



**ISLAMIC FINANCE
ROLE IN SUSTAINABLE DEVELOPMENT**

**TAKAFUL
A SOLIDARITY BASED
CHANNEL**

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OUTLINE

- ❖ **OVERVIEW ON ISLAMIC FINANCE**
- ❖ **OVERVIEW ON TAKAFUL INDUSTRY**
- ❖ **ROLE OF TAKAFUL IN « MAQASID OF SHARIA »**
- ❖ **ROLE OF TAKAFUL IN ECONOMIC DEVELOPMENT CYCLE**
- ❖ **TAKAFUL POSITION IN ISLAMIC FINANCE**
- ❖ **TAKAFUL SYNERGY WITH ISLAMIC FINANCE SECTORS**
- ❖ **TAKAFUL PRODUCTS**
 - ❖ **MICROTAKAFUL**
 - ❖ **FINANCE TAKAFUL**
 - ❖ **PENSION FUNDS**
- ❖ **CONCLUSIONS**



Overview on Islamic Finance



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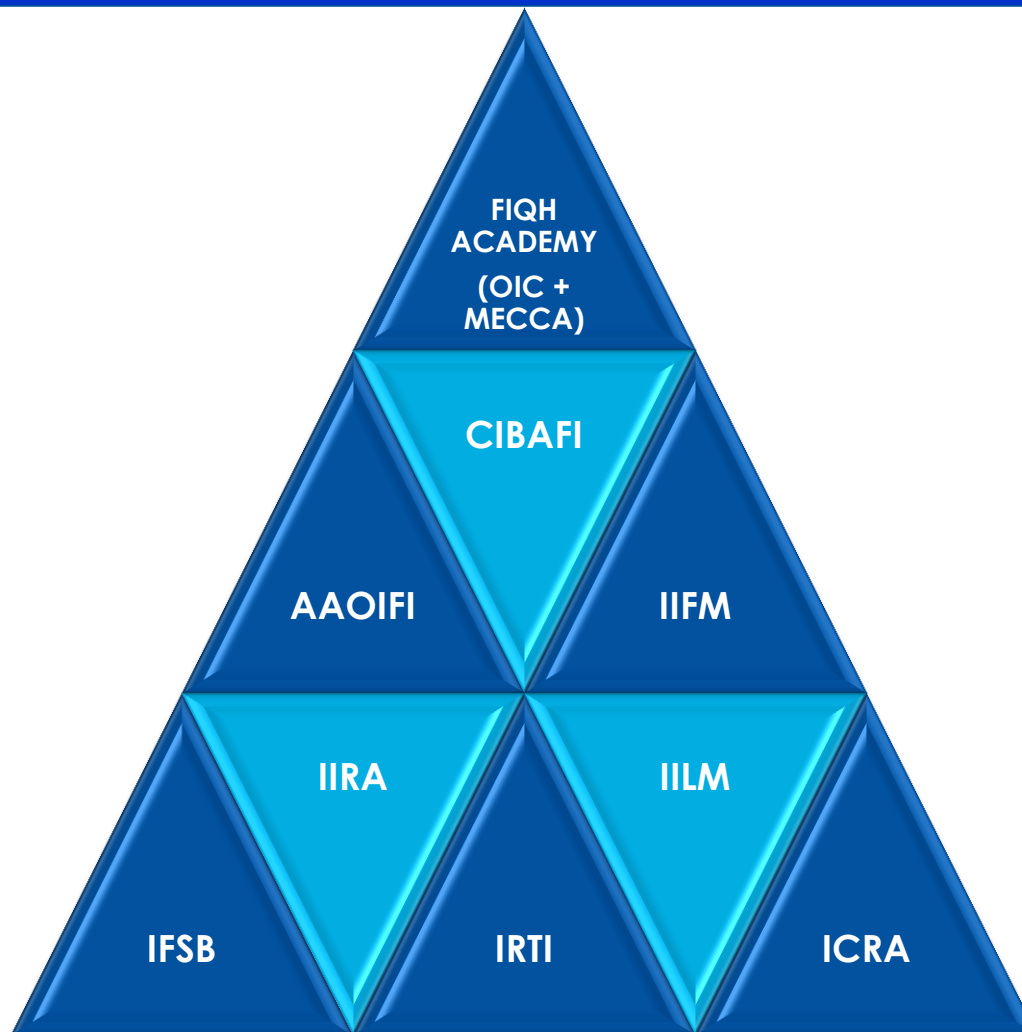




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ORGANISATIONAL INFRASTRUCTURE





