

The rebirth of Takaful in Europe



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According to the IFSB, the regions of Europe, North America, South America and Central Asia represent less than 2% of the overall Takaful market worldwide. In a difficult context linked to the lack of resources of European Islamic financial institutions and a rise of Islamophobia, this market which nevertheless has more than 16 million Muslims with one of the highest rates in the world of banking and insurance is struggling to take off.

This high level of insurance penetration could contribute to the development of the Takaful institutions in Europe if the players of the sector, which today is supported by a few start-ups and non-profit organizations, were financially supported to allow this market to realize its full potential, in particular through the use of the European passport, which allows any company having its head office in a member state to be able to offer its services in all the states of the single market area.

Review of 2020

In France, despite this context and the health crisis linked to COVID-19, 2020 has been prolific for the development of Takaful in Europe which continues to grow.

Conexcap, a French fintech specializing in Islamic finance, and Afi Esca Lux, a Luxembourg insurance company, officially launched Future Generation Life, a new Luxembourg life insurance contract that respects the principles of environmental, social and governance and Islamic finance.

Future Generation Life was designed through a master brokerage agreement allowing Conexcap to take care of distribution through its affinity network and Afi Esca Lux to devote itself to management. The solution is available in France, Belgium and Luxembourg.

Generation Life allows individuals to have a Luxembourg contract from an initial payment of EUR5,000 (US\$5,916.09) and the innovative services of a robot advisor to manage the three types of risk profiles identified by clients: prudent, balanced and dynamic. In the long term, Conexcap and Afi Esca Lux expect to raise EUR100 million (US\$118.32 million). According to Les Echos Etudes, the potential turnover of Takaful in France is estimated at EUR3.5 billion (US\$4.13 billion), or 1.7% of the total insurance market.

Initiated at the request of Muslim funeral societies and organizations established in France, SAAFI, the Takaful wholesale broker based in Marseille, launched Sakina, the first Takaful offer in France intended to finance funerals and repatriation according to the principles of Islam. Sakina allows its holders to cover the costs of funerals and possibly repatriation toward the country of origin.

Sakina Takaful has several levels of guarantees determined according to the needs of the participants. They have the choice of between four levels of guarantee: EUR2,000 (US\$2,358.77), EUR3,500 (US\$4,127.84), EUR5,000 (US\$5,896.91) and EUR7,000 (US\$8,255.68) which are intended to finance repatriations to North Africa, Central Africa or even to the Indian Ocean.

In Germany, the Takaful Lebanese Emigrants Fund aims to create more cohesion and solidarity among the communities in this country. The aim is to release the families during the preparation, transfer and burial of the deceased — the relatives of the deceased no longer need donations to cover the high costs — to collect donations and to exempt them from psychological and bureaucratic procedures.

In Spain, the Mutual Previsora Agro-Industrial offers the only Islamic insurance in this country. This Takaful cover includes all the services that a family needs when a loved one dies including the respect of the Islamic rituals, all the administrative procedures necessary for repatriation and burial, repatriation and a round-trip ticket for the companion.

Preview of 2021

2021 will be a pivotal year for the development of the Takaful sector. The present players will have to demonstrate on the ground, thanks to their commercial results and the success of the distribution of their products, that Takaful has a future in Europe. It is up to them to make their offers meet the expectations of the market and participants. Moreover, with the development of Shariah compliant real estate financing growing in France through various Murabahah offers, the need for Takaful coverage for borrowers is felt. It is very likely that an offer that meets this need will hit the market soon.

The following diagnosis can be made in the current state of the market:

- A lack of supply with products restricted to personal insurance
- An absence of an offer meeting the needs of compulsory insurance
- The absence of a fully-fledged Takaful operator with offers available only through Takaful windows, and
- A lack of knowledge about Takaful and a lack of awareness and communication campaigns.

All of these elements are delaying the development of the Takaful market in Europe, especially since Europe has no specific regulations in this area. Compulsory insurance is difficult to develop due to the large capital required; it is appropriate for current players to demonstrate the viability of the market to be able to convince conventional operators to meet these needs via white label solutions. This will be the challenge for 2021.

Conclusion

Despite these obstacles, the future could be bright, given favorable demographic and socioeconomic data. The development of the internet and insurtech should benefit the players in the sector, who can thus reduce their distribution costs and reach a wider target, provided of course that they commit significant communication budgets. Changing consumption habits and making consumers aware of products more in line with their ethical and religious values should also help boost activity.

However, care must be taken not to fully control the risk of image and controversy linked to the development of Islamic finance in Europe and more particularly in France where voices have been raised, including against Halal food. It is therefore essential to opt for a differentiation strategy based on respect but also the embodiment of the alternative values proposed so as to also target non-Muslim people who could identify with the values of mutual aid, generosity and sharing. ☺