

LEGAL & GENERAL GULF.

Product Innovation:

**Aligning Takaful
with Market
Needs in the
Middle East**

**Sohail Ali, CEO
13th October 2014**

**EVERY
DAY
MATTERS**



Order of play

- **Takaful – the backdrop**
- **The UK Islamic mortgage market – a case study**
- **The way forward**

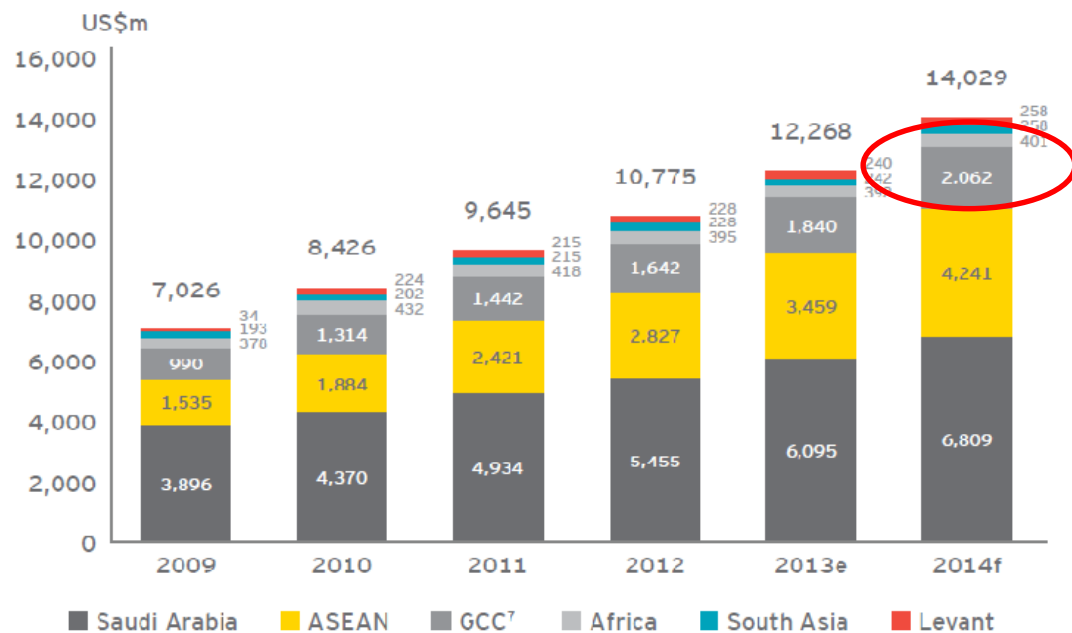
Viewpoint

- 15 years experience in the industry
- Relative newcomer to Islamic Finance and Takaful
- 20 years experience as a customer
- Market needs dictated by customers
- My focus is primarily on customer perception
- My view on the 'what?', with a few thoughts on the 'how?'

Takaful - the backdrop

- All's well...

Chart 4: Global gross takaful contributions by region, 2009-14f^e



- 20% CAGR since 2007

Takaful - the backdrop

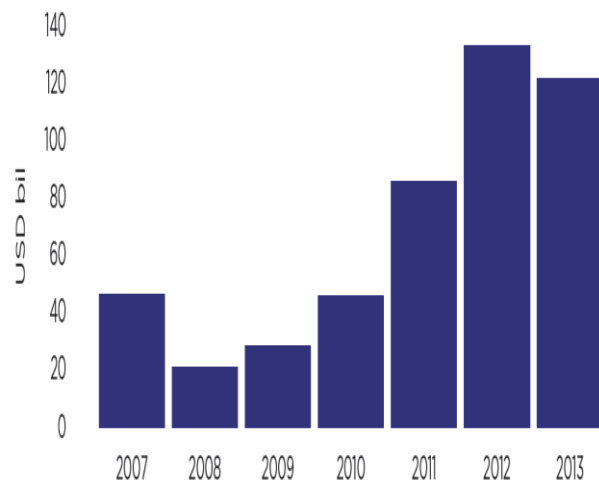
- **All's well...**
 - Two key markets of Malaysia and Saudi maturing
 - Indonesia and Turkey due to come online following regulatory enhancement

Takaful - the backdrop

- All's well...
 - Sukuk issuance increasing

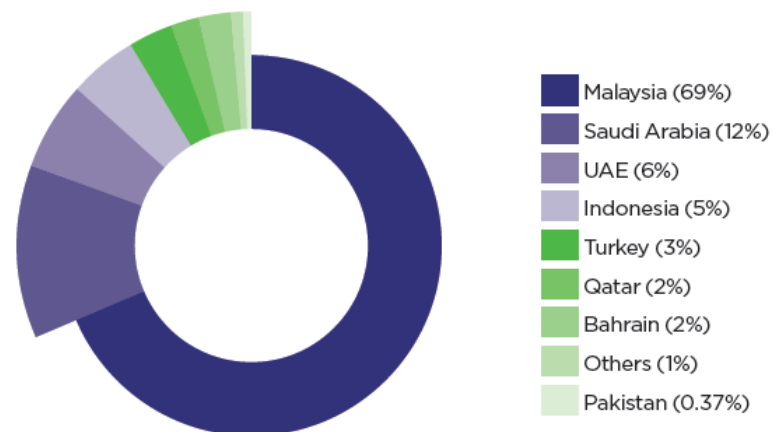
Global Sukuk Issuance Trend (2007-2013)