Islamic Finance Characteristics

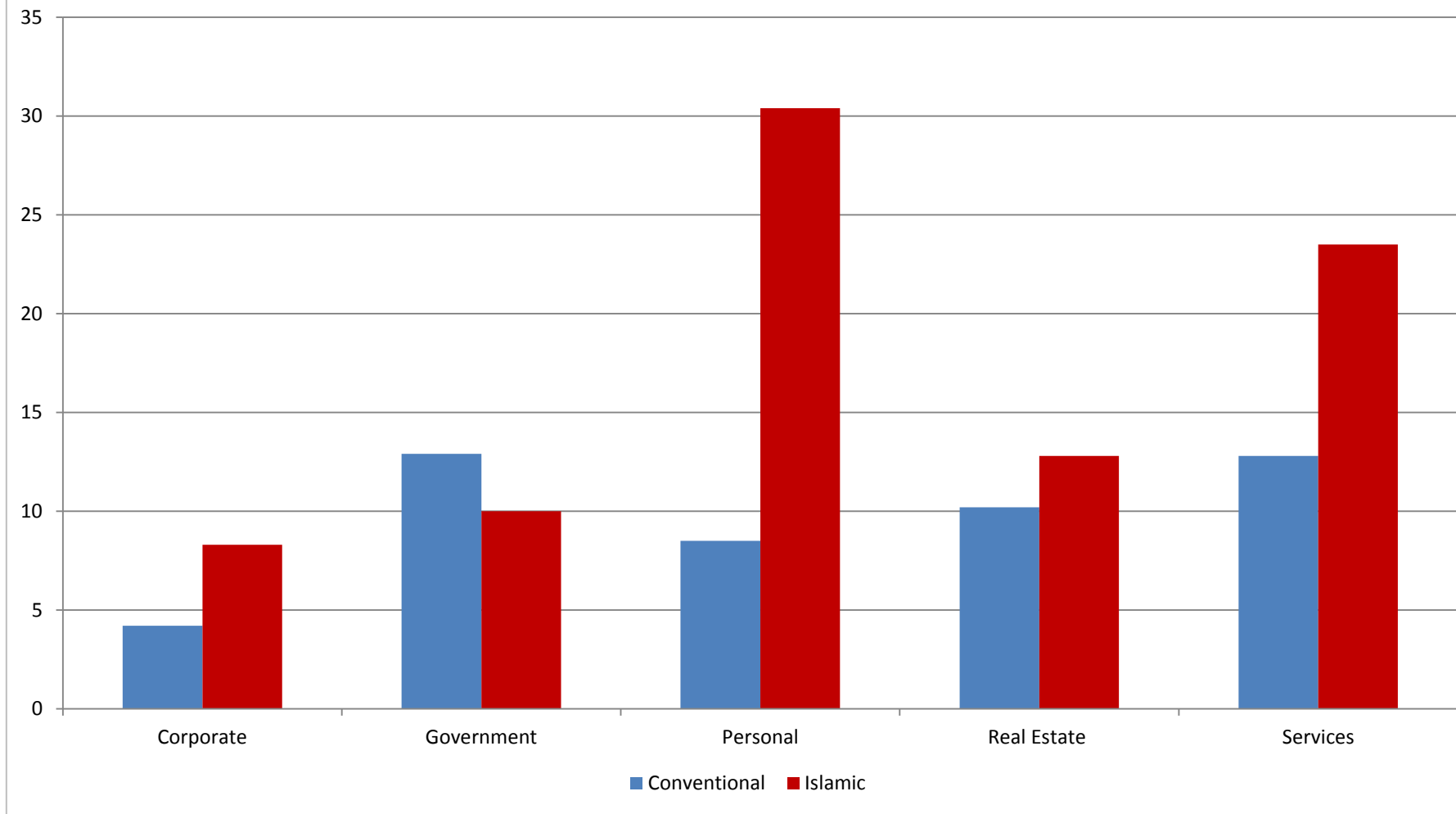




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Financing Growth - CAGR, 2008-11 (%)



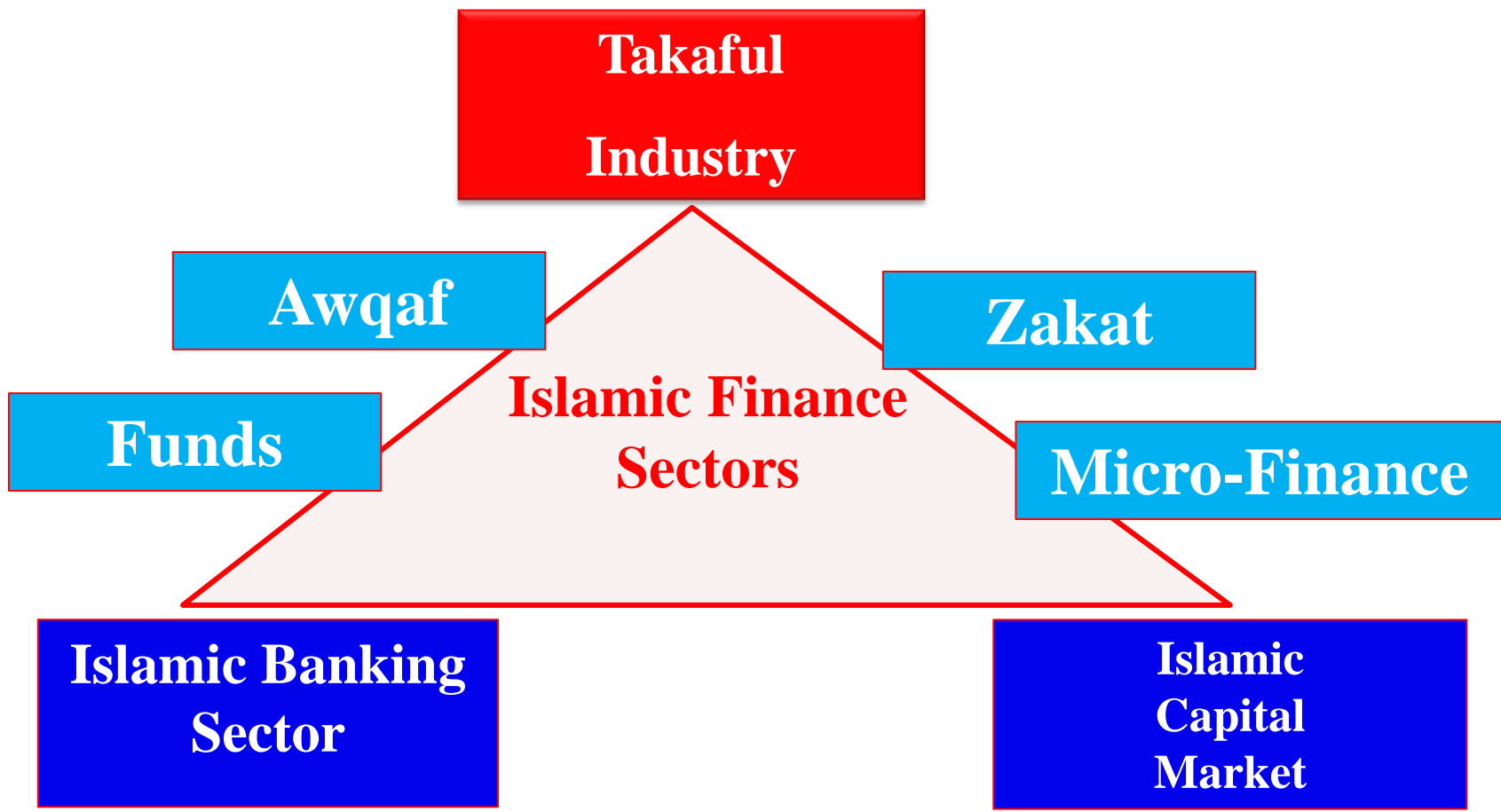


Islamic Financing Growth

- ❖ **Islamic finance continues to grow at an exponential pace**
- ❖ **Higher CAGR in all segments than Conventional Financing**
- ❖ **Except in Government Financing !**
- ❖ **Higher growth in personal financing (More than 30%):**
 - ❖ **Pricing differential has been reduced or eliminated,**
 - ❖ **Customers are more accepting Islamic finance, and**
 - ❖ **The industry’s distribution capability has improved immensely.**



