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FAMILY TAKAFUL

Creating new growth
dimensions for
Takaful industry



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Family Takaful: Creating new growth dimensions for Takaful industry

At 30 years of existence, Takaful or Islamic insurance is no longer considered a nascent industry, it has enjoyed a great momentum and flourished as the fastest growing segment within the insurance industry gaining massive attention worldwide.

Offered by some 180 operators across the globe, the Shariah compliant insurance has achieved impressive growth rates and continues spreading its geographic footprint from east to west beyond its muslim community niche.

Takaful insurance operators predicted a \$12 billion USD premium income from Takaful insurance by the end of this year, which represents 31 per cent increase from the \$9.15 billion income generated from the Islamic products in 2010.

While Takaful is witnessing a general growth among all its segments particularly in health insurance which benefited from compulsory policies in Saudi Arabia and UAE, family Takaful is catching the attention of analysts as a growing force in the Shariah compliant insurance, increasing life insurance penetration rates both in nascent and mature Takaful markets, as per the first edition of the Milliman Global Family Takaful Report 2011, that estimated family Takaful contributions at US\$1.7 billion in 2010, accounting for 20% of total global Takaful

gross written premiums. The South East Asian market is the largest and most mature family Takaful market, holding 73% of total contributions, followed by the Middle East and Africa at 25%.

A 250% increase is projected for the segment in the next five years to US\$4.3 billion. "The growth in family Takaful thus, far outweighs both general Takaful growth as well as global conventional life insurance growth" notes the report.

While Malaysia holds the lion's share in family Takaful business, with more than 80% of the total Takaful market in the country, as per BNM, the country's central bank, the GCC remains underpenetrated, but has grown strongly at an 86% CAGR over 2004 to 2009. (Milliman Global Family Takaful Report 2011)

This growth is forecasted to continue on the rise, as the large young population in the region becomes more aware of the concepts of financial planning and protection.

Focusing on a customer centric approach:

The adverse financial consequences of the 2008 economic downturn created a window of opportunity for Takaful, which fits within the category of ethical based financial solutions. Principles of fairness, sharing and mutual cooperation are attributes that triggered the interest of consumers who favor transparency over profit maximization, and is accelerating Takaful's growth into a widely accepted financial instrument, however, Takaful operators still need to consider other factors in order to gain a larger market share and enhance the appeal of their offerings to a wider audience.

The industry has started to develop new products and services to diversify their lines

products such as: regular savings, marriage and education plans and lump sum investments have sprung up. The introduction of education plans, for example, was mainly prompted by the growing public concerns over putting aside a fund for their children's education. The demand for education plans grew significantly in recent years due to the increasing cost of higher education. Lately, bundled protection coverage - travel insurance with additional protection for travel, credit life insurance to insure repayment of loans, ladies illness plans covering specific diseases like breast cancer have emerged, attracting a further segmented approach.

BancaTakaful, a key growth channel for Family Takaful:

The increasing number of Islamic Banks in the region has widened the horizons for BancaTakaful as these banks look to pure Islamic insurance and do not source conventional insurance products.

BancaTakaful has proven very successful in the distribution of family

Takaful products that fall into financial planning and wealth management offerings where bank utilizes financial advisors and relationship managers to capitalize on their close relationships with the bank customers and offer tailor made

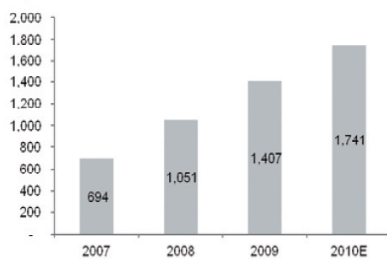
family Takaful solutions that go in line with their financial needs, and risk appetite. The bank is perceived then as a one stop shop for all financial needs.

In Malaysia, Bank Negara Malaysia, the country's central bank and insurance regulator, expects this channel will continue to reinforce Malaysia's position as the second-largest Takaful market in the world.

"BancaTakaful, which uses Bancassurance as a key growth channel for Shariah-compliant insurance, is seeing positive growth for general Takaful and is now the leading distribution channel for family Takaful products in Malaysia, accounting for 50.3% of contributions in September 2010", said BNM's deputy governor, Dato' Mohd Razif bin Abd. Kadir.

