to increase premiums by a minimum of 1% within three years, Shaukat Aziz, prime minister of Pakistan, approved a new insurance policy for the country, which includes the introduction of Takaful and regulatory changes.

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What about re-Takaful?
Nasser Al Shaali, CEO of the Dubai International Financial Center (DIFC), addressed the issue of re-Takaful at the 2007 World Takaful Conference (WTC). "Re-Takaful must flourish to meet the needs of Takaful. The growth of Takaful cannot come in isolation of other aspects," he elucidated.

Certified and good to go
ISM Insurance Services became the first Malaysian insurance and Takaful company to receive the ISO/IEC 27001:2005 from SIRIM QAS International.

Everyone wants a piece of SABB
SABB Takaful's share flotation generated SR247.163 million (US$65.92 million) in subscriptions, accommodating 105,397 requests. More than 63% of the requests were made electronically.

Takaful International complies
The Takaful International Company (TIC) agreed to comply with the Central Bank of Bahrain's disclosure requirements to commence trading on the Bahrain Stock Exchange (BSE).

TIC was suspended from trading on the BSE for violating disclosure standards.

MoU to boost Takaful
Maybank Group signed a memorandum of understanding with Panin Life to form a joint venture which will see the Malaysian bank acquire a 60% stake in Anugrah Life, a subsidiary of Panin Life.

Panin Life owns a 45% stake in Panin Bank, one of Indonesia's top 10 banks.

Employing Solidarity
Solidarity and the Bahrain Chapter of the Institute of Chartered Accountants of India (BCICAI) held a seminar on the 13th May on employee benefits and compensation Takaful/insurance. Topics discussed included corporate savings schemes that offer a savings mechanism on a contributory basis with both employers and employees participating.

SABB's sea policies
SABB Takaful announced it would soon be introducing marine cargo policies. Customers using Islamic Letters of Credits would be allowed to purchase the Takaful cargo policies.

Statistically shorthanded
Malaysia was in need of more actuaries to implement the country's risk-based capital framework (RBC) and other insurance regulatory policies. There had been an increased need for actuaries with the rising number of Takaful and insurance players in the market. Unlike general insurers, Takaful companies had already been issued with appointed actuary guidelines.

The RBC is scheduled to be implemented by 2009, and would enhance insurers' transparency and risk management practices.

Insurance focus
Further advances were made in the insurance sector between the Central Bank of Bahrain and the Bahrain Insurance Association (BIA) during a meeting within BIA's board, headed by its chairman, Ashraf Bseisu with the Central Bank's deputy governor Anwar Al Saddah at his office in Manama.

Revving up
Takaful BIBD was enjoying a 25% share of Brunei's total motor vehicle insurance sector, with the company seeing a 15% accretion in customers a year. Takaful BIBD also covers cars beyond Brunei's borders, into Borneo.

Floating shares
Saudi Arabia's Capital Market Authority granted permission for seven insurance companies to offer up 40% of their shares to the public. Of these, only Al Ahli Takaful did not sell 40%, choosing to float 26.45% of its shares instead.

The other companies – Sanad for Cooperative Insurance and Reinsurance, Saudi Arabian Cooperative Insurance Company, Saudi–Indian Cooperative Insurance, Gulf Union Cooperative Insurance, Al Ahlia Cooperative Insurance and Allied Cooperative Insurance – all offered up 35.44 million shares in total.

Don't stop me now!
The success of the Middle East insurance market will be judged by how fast local markets adapt to cashing in on opportunities, via surpassing stiff underwriting competition and attracting more human capital, as well as increasing professionalism stated the Central Bank of Bahrain.

Staying healthy
All UAE nationals, expatriates and visitors can now have a health insurance plan. The government appointed a temporary health insurance policy committee to set standards, regulations and conditions for insurance companies to provide the health insurance services. The body also assures compliance with related legislations and rules.

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Open up market
Dr Habeeb Al Mulla, former chairman of the Dubai Financial Services Authority (DFSA), urged the opening up of insurance markets to foreign companies for healthier competition, better products and improved customer services.

Rise in gross premiums
Statistics from the Central Bank of Bahrain showed a 22% rise in gross premiums for the Bahrain insurance sector in 2006. This marked the strongest ever annual growth in recent years.

NCB to launch IPO
The National Commercial Bank (NCB) signed an agreement to launch Al Ahli Takaful (ATC)'s initial public offering, with a share capital of SR100 million (US$26.66 million), consisting of 10 million shares with a nominal value of SR10 (US$2.66) each. NCB held 30% of the shares, with other investors holding 43.55% and the remaining 26.45% being formed by the IPO.

Diamond services
In a bid to up its customer service, Takaful BIBD launched its Takaful Diamond Services. Set to be a corporate and preferential client unit, the service includes personal reminders for policy renewal, business transactions, exclusive seating, transactional services and membership cards.

The tariff war
Indonesian Takaful insurers were fighting a tariff war in a competition that mirrors the conventional side of the industry. The rivalry is especially stiff for property and transport insurance.

Unprecedented closing
Due to a strong response, HSBC Amanah Takaful closed its first structured investment-linked product earlier than expected. The product received close to RM100 million (US$29.48 million) in subscriptions, covering most segments and communities in Malaysia.

Takaful on the way!
Pakistan Takaful companies were finally allowed to run Takaful under the country's Shariah compliant Takaful Rules 2005. Takaful companies for life and general insurance could commence operations with a minimum paid-up capital of PKR500 million (US$8.23 million) and PKR300 million (US$4.94 million) respectively.

The companies would be monitored by a three-member Shariah board and the Securities Exchange Commission of Pakistan (SECP). It is also mandatory for 10% of the companies' paid-up capital to be deposited with the State Bank of Pakistan.

