Islamic Finance *news* Supplements

June 2013

Islamic finance in Africa: In need of divine intervention?

Features

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Nigeria & Kenya: Takaful torch bearers

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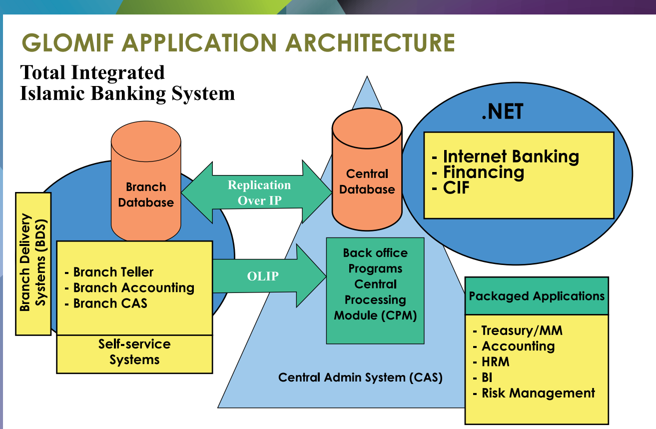

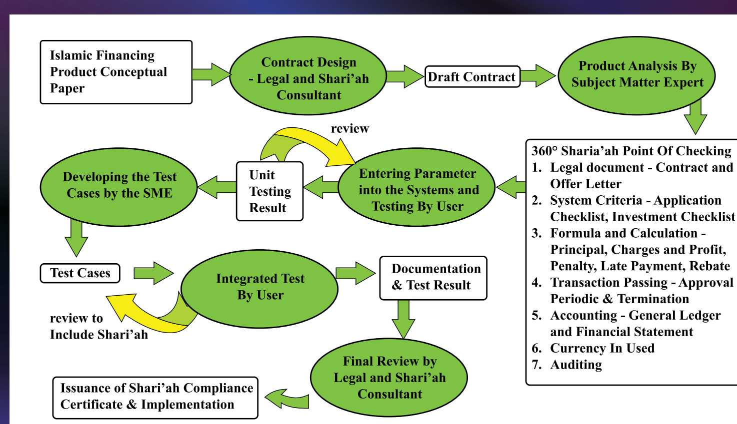

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As the world turns

This decade, it seems as though the world economy is turning in favor of Asia and Africa; two of the most populous Muslim continents in the world. It is no question then, why, Islamic banking and finance players have also begun to consider the African market as a serious contributor to their institutions' balance sheets.

Always on the lookout for the next big thing, investment bankers, fund managers and legal advisors are constantly dissecting markets and peeling back the layers to find any glimmer of opportunity. Africa; a complex market which is both slave and master to its own unique political, cultural and religious diversity, has managed to capture the attention of the investment community despite these inherent complexities.

Although on one hand, the political risks stemming from these diversities are a major cause for concern to foreign investors looking to enter into the African market, this diversity has also created a myriad of opportunities: from microfinancing in the sub-Saharan region to wealth management in the south and infrastructure development in the north.

To those on the periphery, the African market will always seem exciting – slightly risky and perhaps unnerving, but equally rife with returns. On the Islamic banking and finance front, Africa is said to possess incredible opportunities to issuers and investors alike; considering its substantial Muslim population of over 400 million, its geographic proximity to Europe and the Middle East, longstanding trade ties between Africa and the Middle East, as well as development projects looking to be funded in a Shariah compliant manner.

In this issue of Islamic Finance *news* Supplements, we chart the progress achieved so far throughout the African market, highlight regulatory changes and peel back the layers to reveal the abundant opportunities this unique continent has to offer.

Nazneen Halim,
Editor

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Islamic finance in Africa: In need of divine intervention?

Africa, with all its complexities and unique business conducts, has never been far from the thoughts of industry stakeholders as a means of making manifold returns on their investments. What is it that excites bankers, corporations and investors when it comes to Africa, and why is Islamic finance being touted as a savior to the world's second-largest continent's economic woes? NAZNEEN HALIM attempts to find the missing link.