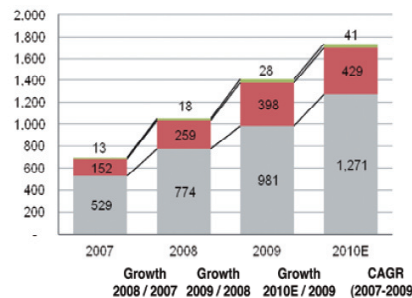
It is also clear why Takaful operators are keen on tying up with banks : by having access to an extensive and well-diversified branch network, Takaful operators are able to reach a much wider audience than they could

Global Gross Contributions
US\$ million



Source: Milliman Family Takaful report 2011

Family Takaful Contributions by Regions
US\$ million



	Growth 2008/2007	Growth 2009/2008	Growth 2010E/2009	GAGR (2007/2009)
South East Asia	46%	27%	30%	34%
Middle East & Africa	70%	54%	8%	41%
South Asia	36%	59%	45%	46%

Source: Milliman Family Takaful report 2011

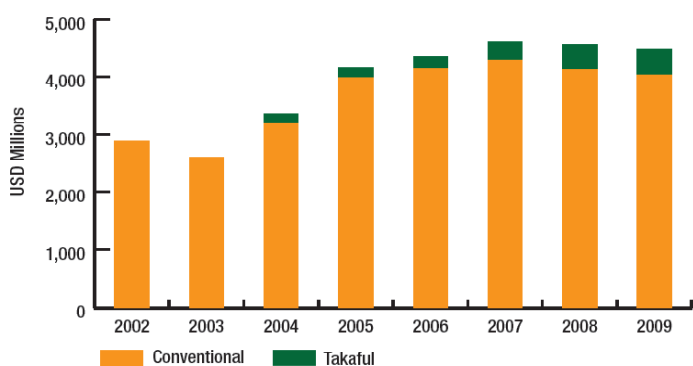
and reach different customer groups. The current challenge is to provide the right offering to the right customer segment.

A family Takaful plan is a long-term saving and investment instrument which also provide a mutual guarantee of financial assistance in the event of death to the participant. The objective of this plan is :To save regularly over a fixed period of time through payment of contributions, to earn returns on contributions from Shariah compliant investment instruments, and to receive Takaful protection in the event of death to the participant prior to the maturity of the plan.

Similar to life insurance, family Takaful endowment plans provide protection and savings to the participants. As consumers' financial needs grow more sophisticated, Takaful investment-linked plans are introduced to allow them to enjoy not only Takaful protection, but also potential investment gains.

Consequently a New generation of

Takaful vs Conventional - Family/Life GWP* Development (2002-2009)



*Gross Written Premium
Source: A.M. Best Co., BestLink

hope to access individually. At the same time, access to a bank's branch network in turn gives Takaful operators access to a powerful client database, which can be used to tailor-make a range of products to match client demand.

Today, Islamic banks are not only distributing Takaful products, they have also been engaged in integrated BancaTakaful models by either buying stakes in new Takaful companies or setting up their own Takaful subsidiaries.

A recent example is AIG/AIA the American insurance giant Group Ltd that entered the Malaysian BancaTakaful market by setting up a 70%-30% joint venture, AIA AFG Takaful Bhd, with Alliance Bank Malaysia Bhd, in January 2011.

The GCC has caught onto that trend as the industry gains momentum. As a consequence, similar initiatives have been launched.

In November 2009, Allianz Takaful and Standard Chartered Bank have announced a five-year sales agreement to promote insurance products from Allianz Takaful in Bahrain. Abu Dhabi Islamic Bank holds around 40% of Abu Dhabi National Takaful Company (ADNTC). In Saudi Arabia, FWU Group has a stake in Al Ahli Takaful Company and has forged a successful strategic distribution partnerships, with National Commercial Bank. FWU Group also enjoys a very successful partnership with AMAN, the Dubai based Insurer.

