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# The challenges of digitization and its applications in Islamic Takaful SAAFI as model

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Digital Transactions and their Applications in Islamic Economy

## The challenges of digitization and its applications in Islamic Takaful: SAAFI as model



May, 24th, 2021

# Content



1. Concepts

2. Takaful industry

3. Prospects and potential

4. Case study: Full Digital Sakina Funeral

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# Concepts

- 1.1 Takaful & secularism
- 1.2 Principles
- 1.3 Regulatory & legal aspects
- 1.4 Modelization

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The challenges of digitization and its applications in Islamic Takaful: SAAFI as model

# 1.1 Takaful & secularism

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Within the limits of applicable law, citizens have the opportunity to express religious preferences by acting following them.

These preferences can be the main criteria of a transaction, in which two private parties contract.

The principle of secularism, which guides the functioning of state institutions, has no bearing on agreements concluded between private parties.

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- Cf. “Islamic finance and French principles of secularism”  
Dr. Thierry RAMBAUD, Professor in public law.

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“

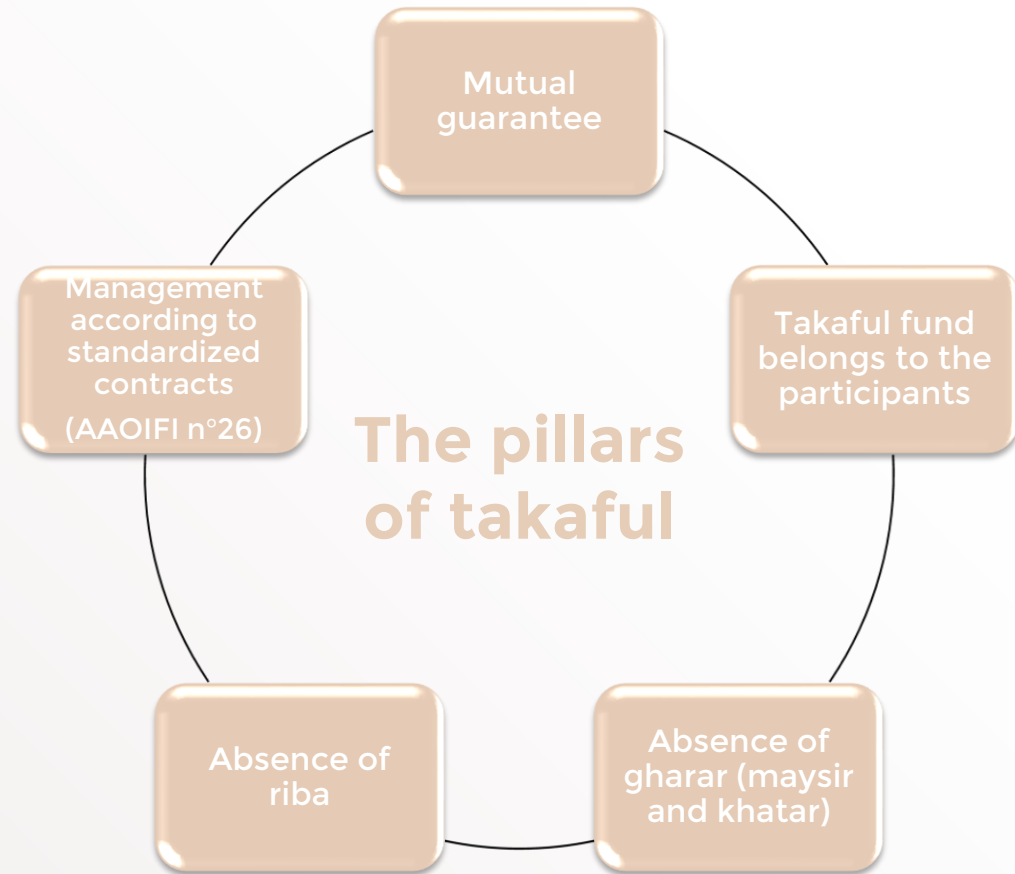
*The commercial-type insurance contract operating according to the fixed premium method is tainted by Gharar which renders it obsolete, and therefore illegal from the point of view of Muslim law. The alternative is the mutual insurance contract based on the principle of mutual assistance. The same is true for reinsurance in an Islamic framework based on the principle of mutuality.”*