Platform for Takaful
CIMB Wealth Advisors set a RM5 million (US$1.47 million) target (3 billion units) for its Wealth Protector Series. Its products will be distributed in collaboration with CIMB Group's insurance arm, as well as licensed agents.

Harmonization, please!
Middle East and North African (MENA) governments were urged to harmonize insurance regulations and legal frameworks to increase insurance penetration, with the MENA region currently seeing less than 10% insurance penetration.

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ARIG dips

The Arab Insurance Group (ARIG) saw a profit dip for its first quarter of 2007 to US$7.6 million, from US$8 million in 2006. ARIG's Far East and Sub-Saharan Africa businesses raked in 10% gross premiums, reporting substantial growth despite the lack of consistency in inadequately priced accounts.

Takaful Re, a subsidiary of ARIG, earned US$9.2 million in gross contributions, compared to its previous US$2.3 million.

Unchartered territory

Al Khaleej Insurance & Reinsurance Company (AKHI) planned to establish a Takaful company in the GCC. However it was still unknown who the company would cooperate with, its capital base, the date of commencement or the shareholders to be involved.

The bare necessities

Takaful International was mandated to insure all properties belonging to the Electricity and Water Ministry, amounting to BD1.6 billion (US$4.24 billion). This included power plants, sewers and water treatment plants.

The Shariah compliant contract has a four-year lifespan.

All out the window

Conventional insurers were finally allowed to establish window Takaful operations in Pakistan. The move, announced by the Pakistani government, was aimed at increasing Pakistan's insurance penetration, which is exceptionally low in the rural areas due to religious beliefs.

Significant increase

Despite its conservative underwriting policy and competitive market, Takaful Re saw a whopping 400% growth in gross written contributions for 2007, amounting to US$9.2 million. This hike was attributed to good response from Middle East and North African markets.

As at the 31st March 2007, Takaful Re reported a first quarter net profit of US$1.3 million, compared to US$500,000 in 2006. The company's investment income also doubled to US$1.4 million, from US$700,000 in the same quarter in 2006.

Product agents

Shamil Bank and Solidarity signed an agreement mandating Shamil Bank as distributor for Solidarity's general and family Takaful products. Shamil Bank will distribute the products via its network of seven branches and 15 ATMs strategically located all over Bahrain, in addition to a direct sales force and its online banking, call center, phone banking and SMS banking.

Law in the way?

Amana Takaful suspended all activities related to its proposed bonus issue. The company received a letter from the Colombo Stock Exchange instructing it to suspend its activities, as the new company law had rendered bonus issues redundant.

According to the law, firms looking to issue more shares to shareholders would have to split their shares. The new company law came into effect on the 3rd May, after the bonus issue was declared.

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Big one this year
Commerce Takaful expected to see an eightfold leap in revenue in 2007. This is credit to its collaboration with parent company CIMB Group and to the introduction of new products.

With the expectation of doubling its customer base from 100,000 to 200,000 by the year-end. Commerce Takaful plans to introduce 20 new Takaful-based products before the end of the year.

Islamic financing success
Tamweel recorded a whopping 395% increase in its first quarter profits, reaching Dh50.47 million (US$1.23 million).

Islamic financing and investing assets rose to Dh3 billion (US$861.7 million), a 94% increase, with financing and investing assets' growing by 90% to Dh45.84 million (US$12.48 million).

Aman at peace
The Dubai Islamic Insurance and Reinsurance Company (Aman)'s net profits saw a Dh4.5 million (US$1.22 million) growth in the first quarter, with technical profits reaching Dh6.4 million (US$1.74 million).

Aman also increased its capital from Dh60 million (US$16.33 million) to Dh200 million (US$54.45 million) since 2004, to support its local and regional expansions, as well as to increase its competitive edge.

Stirring the sector
The Oman United Insurance Company and Al Ahlia Insurance Company are discussing a possible merger. Oman's insurance sector currently sees a growth rate of 14% a year.

Untapped markets
Europe and the USA will contribute 27% of the total US$14 billion Takaful market by 2015.

Asia is also expected to be the largest producer of Takaful premiums, with a 46% market share.

The orient insures
Amlak signed an agreement with Arab Oriental Insurance to launch a comprehensive real estate and family protection insurance scheme for all Dubai and UAE customers.

The scheme covers individual interests of Amlak-financed properties, and additionally covers its customers against everyday hazards. It also aims to fully protect families against the repayment of outstanding balances with Amlak in case of serious injury or death.

What the industry needs
Sameer Al Wazzan and Ashraf Bseisu, CEO and general manager of Solidarity, respectively, highlighted the challenges in the Takaful industry at the Annual Middle East Insurance Forum. The duo affirmed that a solid infrastructure via the development of market intelligence and professional academic capacities was needed to penetrate different markets. Solidarity also confirmed its commitment to addressing challenges and draft industry expectations in the coming quarters.

The new recruit
The American Life Insurance Company (ALICO) and AIG Life were licensed to operate from the Qatar Financial Center (QFC), lovering retail and individual deals.

Takaful global giants
In line with CIMB and Aviva's tie-up, the companies launched their first joint venture product, the Takaful Global Giants.

The close-ended investment-linked product provides 100% capital protection if held to its five-year maturity, along with returns linked to the performance of 20 Shariah compliant global blue-chips at a minimum investment of RM10,000 (US$2,871), and a maximum of RM1 million (US$287,118).

Insurance for elders
Aviva was appointed the third insurer for the Singapore Ministry of Health's Eldershield insurance program, acquiring 50% of the Eldershield business. NTUC Income and Great Eastern Life were allowed the remaining 25% each.

