ISLAMIC FINANCE
ROLE IN SUSTAINABLE DEVELOPMENT

TAKAFUL
A SOLIDARITY BASED CHANNEL

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“The Role of Islamic Finance in Sustainable Development”
Roundtable Discussion with UN Committee, 2nd June 2014
OUTLINE

- OVERVIEW ON ISLAMIC FINANCE
- OVERVIEW ON TAKAFUL INDUSTRY
- ROLE OF TAKAFUL IN « MAQASID OF SHARIA»
- ROLE OF TAKAFUL IN ECONOMIC DEVELOPMENT CYCLE
- TAKAFUL POSITION IN ISLAMIC FINANCE
- TAKAFUL SYNERGY WITH ISLAMIC FINANCE SECTORS
- TAKAFUL PRODUCTS
  - MICROTAKAFUL
  - FINANCE TAKAFUL
  - PESION FUNDS
- CONCLUSIONS
Overview on Islamic Finance
IFI meets All financial needs For All Economic Players

INDIVIDUALS

CASH

CORPORATES

GOUVERNEMENTS

ENTREPRENEURS

SERVICES

PROJECTS

TRADE

CUSTOMERS

Financial Needs

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ORGANISATIONAL INFRASTRUCTURE

FIQH ACADEMY (OIC + MECCA)

CIBAFI

AAOIFI

IIFM

IIRA

IILM

IFSB

IRTI

ICRA

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Islamic Finance Characteristics

- Sharia
- Ethical
- Socially Responsible
- Inclusive
Financing Growth - CAGR, 2008-11 (%)

Source: Ernst and Young – The World Islamic Banking Competitiveness Report
Islamic finance continues to grow at an exponential pace

Higher CAGR in all segments than Conventional Financing

Except in Government Financing!

Higher growth in personal financing (More than 30%):
  - Pricing differential has been reduced or eliminated,
  - Customers are more accepting Islamic finance, and
  - The industry’s distribution capability has improved immensely.

Source: Ernst and Young – The World Islamic Banking Competitiveness Report
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Islamic Finance Sectors

- Takaful Industry
- Awqaf
- Zakat
- Micro-Finance
- Islamic Banking Sector
- Islamic Capital Market

Funds
Overview on Takaful Industry
It is a cooperation between members of a community whereby each member undertakes to contribute a certain sum of money to a fund which will be used mutually to assist the members against a defined loss or damage.
Principles of Takaful

- Solidarity and joint guarantee
- Self reliance and self sustaining for community well being
- Assist those that need assistance
- Community pooling system
- Shari’ah approved investments and products
Takaful Soliarity Basis

- Based on Solidarity, Cooperation, Mutual Support and Donation (Tabarru’);
- Separation between Shareholders Fund and Participants Fund; separate accounts;
- Shariah compliant investments.
## Takaful vs Conventional Insurance

<table>
<thead>
<tr>
<th></th>
<th>Conventional Insurance</th>
<th>Takaful</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basis</strong></td>
<td>Risk Transfer</td>
<td>Risk Sharing</td>
</tr>
<tr>
<td><strong>Laws</strong></td>
<td>Secular/Regulations</td>
<td>Sharia &amp; Prudential Regulations</td>
</tr>
<tr>
<td><strong>Ownership</strong></td>
<td>Shareholders</td>
<td>Participants</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td>Management Company</td>
<td>Operator</td>
</tr>
<tr>
<td><strong>Form of Contract</strong></td>
<td>“Sale” Contract</td>
<td>Cooperative, Wakala or Mudaraba</td>
</tr>
<tr>
<td><strong>Premium</strong></td>
<td>Price of cover</td>
<td>Tabarru’ based contributions</td>
</tr>
<tr>
<td><strong>Investments</strong></td>
<td>Conventional / Interest based</td>
<td>Sharia compliant</td>
</tr>
<tr>
<td><strong>Surplus</strong></td>
<td>Shareholders’ account</td>
<td>Participants’ account</td>
</tr>
</tbody>
</table>
Takaful is not only a tool to mitigate losses or to make halal profits.