Africa is somewhat of an enigma, with its extremely diverse religious and cultural influence, stark extremes in the levels of wealth and poverty, education and lack of, as well as its different levels of political risk and internal stability. In the North for instance, where the influence of Islam and the Arab culture is most prevalent, political instability is an ongoing uphill battle as pockets of unrest continue to erupt across Egypt and Libya.

Even Tunisia, which is considered to be one of the most advanced African countries in terms of civil and women's rights, continues to struggle with its ghosts of the past as it searches to find its identity, post- Arab spring. And although the IDB is actively involved in creating avenues for financing in Africa, the rest of the industry is seen to be less than developed.

According to Karim Amous, a managing partner at SmartEco in Tunisia, North African countries have seen the benefits of Islamic finance to their economy, especially as global banks, particularly those in the Middle East, seek new opportunities outside of the Eurozone. "North African countries are very attractive to bankers because the average return on investment of the projects are much higher than in European countries; which are becoming saturated and less attractive to some banks," he said.

Despite the political turmoil in the North, including Tunisia, Karim believes that investors are acting too hastily, and should instead wait to reap the benefits of their investments: "People tend to flee these countries due to the political situation, but I believe that now is the best time to establish a presence and invest in North African countries. After all, leaders are the ones who benefit the most, and not followers."

The law for Sukuk in Tunisia is currently under deliberation by the finance committee of the republic's National Constituent Assembly (NCA). According to Karim, the law will be tabled to the parliament after a thorough review by the NCA to be approved at a national level. However, there is still much work to be done in Tunisia in the meantime, as Karim feels that the

current institutions looking to offer Islamic finance, or which have begun to offer Shariah compliant products, are still not completely prepared to undertake this mode of business. He said: "We believe that the institutions involved in Islamic finance are not currently ready to apply this method of financing."
However, he adds that several sectors have benefited from the implementation of Islamic finance instruments throughout North Africa, including Tunisia. This includes agribusiness,

industry, tourism, health, and finance. "The demand for Islamic finance products is increasing day by day, and our customers are seeking more Halal modes of financing," Karim elucidated.

Wasted potential?

Although the recent deal between investment bank EFG Hermes and Qatari consortium QInvest did not materialize due to a lack of support from the Egyptian government, Dr Hatim El Tahir, the director of Islamic finance group at the Islamic Finance Knowledge Center Leader at Deloitte & Touche in Bahrain, believes that the trend for acquisitions by Middle Eastern banks in the North and other parts of Africa will intensify based on positive growth numbers. "Currently, there are at least two major Islamic banks considering tapping into Africa, and they are looking to leverage on strong liquidity and good performance over the last few years. I believe that other Gulf Islamic banks will also continue to eye opportunities in the North, East, and West African countries.

> **"The trend for acquisitions by Middle Eastern banks in the North and other parts of Africa will intensify based on positive growth numbers"**

Sudan, which borders with Egypt in the North, is another classic example of the star pupil falling behind. The country, which was one of the first in the world to implement a comprehensive Islamic banking system, has been ravaged by decades of political instability; which had eventually led to a split between the Muslim-majority North and Christian-majority South. Hatim, whose personal interest lies in studying the Sudanese Islamic banking market, believes that Islamic banks can play a key role in North Sudan in addressing current investment challenges and to finance natural resources and infrastructure projects.

"Islamic banking can help create a productive economy and ignite growth. Sudan itself is a tale of two growth poles. The country's loss of oil revenue to South Sudan should, in my opinion, bring more benefits to the economy by way of optimizing development in the sectors of real economy such as, the ever-forgotten agribusiness. The sheer sluggish economy and inadequate social capital infrastructure should be the vital strategic priorities of the government and foreign investors alike. The country has to strategize the issues relating to security, political and social stability," he said.

Key sectors

According to latest figures by the African Development Bank, as at December 2012, the growth forecasts for many African countries remain relatively dire, as the continent suffers the repercussions of the credit crunch which affected a majority of its investors.

