

**Takaful**

# THE ISLAMIC STATE

Despite centuries of tradition and an estimated worldwide value in the billions, Takaful insurance, grounded in sharia-compliant practices, has struggled to find traction in the UK

By Annie Makoff



## With Faithsure and XL hitting the market is the UK finally ready for Takaful products?

www.postonline.co.uk/tag/takaful



**T**his year has seen several sharia-compliant products launch in the UK. In February, Hiscox announced its backing for a niche Islamic school insurance scheme provided by insurance broker Faithsure ([www.postonline.co.uk/2243062](http://www.postonline.co.uk/2243062)) and in May, XL Group began providing sharia-compliant products for large corporates on a global basis, underwritten by Cobalt Underwriting with financial backing provided by Capita Insurance Services ([www.postonline.co.uk/2266287](http://www.postonline.co.uk/2266287)).

The global Takaful market is worth billions. A study published by Ernst & Young last year predicted that global Takaful contributions were likely to reach at least \$12bn (£7.7bn) by 2012, a figure that is likely to have increased during 2013 ([www.postonline.co.uk/2167987](http://www.postonline.co.uk/2167987)). But what about the UK and Europe?

Although the report describes the European crisis as dampening any prospect of a Takaful market making gains in the Western world, Cobalt may have found an opportunity to exploit.

Jason Harris, XL Group chief executive for international property and casualty insurance, says Cobalt's product was developed as a result of demand from the UK's currently untapped market. "There is a lack of sharia-compliant carriers in the UK," he explains. "So we have worked with Cobalt to provide a product to fill this space. Cobalt, in particular, provides access to it as well as the necessary expertise."

But while some industry experts, such as Cobalt's CEO Richard Bishop, remain reticent about the potential of personal lines Takaful products taking off in the UK, there is a consensus that there is scope for the product to flourish in commercial lines. "I don't believe there has ever been a Takaful market in the UK nor will there be for some time to come," Bishop says. "I don't think the commercial sector is going to set up a consumer-led product offering."

#### Stiff competition

Asif Khan, client director at Faithsure, says the competition in personal lines in the UK such as motor, and the use of aggregators, make it hard for Takaful firms — which would have little brand exposure — to flourish.

"Some personal lines like high-net-worth property insurance are more likely to work in the UK because they're not as price sensitive," he explains. "But something like motor insurance won't because it's already such a competitive market. Apart from anything else, as a customer you would want cover from Aviva, Hiscox or

#### Tales from the archive: 2008

*Cobalt Underwriting may be the latest firm to try to bring Takaful products to the UK but Principle Insurance took the first crack at the market in July 2008* ([www.postonline.co.uk/1210535](http://www.postonline.co.uk/1210535)).

The UK's first sharia-compliant insurance provider has starting selling policies.

Principle Insurance, which received Financial Services Authority authorisation in May, soft-launched last week and is due to launch fully on Monday.

Michael Brockman, partner at EMB, which is working with Principle Insurance on developing its product, said

the company has already sold insurance policies.

However, Principle Insurance refused to comment.

Speaking about whether others will follow Principle Insurance into the UK Takaful insurance market, Brockman said: "Almost certainly they will but people have to do their homework before entering the market and I am absolutely sure Principle Insurance will be successful because they have done just that and, generally speaking, anyone that has done their homework properly will find that it will pay dividends in the long term."

While Islamic insurance is very different to conventional

insurance products in that it is sharia-compliant and does not use interest or invest in any industries that go against Islamic teachings, it bears some similarities to co-operative insurance.

As with co-operative insurance, policyholders contribute money to a common pool — the Takaful fund — that is then used to pay claims. Any surplus in the Takaful fund is returned to policyholders, while any deficit is protected by the company's shareholders.

Standard and Poor's was voted Best Takaful Ratings Agency at the inaugural International Takaful Awards 2008 on 15 July.

Zurich or one of the other established insurers, not a company you've never heard of."

Neil Reid, managing director at Inspire Risk Management, who worked with Faithsure to develop their Islamic school insurance scheme, agrees. "The UK definitely has the potential to provide a Takaful offering," he says. "We work closely with the Muslim Council of Great Britain and we've studied the Muslim faith in depth so we know there is a great deal of potential there. In fact, a lot of people involved in our Islamic school insurance schemes are actually business people themselves, so there are a lot of spin-off opportunities. These are predominantly in the SME sector, so legal practices and restaurants, for example. That is where the UK Takaful market potential truly lies."

#### Understanding alternatives

Even so, promoting the offering could prove challenging, not least because of the added complexities that Islamic insurance and sharia-compliant products can bring.

Bishop says education is crucial. "If you were to explain the difference between conventional insurance and sharia-compliant insurance, it would be easy if you were talking to industry experts, but as soon as you start talking to the individual on the street, their knowledge of financial products is already quite limited," he says.