The three insurers will offer a monthly payout of S$400 (US$260.47) for up to six years, a S$100 (US$64.99) increase from the previous five-year scheme.

Charitable TAIB
Insurance Islam TAIB placed donation boxes for the general public in four of its branches to collect donations for orphans registered under the Sultan Haji Hassanal Bolkiah Foundation (YSHHB). There are currently 1,713 children registered under TAIB's Orphan Takaful plan.

AXA's health plan
AXA Insurance Gulf began offering comprehensive healthcare plans to corporations and individuals in Abu Dhabi, soon after the company received its medical license from the General Authority for Health Services.

Corporate governance survey
The Hawkamah Institute for Corporate Governance and the Arab Forum of Insurance Regulatory Commissions planned to establish a regional taskforce on corporate governance for the insurance and reinsurance industry. The taskforce would execute corporate governance assessments of the insurance sector, develop corporate governance policies and guidelines for Takaful and conventional insurance, and build the industry's corporate governance capacity.

Stricter regulations
The Indonesian government announced it was to impose stricter insurance standards, including higher capital requirements and corporate governance standards.

Insurers would see the minimum capital requirement raised from IDR25 billion (US$2.8 million) to IDR60 billion (US$6.62 million) in 2008, and up again to IDR100 billion (US$11.1 million) in 2009. Reinsurers will also have to raise their capital from IDR80 billion (US$8.88 million) this year to IDR135 billion (US$15 million) in 2008, followed by IDR200 billion (US$22.36 million) in 2009.

SABB/Salama boost
Following SABB Takaful's 497.5% leap on the Saudi Arabian stock market (Tadawul), the Saudi IAIC Insurance Cooperative Company (SALAMA) also made a massive debut at 500%.

Salama's SR10 (US$2.66) shares opened at SR45 (US$11.99), and hit a high of SR64.75 (US$17.26) before closing at SR60 (US$15.99). Salama is the fifth insurance company listed on the stock exchange.

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Best Practices Framework
Effective from the 1st July, Malaysia's general insurance and Takaful industry simultaneously adopted the Best Practices Framework (BPF).

The new framework requires brokers, insurers and Takaful operators to standardize and streamline business procedures, while implementing a mechanism to facilitate the enforcement of premium warranty by members of the Malaysian Insurance and Takaful Brokers Association (MITBA), the Malaysian Takaful Association (MTA) and the General Insurance Association of Malaysia (PIAM) for specific non-motor classes.

A matter of semantics
Amana Takaful split its 25 million shares into 50 million, to adhere to new regulations introduced in the country. The regulations, which were formalized in May, saw more than a dozen companies withdrawing bonus share distributions to shareholders.

Although a share split and a bonus share issuance have the same effect – of increasing the number of shares per issue – many firms were forced to withdraw as old company laws did not incorporate the new terminology.

Solidarity serves better
Solidarity opened a new customer service center in the Reef Mall, offering a diverse selection of Shariah compliant Family Takaful plans ranging from children's education, retirement, wealth accumulation and mortgage protection, as well as general safety and protection Takaful products, including motor, medical, home, and other services.

No sleeping partners for Takaful Ikhlas
Takaful Ikhlas began looking out for strategic partnerships, open to both local and foreign Islamic financial institutions.

Syed Moheeb Syed Kamarulzaman, president and CEO of Takaful Ikhlas, was however firm: "We are open to suggestions by those keen to be our strategic partners but the main thing is there must be benefit to all the stakeholders – shareholders, staff, agency force and the participants. We don't want sleeping partners. We must have very good partners. For example in West Asia, we prefer to have local partners because they are well-informed about the market there."

Manulife's Takaful makeover
Manulife Insurance expects to see strong sales in 2007, on the back of a 40% growth in new business premiums in the 1st quarter of the year. The company, which is 45.76% owned by Manulife Financial in Canada, credited its growth to its bancassurance division, particularly its tie-up with HSBC Amanah Malaysia for Takaful products.

Ten-year projection
Saudi Arabia projected a tripling of the volume of its insurance premiums to SR20 billion (US$5.3 billion) by the end of 2017. This is in line with the Saudi government's bid to develop the insurance industry and expand financial services, and branch out from energy exports.

MAA Takaful to operate
MAA Takaful was allowed to commence operations on the 1st July, initially offering general Takaful products, subsequently followed by family Takaful.

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Doha Takaful
Doha Insurance (DIC) established an Islamic arm, dubbed Doha Takaful. The company will act as a separate branch of Doha Insurance, and is expected to be operational by the 4th quarter of 2007.

The growth of Takaful – along with the government's new laws for compulsory health and car insurance – spurred industry growth to SR7 billion (US$1.86 billion) in 2006.

For women only
Saudi Arabia launched a social insurance scheme for women in Riyadh, which is expected to also extend to Makkah.

Takaful BIBD raises awareness
Takaful BIBD, providers of the Fire Takaful Scheme and Car Financing Protector, pledged to consistently hold presentations and roadshows throughout 2007. This is in line with its promotional and awareness-raising bid.

100% foreign
The government of Pakistan permitted 100% foreign equity in Pakistan's insurance sector. However, under new regulations, foreign investors are required to bring in a minimum paid-up capital of PKR500 million (US$8.23 million) for life/family Takaful and PKR300 million (US$4.94 million) in non-life/general Takaful operations.

To gain 100% foreign equity in insurance businesses, foreign companies are required to contribute a minimum amount of US$4 million, with more than US$2 million sourced from overseas.

Milestone for BIIH
British Islamic Insurance Holdings (BIIH) submitted its business plan and formal regulatory application to the UK Financial Services Authority (FSA) for approval. BIIH is the result of the Gulf Ventures Corporation (GVC)'s collaboration with Ernst & Young and KPMG UK, with Mercer Management Consultants providing Takaful advisory services.

