

## World Takaful outlook and challenges in 2019



### TAKAFUL & RE-TAKAFUL (EUROPE)

By Ezzedine Ghlamallah

**As a sector to support the rise of Islamic finance, Takaful has experienced unique growth. Gross contributions increased at a compound annual growth rate of 33% between 2005 and 2010, by 18% between 2008 and 2013 and finally by 6% between 2012 and 2017.**

Despite a slowdown in overall global market growth, Fitch Ratings indicates that, in many local markets, Takaful continues to grow faster than conventional insurance. For example, in Malaysia – the most developed Islamic financial services market in the world – Family Takaful and General Takaful rose by 9.8% and 5.8% respectively in the first half of 2016, while in the market at the same time, life and health insurance increased by 8.2% and property and liability insurance by 2.6%.

In 2016, the global Takaful sector grew 12% year-on-year, according to the IFSB Stability Report released in 2017. In 2017, despite a slower pace of growth, this growth remains significant and many recent strategic developments should provide a solid foundation for further consolidation.

Although Moody's Investors Service expects growth to continue to slow, the agency believes that the Takaful market will continue to show dynamic growth rates through "a more educated population in the age of working with high awareness of Takaful and its compliance with religious orthodoxy". It should be kept in mind that the Takaful industry is less than 40 years old and should no longer be considered as a niche product, but as an alternative having proved its legitimacy.

Global assets of Takaful operators reached US\$46 billion in 2017 and are expected to reach US\$72 billion by 2023. Global market growth is driven primarily by the three major markets of Saudi Arabia, Iran and Malaysia, which account for nearly 80% of total global assets. Globally, there are 322 Takaful and re-Takaful operators and Takaful windows (113 mixed, 112 general, 76 family and 21 re-Takaful).

Although the growth of the Takaful industry is phenomenal, the sector represents only 2% of the assets of the Islamic global financial sector. This is largely insufficient to sustain the expansion of the sector but also reflects its considerable growth reserve.

With regards to the development of Takaful in the world, there are three essential points:

- A deficit in terms of penetration and a lack of supply compared to the significantly favorable demographic data
- A lack of interest from the individuals, and
- A considerable impediment in the field of capitalization products and coverage of persons.

It must be emphasized that the lack of democratization of the supply and insurance culture inhibits the development of the Takaful market and awareness campaigns are not sufficiently numerous. Life and health insurance (Family Takaful) has not yet fully penetrated social structures of Muslim countries.

In many Muslim countries like Algeria or Morocco, for example, there is still no Family Takaful operator able to offer life

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and health coverage. This is paradoxical; with the development of Islamic finance, there are borrowers and financed assets that need Takaful coverage which complies with the rules of Shariah.

In undifferentiated markets, Family Takaful can stand out because of its originality and its positioning in markets steeped in tradition; this innovative product meets the needs of customers and their expectations of religious compliance and also accompanies the development of Islamic finance. In markets of this type, to allow them to develop, the adoption of a regulation adapted to the specificities of Takaful is necessary. ☺

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