# 1.2 Principles

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- Risk pooling between participants
- Cooperation, protection and mutual aid (Ta'awun)
- Voluntary contribution (Tabarru')
- Investments of funds according to the rules of Islamic finance



# 1.3 Regulatory & legal aspects



For many years, a problem faced by Islamic financial institutions has been the absence of an appropriate legislative framework to support their establishment and promote their growth. This problem has been moderated by the emergence of AAOIFI and IFSB.

## AAOIFI

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was created, by the agreement signed by Islamic financial institutions on February 26, 1990, in Algiers. AAOIFI is composed of more than 200 members (central banks, Islamic banks, audit firms, etc.).

- The AAOIFI standard n ° 26 promulgated on May 5, 2006, deals with Takaful insurance.

## IFSB

The Islamic Financial Services Board (IFSB) is an international standards organization that was officially launched on November 3, 2002 and started operations on March 10, 2003. Its headquarters are in Kuala Lumpur, Malaysia.

Since 2009 six standards relating to Takaful have been promulgated by the IFSB:

- IFSB-8 Guiding Principles on Governance for *Takâful* (Islamic Insurance) Undertakings (2009)
- IFSB-11 Standard on Solvency Requirements for *Takâful* (Islamic Insurance) Undertakings (2010)
- IFSB-14 Standard On Risk Management for *Takâful* (Islamic Insurance) Undertakings (2013)
- IFSB-18 Guiding Principles for *Retakâful* (Islamic Reinsurance) (2016)
- IFSB-20 Disclosures to Promote Transparency and Market Discipline for *Takâful/Retakâful* Undertakings (2018)
- IFSB-25 Key Elements in the Supervisory Review Process of *Takâful/Retakâful* Undertakings (2020)



# 1.3 Regulatory & legal aspects

## Comparison standard n°26 AAOIFI and Insurance Code

	<b>Standard n° 26 AAOIFI</b>	<b>Sociétés anonymes (SA)</b>	<b>Sociétés d'assurance mutuelles (SAM)</b>	<b>Sociétés mutuelles d'assurances (SMA)</b>
<b>Nature</b>	Mutual aid	Commercial	Civil	Association
<b>Object</b>	Non commercial	Lucrative purpose	Non lucrative purpose	Non lucrative purpose
<b>Asset management</b>	Islamic finance	Solvency II	Solvency II	Solvency II
<b>Premiums</b>	Fixed or variable	Fixed	Fixed or variable	Variable
<b>Types</b>	All	All	All	Damages
<b>Profit sharing</b>	Surpluses to participants	Dividends to shareholders	Surpluses to members	
<b>Premiums recall</b>	YES	NO	YES	
<b>Objectives</b>	Guarantee the interest of participants	Guarantee the interest of shareholders	Provide members with the best and lowest cost service, while ensuring the sustainability of the business and employment.	

# 1.3 Regulatory & legal aspects

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## Comparison standard n°26 AAOIFI and Insurance Code