The insurer was formed with a paid-up capital of £19 million (US$38 million), via the purchase of shares by Gulf institutional and private investors during a private placement in 2006.

Ambitious about Takaful
Moody's Investor Services expects Takaful to reach a value of US$7.4 billion in premiums by 2015, having displayed a 20% growth since 2000.

Moody's attributes this growth to the hindrances faced by conventional insurers in converting to Shariah compliance. Conventional insurers currently commit almost 80% of their individual portfolios to interest-bearing fixed-income securities.

Double whammy
The National Bank of Dubai, along with the Dubai Islamic Insurance & Reinsurance Company (AMAN) and FWU Group proposed the launch of the NBD Takaful & Savings Program.

The plan's administrators and underwriters were AMAN, and was approved by NBD and AMAN's Shariah boards.

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MAS is lenient
The Monetary Authority of Singapore (MAS) proposed a new regulatory framework for insurance securitization. Upon approval, MAS will register special purpose reinsurance vehicles (SPRVs) incorporated in Singapore under section 8 of the Insurance Act. These SPVRs will, however, be regulated more lightly than fully fledged reinsurance firms.

Prudential–Aljazira JV
Prudential UK and Bank Aljazira signed a memorandum of understanding which saw a 39% takeover of Bank Aljazira's Takaful Ta'awuni life insurance by Prudential. The JV also planned to list on the Saudi Arabian stock exchange.

Prudential aims to capitalize on Bank Aljazira's local Takaful stronghold. Takaful Ta'awuni is the result of recent Saudi Arabian Monetary Agency (SAMA) regulations to separate banking and Takaful operations.

The Prudential–Aljazira MoU also covers expansion plans throughout the Middle East and North African region.

Awaiting approval
Malaysian Re (Dubai) was awaiting approval from the Dubai International Financial Center (DIFC) to allow the joint business of its conventional and re-Takaful activities.

The company aims to convert its representative office in Dubai into a fully fledged branch by the end of 2007. If the DIFC does not approve, Malaysian Re will conduct its re-Takaful business from Kuala Lumpur.

Postal service
Brunei's postmaster general, Abdul Kadir Tengah brought up the need for insurance coverage for postmen. Abdul Kadir stated that it was important for postmen to be covered by insurance as they are exposed to various kinds of hazards. Statistically, five accidents involving postmen occur every year in Brunei.

Neighborly ties
Qatar Islamic Insurance Company (QIIC) plans to be operational in Syria by the end of 2008, via a joint Takaful venture with Qatar International Islamic Bank (QIIB).

QIIC was also set to commence its Pakistan operations in September, having received a license to operate two companies in the country.

The importance of Takaful
Solidarity and Labuan Re held a one-day Takaful workshop, focusing on Takaful and its influence on the industry.

Solidarity financial experts shared their insights into the concept of Takaful, Takaful models, products and services and the factors effecting the growth of this Islamic system of insurance and assurance. Factors leading to the industry's development were also discussed.

Commerce Takaful confident
Commerce Takaful (CTB) announced its target of RM1 billion (US$294.68 million) in gross premiums before 2010, in line with CTB's aim to increase its strategic alliances and product offerings.

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First CFP plan
Takaful BIBD began offering a Car Financing Protector (CFP) plan, the first of its kind in Brunei. The CFP plan acts like a mortgage finance protector, with insurance covering the loan an individual takes for a house or piece of land. When one defaults on the monthly repayment for the loan, the CFP plan will cover the remaining amount.

Optimistic about bancassurance
Middle East bancassurance sales are set to hit US$100 million by 2010. Lebanon and Egypt are the current frontrunners in the industry, thanks to low distribution costs for insurance sales.

MNRB on track
MNRB Holdings charted its highest profits yet. Up 12%, the company's first quarter profits stood at RM129.5 million (US$38.07 million), up from RM115.2 million (US$33.86 million) in the corresponding period of 2006. MNRB's revenue also grew by 11% to RM835.6 million (US$245.65 million).

MNRB credited its strong performance to subsidiaries Takaful Ikhlas and Malaysian Reinsurance, who posted gross contributions of RM223.9 million (US$65.81 million), up by 34%, and RM692.5 million (US$203.57 million), up 9.5%, respectively.

AFNIC goes public
Al Fujairah National Insurance Company (AFNIC) listed Dh75 million (US$20.4 million) in share capital on the Abu Dhabi Securities Market (ADSM), making it the 13th insurance company to be listed and the 64th on the ADSM so far.

IPOs oversubscribed
The IPOs of the Saudi Arabian Cooperative Insurance (SAICO), Allied Cooperative Insurance Group (ACIG), Al Ahlia and Al Ahli Takaful were all oversubscribed. Charting subscription excesses of 2.4, 1.4, 1.6 and 2.8 times respectively, these oversubscriptions were achieved only three days after trading commenced.

2-in-1 from Hong Leong
Hong Leong Tokio Marine Takaful (HLTMT) launched HLTMT i-Invest, a single contribution, investment-linked family Takaful scheme which aimed to provide investment and protection returns.

The scheme serves as an alternative investment solution for clients seeking diversification in medium-term investments, with added Takaful protection.

Diverse Takaful BIBD
Takaful BIBD showcased its products Takaful Cahaya Mata, Car Financing Protector and Mawaddah at Brunei's Ministry of Development as part of its year-long roadshow.

Established environment
Malaysia's Takaful environment is better regulated than that of the GCC. Standard & Poor's (S&P)'s recently published a report on the Malaysian Takaful market is optimistic about the Malaysian market, if the country is able to reach the optimum level set out in Bank Negara Malaysia's Financial Sector Masterplan.