Takaful is also:
- Solidarity and Mutual Support
- Self reliance and self sustainability for community well being
- Assistance to the Needy
- Community pooling system
Global takaful contributions forecast, 2009-15f

- **US$m**
- **Takaful Steady Growth**

<table>
<thead>
<tr>
<th>Year</th>
<th>Saudi Arabia</th>
<th>ASEAN</th>
<th>GCC</th>
<th>Africa</th>
<th>South Asia</th>
<th>Levant</th>
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<tbody>
<tr>
<td>2009</td>
<td>1,077</td>
<td>1,314</td>
<td>1,936</td>
<td>2,246</td>
<td>2,721</td>
<td>3,993</td>
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<tr>
<td>2010</td>
<td>1,531</td>
<td>4,370</td>
<td>4,934</td>
<td>5,645</td>
<td>6,352</td>
<td>7,149</td>
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<tr>
<td>2011</td>
<td>3,896</td>
<td>1,462</td>
<td>2,157</td>
<td>2,395</td>
<td>2,693</td>
<td>4,386</td>
</tr>
<tr>
<td>2012</td>
<td>7,109</td>
<td>2,246</td>
<td>2,721</td>
<td>3,993</td>
<td>3,993</td>
<td>4,386</td>
</tr>
<tr>
<td>2013</td>
<td>8,328</td>
<td>1,703</td>
<td>3,296</td>
<td>4,386</td>
<td>3,296</td>
<td>2,693</td>
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<tr>
<td>2014</td>
<td>9,414</td>
<td>1,984</td>
<td>6,352</td>
<td>7,149</td>
<td>2,693</td>
<td>14,703</td>
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<tr>
<td>2015</td>
<td>10,958</td>
<td>136</td>
<td>215</td>
<td>215</td>
<td>277</td>
<td>17,114</td>
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</tbody>
</table>

Sources: World Islamic Insurance Directory 2013, Middle East Insurance Review; EY analysis
### Demographic Growth

<table>
<thead>
<tr>
<th>Time Period</th>
<th>World %</th>
<th>Muslim %</th>
<th>Diff %</th>
<th>Double (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970 – 1990</td>
<td>1.66</td>
<td>2.61</td>
<td>0.95</td>
<td>94</td>
</tr>
<tr>
<td>1990 – 2000</td>
<td>1.41</td>
<td>2.13</td>
<td>0.72</td>
<td>96</td>
</tr>
<tr>
<td>2000 – 2006</td>
<td>1.22</td>
<td>1.9</td>
<td>0.68</td>
<td>103</td>
</tr>
<tr>
<td>2006 – 2025</td>
<td>1.03</td>
<td>1.64</td>
<td>0.61</td>
<td>115</td>
</tr>
</tbody>
</table>

- Source: - World Christian Encyclopedia
- Currently, Total Population of Muslims: 24% of the world's population.
- If present growth rates for the world population and the Muslim population continued in about 115 Years, half (50%) of the world's population will be Muslims.
- Takaful is useful for all world population
Takaful Potential

Customers
- Distribution and reach
- Frontier markets (Africa/Asia)
- Global markets (insurance hubs)
- Untapped customers
- Segmentation
- Muslim populous (Takaful potential)

Products
- Retakaful
- Commercial
- Personal
- Microtakaful

Markets
- Takaful hubs (Middle East/ASEAN)
Takaful
In “Maqasid Sharia”
MAQASID OF SHARIA

The Ultimate Purposes of the Islamic Doctrine (Sharia) consist of Preserving and Enriching:

- FAITH
- POSTERITY
- LIFE
- INTELLECT
- WEALTH

All Indispensable For Human Development
Takaful in « MAQASID OF SHARIA »

1. Preservation of Faith
2. Preservation of Life
3. Preservation of Posterity
4. Preservation on Intellect
5. Preservation of Wealth

Serving Human Development
TAKAFUL
In Economic Development Cycle
Economic Development Cycle
Ibn Khaldun (1332-1406), The Muqaddimah (1377)

- Higher wealth
- Larger saving
- Greater investment
- More development

- Low rate of taxation
- Security of life and property,
- Healthy physical environment
- Division of labour and specialization
Takaful in Economic Development Cycle

- Higher wealth
- More development
- Larger saving
- Greater investment

- LOW RATE OF TAXATION
- SECURITY OF LIFE AND PROPERTY,
- HEALTHY PHYSICAL ENVIRONMENT
- DIVISION OF LABOUR AND SPECIALIZATION