### Findings

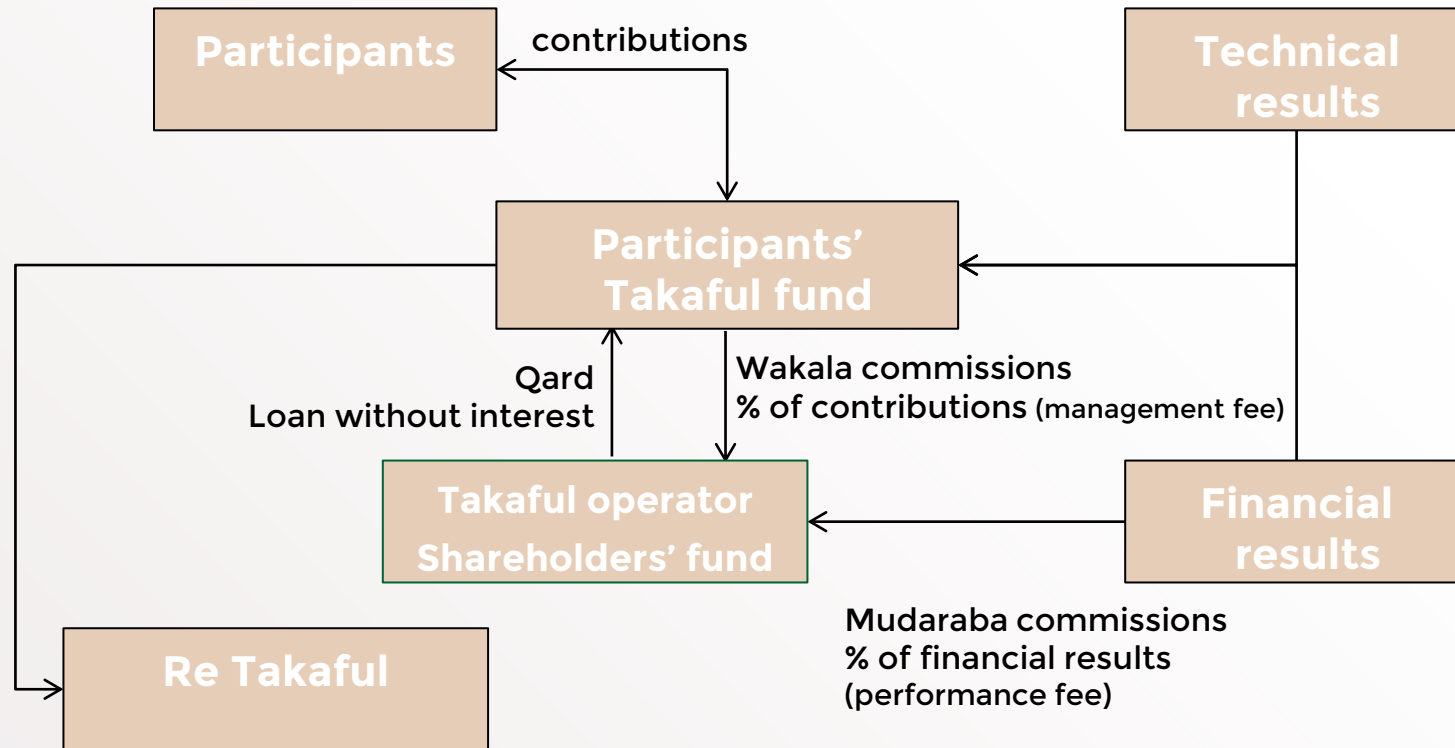
- ✓ A **General Takaful activity** (property and liability insurance) can only be exercised in the form of a **Mutual Insurance Company (SAM)** or a **Mutual Company Insurance (SMA)**.
- ✓ A **Family Takaful activity** (life insurance) can only be exercised in the form of a **Mutual Insurance Company (SAM)**.
- ✓ The management of contributions must reconcile a **hybrid Shari'ah Solvency II** compliant management.

