

# The global crisis impact on Takaful operators and future developments



**TAKAFUL & RE-TAKAFUL (EUROPE)**

By Ezzedine Ghlamallah

With 8,520,761 confirmed cases and 454,582 deaths all over the world as per the COVID-19 Dashboard by the Center for Systems Science and Engineering at Johns Hopkins University as of the 19<sup>th</sup> June 2020, the COVID-19 impact on Takaful operators established in many countries is significant in several aspects. The crisis leads to both financial and organizational implications.

At the financial level, operators had faced and will continue to face an increase in mortality and health expenses. Operators feel this impact but cannot yet measure it precisely. One thing is for sure, the COVID-19 crisis will lead to an increase in claims for Family Takaful in the long term especially in health and death coverage. Regarding General Takaful, the lockdown period will have contributed to a significant drop in claims even if this short-term trend linked to the duration of the lockdown will not compensate for the increase observed in Family Takaful in the long run.

**“ There are concerns about diminishing yields and business failures that were already heavily indebted before the COVID-19 crisis ”**

With closed physical networks (agencies, brokers) due to the lockdown, the velocity of subscriptions, and therefore of commercial production, has sharply decreased. The operators which are digitalized and available via mobile networks are less impacted. This translates to a decrease in their turnover for Takaful operators, just like many other sectors.

The crisis will also have an impact on financial results following the turbulence observed in the financial markets. There are concerns about diminishing yields and business failures that were already heavily indebted before the COVID-19 crisis.

Regarding the organizational consequences, we can mention the decrease in reactivity depending on the ability to deploy telework in emergencies. Operators with efficient electronic data management will be less impacted. Challenges in the management of human resources have arisen, in particular concerning childcare following the lockdown, increased absenteeism due to illness, etc. At the same time, the COVID-19 crisis has revealed new needs which are an opportunity to assert the social responsibility of Takaful operators among participants which can be mentioned as follows:

- Flexibility of contribution payments
- Faster claim process for pandemic coverage
- Exemption from certain fees or charges
- Extension of Takaful coverage
- COVID-19 test cost coverage
- Digitalization of claim management and distribution, and
- Implementation of new organizational forms like telework and digitalization.

These impacts have shown the need for organizational and financial resilience by operators, with the need for large reserves to ensure the robustness of operators as well as an effective information system allowing the digitalization of subscription and claim management even if the operators' efforts to finance the exceptional expenses of the crisis should be adjusted according to their size or diversification of their activities. (2)

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