Takaful Development Program: An Effective Tool for Access to Insurance

The Development Challenges

Recent World Bank econometric research has demonstrated the positive role of insurance in economic development but also highlighted the inhibiting effect of some cultural settings on access to traditional insurance products.

The demand for insurance products that are compatible with Islam has been growing strongly for many decades throughout the Muslim world. For long periods, Muslim concerns with the treatment of gharaar, or uncertainty, and with the unacceptable presence of maysir, or speculative risk, in insurance have caused huge numbers of Muslims to shy away from entering into any kind of insurance contract.

Takaful is based on mutual assistance and voluntary contribution, joint risk taking by the policyholders and clear segregation of insurance and shareholders (operator) funds. Takaful companies adhere to a shariah-compliant investment strategy and are supervised (internal supervision) by independent board of shariah scholars.

The global takaful sector has shown remarkable growth with nominal growth rates of approximately 30% p.a. in recent years, compared to a relatively static real growth of traditional insurance markets. However this is from a low base and a number of challenges exist to further rapid penetration of potential markets.

Managing a takaful operation involves rethinking the norms of insurance. Takaful is not simply another name for insurance. In order for takaful to succeed, there is a need to understand how risks in takaful are distributed and how they should be managed so as to align the interests of the various stakeholders as closely as possible. The challenge in takaful is how best to work within the constraints imposed by sharing rather than transferring risk.

The achievement of stable and sustainable growth of takaful over the longer term will require key issues addressed such as legal framework, governance, consumer awareness, lack of product, human resources and lack of standardization in terms of business model and regulations.

Highlights

World Bank’s Non-Bank Financial Institutions (NBFI) Service Line Insurance Group uses the latest thinking in regulatory framework, takaful knowledge, and technology available. Issues to be addressed include the following:

- Inadequacies in the existing legal and regulatory framework to support takaful
- Lack of financial literacy among consumers about takaful
- Takaful product design

The Takaful Development Program will provide technical support and advisory services to assist developing countries and emerging economies on developing takaful structure, such as follows:

- Simple diagnostic services in specific areas, operating models, and possible ideas moving forward
- Multiyear development plans to increase regulatory and supervisory capacity
- Advice on how to develop the takaful market including the application of takaful to micro-insurance markets in emerging countries
- Assistance in training the necessary skilled work force to support the takaful industry

All support can be provided on a stand-alone basis or on a regional basis.
World Bank’s Response

The Takaful Development Program will provide technical support and advisory services to assist developing countries and emerging economies in creating a sound takaful structure. This program includes offering advice on developing the asset side of the takaful operation.

Services range from simple diagnostic services in specific areas (for example, regulatory framework) to multiyear development plans that increase regulatory and supervisory capacity. The services will include advice on how to develop the takaful market and assistance in training the necessary skilled work force to support the takaful industry. This support can be provided on a stand-alone basis or on a regional basis.

How to Follow Up

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The NBFI Insurance Group has written and published a book titled Takaful and Mutual Insurance: Alternative Approaches to Managing Risks which provides a comprehensive overview of mutual insurance structures (including Christian and Jewish examples) and other hybrid models. The book looks at the universe of operating models and presents feasible ideas for moving forward. It also explores avenues for further development opportunities, including the application of takaful to micro-insurance markets in emerging countries with large Muslim populations.