Source: Bloomberg, IFIS, Zawya, KFH Research Limited



Global Sukuk New Issuances by Domicile (2013)

Source: Bloomberg, IFIS, Zawya, KFH Research Limited



Takaful - the backdrop

- **Or is it...?**
 - Market growth slowed to 16% and 14% in the last two years
 - 'Takaful' mandated in Saudi – not been 'won' from conventional
 - In other markets, takaful share of market ranges from 10% to 23%

Takaful - the backdrop

• Or is it...?

Chart 2: GDP per capita of selected Islamic finance markets (current prices)

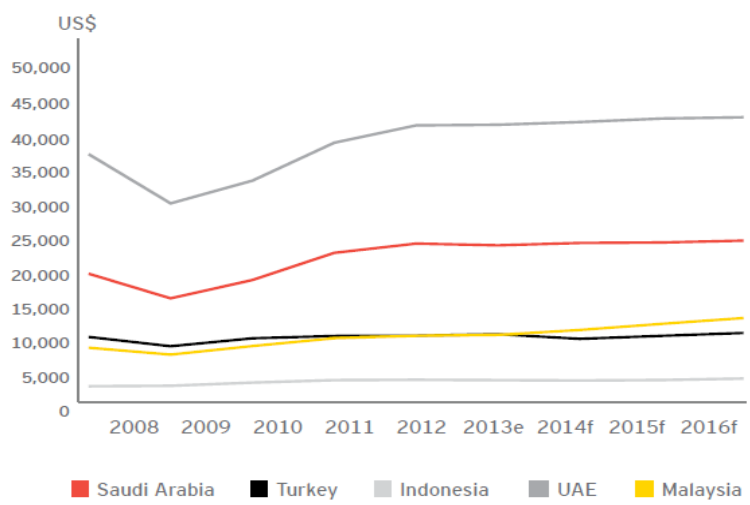
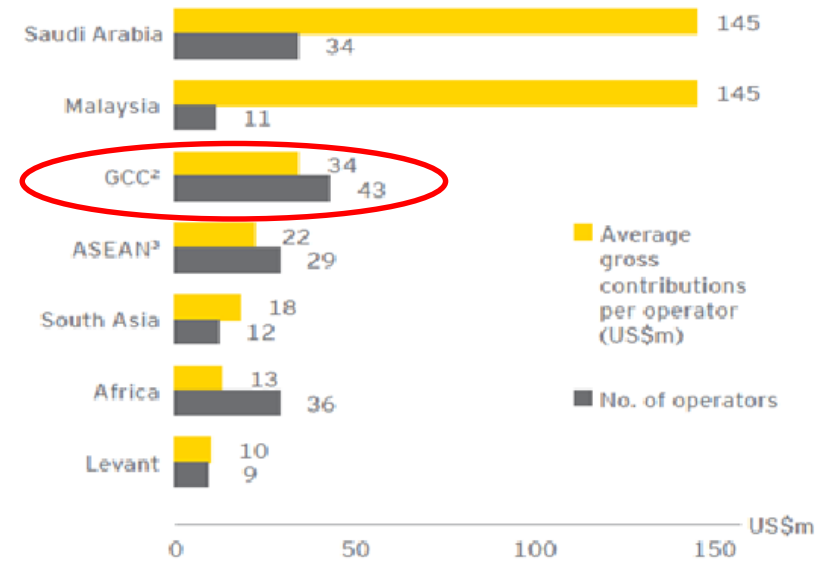


Chart 7: Key takaful market centers¹

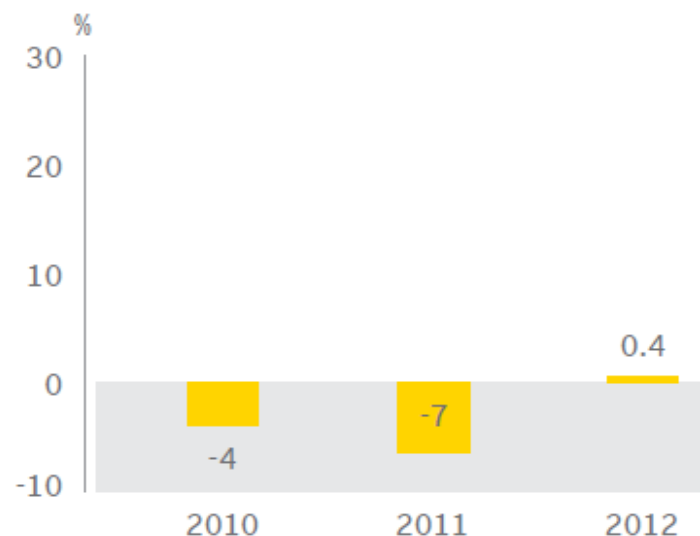


Takaful - the backdrop

- **Bottom line outcomes evidence the race for market share**

Chart 11: Average return on equity

GCC sample (excluding Saudi Arabia)



