Takaful in the GCC: sustaining the growth momentum

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The GCC has proven to be a fertile ground for takaful, with continuous growth at double digit rates for over a decade. The industry has now obtained significant market share versus conventional insurance in most GCC countries, and the region also holds the highest number of operators globally and counts 77 takaful companies.

Growth drivers for the shariah compliant insurance in this region are multiple; besides the economic growth and the increasing disposable income, awareness of need for insurance and financial protection is also on the rise, creating a customer base for shariah compliant products, especially those who were reluctant towards conventional insurance. The segment completed its expansion across the GCC with the licensing of the first takaful operator in Oman last year; Al Madina Insurance Company is to be offering shariah compliant insurance this year in response to the increasing demand for such alternative products in the Sultanate.

Recent reports about takaful performance showed a general slowdown in its global growth but the GCC remained the dominant market in terms of volumes, with Saudi Arabia alone producing 51.8% of total global contributions that amounted in 2010 to $8.3 billion as per the World Takaful Report 2012.

Family takaful: the opportunity for new growth dimensions

Although takaful contributions have grown their market share of the GCC insurance market, family takaful remains insignificant at 5% of total contributions, but studies show that it is undeniably the line of growth for the future. The underpenetrated life insurance market in the region has an immense growth potential for family takaful products. The segment is already witnessing stable growth with the increasing awareness of financial planning and protection needs.

The Alpen Capital GCC Insurance Industry Report 2011, has predicted a sizeable growth for the GCC life insurance segment, per capita income is increasing and the demographics are favourable: the region has a very young population with approximately 70 per cent in the 15-64 years bracket and according to World Bank forecasts, the total population of the GCC will grow by an average of 2.4 per cent per year in the next 5 years taking it to 45.6 million in 2015. As this young population in the region matures the demand for financial products would see a tremendous increase.

“Our forecasts show that life insurance density will grow at a CAGR of 22.2 per cent from 2011 to 2015 increasing to $113.5 from $50.8,” the Alpen report noted. Family takaful will certainly hold a significant share of the predicted life insurance potential, especially since awareness of takaful products and shariah compliance affinity has been on the rise. There are plenty of opportunities for takaful operators to explore in the family takaful segment, and pensions, and wealth management solutions are still underdeveloped especially in the investment-linked and annuities product categories.

Expansion to new emerging markets

GCC takaful market companies have attractive cross-border growth opportunities in Africa (for example countries such as Egypt, Libya, Tunisia, Morocco, Kenya and South Africa), in Europe (including the UK, France, Germany and Turkey) and in Asia markets like India and Indonesia. Islamic finance is expected to receive a boost across the MENA region after the recent political developments triggered by the so called Arab Spring.

Other firms have seen opportunities in markets such as Lebanon, which posted 102 percent growth in takaful contributions during 2010. Southeast Asia also presents sizable potential for the segment’s expansion. A report by actuarial consultants Milliman forecasts strong growth for takaful in southeast Asia, suggesting it could become three times as large as the Middle East by 2015.

Ernst & Young also forecasts that Saudi Arabia’s share of the global takaful market will drop to 44 percent this year as newer markets grow faster, and the trend of new markets outpacing traditional ones could continue in coming years.

Distribution through bancatakaful: a growing force

Bancatakaful, the distribution channel of Islamic insurance products by banks, has grown more popular across the GCC and proven to be the most efficient channel, especially for family takaful products that are increasingly offered as financial planning solutions and offered mainly under bank wealth management sections.
Today bancatakaful is an attractive and cost effective way of selling takaful products, but banks are now looking for takaful partners that can offer them products built around customers, such as bundled protection coverage - travel insurance with additional protection for travel, credit life insurance to insure repayment of loans. Further, more tailor made products are being introduced, such as ladies plans, and affluent plans with individualized protection including critical illness cover, travel cover, and children protection.

Even in the sales process, a new trend in bancatakaful is rising in the GCC where many takaful operators prefer to inject their own sales force in bank branches instead of providing product training to bank staff, in order to avoid misselling and offer targeted solutions to customers.

Inconsistent regulatory systems challenging takaful expansion
The highly fragmented legal and regulatory landscape in the region still poses a serious challenge, with the absence of a unified set of laws and regulations applicable to takaful and retakaful, and a passporting concept similar to that in the European Union, which could enable an entity licensed in one GCC state to operate in another GCC state.

Takaful providers still have to comply with the regulatory requirements of each individual GCC state. This can create significant challenges for takaful and retakaful operators to achieve sufficient scale in order to have the necessary critical mass to be competitive with their secular counterparts. The capitalisation requirements and associated costs and expenses in establishing and licensing an operator in each individual GCC state can be a significant burden to the establishment of a regional takaful or retakaful operation.

The industry’s big challenges include limited investment avenues, shortage of qualified talent, training of sales professionals but also raising product awareness and making consumers realise the importance of saving over the long term. So, bringing awareness, efficient customer service and operational efficiency coupled with current growth trajectory can all boost further takaful expansion.

Conclusion
There is no doubt that takaful is entering a stable development stage and has already marked its presence on the global map. The market opportunity is significant, according to a report last year by Swiss RE; “conventional insurance still accounts for 83.1 percent of all premiums written in Muslim countries”, it estimated.

However, the growth momentum is slowing down in main markets, and industry statistics show increasing pressure on the sector to boost efficiency, roll out new products and explore new markets.