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Overview on Takaful Industry



Definition of Takaful

It is a **cooperation** between members of a **community** whereby each member undertakes to **contribute** a certain sum of money to a **fund** which will be used **mutually** to **assist** the members against a defined **loss** or **damage**.



Principles of Takaful

- Solidarity and joint guarantee
- Self reliance and self sustaining for community well being
- Assist those that need assistance
- Community pooling system
- Shari'ah approved investments and products



Takaful Soliarity Basis

- Based on Solidarity, Cooperation, Mutual Support and Donation (Tabarru’);
- Separation between Shareholders Fund and Participants Fund; separate accounts;
- Shariah compliant investments.



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Takaful vs Conventional Insurance

	Conventional Insurance	Takaful
Basis	Risk Transfer	Risk Sharing
Laws	Secular/Regulations	Sharia & Prudential Regulations
Ownership	Shareholders	Participants
Management	Management Company	Operator
Form of Contract	“Sale” Contract	Cooperative, Wakala or Mudaraba
Premium	Price of cover	Tabarru’ based contributions
Investments	Conventional / Interest based	Sharia compliant
Surplus	Shareholders’ account	Participants’ account



Takaful vs Conventional Insurance

- ❖ Takaful is not only a tool to mitigate losses or to make halal profits.
- ❖ Takaful is also:
 - ❖ Solidarity and Mutual Support
 - ❖ Self reliance and self sustainability for community well being
 - ❖ Assistance to the Needy
 - ❖ Community pooling system



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Global takaful contributions forecast, 2009-15f¹



Sources: World Islamic Insurance Directory 2013, Middle East Insurance Review; EY analysis



Takaful Potential

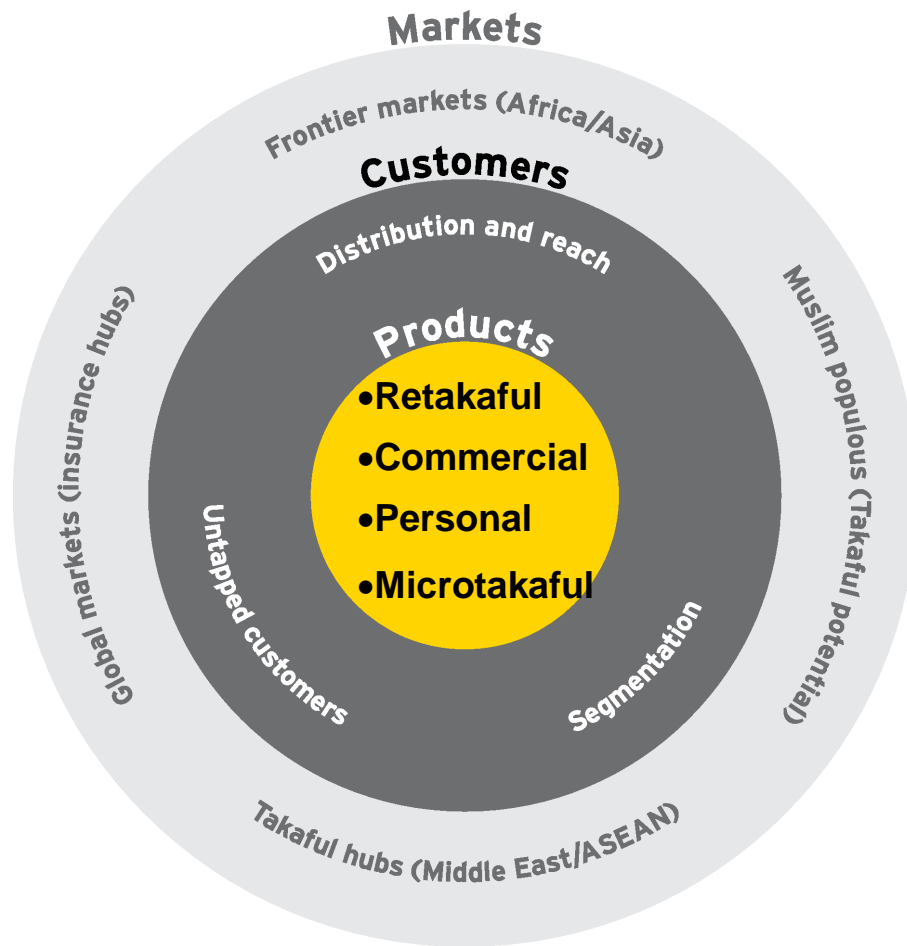
▪ Demographic Growth

Time Period	World %	Muslim %	Diff %	Double (Years)
1970 – 1990	1.66	2.61	0.95	94
1990 – 2000	1.41	2.13	0.72	96
2000 – 2006	1.22	1.9	0.68	103
2006 – 2025	1.03	1.64	0.61	115

- Source: - World Christian Encyclopedia
- Currently, Total Population of Muslims: 24% of the world's population.
- If present growth rates for the world population and the Muslim population continued in about 115 Years, half (50%) of the world's population will be Muslims.
- Takaful is useful for all world population



Takaful Potential





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**Takaful
In “Maqasid
Sharia”**



MAQASID OF SHARIA

The Ultimate Purposes of the Islamic Doctrine (Sharia)
consist of
Preserving and Enriching:

FAITH

POSTERITY

LIFE

WEALTH

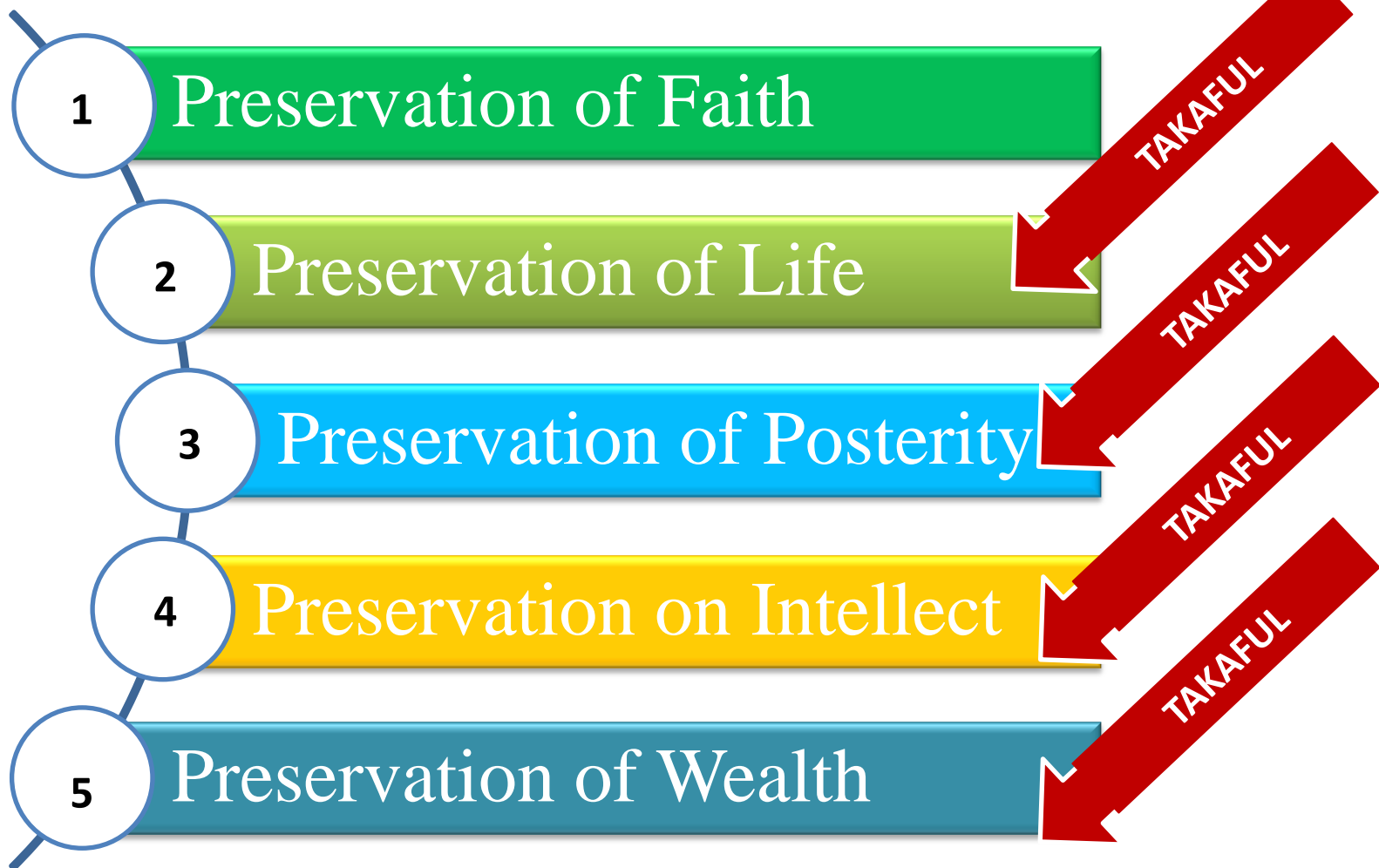
INTELLECT

All Indispensable For Human Development



Takaful in « MAQASID OF SHARIA »

Serving Human Development





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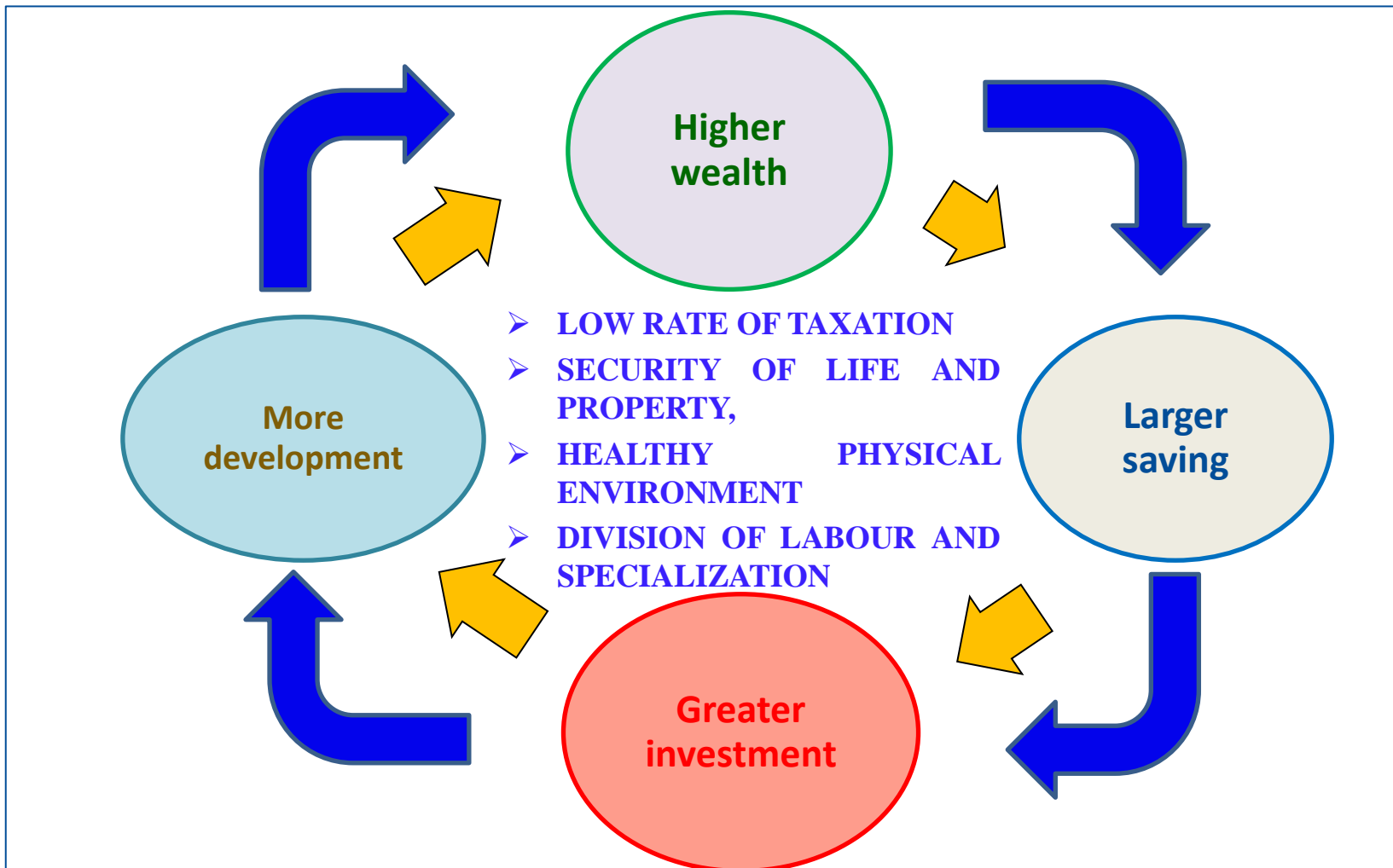


