

London moves to boost takaful

With the launch of the Islamic Insurance Association of London (IIAL), the city looks ready to play a more active role within the global takaful market and become a viable platform to foster greater understanding and appreciation of Shariah-compliant products.

By Cynthia Ang



London Eye

Mention London and most would think of a global financial centre and Lloyd's, the world's leading market for specialist insurance. But apart from traditional banking activities and insurance, London is also gradually establishing a reputation as Europe's premier centre for Islamic finance.

An important factor in the development is the UK government's commitment to developing London as an important hub for Islamic finance to support innovation and diversity in its well-established financial market. At the ninth World Islamic Economic Forum (WIEF), which the city hosted in 2013, Prime Minister David Cameron declared: "I want London to stand alongside Dubai and Kuala Lumpur as one of the great capitals of Islamic finance anywhere in the world."

Several initiatives are helping to solidify this vision, including the creation of an Islamic index on the London Stock Exchange; the establishment of the first Islamic insurance underwriting agency, Cobalt Underwriting; and the issue of a GBP200 million (US\$309.5 million) sukuk in June 2014 – the first Islamic bond to be issued by a non-Muslim government.

A welcome move

London recently took another step closer to its vision by setting up IIAL earlier this year. At the official launch in April, Chairman Max Taylor said the formation of the new association is a tangible sign that London has recognised it has to play a role in developing insurance solutions for the Islamic world.

It is also hoped that the provision of



Mr Max Taylor

takaful will give the London insurance market access to Islamic financial risks, which are estimated to be worth around US\$2 trillion in assets worldwide as at end-2014, and to continue recording double-digit growth.



Mr James Bagshawe

Mr James Bagshawe, Member of IIAL's Executive Committee, said the group's formation has attracted "tremendous" amount of interest and support, and "shows the desire of the City to engage with the Islamic business community and bring the centuries-old financial services expertise in London to those businesses in a Shariah-compliant way".

Lloyd's, the Chartered Insurance Institute (CII), the London Market Group (LMG), the London International Insurance Brokers' Association (LIIBA) and CityUK have become associate members of IIAL. In addition, 10 firms have signed up to be members, and IIAL is in discussions with a number of other entities that have expressed a keen interest in joining, disclosed Mr Bagshawe.

The nascent UK takaful sector has been gathering pace in recent times with the likes of Cobalt Underwriting and XL Group rolling out takaful products. Just before IIAL's official launch, XL and Cobalt teamed up to offer an equine product through Lloyd's; this followed a launch by Willis last year of commercial real estate insurance underwritten by Cobalt. Both Shariah-compliant products are said to be firsts in the UK market.

Mr Bagshawe said of the IIAL's opening: "The timing could not be better with Lloyd's setting up a hub in Dubai and launching its first Shariah-compliant product. There is a real interest from London in the Islamic insurance sector

and it helps that the formation of the IIAL has come about due to demand from the market.”



Mr Richard Bishop

Mr Richard Bishop, CEO of Cobalt Underwriting, said the company will play a major role in its work as “we believe it will provide benefits to both London’s and international markets’ understanding of Shariah-compliant insurance and reinsurance”.

“Anything that raises the profile and the ability to transact insurance in a Shariah compliant way has to be welcomed,” he added. “(IIAL’s) stated objectives of introducing and maintaining standardise practices and processes can only enable business to increase.”

Tapping on London’s strengths

London has been and remains the pre-eminent home of specialty underwriting capacity and expertise, said Mr Bishop. It also has a reputation and history for innovation, both in product design and approach, and those skills will be brought to bear to assist the development of the takaful sector, he noted.

Others have also welcomed the role that London can play in the takaful market. Mr Marcel Omar Papp, Head Retakaful at Swiss Re Retakaful, pointed out that takaful companies tend to lack the expertise for specialised risks. He said: “As a global centre for (re)insurance, especially for these types of risks, the London market can support the growth of this business on the takaful side.”



Mr Marcel Omar Papp

Mr Chakib Abouzaid, Group Marketing Officer/ Reinsurance (DIFC) at GroupMed Reinsurance Brokers, said that London can be an ideal platform for retakaful and retrotakaful business, and reduce the reliance of takaful on conventional capacities.



Mr Chakib Abouzaid

On the other hand, Dato’ Majid Mohamad, Managing Adviser of Labuan-based consulting firm MBM Advisers, opined: “Lloyd’s would provide a better platform to start a takaful/ retakaful initiative.” He commented that its operational framework with a separation of risk (trust) fund and capital providers’ fund is similar to the takaful concept.



Dato’ Majid Mohamad

“Further, the chain of security of Lloyd’s provides a safety net to the operators. But the most important issue is rating, as many jurisdictions are moving towards the risk-based capital regime; Lloyd’s, with its reasonably good rating, would not impose any problem to these jurisdictions,” Dato’ Majid said.