Juma Mvudi, who works in the Shariah department of Gulf African Bank, suggests the issuance of debt instruments, including Sukuk, to target global investors looking to diversify their asset portfolio and gaining attractive yields. He added: "The prosperity of the African development strategy relies heavily on the development partners' ability to promote efforts against poverty and upgrading of infrastructure in the continent. Considering the challenges faced by development partners, Sukuk offer a viable alternative to funding that can potentially bridge the funding deficits in the continent. However, this is then pegged to the government's willingness to support Islamic finance by putting in place the necessary infrastructure.

Through his research, Hatim has identified key sectors in the African market, including retail and corporate financing in trade, light industries and agribusiness financing. "The retail and manufacturing sectors represent variably significant contribution to GDP in African countries and help create jobs and productivity. Islamic banks have pursued different market strategies which included direct investment, strategic alliances, office representation and acquisitions. The potential is great, especially in sub-Saharan states which have sustained steady strong performance during the last three years or so."

A long way to the top

Although progress has begun to occur in markets which have been identified as 'core markets' to the Islamic finance sector in Africa, there is still much to be done; as industry players have unanimously agreed. The main factor, it seems, is political will. Juma said: "Africa has been rated the third-fastest growing region in Islamic finance, following closely behind the Middle East and Asia, due to appropriate reforms supporting the industry witnessed in some parts of the continent. All these factors augur well in placing the continent in a strategic position to attract an influx of investments from the Middle East and Asia. The issuance of Sukuk by African governments will create the correct platform for injection of investments from Asia and the Middle East, which will go a long way in bridging the gap created by the dwindling of support from western development partners."

Hatim also believes that there is still inadequate governmental support and guidance throughout the African continent, excluding some markets in the West, such as Kenya and Nigeria, as well as in the South, where Islamic banks such as ABSA Islamic Bank have continued to maintain its presence despite challenging conditions stemming from the nascence of the South African Islamic banking industry. Wealth management has also been touted as a potential growth avenue for Islamic finance in South Africa, with a majority of the republic's Muslims said to be seeking Halal forms of investments.

"There is still a lack of adequate regulatory frameworks and good governance practices, inadequate government support and guidance as well as inconsistency and absence of coordination between the agents of the government in oversight and regulation for foreign financial service investors in Africa. Shortages of skills and talent in Islamic banking and a lack of awareness and education towards the industry's product offerings have also hindered growth so far," Hatim concluded.

Islamic trade finance in Africa: Ripe for the picking

Despite long-established trade ties, Africa has up till now been only a minor trade partner for the GCC. However, trade finance flows between the two regions have been steadily increasing and a valuable relationship has developed. As conventional banks retreat from the trade finance space and with growing interest in Shariah compliant solutions across the African continent, LAUREN MCAUGHTRY discusses how the Islamic finance industry can leverage these new opportunities.

Trade finance currently accounts for around 60-80% of the US$12 trillion trade in global merchandise. Islamic trade finance in particular is gathering momentum, as it steps in to take the place of conventional banks who have hitherto dominated the market but are now retreating due to the tightened credit conditions in their home markets and the new Basel III capital requirements which are limiting loan reserves.

Trade conditions have been challenging over the past few years, with financial tensions in the EU along with tighter economic policies, political risk and rising commodity prices limiting production growth to 2.4% globally in 2011 while trade in goods and services slowed to 5%, according to the OIC Annual Report on Trade Between Member States 2012. In addition, the Arab Spring had a negative impact on the growth of trade in goods and services in the African region – the interruption of supplies of Libyan oil alone reduced total African exports by 8% in 2011.

A tempting prospect

Nevertheless, the continent remains an attractive prospect. According to the IMF's latest World Economic Outlook, sub-Saharan Africa is set to grow at a rate of 5.7% over the next five years, making it the second-fastest growing region in the world after Asia and exceeding the MENA region's forecast of 4.2%. Driven by a young and rapidly urbanizing population growing at 2.5% a year, and with strong economic growth supported by massive foreign investment along with improved governance and political stability in many countries, prospects are looking up.

A shift in focus

Thirty years ago, 85% of the GCC's trade was with OECD members, dominated by the developed economies of North America and Europe. By 2009 however, 45% of trade had moved to emerging markets, and as the political landscape shifts and economies develop, new trends have formed. One of these is a boom in trade between Africa and the GCC, which have in the past had a surprisingly limited trading relationship.