TAKAFUL **In Economic Development** **Cycle**

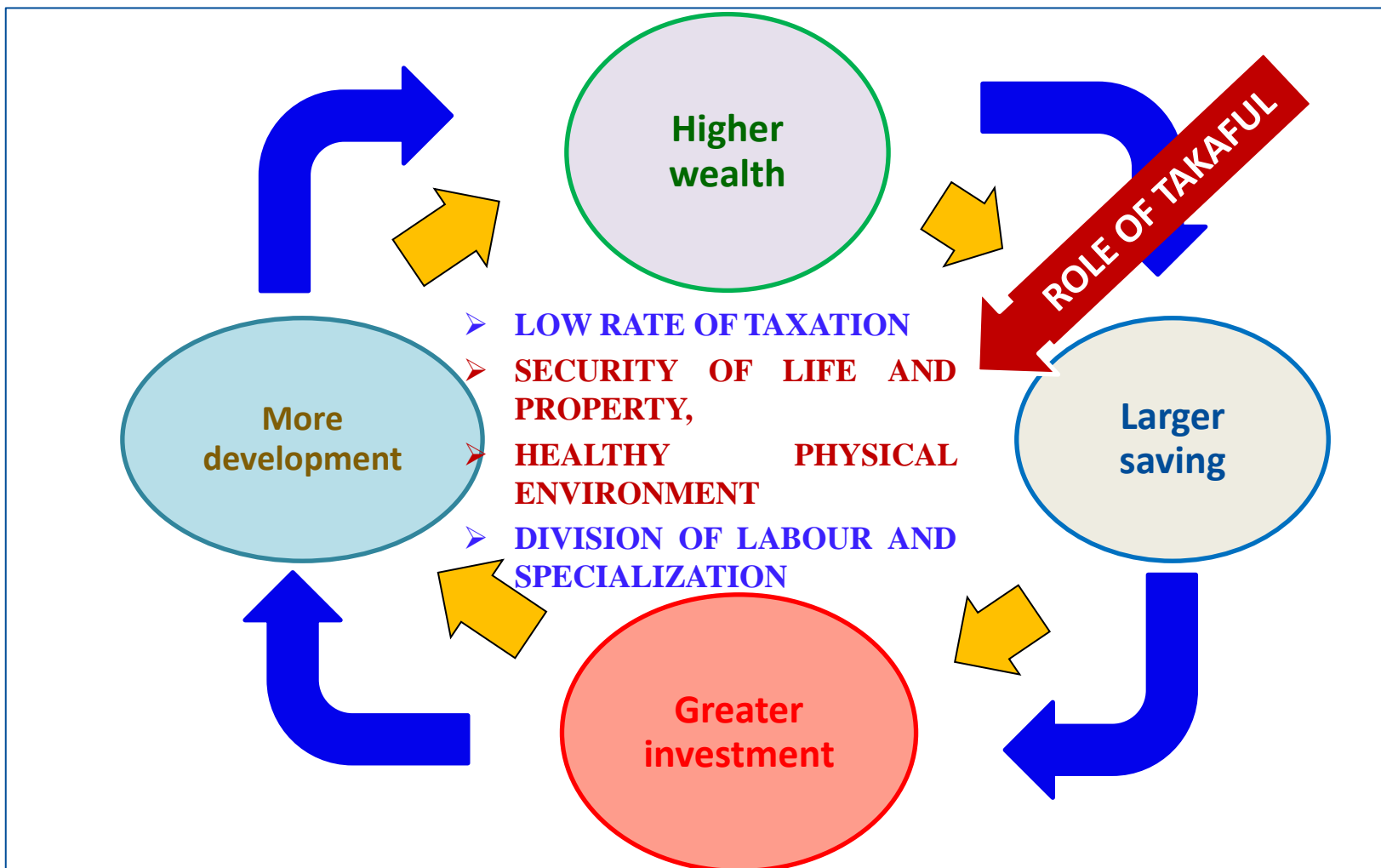


Economic Development Cycle

Ibn Khaldun (1332-1406) , The Muqaddimah (1377)



