ASSOCIATION OF KENYA INSURERS

INFORMATION ON TAKAFUL

INTRODUCTION

Takaful is a cooperative system of insurance that allows risk sharing rather than risk transfer. Takaful is an arrangement where all participants (policyholders) agree to guarantee each other and, instead of paying premiums, they make contributions to a mutual fund or pool. The pool of collected contributions creates the takaful fund.

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Provide, promote and champion excellence in the Kenya Insurance Industry

The amount of contribution that each participant makes is based on the type of cover they require, and on their personal circumstances. As in conventional insurance, the policy (Takaful Contract) specifies the nature of the risk and period of cover.

The takaful fund is managed and administered on behalf of the participants by a takaful Operator who charges an agreed fee to cover costs. These costs include the costs of sales and marketing, underwriting, and claims management.

Any claims made by participants are paid out of the takaful fund and any remaining surpluses, after making provisions for likely cost of future claims and other reserves, belong to the participants in the fund, and not the takaful operator, and may be distributed to the participants in the form of cash dividends or distributions, alternatively in reduction in future contributions.

GLOBAL OVERVIEW

The takaful market remains a huge growth potential in many regions. According to a report released at the 2015 Global Islamic Economic Summit in Dubai on 5th October 2015, the volume of global takaful business is set to reach US$20 billion by 2017 and US$25.5 billion by 2020 from the current US$12 billion. There were a total of 224 global takaful operators as at 2012, with 101 new companies formed between 2006 and 2012 alone, showing that takaful is an emerging insurance segment. The total manpower supporting the primary takaful sector stood at 70,010 as of 2013.

The report revealed that the GCC- Gulf Cooperation Council (Bahrain, Oman, Kuwait, Qatar, UAE and Saudi Arabia) dominates the takaful business, with Southeast Asia and Africa as the next biggest markets. According to the World Islamic Insurance Directory 2014, Saudi Arabia cooperatives account for nearly half (48%) of share of global gross takaful contributions. ASEAN - Association of Southeast Asian Nations countries, namely Malaysia and Indonesia, account for nearly one-third (30%) of total gross takaful contributions, followed by other GCC countries at 15%. Africa, South Asia and Levant account for 7% of global takaful contributions.

Takaful in Africa has largest presence in Sudan, Egypt, Tunisia, Algeria, Senegal and smaller presence in South Africa and Gambia.

In Kenya's the first full-fledged takaful (Takaful Insurance of Africa) was launched in 2011, Kenya Reinsurance and Continental Reinsurance are offering re-takaful.

GROWTH OF TAKAFUL IN KENYA

Factors that have contributed to the growth of takaful in Kenya include:

Muslim Community

According to the 2009 Kenya population and Housing census, Islam is practiced by about 11.1% of Kenyan population representing 4.3Million Kenyans.

Conventional Insurance do not adhere to principles of Islamic faith (shariah) which prohibits Maysir (Gambling), Gharar (Risk & Uncertainty), Riba (Interest), Haram (Forbidden / Unlawful). This has created demand for takaful in order to attract the Muslim population and individuals who have reservations with regard to conventional insurance, and would not insure otherwise.

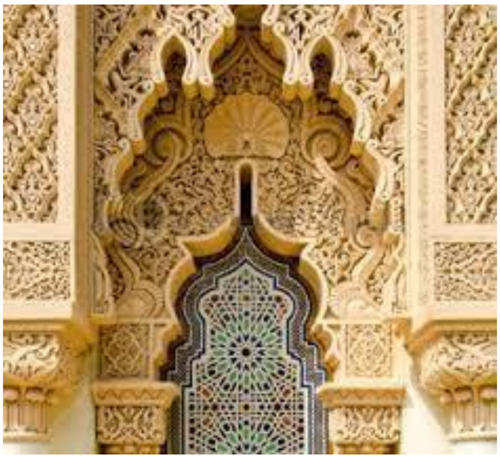
Increase in Shariah compliant financing

Kenya is emerging as the region's Islamic financial services hub, with two fully-fledged Islamic banks (Gulf African Bank and First Community Bank) and seven conventional banks that offer partial Islamic banking (Barclays Bank, National Bank, Chase Bank, Imperial Bank, Diamond Trust Bank, Standard Chartered Bank and KCB).

In order to tap into the growing demand for Islamic financial products, there was a lobby to create a full shariah compliant financial system resulting in establishment of takaful.

Government support - legislation

The government through IRA has been involved in giving the necessary support through the creation of a conducive and enabling environment. On May 6th 2015, the Insurance Regulatory Authority opened takaful market to conventional insurers enabling firms to offer shariah-compliant and conventional products side by side. The rules were effected in June2015 with firms required to adhere to the requirements by December 2015.



The rules require separate financial reporting requirements for takaful windows from their parent firm, and their operating model must be approved by a board of religious scholars. Operators must also maintain separate takaful funds for their general and life businesses.