# 1.4 Modelization

1. Concepts
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## Main model used in the industry: Hybrid Wakala Mudaraba



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# Takaful industry

- 2.1 World turnover
- 2.2 Geographical distribution
- 2.3 Retakaful operators



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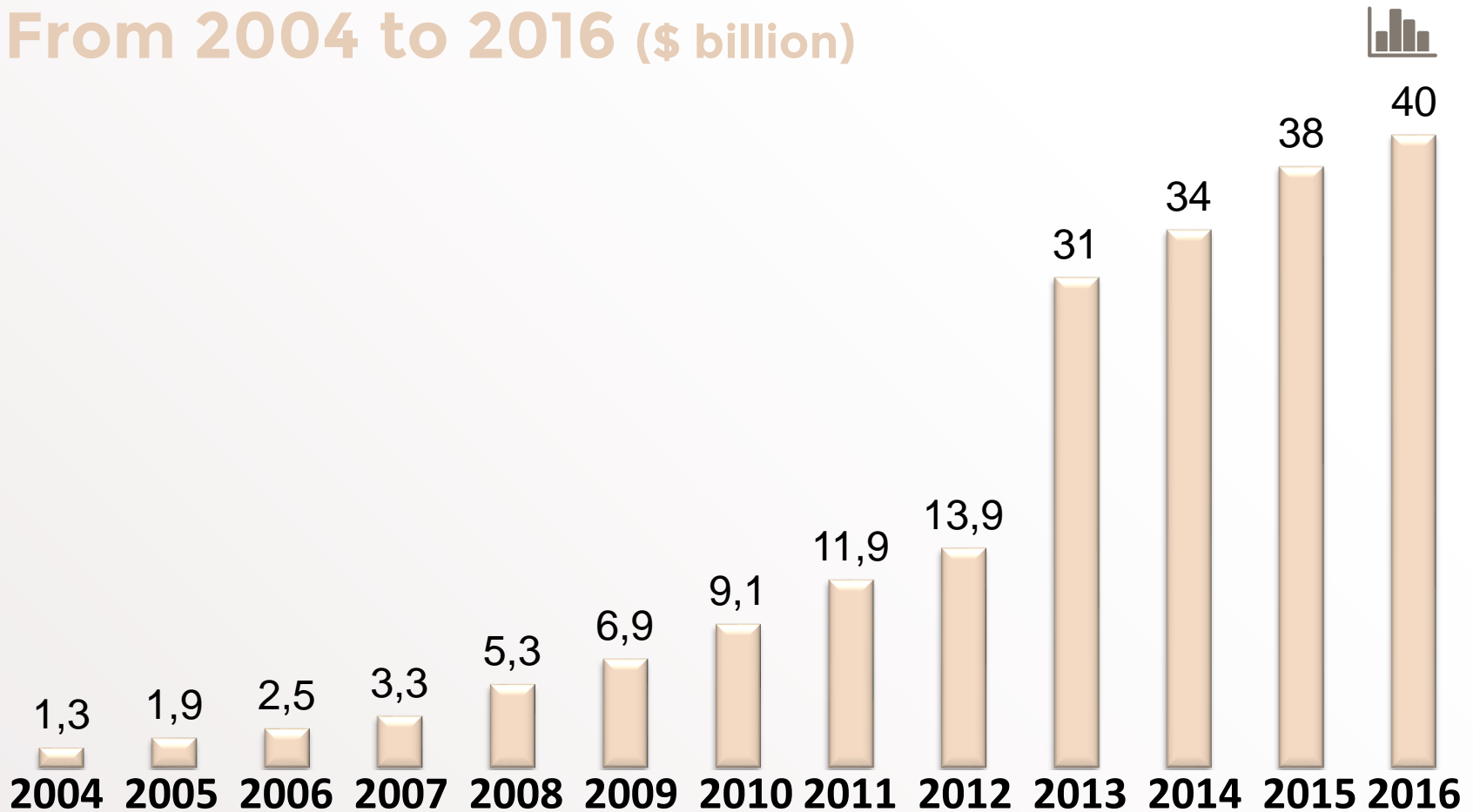
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# 2.1 World turnover

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From 2004 to 2016 (\$ billion)



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- ICD – THOMSON REUTERS - ISLAMIC FINANCE DEVELOPMENT REPORT 2016

## 2.2 Geographical distribution

1. Concepts
2. Takaful industry
3. Prospects and potential
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322 operators worldwide



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113 composite, 112 general, 76 life, 21 Retakaful  
(Thomson Reuters 2018)