According to Switzerland-based Gulf Research Center, two-way trade between the GCC and Africa increased from US$2.8 billion in 1990 to US$6.8 billion in 2000 and further surged to US$25.7 billion in 2008, although it fell slightly to US$18.1 billion in 2009 due to the impact of the financial crisis. Bilateral trade between the two regions has grown by 170% from 2000-2009, while the GCC's exports to and imports from Africa have registered an annual average growth rate of 14.7% and 27.5%, respectively.

While only a small proportion of this is funded Islamically, the sector is attracting attention. Out of the IDB's US$4 billion Special Program for the Development of Africa 2008-12, 27% was earmarked for trade financing.

In addition, the explosion in trade between China and Africa is also benefiting the Gulf, with UAE ports acting as a trading gateway between the two regions. Between 2009-11 the volume of China/Africa trade increased by 83% to US$166 billion, with over 2,000 Chinese companies operating on the continent. China's trade flows with Africa, currently over nine times those of the GCC, also show just what potential the continent holds for those who make the effort to invest.

A slow start

However, compared to other regions the GCC still trails behind in its African investment; and trade links have up until now been limited. According to the WTO, in 2011 Africa's merchandise trade with the Middle East accounted for just 3.6% of its total merchandise trade.

Total GCC exports to Africa in 2011 were US$26.6 billion, while imports from the continent were worth US$7.2 billion, leaving the GCC countries with a trade surplus of US$19.4 billion, according to International Trade Center (ITC) statistics. However, these figures are tiny compared to the trade volumes between Africa's biggest partners. Over 30% of African trade is with the EU, which accounts for a total value of around EUR268.5 billion (US$355 billion) a year according to the European Commission, followed by China, the US, India and Japan. In comparison, only seven sub-Sarahan countries feature among the GCC's 50 largest trading partners: South Africa (22nd), Kenya, Nigeria, Tanzania, Ethiopia, Uganda and Zambia. Trade between these seven countries and the GCC reportedly reached EUR13 billion (US$16.7 billion) in 2011; with the UAE and Saudi Arabia accounting for 75% of the total.

Challenge Africa

Despite its abundance of natural resources, sub-Saharan Africa is in fact one of the worst-performing regions when it comes to trade - both in terms of intra-regional commerce and global trade flows. Encouragingly, international investment has been picking up, and experts have predicted that if the continent can steer itself away from its current reliance on commodity exports, trade levels could explode.

However challenges including low intra-continental trade flows, poor infrastructure and weak economic ties are inhibiting growth, while the continent seriously struggles with an over-reliance on a small number of commodities, just as GCC nations are over-reliant on oil exports.

According to the ITC, these commodities include oil and gas from Angola, Cameroon, the Democratic Republic of Congo, Equatorial Guinea, Gabon and Nigeria; cocoa and coffee from Burundi, Ivory Coast, Ethiopia, Ghana and Rwanda; aluminium from Guinea and Mozambique; cotton from Burkina Faso and Mali; cashew nuts from Gambia and Guinea Bissau; and tobacco from Malawi.

Table 1: Top OIC trading nations 2011

Country	US$bn	% share
Malaysia	467	12%
Saudi Arabia	457	12%
UAE	455	12%
Indonesia	381	10%
Turkey	376	10%
Iran	225	6%
Nigeria	166	4%
Qatar	126	3%
Kuwait	109	3%
Algeria	105	3%
Total	2,867	74%
Total OIC trade	3,900	

Source: COMCEC 2011 Annual Report

Table 2: Top 10 GCC exports to Africa, 2011

Product group	Value (US$m)
Mineral fuels, oils and distillation products	16,955
Plastics and related articles	2,469
Fertilisers	578
Machinery, nuclear reactors and boilers	564
Aluminium and related articles	452
Electrical and electronic equipment	432
Vehicles (excluding trains and trams)	374
Organic chemicals	369
Salt, sulphur, earth, stone, plaster, lime and cement	332
Articles of iron and steel	273

