

IFRS 17: Another challenge for Takaful operators



TAKAFUL & RE-TAKAFUL (ASIA)

By Marcel Omar Papp

On the 18th May 2017, the International Accounting Standards Body (IASB) published its new accounting standard for insurance contracts: IFRS 17. The standard will apply for accounting periods starting on or after the 1st January 2021.

IFRS 17 replaces IFRS 4 and will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts. It will also have a big impact on Takaful operators as countries with a sizeable Takaful industry such as Malaysia are at the forefront of the implementation of the standard.

It can be argued that IFRS 17 should not be implemented for Takaful as Takaful operators do not issue insurance but Takaful contracts. However, the fact that other regulations, such as the RBC (risk-based capital) framework, were introduced for the Takaful industry despite the differences to insurance means that it can also be expected that IFRS 17 will be implemented for Takaful contracts.

The question then is the application of the standard. For example, with regards to the measurement model, will the default building block approach be applicable or should the variable fee

approach be used when dealing with participating businesses? It will be interesting to see how the IASB treats the specifics of Takaful.

One can also argue that as the implementation is still three-and-a-half years away, there is no urgent need to deal with IFRS 17 yet. However, implementation can take a long time and costs could be significant. A fundamental shift would be required in the way in which data is collected, stored and analyzed.

Most importantly, IFRS 17 will impact Takaful companies beyond the finance, actuarial and systems development areas as it also impacts areas such as product design and distribution, incentive and remuneration policies, budgeting and forecasting methodologies, cash tax position, dividends and investment strategy.

It will be interesting to see if Takaful companies will consider the implementation of IFRS 17 merely as a compliance issue or take the strategic path to transform the company accordingly. In any case, IFRS 17 is another challenge which will keep the Takaful companies busy in the coming years. ☺

Marcel Omar Papp is the head of Swiss Re Retakaful. He can be contacted at Marcel_Papp@swissre.com.

Branding and merchandising strategy for Takaful institutions in Europe



TAKAFUL & RE-TAKAFUL (EUROPE)

By Ezzedine Ghlamallah

The use of branding is to increase the reputation of Takaful institutions and to give it a positive image. Being well known is essential to the construction of the image of Takaful institutions but it is not sufficient to develop a positive brand image. The communication will therefore have to propagate and make known the values of the Takaful institutions.

The more clearly and strong the positioning of the Takaful institutions,

the better the communication will be perceived. A special focus has to be done on Shariah compliance. Compliance gives rise to trust in human interaction and ultimately can meet demand. The products' names chosen have to mean that the products offered are respectful of Islamic values.

Merchandising is the marketing of the point of purchase and it will have to be developed in all the distribution network through point of purchase advertising. The purpose of these tools is to capture attention and convince quickly. Studies have shown that memorization was superior when several senses were

IFN Sector Correspondents
CROWDFUNDING: Craig Moore CEO, Beehive
DEBT CAPITAL MARKETS: Imran Mufti partner, Hogan Lovells
FAMILY OFFICES: Stephen Cutts advisor of family offices in the UAE
FINANCIAL INSTITUTIONS & CORPORATE SUKUK: Rizwan H Kanji partner, King & Spalding
LAW (EUROPE): Shakeel Adli partner, head of Islamic finance, CMS
LEASING: Shoeb Sharieff president, ijara CDC, ijara Community Development Corp
LEGAL FRAMEWORKS: Dr Hurriyah El Islamy Islamic finance expert, IMF
MERGERS & ACQUISITIONS: Burak Gencoglu senior attorney, GSG Attorneys at Law
MICROFINANCE: Mohammed R Kroessin head of Islamic microfinance, Islamic Relief Worldwide
PRIVATE EQUITY & VENTURE CAPITAL: Osama Audi member, King & Spalding 's Middle East & Islamic Finance and Investments practice group
REAL ESTATE: Philip Churchill founder partner, 90 North Real Estate Partners
RISK MANAGEMENT: Dr Ken Baldwin senior lecturer in finance, Coventry University
SHARIAH & CORPORATE GOVERNANCE: Prof Dr Mohamad Akram Laldin executive director, International Shariah Research Academy for Islamic Finance
SOVEREIGN SUKUK: Hamed Afzal partner, King & Spalding
TAKAFUL & RE-TAKAFUL (ASIA): Marcel Omar Papp head of Retakaful, Swiss Re Retakaful
TAKAFUL & RE-TAKAFUL (EUROPE): Ezzedine Ghlamallah director, Solutions Insurance and Islamic Finance (SAAFI)
TAKAFUL & RE-TAKAFUL (MIDDLE EAST): Dr Sutan Emir Hidayat assistant professor, head of Business Administration and Humanities Department, University College of Bahrain
IFN Correspondents are experts in their respective fields and are selected by Islamic Finance news to contribute designated short sector reports. For more information about becoming an IFN Correspondent, please contact sasikala.thiagaraja@redmoneygroup.com

simultaneously solicited. The major challenge of the merchandising of the Takaful points of purchase is to make sales by creating an effective communication area that has four purposes: to interest the prospect, sensitize visitors, exploit the traffic of the branches and prepare the purchase meeting. The space must be optimized to prioritize the sales objective as well as the comfort of the customer. ☺

Ezzedine Ghlamallah is the executive director of SAAFI which specializes in Islamic finance and Takaful solutions. He can be contacted at ezzedine.ghlamallah@saafi.fr.