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## 2.2 Geographical distribution

1. Concepts
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COUNTRY	Assets	Operators
Saudi Arabia	14,2 \$ bn	40
Iran	10,5 \$ bn	27
Malaysia	7 \$ bn	20
U.A.E	2 \$ bn	17
Qatar	535 \$ M	19
Kuwait	186 \$ M	15
Bahrain	372 \$ M	9
Indonesia	1,3 \$ M	57
Bangladesh	669 \$ M	18
Pakistan	174 \$ M	13
Egypt	-	9
Sudan	43 \$ M	14
Jordan	125 \$ M	2

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- ICD – THOMSON REUTERS - ISLAMIC FINANCE DEVELOPMENT REPORT 2016

## 2.3 Retakaful operators

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### Hanover Re

Opened a specialized structure in 2006 in Bahrain.



### Allianz

Opened a specialized structure in 2006 in Bahrain.



### Scor

SCOR Asia-Pacific has a license to take out Retakaful reinsurance contracts.



### Swiss Re

Present in the Middle East since 2006.



### Munich Re

Fully-fledged Retakaful operator licensed by Bank Negara Malaysia since 2007.  
Based in Kuala Lumpur, Malaysia.



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# Prospects and potential

3.1 Projections and demographic datas

3.2 Europe

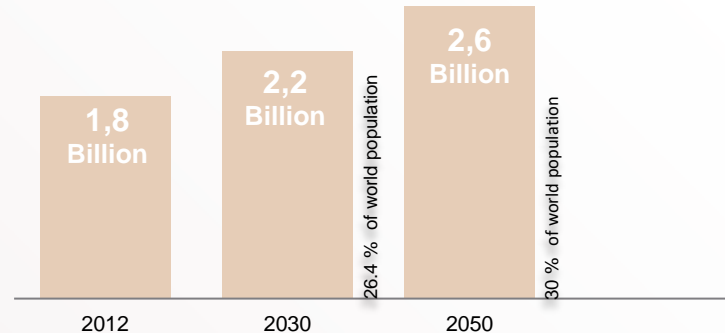
3.3 France



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## 3.1 Projections and demographic datas

### The Muslim population in the world



- Source: Fleishman-Hillard Majilis, « The next billion: The market opportunity of the Muslim world » PwC, 2012.

### Muslim population in France

**5,72 million** (Pew Research Center, 2017).

More Muslims in France than 8 members of the Arab League.

The **largest** Muslim community in the Western world.

# European Central Bank

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“

*Islamic finance  
seems to have  
good potential  
to develop in  
France ”*

## 3.2 Europe

1. Concepts
2. Takaful industry
3. Prospects and potential
4. Case study: Full Digital Sakina Funeral



- European passport
- High level of education
- Return to traditional values of Islam
- Potential market of 15 million people
- High penetration rates and insurance density



**Significant demand for  
Takaful solutions**

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# 3.3 France

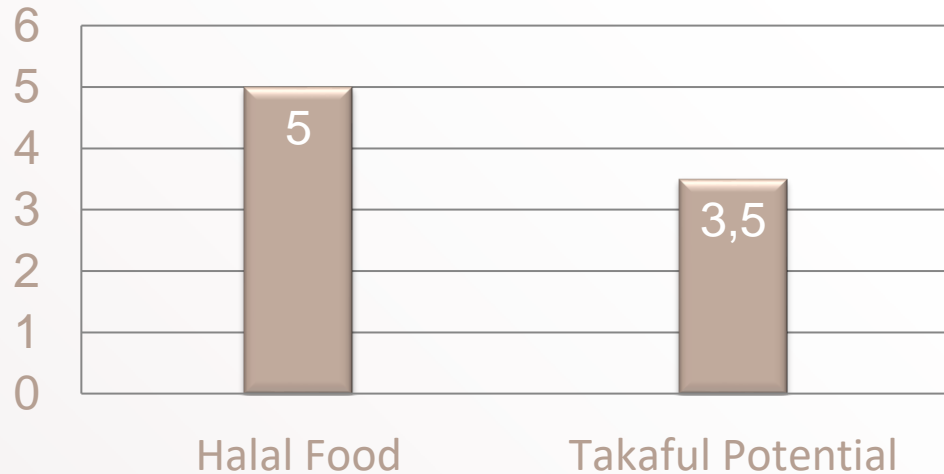
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## France