Source: International Trade Center

Table 3: Top 10 GCC imports from Africa In 2011	
Product group	**Value (US$m)**
Pearls, precious stones, metals and coins	1,457
Electrical and electronic equipment	638
Edible fruits and nuts	607
Iron and steel	538
Mineral fuels, oils and distillation products	370
Copper and related articles	288
Articles of iron and steel	286
Edible vegetables, roots and tubers	252
Coffee, tea, mate and spices	232
Dairy products, eggs, honey and edible animal products	202

Source: International Trade Center

A key problem is that the GCC has not in the past had much need for the main exports that Africa relies upon - Africa generally ships cheaper raw materials, rather than value-added manufactured goods and high-end services that the Gulf region demands. In return, the main product the GCC sells to Africa is fuel, which accounts for around 50% of all exports.

Islamic opportunity

Between OIC countries an increase in demand in recent years has stimulated strong growth, with intra-OIC trade increasing by 23.5% between 2010-11 and accounting for 10.8% of total world trade. Taking advantage of this opportunity, the OIC has stated that it aims to increase Islamic trade between member nations to 20% of the total trading volume by 2015, up from 16.5% in 2011.

According Mohamad Nedal Alchaar, the former secretary-general of AAOIFI, Islamic trade finance could reach up to US$800 billion a year if Islamic banks focus on strengthening relationships with other countries. “At this point, Islamic trade financing is very simple, it’s not focused and it isn’t competitive,” he said in a 2011 interview with Bloomberg. “We could tap 20% of the total trade financing, that’s very reasonable.” With 23 out of 54 African states members of the OIC, this is undoubtedly encouraging.

Private sector interest

With Africa’s large Muslim population and growing interest in Shariah compliant products and services, and the position of the GCC as a global hub for Islamic finance, trade finance also provides an excellent connecting point between the two regions. Several major players have already started to take advantage of the opportunity. DP World has port operations in Senegal, Mozambique and Djibouti. Ooredoo (previously Qatar Telecom) just last week lost its lengthy bid for a controlling stake in Maroc Telecom, which would have given it exposure to 13 million customers across four Sub-Saharan countries, while UAE-based Etisalat already owns stakes in telecom operators in Tanzania, Nigeria and other parts of West Africa. In real estate, Saudi-based Kingdom Holdings owns hotels in Kenya, Zambia and Ghana; and in banking, moves have included the purchase by Istithmar of a stake in Kenyan Shariah compliant Gulf African Bank.

Table 4: The GCC’s main trading partners 2011			
Rank	**Trade partner**	**Trade (US$m)**	**% of total**
1	EU	163,983	13.5
2	Japan	147,275	12.2
3	India	136,345	11.3
4	China	127,262	10.5
5	South Korea	103,145	8.5
22	South Africa	8,399	0.7
33	Kenya	3,318	0.3
42	Nigeria	1,227	0.1
43	Tanzania	1,090	0.1
44	Ethiopia	1,062	0.1
48	Uganda	902	0.1
50	Zambia	748	0.1

Source: European Commission

The role of the ITFC

One of the biggest contributions to the sector, however, comes from the considerable and consistent support given by the International Islamic Trade Finance Corporation (ITFC), a subsidiary of the IDB. Over the five years since its inception in 2008 the ITFC has extended trade financing loan approvals of US$4.5 billion to African nations.

In 2013 the agency announced a target of increasing trade volumes for sub-Saharan Africa to US$1 billion by 2014. To help reach this goal, in March this year it announced a joint initiative with the Arab Bank for Economic Development in Africa (BADEA) to scale up their joint strategic trade finance operations in the continent to US$100 million; focused on enhancing and expanding the reach of the BADEA Export Finance Scheme (BEFS), which aims to promote Arab exports by extending trade financing facilities to African countries that are not members of the Arab League.

Focus on food

While big ticket/rapidly disbursed oil financing operations have long been the main contributor to ITFC portfolio, accounting for US$3.6 billion in 2012, agricultural funding and support is looming ever larger on the agenda. Food security is a big issue for the GCC, especially since the 2008 food price crisis, and most of the Gulf states now import the bulk of their food requirements.