JULY

Premium hike

Jordan's overall gross insurance premiums grew by 17% to JD153.3 million (US$216.4 million) as at the end of June. Its general insurance premiums saw an 18% accretion to JD138.6 million (US$195.62 million), while life insurance premiums rose by 11% to JD14.7 million (US$20.74 million).

Gross claims also grew by 28% to JD90.3 million (US$127.45 million).

Arig wins portfolio

Scottish Re Group sold its Middle East Life portfolio to the Arab Insurance Group (Arig). Estimated to generate US$22 million in annual premiums, the sale allows Scottish Re to reorganize and focus on growth opportunities in the UK, Ireland and Asia. It also plans to concentrate on its global aviation business. Dave Howell, CEO of Scottish Re's International Segment is confident: "The portfolio represents a good strategic fit for Arig. We are particularly pleased that a number of employees from Scottish Re's local office have transferred to Arig."

Cross-border Takaful

Malaysia's Fortitude Capital teamed up with Kuwait's Al-Aqeelah to set up a Takaful company in Syria. The joint venture is due to be established by 2008, marking Al-Aqeelah's first Takaful operation.

Mega Takaful Sale at Maybank

Maybank offered up a range of special packages and rewards programs to customers involved in mortgage financing, car financing, credit cards, savings and investments as well as insurance/Takaful products throughout three months, ending September 2007.

GIB to advise

British Islamic Insurance Holdings (BIIH) appointed Gulf International Bank (GIB) as its GCC financial advisor. This is in tandem with the company's increase in paid-up capital to £80 million (US$165 million), to comply with Britain's Financial Services Authority's capital adequacy requirements.

BIIH also elected Investec Bank to be its UK financial advisor by the time of the launch of business in the first quarter of 2008.

Second license for Hannover

Hannover Re received a second license from the Central Bank of Bahrain (CBB), allowing the reinsurer to establish an office in Bahrain. Its first CBB license was awarded to Hannover re-Takaful, which is the principal underwriter of the firm's global re-Takaful business.

New counter for BIBD

Takaful BIBD opened a new counter at its Tungku branch, Latifuddin Complex, in Jalan Tungku Link, in line with the company's bid to increase customer convenience.

Hannover Re expands

Hannover Ruckversicherung AG (Hannover Re) announced it was opening a new branch in Bahrain. Expected to commence business operations in early 2008, the branch will offer its clients both Shariah compliant and conventional insurance solutions from a single location.

Revamping rules

GCC countries were working towards developing new insurance regulations to improve employee cover and increase health costs.

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Countries such as Bahrain were also working for the people, with a planned reduction in state healthcare costs and compulsory coverage for expatriates. Companies with over 500 employees will have to implement the new regulations first, followed by companies with over 50 employees, and finally those with more than 10.

Field trip to the ministry
Takaful BIBD held a presentation at the ministry of finance, conducted by the company's deputy general manager, Erdiana Rahim.

The products showcased at the briefing were the Takaful Cahaya Mata Plan, the Car Financing Protector, Fire Takaful and Mawaddah Plan, along with other services provided by Takaful BIBD.

Whopping premiums
Total life insurance premiums written in the Middle East and North Africa (MENA) region grew by 13.6% to US$3.3 billion in 2006, while non-life premiums increased by 16% to US$18.1 billion. The total figure of US$21.4 billion accounts for 0.58% of the total global insurance premiums.

Largest insurance contract
NCCI signed a SAR6.75 billion (US$1.8 billion) insurance contract with Shuqaia Water and Electricity Company - its largest contract to date. The company will provide erection insurance cover for the construction of the Shuqaiq II independent water and power project - due 2010, and insure delays in start-up, third party liability, marine cargo and terrorism.

Aon Saudi Arabia and Aon London were mandated the deal's consultant and broker.

New rules
The Qatar Financial Centre Regulatory Authority (QFCRA) set new rules to enhance the business environment for insurance companies and increase benefits to policyholders and investors.

The rules apply to the conduct of insurance businesses in or from the Qatar Financial Centre (QFC) and are principally set out in a new Conduct of Business Rulebook (COND) and a new version of the Controls Rulebook (CTRL). At the same time, selected rulebooks have also been revised to reflect the changes.

Solidarity at the Automall
Solidarity opened a new customer service center at the KFH Automall. The center offers Family and General Takaful products, and is in line with Solidarity's Bahrain expansion plan.

First foreign office
The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) signed an agreement with the UAE government to set up its first foreign representative office in Dubai.

The office will enable ICIEC to promote and market its services, and conduct follow-ups on ICIEC's operations, particularly those related to subscriptions, claims, recuperation and re-insurance, and the promotion of the Islamic Development Bank's program for technical cooperation.

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Tenancy extended
Takaful BIBD successfully extended its tenancy for its "onestop agency" at the headquarters of Brunei's Land Transport Department.

The agreement marked the second extension after the expiration of Takaful BIBD's five-year agreement on the 28th February 2007. Takaful BIBD's new extension will expire in February 2008.

Consolidating the sector
A number of Bahraini insurance companies signed an agreement with the Bahrain Insurance Association (BIA) to cooperate and set up procedures to facilitate motor claims.

The insurers involved included Al Ahlia Insurance, Bahrain Kuwait Insurance, Royal & Sun Alliance, Saudi National Insurance, Arabia Insurance, Iran Insurance, Solidarity, Trade Union Insurance, Al Nisr Insurance, MedGulf and Takaful International.

No more laundering
Solidarity completed a series of anti-money laundering training workshops, attended by more than 40 of its employees. The workshops focused on identifying the various stages of money laundering, company and staff obligations and the reporting process.