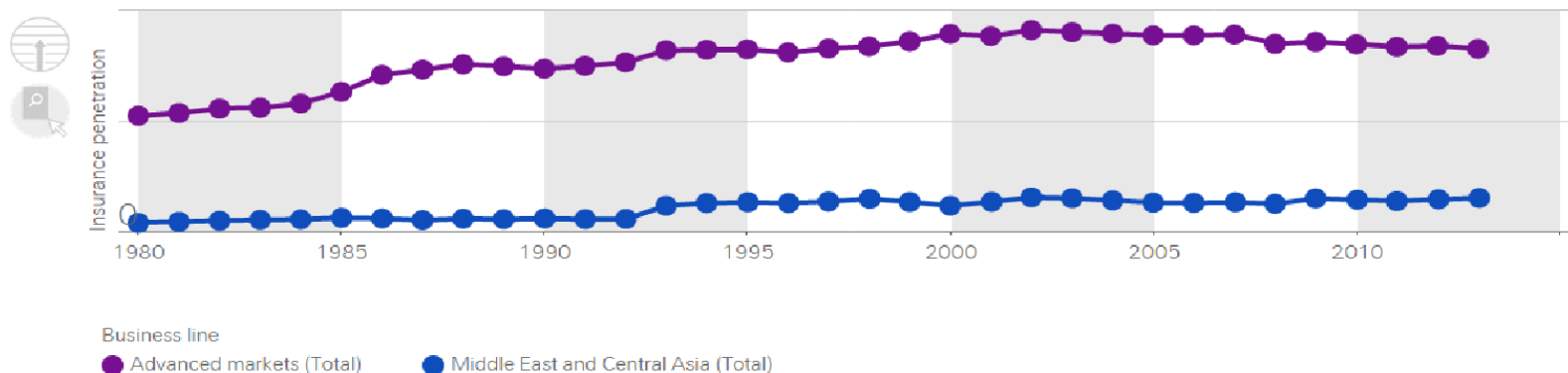
Takaful - the backdrop



Insurance penetration
premiums as a % of GDP

Time
1980 – 2013

Region: Advanced markets | Middle East and Central Asia



Source: *sigma* world insurance database
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***Innovation: organic growth due to come from increased penetration;
accelerated growth through taking conventional market share***



Innovation: The UK Islamic Mortgage market

- **Market opportunity:**
 - 2.8m Muslims, c. 0.7m households
 - Surveys results: 75%-85% want an Islamic mortgage, 80%+ of those were willing to pay a premium for the privileged
- **Established market:** Launched in 1998
- **Credible providers:** HSBC, Alburaq via Lloyds TSB, Islamic Bank of Britain, UNB
- **Supportive regulation:** Double stamp duty abolished in 2003

Innovation: The UK Islamic Mortgage market

- **Concentration on product innovation**
 - Murabaha – cost plus
 - Ijara – lease to own
 - (Diminishing) Musharaka – joint ownership
- **Typical APR premium of 1.0% to 1.5%**
- **Scholastic differences in product design**
- **Few differences in cashflows under alternative scenarios (none in customer benefit)**
- **No ‘social’ impact or ‘Islamic feel’**

Innovation: The UK Islamic Mortgage market

- **Customer feedback**
 - Inability to see a difference in the products versus those existing
 - Where differences were apparent, they were against customer interest
 - Inability to understand why they are paying a premium

= > Apathy or cynicism
- **Low take up rate (<5% take up) and exits from the market**

Aligning Takaful with Market Needs in the Middle East

- **Case study lessons:**
 - Can't rely on the Islamic / Takaful label
 - Differentiate the product (where possible)
 - Positively market the differences
- **Fundamental insurance needs remain the same – indemnity, protection**
- **Additional Shariah considerations - maisir, gharrar, investments etc.**

Differentiate the offering

Investment

- **Build on the work of ethical investment**
 - *investments that work for you and your society'*

Surplus

- **Recent CBB requirement to document surplus distribution policy clearly**
- **Increase scope for social benefit**
 - Introduction of charitable splits in payment of Sum Assured
 - Wider discretionary powers to use surplus
 - Walkalah-waqf models
 - Oddfellows

Differentiate the offering



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Welcome to the Oddfellows

- Coffee mornings
- Advice helplines
- Funding medical research



Positively market the differences

Competitive advantage – customers are predisposed to takaful if the differences are clear

Simplify the product message

- *Providing shariah compliant protection*

Communicate the non-technical Shariah differentiators

- Ethical investment
- Disclosure of historic surplus distribution
- Social benefit aspects

Takeaway

- **Review approach to takaful**
- **Move from focussing on being the best in the takaful market**
- **To being the best in a bigger takaful market**