According to the Economist Intelligence Unit: “Africa’s abundance of arable land presents a valuable opportunity for the GCC to implement food security strategies through the acquisition of land for export-oriented farming.”

Qatar’s Hassad Foods, Saudi Company for Agricultural Investment and Animal Production, Kuwait China Investment Company and the UAE’s Minerals Energy Commodities Holding have all invested in farmland in Africa in the last five years, and in 2012 the ITFC approved 15 operations for agricultural sector amounting to US$535 million; a 39% increase from the US$384 million approved in 2011.

Table 5: ITFC regional breakdown of approvals, 2012				
The regional breakdown for the approvals, in US$ million				
Region	**1432H**	**%**	**1433H**	**%**
Asia/CIS	1,959	65	3,086	69
MENA	879	29	1,171	26
SSA*	195	6	209	5
Total approvals	3,033	100	4.466	100
Total disbursement	2,826		3,999	
"SSA: Sub-Saharan Africa				

Source: ITFC Progress Report on Enhancing Intra-OIC Trade, May 2013

SME support

Supporting SMEs is another crucial component of the ITFC strategy, and the group extends lines of financing and two-step Murabahah financing to local banks who in turn then offer funding to the SMEs for specific trade finance transactions. In 2012, US$143.9 million was given in financing for SMEs by the ITFC.

New developments

In March, the ITFC invested US$5 million in Kenya's Gulf African Bank to support lending to SMEs, marking its first engagement with an Islamic financial institution in sub-Saharan Africa. In addition to the equity investment, a further US$3 million trade line will also be given to the bank under the ITFC Global Trade Finance Program, which is designed to support the capacity of banks to deliver trade financing by mitigating risk in new or challenging markets where trade lines may be constrained. Oumar Seydi, the director of the ITFC for East and Southern Africa, commented on the move that: "The ITFC is committed to helping expand access to financial services in Africa. In Kenya, new financial market segments like Islamic banks enhance competition and can help reach a greater number of small businesses and women entrepreneurs, who are often excluded from banking services."

The ITFC also recently signed an agreement with Tunisia in April to "support its socio-economic development, especially during the exceptional political instability taking place in the region; as ITFC also seeks to play a catalytic role in providing integrated trade finance solutions to boost the energy and food sectors for the Republic of Tunisia." The minister of development and international cooperation, Amin Doghri, stated that: "Through this agreement, we are seeking to build strategic cooperation with the IDB Group through the ITFC in order to find ways to finance the import of strategic commodities such as wheat and petroleum and petroleum products, which can contribute greatly to the development of the country, especially in light of the circumstances taking place in the region."

Global cooperation

As the sector grows in importance, other organizations are recognizing its value and stepping in to support its growth. In May this year the United Nations Development Program (UNDP) and the ITFC signed an agreement launching the Aid for Trade Initiative for Arab States, designed to spearhead trade reforms in Arab countries in the Middle East and North Africa with the aim of bringing about pro-poor economic growth.

Table 6: ITFC/BADEA funding for Africa 2011-14				
				US$ million
Funding	**2011**	**2012**	**2013**	**2014**
ITFC/IDB	111	425	750	925
BADAE	40	75	75	75
Total	195	500	825	1,000
% growth		100	65	21

Source: ITFC Progress Report on Enhancing Intra-OIC Trade, May 2013

Table 7: ITFC investment - target markets & Sectors		
In terms of target markets the split will be as follows:		
Country	**Sector**	**Approval Target**
The Gambia	Groundnut, Rice, Petrolium	33
Sierra Leone	Petroleum/ Commodities	10
Nigeria	Fertilizers, Petroleum, Banks	100
Uganda	Coffee, Cocoa	32
BADAE Export Financing Scheme	Imports From Arab Countries	75
Benin	Scheme/ Commodities	12
Burkina Faso	Cotton	23
Cameroun	Fertilizers	25
Cote d' Ivoire	Cocoa, Coffee, Cashew, Rice	50
Senegal	Rice, Scheme	50
Togo	Commodities	15
Mali	Rice, Maize, Fertilizers, Animal Feed	25
Niger	Rice, Maize, Fertilizers, Animal Feed	20
Gunie Conakry	Commodities	15
Gabon	Commodities	15