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Takaful Position In Islamic Finance
Islamic Finance Pillars

- Risk sharing - Equity based contracts
- Connection to the Real Economy
- Solidarity (Takaful, Zakat, Awqaf, Sadaqat)
- Moral Filter
  - Social - Responsibility
  - Sustainability

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Risk sharing - Equity based contracts

Solidarity (Takaful, Zakat, Awqaf)

Innovation, entrepreneurship and SMEs financing

Transport, Housing

Financial inclusion, Social cohesion

Connection To The Real Economy

Moral Filter – Social Responsibility - Sustainability

Health, Education

Food security, Renewable energy, Green economy,

Insulation from excessive leverage and speculative financial activities
Risk sharing - Equity based contracts

Solidarity (Takaful, Zakat, Awqaf)

Connection to the real economy

Moral filter - Social responsibility - Sustainability

Innovation, entrepreneurship and SMEs financing

Transport, Housing

Health, Education, Transport, Housing

TAKAFUL

Financial inclusion, Social cohesion

Insulation from excessive leverage and speculative financial activities

Food security, Renewable energy, Green economy,
Takaful Synergy with Islamic Finance Sectors
Islamic Finance
CROSS-SECTORAL SYNERGY

Takaful
Industry

Synergy between Takaful and other Sectors

Islamic Banking Sector

Islamic Capital Market

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Takaful Products
TAKAFUL

Products

- Life Takaful
- General Takaful
- MicroTakaful
- Finance Takaful
- Takaful for Pension Funds
Micro-Takaful
MICROTAKAFUL

Inclusiveness

The cooperative Microtakaful Model:

- History of organising the poor
- Operate for the interest of members by the members
- Trust and Solidarity
- Ownership and loyalty
- Peer pressure
- Surplus reinvested or redistributed
Whether related to Microfinance or not, Microtakaful is dependable for Financial Inclusion of Poor and deprived populations.
Finance Takaful

For
Islamic Banking

Assets Takaful
- Export Finance
- Import Finance
- Corporate Finance
- Project Finance

Liabilities Takaful
- Sight Deposits
- PSIA

Off-Balance Sheet
- LCs
- Contract Bonds
- Guarantee
ICIEC, IDB Group is already providing these products in relation to Trade, Project and Investment Activities

Takaful is useful for Promoting Exports and Attracting FDIs

Takaful is a useful Risk Mitigant anf Credit Enhancement Tool

Takaful is based on Rik Sharing……not on Risk Transfer
Finance Takaful

For
Islamic Capital Market

- Investment Certificates
- Leasing Certificates
- Sukuk
Finance Takaful

For
Islamic Capital Market

- ICIEC, IDB Group is already launching
  A Sukuk Takaful Product

- Sharia Compliant Risk Mitigant to Sukuk Investors

- Credit Enhancement for Sovereign and Corporate Sukuk

- Enables Islamic Countries to mobilize Funds for their Development Plans & Infrastructure Projects

- Less Pricing for Fund mobilisation
Finance Takaful

For
Microfinance and SMEs

- Solution to Absence of Guarantees impeding Banks Commitment
- Without recourse finance scheme
- Collective scheme to create scale
- Life Takaful with average pricing model
Takaful Based Pension Funds

- Better Financial Solution in case of Deficit
- Sharia Compliant scheme
- Collective scheme to create scale
- Encourage Micro, Small and Medium Entrepreneurs
Conclusions
Takaful Developmental Benefits
Conclusion: Takaful Developmental Benefits

- Alternative to Life and General Insurance
- Useful for Islamic Banking Deposits, Financing, and Investments.
- Useful for the development of Islamic Microfinance
- Useful for Islamic Capital Market, especially for SUKUK Risk Mitigation
- Could be expanded to Pension Fund Schemes
- Micro-Takaful is effective to provide insurance to the poor.
- Micro-Takaful contributes to Financial inclusion
Conclusion: Takaful Developmental Benefits

- Contribute to the overall economic well-being of the population
- Contribute as a major source of employment, income and wealth
- Contribute to “quality of life” for a significant portion of the world population
- Contribute towards preserving and enhancing “social cohesion” and Inclusion
- Takaful is a most important social institution to counter poverty and deprivation
Thank you

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