(Billion euros)

- Strengthening religious practice
- High purchasing power
- Slow but certain growth over time



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▪ **Source: Les Echos études**  
**Stratégies de développement de produits d'assurance takaful**

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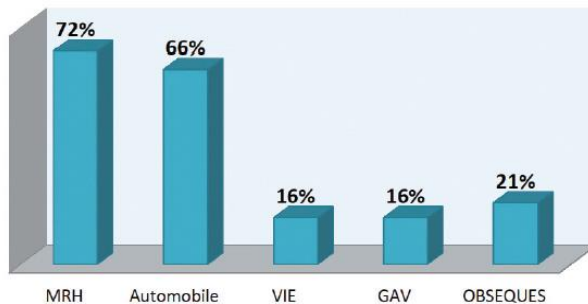
# 3.3 France

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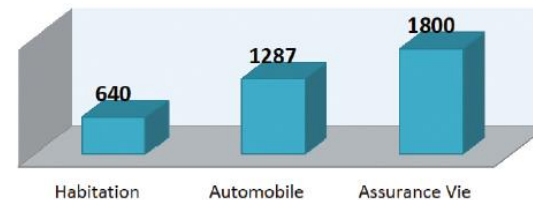


## Potential of € 1.8 billion For Family Takaful (life insurance).

Taux d'équipement assurantiel de l'échantillon



Estimation des cotisations d'assurances versées en 2012 par les musulmans français (en millions d'euros)



- Source: Study prospects for the development of Takaful in France carried out by IFSO and SAAFI between November 10 and December 12, 2013, with a sample of 927 people representative of French Muslims.

## 3.3 France

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- The **French domestic market is mature** and ready to massively adhere to a takaful offer, provided that it is compliant, competitive and of high quality.
- With 94% of people ready to subscribe if players can offer competitive products, **takaful can weigh 3.5 billion euros in France.**
- The global takaful market represented 40 billion dollars, the **French market can easily take its place** in this globalized industry.

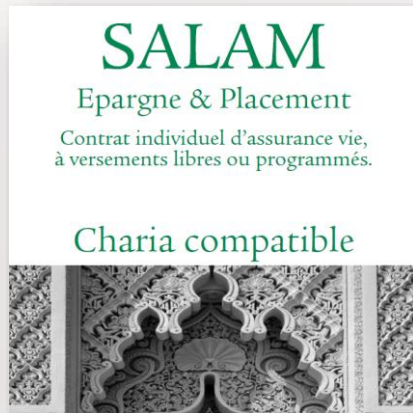
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# 3.3 France

1. Concepts
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4. Case study: Full Digital Sakina Funeral



- Absence of Takaful General (Property and Liability Insurance)
- Three closed Takaful family contracts (life insurance) previously distributed by SAAFI



**Swiss Life**  
Salam Savings & Investment  
**2012**  
From 3000 €  
or 75 €/month



Unit-linked (14 external investment funds: Amundi, HSBC, Oasis, Templeton, Comgest, BNP Paribas, etc.).