Source: ITFC Progress Report on Enhancing Intra-OIC Trade, May 2013

Challenges

However, despite the exceptional growth opportunities obvious in the trade relationship between the two regions, significant challenges still remain. Poor infrastructure and inefficient trade logistics in Africa are an impediment to growth, while political instability and poor regulatory and exchange control regimes have also been identified as problems. In addition, the Islamic finance industry in Africa is highly fragmented and very local, making it difficult for trade finance participants to connect across borders. And finally, although admirable efforts have been made by organizations such as the ITFC, we have seen less interest from the private sector or even from sovereign investors who have the means and the wealth to make a huge difference in this fledgling market. The huge rewards now being reaped by China as a result of its focused efforts to invest and develop Africa are testament to the vast potential of the country; and the GCC is ideally positioned to follow suit, if it can only get its game into gear.

The opportunity is there – all that remains is to grasp it.

Nigeria & Kenya: Takaful torch bearers

Considered a dormant pool of untapped potential over a year ago, Africa is now displaying formidable prowess in the Takaful arena; with especially high activity levels from Nigeria and Kenya. VINEETA TAN explores the current developments within the Takaful space of these two highly promising markets.

Home to the world's largest Muslim community, Africa has been touted as a highly promising region for Islamic finance but has been shrouded in political risk and uncertainty, creating ambivalence among investors. However, improved political and economic soundness have opened up pathways for further economic expansion bringing the collective GDP to approximately US$10 trillion and attracting up to tenfold in foreign direct investment over the last decade.

Riding on the back of this impressive economic growth rate and the healthy development of Islamic banking in Africa, the Nigerian and Kenyan Takaful markets are seeing remarkable growth as appetite for Shariah compliant products increases and the appeal for Islamic insurance as an effective risk management tool in asset-based transactions rises.

> **"Industry experts have also identified microTakaful as a way forward in propelling the Takaful sector in Africa considering its social and economic dynamics."**

Nigeria

As the most populous country in the West African sub-continent with more than half of its 150 million-population being Muslim, Nigeria has been at the helm of the Takaful scene with a purported 70% market penetration including in the predominantly Christian southeast region, according to Babatunde Omosola, the vice-chairman of the Chartered Insurance Institute of Nigeria Oyo State chapter.

In April, the republic took a progressive move forward with the issuance of a Takaful guideline by the National Insurance Commission (NAICOM). Pursuant to Section 7 of the NAICOM Act 1997, the long-awaited framework has been much needed in addressing one key industry challenge – the lack of a conducive regulatory environment.

With this infrastructure in place, the market is now considered open and interested parties are free to float Takaful companies. One highlight of the guideline is the implementation of a relatively low capital requirement for Takaful firms of NRN100 million (US$613,696) which is hoped to serve as an attractive incentive for new market entrants.

An industry expert tells Islamic Finance *news* that about five companies have applied for Takaful licenses and while unconfirmed, industry players are nonetheless lifted by the prospect of a fully-fledged Takaful operator in the near future to complement existing Islamic banks. Presently, there are only three firms operating on a window basis: African Alliance Insurance, Corner Stone Insurance and Niger Insurance.

Outlining three structures for firms to comply with (Wakalah, Mudarabah or a hybrid model), NAICOM also called for the establishment of an advisory council of experts with at least two Shariah scholars appointed to four-year terms, subject to renewal, to ensure high operational Shariah compliant standards are met. In line with that, the commission will be adopting a centralized approach by establishing its own Takaful advisory council to preside over industry products and practices, following in the steps of Malaysia and Oman.

Yet with such optimism in the air, the sector is not growing at a rate parallel to its market potential as reflected by the total contribution of just NGN500 million (US$3.07 million) from the nation's current three operators – a small proportion as compared to the republic's general insurance premium volume reported by Agusto & Company to have stood at NGN300 billion (US$1.84 billion) in 2012.