Takaful in Economic Development Cycle





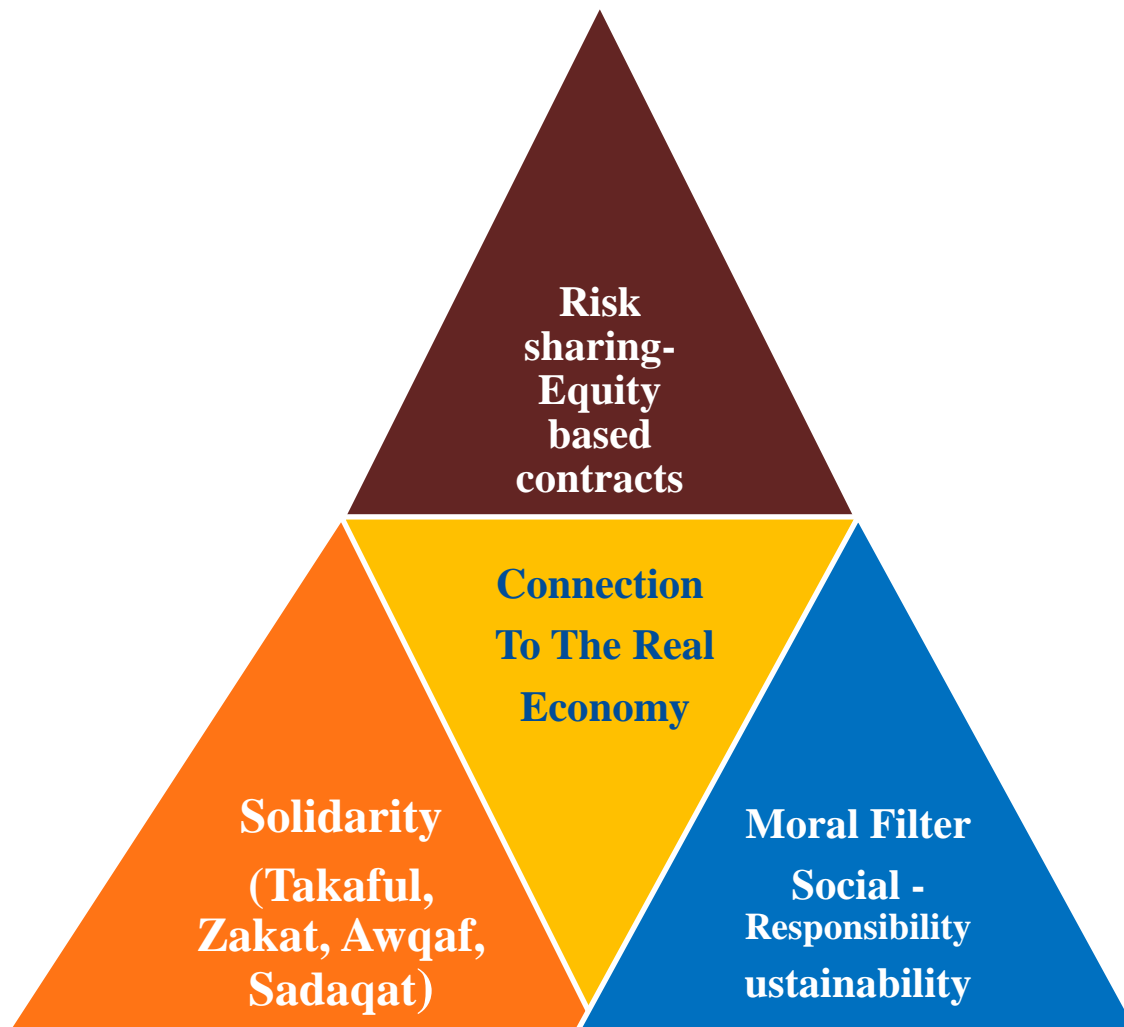
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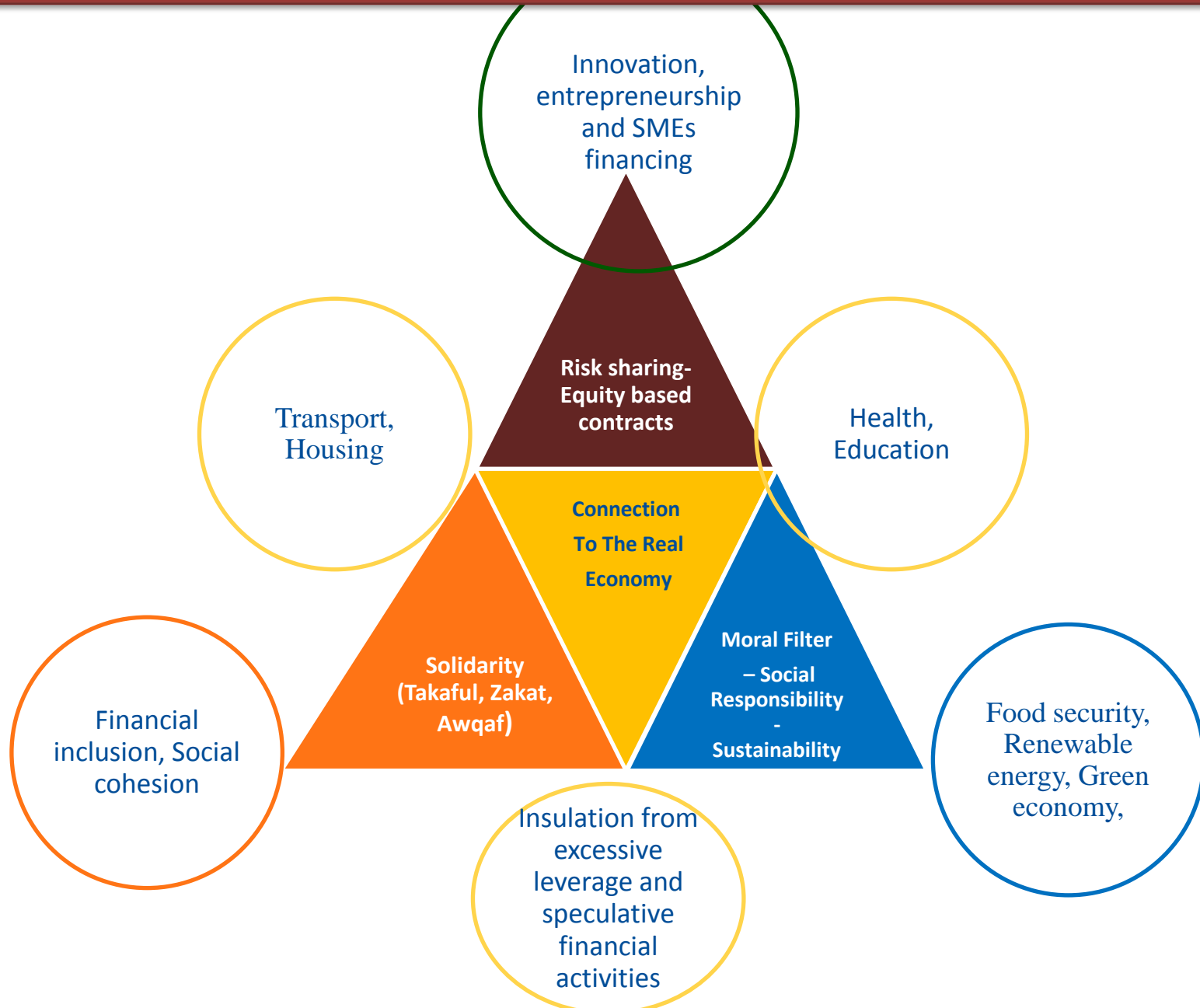
**Takaful Position
In Islamic Finance**