Policing policies
The Royal Brunei Police Force signed a comprehensive Takaful agreement with Takaful IBB. The Takaful scheme covers temporary disability with weekly payable benefits, covering accidents suffered both on the job and off duty, and also covers the families of the civil service personnel.

MAA optimistic
MAA Takaful was confident of generating RM200 million (US$57.89 million) from its family sector and RM150 million (US$43.42 million) from the general sector come 2008.

Health insurance covered
The Dubai Executive Council and the Dubai Health Authority were developing a framework to devise new health insurance laws in the Emirate.

The following six months would see the Health Insurance Committee contacting senior professionals in the medical insurance industry to set up one-on-one meetings to discuss health and medical issue.

QIC's holding company
The Qatar Insurance Company (QIC) revealed plans to set up Takaful, real estate and asset management subsidiaries via a holding company.

The holding company, registered in Qatar and based in Doha, will focus on international operations.

Prudential Life expands
India's ICICI Prudential Life Insurance established a representative office in Dubai, making it the first Indian private life insurer to set up a UAE office.

Takaful Re
Takaful Re Limited تكافل ري ليميتد

A

Ajr = commission or fee charged for services

Amanah = reliability, trustworthiness, loyalty, honesty
An important value of Islamic society in mutual dealings. It also refers to deposits in trust, where a person may hold property in trust for another.

B

Bai al Arboon = deposit-secured sale
A sale agreement in which a security deposit is provided in advance as part payment towards the price of the commodity. The deposit is forfeited if the buyer does not meet his obligation.

Bai Al Salam = future delivery
A contract whereby the payment is made in cash at the point of contract but the delivery of asset purchased will be deferred to a predetermined date.

Bai Inah = sale and buy-back
The sale and buy-back of an asset for a higher price than that for which the seller originally sold it.

A seller immediately buys back the asset he has sold on a deferred payment basis at a price higher than the original price. This can be seen as a loan in the form of a sale.

Bai Muzayadah = open bidding trading
The principle governing open auctions, where the asset is awarded to the highest bidder.

Bai Wafa = sale and buy-back
The sale and buy-back of an asset within a set time, when the original buyer agrees to the original seller's repurchase.

Batil = null and void

D

Darura = necessity
In an emergency, Muslims may disregard aspects of Shariah laws in order to save their lives, or to preserve the Islamic community.

F

Fard al Kifa'i = socially obligatory duties
A collective duty of Muslims. The performance of these duties (for example funeral prayers) by some Muslims absolves the rest from discharging them.

This term covers functions which the community fails to or cannot perform and hence are taken over by the state, such as the provision of utilities, or the building of roads, bridges and canals.

Fasid = unsound or unviable
A forbidden term in a contract, which consequently renders the contract invalid.

Fatwa = religious decree

Fiqh = Islamic jurisprudence
The science of the Shariah. An important source of Islamic economics.

Faqih = Shariah jurist
Plural = Fuqaha

G

Gharar = uncertainty
One of three fundamental prohibitions in Islamic finance (the other two being riba and maysir). Gharar is a sophisticated concept that covers certain types of haram uncertainty in a contract. It is an exchange in which one or more parties stand to be deceived through ignorance of an essential element of the exchange. Gambling is a form of gharar because the gambler is ignorant of the result of the gamble.

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H

Halal = lawful, permissible
The concept of halal has spiritual overtones. In Islam there are activities, professions, contracts and transactions that are explicitly prohibited (haram) by the Quran or the Sunnah. All other activities, professions, contracts and transactions are halal.

Haram = unlawful, forbidden
Activities, professions, contracts and transactions that are explicitly prohibited by the Quran or the Sunnah. See *halal* above.

Haq Maliy = rights on the financial assets
Haq Maliy are rights on the financial assets. Examples of such rights are haq dayn (debt rights) and haq tamalluk (ownership rights).

Hawala = bill of exchange, remittance
A contract which allows a debtor to transfer his debt obligation to a third party who owes the former a debt. The mechanism of Hawala is used for settling international accounts by book transfers, thus obviating the need for a physical transfer of cash.

Hibah = gift
A gift voluntarily donated in return for a loan provided or a benefit obtained.

Hila = forbidden structure
A transaction which appears permissible, but is in fact structured in an un-Islamic way.

I

Ibra = rebate
When a person withdraws the right to collect payment from a borrower.

Ijtehad = effort, exertion, industry
A faqhi's endeavor to formulate a rule on the basis of evidence found in the Islamic sources.

Inan = financial partnership

Istijrar = recurring sale
Different quantities are bought from a single seller over a period of time. Sometimes it is also referred to transactions whereby seller delivers different quantities in different installments to complete the full purchase. Some divergence among the scholars in terms of the timing of fixation and pricing.

Istisnah = advance purchase of goods or buildings
A contract of acquisition of goods by specification or order, where the price is paid in advance, or progressively in accordance with the progress of a job. For example, to purchase a yet to be constructed house, payments would be made to the builder according to the stage of work completed.

This type of financing, along with Salam, is used as a purchasing mechanism, and Murabahah and Bai Bithaman Ajil are for financing sales.

Ittifaq Dhimni = pre-agreed contract
The sale and repurchase of an underlying asset. Prices are agreed in advance, prior to the contract, to allow the bidding process to take place.

J

Jahl = ignorance (of morality or divinity)

Ji Alah = pre-agreed contract
A unilateral contract promising a reward for a specific act or accomplishment, also known to be a contract of reward;

Ju'alal = stipulated price for performing a service
Applied by some in Islamic banking. Bank charges and commission have been interpreted to be Ju'alal by the jurists and thus considered lawful.