In spite of the obvious efficiencies that can be gained from using banks' networks as a distribution channel for Sharia'h-compliant insurance, delivery mechanisms in the Takaful market remain very fragmented, even in markets where Islamic finance has been highly successful.

Challenges:

Few challenges still stand in the way, hindering Takaful from reaching its full potential. The recurring issues that are frequently raised can be categorized as follows:

1)-Lack of standardization:

The global Takaful industry, currently, includes different operational models, accounting standards, varying Sharia'h interpretations, and regulatory regimes. Bahrain, Malaysia, Pakistan and UAE are currently the only markets to have issued specific Takaful laws

and regulations. However, in spite of the efforts by AAOIFI (Accounting and Auditing Organization for Islamic Finance) and IFSB (Islamic Financial Services Board), the industry has still a long way to go before building a set of global regulatory standards that will be binding on all operators, with certain localizations.

2)-Shortage in human capital and technical expertise:

The lack of human resources dedicated to Takaful is one of the major weaknesses of the industry. The backgrounds of underwriting, accounting and marketing staff are in conventional insurance. Apart from lack of technical competence, shortage in Sharia'h competence also causes setbacks to the Takaful industry. It is therefore of paramount importance that the talent pool of trained personnel available to Takaful operators grows as well as the number of non-Muslims insurance personnel who are knowledgeable about Takaful operations.

3)-Awareness:

Till today, there is still some confusion and lack of knowledge amongst the Muslim population about the Takaful operating model and product features as well as the differentiation between Takaful and conventional insurance. The lack of awareness in certain markets is adversely affecting the growth of Family Takaful in particular, as many Muslims remain reticent towards the concept of life protection.

To raise the awareness of Takaful and to promote full transparency, education is ex-

tremely important for consumers to be in a better position to select insurance or Takaful products that best meet their needs as well as to understand their rights and responsibilities as consumers.

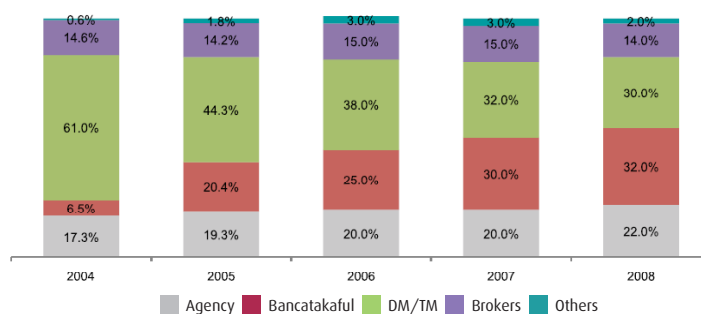
4)-Insufficient Re-Takaful capacity:

There is a global need for strong and credible Re-Takaful operators to assist the growth and expansion of Takaful. As a direct consequence of the shortage, it has been necessary for Takaful operators to use conventional reinsurance in order to spread risk, reduce the impact of claims volatility and to increase capacity. To date the use of conventional reinsurance by Takaful operators has been justified by the Shari'ah scholars on the basis of the so called "doctrine of necessity". However, this is changing, as capacity in the ReTakaful market increases, particularly with some of the major reinsurers entering the market, such as Swiss Re, Munich Re and Hannover Re.

5)-Limited investment universe:

Still consists a major difficulty for Takaful operators who lack the choice of investments avenues. With an Islamic fund industry still at USD 58 billion, with mainly equity and real estate classes, compared to USD22 trillion in the conventional world; widening the range of investment instruments and products that are Sharia'h acceptable remains a high priority.

Annualised new business contributions by distribution channel in Malaysia between 2004 - 2008



Source: Milliman Family Takaful Report 2011

Conclusion:

Despite the challenges that are still coming in the way of Takaful from reaching its full potential as a viable alternative to conventional insurance, it's undeniable that it has laid out strong foundations for further growth.

Low penetration insurance rates specifically in the life segment that are below 2% in most Muslim majority countries, coupled with rising awareness about financial planning and increasing levels of income, translate into huge untapped opportunities for Family Takaful acknowledged lately as the new growth paradigm for the Shari'ah compliant insurance.