Increased awareness

Common perception among many Muslim communities was that insurance is unlawful. By developing awareness and understanding of the takaful operations and products, most people have embraced the concept leading to in-creased uptake of the takaful products. However, there is a long way to go as far as awareness is concerned. The target market needs to be educated about takaful in order for the industry to fulfill its potential.

Low penetration of insurance

Low penetration of Insurance provides an avenue to come up with new ideas to capture the untapped market and thus one of the areas with potential for growth is takaful.

Economic growth

Economic growth and the rise of middle-income earners have invariably led to the rise in the purchasing power among the main target market (Muslims).

OPPORTUNITIES

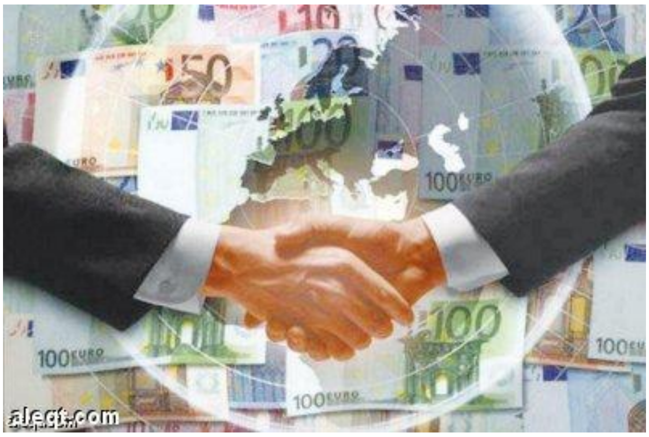
Bancatakaful

Across the GCC countries, where takaful has been successful bancatakaful has been the most prevalent approach and this has proven to be one of the efficient channels through which the Islamic insurance products could be distributed. The marketing strategy and good relationship between banks and customers are the two factors largely responsible for the promotion and marketability of the takaful products in the region.

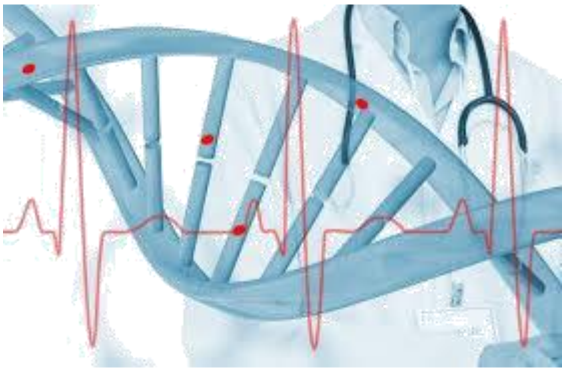
Kenya has a big potential owing to the big number of banks already providing Islamic financial services.

Microtakaful

The Microtakaful is the protection scheme of low-income people. Most of the takaful products can be delivered to the poor with some modification, such as small takaful amount (sum), short duration, small contribution (premium) and low cost method of payments to insure smooth cash flow in/out the takaful fund.



Microtakaful provides a big opportunity due to the large number of people in the informal sector, but calls for innovative product development to cater for the needs of the low income people.



Public education and awareness

Low awareness has been one of the main hindrances of insurance penetration in Kenya, takaful faces the same challenge. Industry stakeholders should create effective public awareness campaigns to increase the understanding and uptake.

The products that we are supplying, the distribution channels we are employing, and the rules and regulations we adhere to, must all be understood clearly by everyone

Regulators also need to be educated on Shariah law.

Human Resource

Takaful Industry's rapid growth should be backed by the required technically skilled Human Resource. Industry players and stakeholders should offer takaful specialized high-quality training in consultation with local universities and tertiary education institutions

Harmonized Global Regulatory Framework

Takaful rapid growth needs to be accompanied by the development of effective regulation and supervision. Separation of regulatory platform between conventional and takaful by introduction of takaful legislative framework and/or Islamic Financial Services regulations will promote the industry towards attaining an excellent degree of growth and development of takaful.

Although a number of countries have made considerable progress in creating legal, regulatory, and supervisory frameworks that accommodate takaful, there are substantial differences (Lack of uniformity in Shariah Decisions) that need to be harmonized. The establishment of International standards for takaful would allow consistency in regulation across jurisdictions

Religion Affiliation

Takaful being established under a Muslim concept, many people perceive it as an insurance concept for people under the Islamic faith, affecting intake by non- Muslims.

Improvement is required in terms of marketability since the takaful products are not only meant for Muslims only even though it has the Muslim concept.

Innovation and Market Research –Rapid Product Development

Takaful is not as developed as conventional insurance. Innovative and flexible products meeting customer needs need to be developed. There is a large potential for exploitation and uptake through innovation and market research the products will offer equal or better values, as compared to the conventional insurance offering i.e. it is an emerging segment, triggering a need to experiment with conventional insurance.

Increase Shariah Compliant Investments

Investment options in accordance with Shariah principles are limited. There is need to increase the number of investment products that are Shariah-compliant.