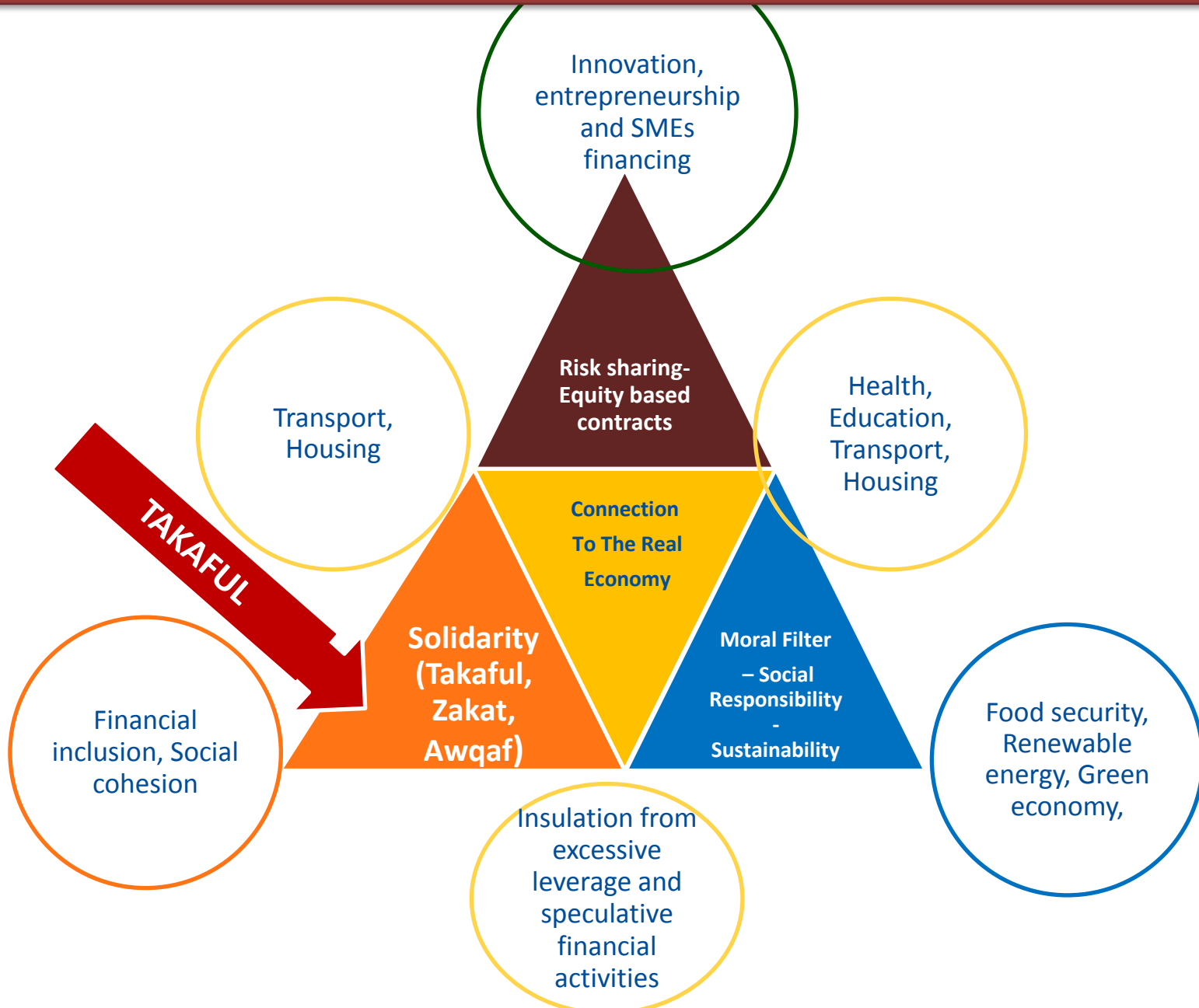
Islamic Finance Pillars



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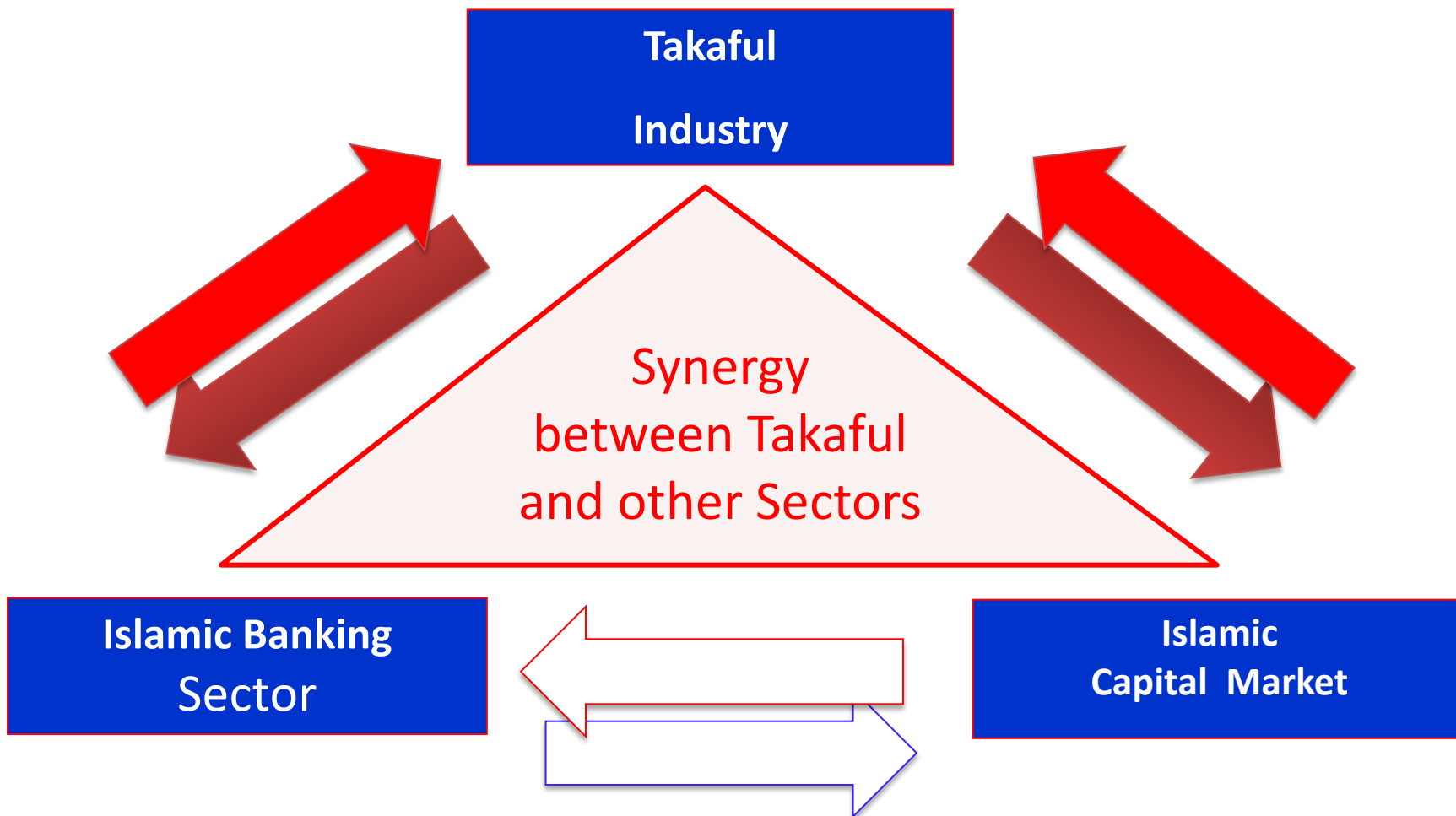
**Takaful Synergy
with
Islamic Finance Sectors**



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Islamic Finance CROSS-SECTORAL SYNERGY





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Takaful Products



TAKAFUL Products

- Life Takaful
- General Takaful
- MicroTakaful
- Finance Takaful
- Takaful for Pension Funds



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Micro-Takaful



MICROTAKAFUL Inclusiveness

The cooperative Microtakaful Model:

- History of organising the poor
- Operate for the interest of members by the members
- Trust and Solidarity
- Ownership and loyalty
- Peer pressure
- Surplus reinvested or redistributed



MICROTAKAFUL

Inclusiveness

Whether related to Microfinance or not,
Microtakaful is dependable for Financial Inclusion of
Poor and deprived populations



Finance Takaful

For Islamic Banking

Assets Takaful

- Export Finance
- Import Finance
- Corporate Finance
- Project Finance

Liabilities Takaful

- Sight Deposits
- PSIA

Off-Balance Sheet

- LCs
- Contract Bonds
- Guarantee



Finance Takaful

For Islamic Banking

- ❖ ICIEC, IDB Group is already providing these products in relation to Trade, Project and Investment Activities
- ❖ Takaful is useful for Promoting Exports and Attracting FDIs
- ❖ Takaful is a useful Risk Mitigant anf Credit Enhancement Tool
- ❖ Takaful is based on Rik Sharing.....not on Risk Transfer



Finance Takaful

For Islamic Capital Market

- Investment Certificates
- Leasing Certificates
- Sukuk





Finance Takaful

For Islamic Capital Market

- ICIEC, IDB Group is already launching