Kenya

With its 41 million population, of which up to 20% are Muslims, Kenya is the largest economy in the East African subcontinent. While still a relatively small sector, its Islamic insurance industry has been catapulted into prominence with the advent of Shariah compliant insurance activities including the launch of a re-Takaful window by Kenya Reinsurance Corporation and the robust performance of Kenya's pioneering operator, Takaful Insurance Africa (TIA).

Within the first four months of its operations, TIA has underwritten KES100 million (US$1.15 million) a relatively high figure considering the saturation of the insurance market and in 2012, the firm registered a 242% accretion in premiums to KES430 million (US$4.95 million), and plans to garner up to KES900 million (US$10.37 million) this year. TIA, which was recently licensed by the Retirement Benefits Authority to provide the republic's first Shariah compliant pension fund, also plans to expand its operations into other African countries including Ethiopia, Rwanda, Somaliland, Somalia, Tanzania and Uganda.

While the sub-Saharan country currently boast the highest level of Takaful market penetration in the East African region at 2.6% – well above the continent's average 1% market uptake – the sector is still hindered by the lack of a conducive regulatory environment as the Islamic insurance industry is still governed under conventional law. An example of a regulatory challenge is the requirement for 10% of premiums to be invested in treasury bills and bonds, both of which are non-Shariah compliant.

Recognizing the flaw in the system, TIA has submitted its recommendations to the Insurance Regulatory Authority to be incorporated into the Insurance Act. CEO Hassan Bashir shared that hopefully by the end of the year: "The law will recognize the unique needs of Takaful in terms of Shariah compliance."

Gaining strong foothold

Besides regulatory obstacles, the lack of Shariah compliant avenues has been noted by market players in both West and East Africa as another hurdle to overcome.

In light of this, and compounded by the fact that regulators might not allow insurers to take premiums outside the country for investment, Hassan emphasized the need to develop capital markets within the Islamic sector to fill this gap. "The Capital Markets Authority has been on this since last year and I hope to see development in this area," revealed Hassan.

Other areas that mark the need for improvement include the lack of qualified human capital in the field of Takaful and Islamic finance in general, the lack of confidence in the industry as some Muslims perceive insurance as being non-Shariah compliant and the misconception that Takaful is Muslim-exclusive. The non-availability of Islamic banks in some parts of the country is also cited as a challenge for the industry, according to Auwalu Ado, a Shariah auditor at Nigeria-based Jaiz Bank.

Industry experts have also identified microTakaful as a way forward in propelling the Takaful sector in Africa considering its social and economic dynamics. As the world's poorest and most underdeveloped continent, there is a dire need to end poverty and microfinance along with the concept of Takaful, which calls for the mutual safeguarding, support and indemnification of one another in moment of needs, have the potential to significantly contribute to the growth of African economies while providing substantial support to the masses.

"If properly packaged and presented to even the poorest of people, Takaful is a great concept that is set to promote the safety and security of the people who need it most. This is the reason why Takaful is an alternative and the right idea of insuring the poor and uninsured masses in Africa," according to Abass Mohamed, a corporate risk and research manager at TIA.

"If properly packaged and presented to even the poorest of people, Takaful is a great concept that is set to promote the safety and security of the people who need it most"

Bright future

Nigeria and Kenya have presented themselves as formidable torch bearers of Africa's Takaful industry and considering the recent positive developments along with zeal from market participants, industry players are keen that the Islamic insurance sector is poised for further growth.

"Overall the industry is growing. There was a significant change in attitude among regulators over the last three [to] four years and the industry is moving away from rich pockets to districts and villages," said Hassan of TIA in a recent media interview. "You are likely to see further development in the insurance space within the next five years. [This is] very encouraging and [it is an] interesting time and we are looking forward to it."

Jaiz Bank's Auwalu explains that the growth of Islamic banking will improve the sales and patronage of Takaful products and services. He shares with Islamic Finance *news* that: "There is strong hope by Muslims for this industry. Many people are ready to join the train if they are informed about the new development."

With industry gears shifting and market uptake gaining momentum, the future for Takaful in Africa looks bright despite the difficulties today, as Auwalu aptly puts it.


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