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Takaful Re
Takaful Re Limited تكافل ري ليميتد

K

Kafalah = guarantee
Shariah principle governing guarantees. It applies to a debt transaction in the event of a debtor failing to pay.

Khilabah = fraud
A form of fraud, either in word or deed by a party to the trading contracts with the intention of inducing the other party into making a contract. This is prohibited according to the Shariah.

Khiyanah = deception
Refers to deception by not disclosing the truth or breaching an agreement in a hidden way. This is prohibited according to the Shariah.

L

Loan (with service charge)
Some Islamic banks give loans with service charges. The Council of the Islamic Fiqh Academy has resolved that it is permitted to charge a fee for loan-related services offered by an Islamic bank, provided that the fee relates to service-related expenses.

The service charge can only be calculated accurately after all administrative expenditure has been incurred (at the end of the year). However it is permissible to levy an approximate charge on the client, and then reimburse/claim the difference when the actual expenses are known.

M

Maaliki = Islamic school of law
Islamic school of law founded by Imam Malik Ibn Anas. Followers of this school are known as Maalikis.

Mansil = Shariah compliant property mortgage in the UK

Maysir = gambling
One of three fundamental prohibitions in Islamic finance (the other two being riba and gharar).

The prohibition on maysir is often used as grounds for criticism of conventional financial practices such as speculation, conventional insurance and derivatives.

Muamalat = economic transaction
The lease of land or fruit trees for money, or for a share of the crop.

Mudarabah = trust financing, profit sharing
An investment partnership, whereby the investor (the rab al maal) provides capital to the entrepreneur (the mudarib) in order to undertake a business or investment activity. While profits are shared on a pre-agreed ratio, losses are born by the investor alone. The mudarib loses only his share of the expected income.

The investor has no right to interfere in the management of the business, but he can specify conditions that would ensure better management of his money. In this way Mudarabah is sometimes referred to as a sleeping partnership.

A joint Mudarabah can exist between investors and a bank on a continuing basis. The investors keep their funds in a special fund and share the profits before the liquidation of those financing operations that have not yet reached the stage of final settlement. Many Islamic investment funds operate on the basis of joint Mudarabah.

Mudarib = entrepreneur in a Mudarabah contract
The entrepreneur or investment manager in a Mudarabah who puts the investor's funds in a project or portfolio in exchange for a share of the profits. A Mudarabah is similar to a diversified pool of assets held in a discretionary asset management portfolio.

Mufawadah = equal, unlimited partnership

continued...

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Murabahah = cost-plus financing
A form of credit that enables customers to make a purchase without having to take out an interest-bearing loan. The bank buys an item and sells it to the customer on a deferred basis. The price includes a profit margin agreed by both parties. Repayment, usually in installments, is specified in the contract.

The legality of this financing technique has been questioned because of its similarity to riba. However, the modern Murabahah has become the most popular financing technique among Islamic banks, used widely for consumer finance, real estate, the purchase of machinery and for financing short-term trade.

Muqasah = Debt settlement by a contra transaction.

Musharakah = joint venture, profit and loss sharing
An investment partnership in which all partners are entitled to a share in the profits of a project in a mutually agreed ratio. Losses are shared in proportion to the amount invested. All partners to a Musharakah contribute funds and have the right to exercise executive powers in that project, similar to a conventional partnership structure and the holding of voting stock in a limited company.

This equity financing arrangement is widely regarded as the purest form of Islamic financing.

The two main forms of Musharakah are:

Permanent Musharakah: an Islamic bank participates in the equity of a project and receives a share of the profit on a pro rata basis. The length of contract is unspecified, making it suitable for financing projects where funds are committed over a long period.

Diminishing Musharakah: this allows equity participation and sharing of profits on a pro rated basis, and provides a method through which the bank keeps on reducing its equity in the project, ultimately transferring ownership of the asset to the participants. The contract provides for payment over and above the bank's share in the profit for the equity held by the bank. Simultaneously the entrepreneur purchases some of the bank's equity, progressively reducing it until the bank has no equity and thus ceases to be a partner.

N

Nisab = exemption limit
Exemption limit for the payment of zakat, which differs for different types of wealth.

Q

Qabdh = discount
Qabdh means possession, which refers to a contract of exchange. Generally, qabdh depends on the perception of 'urf or the common practices of the local community in recognizing that the possession of a good has taken place.

Qard = loan

Qard Hasan = benevolent loan
A loan contract between two parties for social welfare or for short-term bridging finance. Repayment is for the same amount as the amount borrowed. The borrower can pay more than the amount borrowed so long as it is not stated by contract.

Most Islamic banks provide interest-free loans to customers who are in need. The Islamic view of loans (qard) is that there is a moral duty to give them to borrowers free of charge, as a person seeks a loan only if he is in need of it. Some Islamic banks give interest-free loans only to the holders of investment accounts with them; some extend them to all bank clients; some restrict them to needy students and other economically weaker sections of society;

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Takaful Re
Takaful Re Limited تكافل ري ليميتد

and some provide interest-free loans to small producers, farmers and entrepreneurs who cannot get finance from other sources.

Qimer = gambling
An agreement in which possession of a property is dependant upon the occurrence of an uncertain event. By implication it applies to those agreements in which there is a definite loss for one party and a gain for the other, without specifying which party will gain and which party will lose.

R

Rab al maal = the investor in a Mudarabah contract

Rahn = collateral
An arrangement whereby a valuable asset is placed as collateral for a debt. The collateral may be disposed of in the event of a default.

Riba = interest
An increase, addition, unjust return, or advantage obtained by the lender as a condition of a loan. Any risk-free or "guaranteed" rate of return on a loan or investment is riba. Riba in all its forms is prohibited in Islam.