However, Khan believes this is a moot point as the majority of Muslim businesses would already be aware of sharia-compliant insurance

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and it would be their businesses and personal insurance needs which would create the demand in the UK, which could then be possibly spread to non-Muslims.

Sheikh Bilal Khan, sharia scholar at law firm Linklaters, believes there is potential for Takaful products if they are branded and marketed correctly. He says: "With the current financial market and the economic crises across Europe, a lot of people are looking for alternatives. So if Islamic finance is branded in the right way to a wider market with its value proposition, which is universally appealing from the ethical and moral stance, that would be the way forward," he says.

Bilal Khan believes the UK and Europe, with their history of mutual insurance and friendly societies is a "natural domain" for Islamic **► 32**

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◀ 31 insurance that would appeal to the wider market. Indeed, Islam's universal, ethical values would, he says, "resonate with everyone".

But why then, has the UK Takaful market failed to attract more providers? "The lack of state regulation on sharia-compliant products creates a real lack of trust in the market," he adds. "I like to compare it to the UK's Halal Monitoring Committee. The HMC check the meat from source to end line so consumers know that if it's HMC approved, it's truly halal. Takaful insurance needs a similar approach — if there was a real certified committee to verify a product is Takaful, and if it was competitive enough, we'd get some major players interested and maybe even tempt some global players to the UK, as long as we could convince them there was a substantial market share."

### Eastern promise

But while some market commentators attribute the failed UK Takaful market to the relatively small Muslim population in the UK, Ken Eglinton, director of financial services at Ernst & Young takes a different view. "The industry is still extremely young, there is little in the way of a wholesale market," he says. "This provides a huge opportunity for the UK and it has everything to play for. It's early days to talk about failure."

According to Eglinton, London, with its history of early engagement with Islamic finance, has the skills and capital to provide specialist capacity to the Gulf, an area where sharia-compliant insurance is in high demand from a large Muslim population. But he warns that unless London gets moving, a wholesale market could develop instead in another financial centre like Singapore or Dubai. He explains: "The opportunity for a London offering to provide capacity to the global market is there now, but the future is a different country."

Indeed, when compared to Malaysia and the Gulf Cooperation Council countries, which currently

dominate the Takaful market, the UK is certainly behind other nations. However, market commentators see London's lack of offerings as not just a British problem, but as a wider, European one. That said, Bilal Khan is confident that personal lines Takaful could be a success on the continent. He explains: "Islamic finance should be offered to the wider market - there is a lot of potential there. If you look at Malaysia, Islamic finance is mainly taken up by non-Muslims. The reason is the ethical appeal and the fact that Islamic finance doesn't allow excess profiteering, uncertainty and speculation, which are all by-products of risk transfers in propriety insurance."

Bishop concedes that if marketed in the right way, it could potentially work. He cites a comparable market in Turkey where similar insurance is referred to as ethical and cooperative instead of sharia-compliant. "They are not allowed to actually say it is an Islamic product because of their strict secular rules, but because of the way they've marketed it, it appeals to a much wider industry," he says.

### A bridge too far?

Even so it may be too much of a risk for any insurer — global or otherwise — to move into the domestic Takaful offering. Indeed, for those major players based abroad, what would be the incentive to come to the UK? As Bishop asserts, why would an overseas Takaful insurer come to the UK when there is a bigger market closer to home?

"If the UK was motivated by ethics and mutual organisations, I suspect the market would be bigger than it is. As such, I don't think the UK is ready to make that leap," Bishop explains.

Yet perhaps the demand among Muslim-run SMEs is where the true potential lies. Faithsure's Khan certainly seems to think so. He's confident that Muslim businesses would not

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only be aware of Takaful insurance but also actively opt for it.

"The demand is definitely there, as far as Muslim business owners are concerned anyway," he says. "Many of them want personal insurance products as they are property owners so they will want to use Takaful products. I'm confident that there is growth and potential in the UK for this market."

For the moment though, it seems likely that the main potential lies predominantly in the global reinsurance sector. Yet while Bishop sees his Cobalt offering as one of a kind that would be unlikely to encourage competitors, Eglinton thinks a UK market with "several Cobalt's" would be a more likely scenario.

Commentators agree that Islamic finance has the potential to be market changing. From Eglinton's point of view, it's about demystifying Islamic insurance and London grabbing the opportunity to develop a wholesale Takaful market. For Bishop, the UK industry can learn a lot from the values of sharia-compliant insurance.

"Islamic insurance isn't a religiously motivated insurance solution, it's ethically-based, controlled by certain guiding principles that the insurance industry, as a whole, can take on board and make the industry a better place because of it," he concludes. "I hope that Islamic insurance does gain some traction in the West because it has a lot to offer." ■

