Takaful: An opportunity in the Mediterranean

TAKAFUL & RE-TAKAFUL

By Ezzedine Ghlamallah

In Spain, a forum on Islamic finance recently held in Barcelona (in the framework of the Mediterranean Economic Leaders Week) highlighted the huge potential of Takaful insurance in the Mediterranean. Active in 65 countries, Takaful is still facing an "underutilized potential both in Europe and on the African continent," according to Rifaat Abdel Kareem, CEO of the International Islamic Liquidity Management Corporation (IILM). According to some experts, the potential market in France is 2-3% of the national market, or between US$3.5-5 billion, which would make France the second largest global market for Islamic insurance behind Saudi Arabia. Jacques Cessac, the president of the Mediterranean Federation of Insurance Brokers (FMBA), says he will create a special commission in the field of Takaful.

On the other side of the Mediterranean, Morocco on the 25th November adopted in Rabat legislation No. 103.12 on credit institutions and assimilated organizations — after more than two years of waiting. The new law defines the status of Islamic banks and the precise products that can be marketed. The adoption of this law should encourage the development of Takaful in the kingdom, for which draft legislation was submitted to the General Secretariat of the Government amending and supplementing Law No. 17-99 Insurance Code. Takaful insurance development will take place initially in the Life sphere to cover the case of death; or goods financed when the purchase or building of a residence is offered by banks. Takaful will allow the sector to drain savings and to encourage people to save in the formal channels. With a penetration rate of 3.1%, the Moroccan insurance market certainly has the best performance in the MENA region, but this rate is still relatively low compared to the conventional insurance rates observed in developed countries. The low levels of mandatory insurance, an insufficient coverage for SMEs, the low rate of household insurance solutions and the absence of a structured offering geared towards the lower-income population show that there is still plenty of growth to come. We believe that the Takaful development will follow the evolution of Islamic banking market.

Algeria for its part, with 38.7 million inhabitants and a growing annual rate of 2%, is the fourth-largest economic power in the African continent. Although its domestic Islamic finance market is still recent, Takaful insurance has recorded notable expansion in the country. Takaful insurance currently only exists through Salama Insurance Algeria, established in 2000 through a subsidiary of Salama-Islamic Arab Insurance Company (IAIC). Salama insurance, with a network of more than 200 stores and six regional offices, faces a market dominance of conventional insurance. In addition, there are as yet no specific regulations governing Takaful in Algeria. Products offered by Salama are both for corporates and individuals with General and Family Takaful solutions. Salama Insurance in 2013 recorded a progress rate of 24%, with a market share which five years ago stood at 2.5% and has today reached 4.5% with 500,000 customers and more than DZD4 billion (US$45.73 million) in premiums.

Deloitte estimates that Tunisia represents a great opportunity for Takaful development, and the Middle Eastern Insurance Review of the African Region believes that the industry will represent between 10-12% of the Tunisian insurance market in the next five years. In July 2014, the Tunisian National Constituent Assembly (NCA) inserted separate chapters in the insurance code for the establishment of a legislative framework to govern Takaful insurance. There are alraedy three Takaful operators in the country: El Amana Takaful Insurance, At-Takafulia and Zitouna Takaful. Tunisia is by far the most advanced Maghreb country; with a specific regulation and multiple players developing the market.

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