Overcoming the hurdles

While London may have the ability to develop takaful, Mr Bagshawe said there is the challenge of “engaging with the Islamic business and insurance communities to explain

why London is an attractive home for their risks”.

Agreeing, Mr Papp said one of the main challenges facing the London market in developing takaful business is “their potential lack in experience and understanding of takaful”. He explained: “This can lead to situations where conventional solutions are offered without taking into consideration the specifics of takaful. The small market size may also make it not viable for the London market to offer takaful solutions.”



Mr Adrian Hastie

While London is very well positioned to provide the right platform to help achieve the growth of Shariah-compliant insurance solutions, “this same mature market does, however, also present some difficulties to a fledgling sector in relation to capacity, because the number of insurers competing for business here will often generate a drive towards lower premiums”, said Mr Adrian Hastie, Account Director, Real Estate Practice at Willis.

He added: “This will always make it difficult for emerging insurance markets to establish sufficient core numbers of insured parties/ premium needed in order generate the correct financial balance needed to maintain economic viability of the product. As conventional insurance has always been a fall-back proposition, this will potentially continue to hold back the ability to achieve growth.”

Developing takaful in London

Dato’ Majid cited two unsuccessful attempts in the UK – the setting up of Principle Insurance in 2009, and the first takaful syndicate by Lloyd’s insurer Creechurch in 2006, both of which did not quite take off – as reminders of the difficulty in taking takaful to the rank of its conventional counterparts without the proper strategies, capital and support from the market.

With the Far East and Middle East comprising the main takaful markets, “any efforts to establish a takaful entity in London must bring together these markets – in terms of capital, marketing and business”, he pointed out.

Applauding the creation of IIAL, Mr Mohamed El Dishish, CEO of Emirates Retakaful noted that there are opportunities but an even more challenging task for takaful to expand. Takaful, first and foremost, has to demonstrate the added value of buying such products, he said, and Shariah compliance should not be the only factor.



Mr Mohamed El Dishish

“The target market has very good potential to grow further in the London

market if it follows the same route as the sukuk product when it was launched in the London market, where the sukuk holder can trace his right to a tangible assets,” he added.



Mr Mohamed Akoob

Besides its capacity, expertise and know how, London’s tested legal environment can support product development, said Mr Mohamed Akoob, CEO of Hannover ReTakaful.

In the same vein, Mr Abouzaid said

takaful can use the London platform to diversify their product offerings to include political violence, professional indemnity, D&O, financial lines, energy and aviation, especially in fast-growing markets such as the GCC and Malaysia.

Working with global counterparts

The global takaful sector is anticipated to continue its double-digit growth momentum and reach \$20 billion by 2017. But the sector, like any other emerging industry, is facing challenges such as the need for skilled professionals, regulatory fragmentation, Shariah-compliant investment opportunities, and the lack of product offerings and diversity.

The London market can play a leading role in enhancing the market and delivering change to the Islamic insurance sector, where there is real need for greater expertise and knowledge, said Mr Taylor.

And the IIAL has expressed its intention to work with other parties in doing so. "We hope to engage with insurance associations across the Islamic markets, Islamic governments, Islamic business associations and regulators, to see where London can make a difference," said Mr Bagshawe.

"This is not a case of London looking to march in and dominate markets. We want to work with the regulators, associations underwriters and brokers to create robust professional markets that can meet the needs of Islamic business clients both domestically and internationally. Ours is very much a partnership approach and we will be happy to provide access to the expertise we have in London for the benefit of all."

Welcoming the IIAL's launch, Mr Salah Eldin Musa Mohamed, Managing Director at Shiekan Insurance & Reinsurance of Sudan, suggested that the association

cooperate and coordinate closely with the Global Takaful Group (GTG), the International Federation of Takaful and Islamic Insurance Companies (IFTI), and the Takaful Network at the International Cooperative and Mutual Insurance Federation (ICMIF). All three have the common objective of developing and promoting takaful products.

What's next?

"The dynamics of risk are changing and to progress to the next level we, as an industry, have to change our mind set," said Mr Bishop. "It should not be a case of choosing either conventional or takaful. By working together with individual overseas markets, London can provide the capacity and the capability that will help break down these barriers to the point where an Islamic insurance solution is the primary risk solution offered in Islamic markets by all insurers."

On the tasks ahead, Mr Bagshawe said: "We believe there is a need to educate the wider world as to what the London market is and how it operates. Conversely, we want to educate the London market as to the Islamic insurance sector, its opportunities and how to meet the market's needs. We would also like to play a role in the debate over standards for the transaction of Shariah-compliant (re) insurance, and also, professional standards and education."

There is still much work ahead for the UK to develop takaful, which would be not be possible without political backing. The support received so far has laid the foundation and framework for the growth of Islamic finance in the UK; it is hoped that IIAL will enable those in the market to speak in a single voice and send the message that London is serious about takaful. ■



Mr Salah Eldin
Musa Mohamed

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