A Sukuk Takaful Product

- Sharia Compliant Risk Mitigant to Sukuk Investors

- Credit Enhancement for Sovereign and Corporate Sukuk

- Enables Islamic Countries to mobilize Funds for their Development Plans &
Infrastructure Projects

- Less Pricing for Fund mobilisation



Finance Takaful

For Microfinance and SMEs

- Solution to Absence of Guarantees impeding Banks Commitment
- Without recourse finance scheme
- Collective scheme to create scale
- Life Takaful with average pricing model



Takaful Based Pension Funds

- Better Financial Solution in case of Deficit
- Sharia Compliant scheme
- Collective scheme to create scale
- Encourage Micro, Small and Medium Entrepreneurs



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Conclusions Takaful Developmental Benefits



Conclusion: Takaful Developmental Benefits

- Alternative to Life and General Insurance
- Useful for Islamic Banking Deposits, Financing, and Investments.
- Useful for the development of Islamic Microfinance
- Useful for islamic Capital Market, especially for SUKUK Risk Mitigation
- Could be expanded to Pension Fund Schemes
- Micro-Takaful is effective to provide insurance to the poor.
- Micro-Takaful contributes to Financial inclusion



Conclusion: Takaful Developmental Benefits

- Contribute to the overall economic well-being of the population
- Contribute as a major source of employment, income and wealth
- Contribute to “quality of life” for a significant portion of the world population
- Contribute towards preserving and enhancing “social cohesion” and Inclusion
- Takaful is a most important social institution to counter poverty and deprivation



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Thank you

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