In conventional terms, riba and "interest" are used interchangeably, although the legal notion extends beyond mere interest.

Riba al Buyu = usury of trade
Also known as riba al fadl.
A sale transaction in which a commodity is exchanged for an unequal amount of the same commodity and delivery is delayed.

To avoid riba al buyu, the exchange of commodities from both sides must be equal and instant. Riba al buyu was prohibited by the prophet Mohammad to forestall riba (interest) from creeping into the economy.

Riba al Diyun = usury of debt
Also known as usury of delay (riba al nasia).
The usury of debt was an established practice amongst Arabs during the pre-Islamic period. It can occur as an excess increment on top of the principal, which is incorporated as an obligatory condition of the giving of a loan.

Alternatively, an excess amount is imposed on top of the principal if the borrower fails to repay on the due date. More time is permitted for repayment in return for an additional amount. If the borrower fails to pay again, a further excess amount is imposed, etc.

S

Sadaqah = voluntary charitable giving

Salam = advance purchase
Advance payment for goods which are to be delivered at a specified future date.

Shariah = Islamic jurisprudence
Islamic cannon law derived from three sources: the Quran, the Hadith and the Sunnah

A "Shariah compliant" product meets the requirements of Islamic law.

A "Shariah board" is the committee of Islamic scholars available to an Islamic financial institution for guidance and supervision in the development of Shariah compliant products.

A "Shariah advisor" is an independent Islamic trained scholar that advises Islamic institutions on the compliance of the products and services with the Islamic law

Shirkah = partnership
A contract between two or more persons who launch a business or financial enterprise to make a profit.

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Takaful Re
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T

Tabarru' = Takaful donation
A contract where a participant agrees to donate a pre-determined percentage of his contribution (to a Takaful fund) to provide assistance to fellow participants. In this way he fills his obligation of joint guarantee and mutual help should another participant suffer a loss. This concept eliminates the element of gharar from the Takaful contract.

Takaful = Islamic insurance
Based on the principle of mutual assistance, Takaful provides mutual protection of assets and property and offers joint risk-sharing in the event of a loss by one of the participants. Takaful is similar to mutual insurance in that members are the insurers as well as the insured.

Tawarruq = reverse Murabahah
In personal financing, a client with a genuine need buys an item on credit from the bank on a deferred payment basis and then immediately resells it for cash to a third party. In this way, the client can obtain cash without taking out an interest-based loan.

Ta'widh = deliberate delay in payment
Penalty agreed upon by the contracting parties as compensation that can rightfully be claimed by the creditor when the debtor fails or is late in meeting his obligation to pay back the debt.

U

Ujrah = fee
The financial charge for using services, or manfaat (wages, allowance, commission, etc...)

Urbun = deposit
Earnest money which forms part payment of the price of goods or services paid in advance, but will be forfeited in the event the transaction is cancelled. The forfeited money is considered as hibah (gift).

'Uqud al-Mu'awadhart = Contracts of exchange.

'Uqud al-Tabarruat = Charitable contracts.

'Uqud al-Isytirak = Contracts of partnership.

W

Wakalah = agency
Absolute power of attorney: where a representative is appointed to undertake transactions on another person's behalf.

In terms of Takaful operations, Wakalah refers to an agency contract, which may involve a fee for the agent.

Waqf = charitable trust
Plural = Awkaf, Awqaf
An endowment or a charitable trust set up for Islamic purposes (usually for education, mosques, or for the poor). It involves tying up a property in perpetuity so that it cannot be sold, inherited, or donated to anyone.

Z

Zakat = religious tax
An obligatory contribution which every wealthy Muslim is required to pay to the Islamic state, or to distribute amongst the poor.

There are two types of zakat:

Zakat al Fitr, which is payable by every Muslim able to pay at the end of Ramadan. This is also called Zakat al Nafs (poll tax).

Zakat al Maal is an annual levy on the wealth of a Muslim above a certain level. The rate paid differs according to the type of property owned.

TAKAFUL FUNDS

Fund Name	2006 Returns (%)	Rise in NAV Since Inception (%)	One Year Rolling Return (%)	Sharpe Ratio
NTUC Amanah Equity Fund	3.23	27.20	11.48	1.04
NTUC Amanah Bond Fund	4.09	11.40	8.37	0.67
Solidarity European Real Estate Fund	12.31	25.43	12.29	1.52
Solidarity Global Growth Fund	5.77	20.42	21.67	0.36
Solidarity International Real Estate Fund	9.77	25.33	8.57	2.05
Solidarity Leasing Fund	4.85	16.69	4.89	3.71
Takaful Asia-Pacific Fund	18.66	70.32	32.84	1.33
Takaful Global Fund	5.60	39.16	18.88	-0.07
Takaful Sinaran Fund	-5.69	-1.89	4.84	-0.77

Funds Information

Fund Name	Investment Geography	Instruments Traded	Management Company	Head Office Location
NTUC Amanah Equity Fund	North America	Equity	NTUC Income	Singapore
NTUC Amanah Bond Fund	Asia Pacific	Fixed Income	NTUC Income	Singapore
Solidarity European Real Estate Fund	Europe	Real Estate	Solidarity	Bahrain
Solidarity Global Growth Fund	Global	Equity	Solidarity	Bahrain
Solidarity International Real Estate Fund	Global	Real Estate	Solidarity	Bahrain
Solidarity Leasing Fund	Middle East/ Africa	Leasing	Solidarity	Bahrain
Takaful Asia-Pacific Fund	Asia Pacific	Equity	HSBC Insurance Singapore	Singapore
Takaful Global Fund	Global	Equity	HSBC Insurance Singapore	Singapore
Takaful Sinaran Fund	North America	Equity	HSBC Insurance Singapore	Singapore