**Vitis Life**  
Amane Exclusive Life  
**2014**  
From 250 000 €



**FWU Atlantic Lux**  
Ethra'a  
**2015**  
From 50 €/month

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## Case study: Full Digital Sakina Funeral

- 4.1 Market study
- 4.2 Conception
- 4.3 Pricing
- 4.4 Compliance & Model
- 4.5 Branding
- 4.6 Digitization
- 4.7 Challenges of digitization

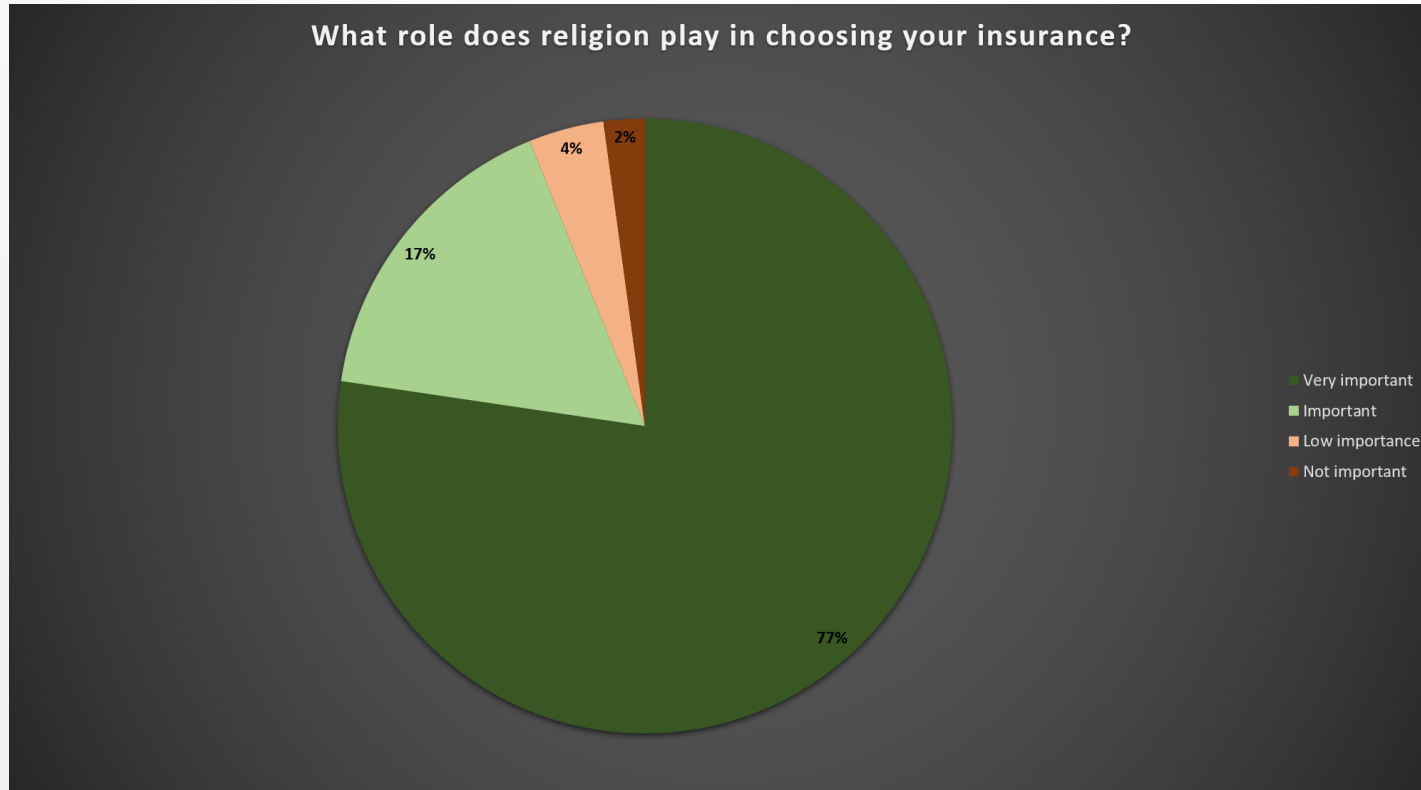


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# 4.1 Market study

1. Concepts
2. Takaful industry
3. Prospects and potential
4. Case study: Full Digital Sakina Funeral



- Market study performed in 2015 by SAAFI with a sample of 1,169 people.

# 4.1 Market study

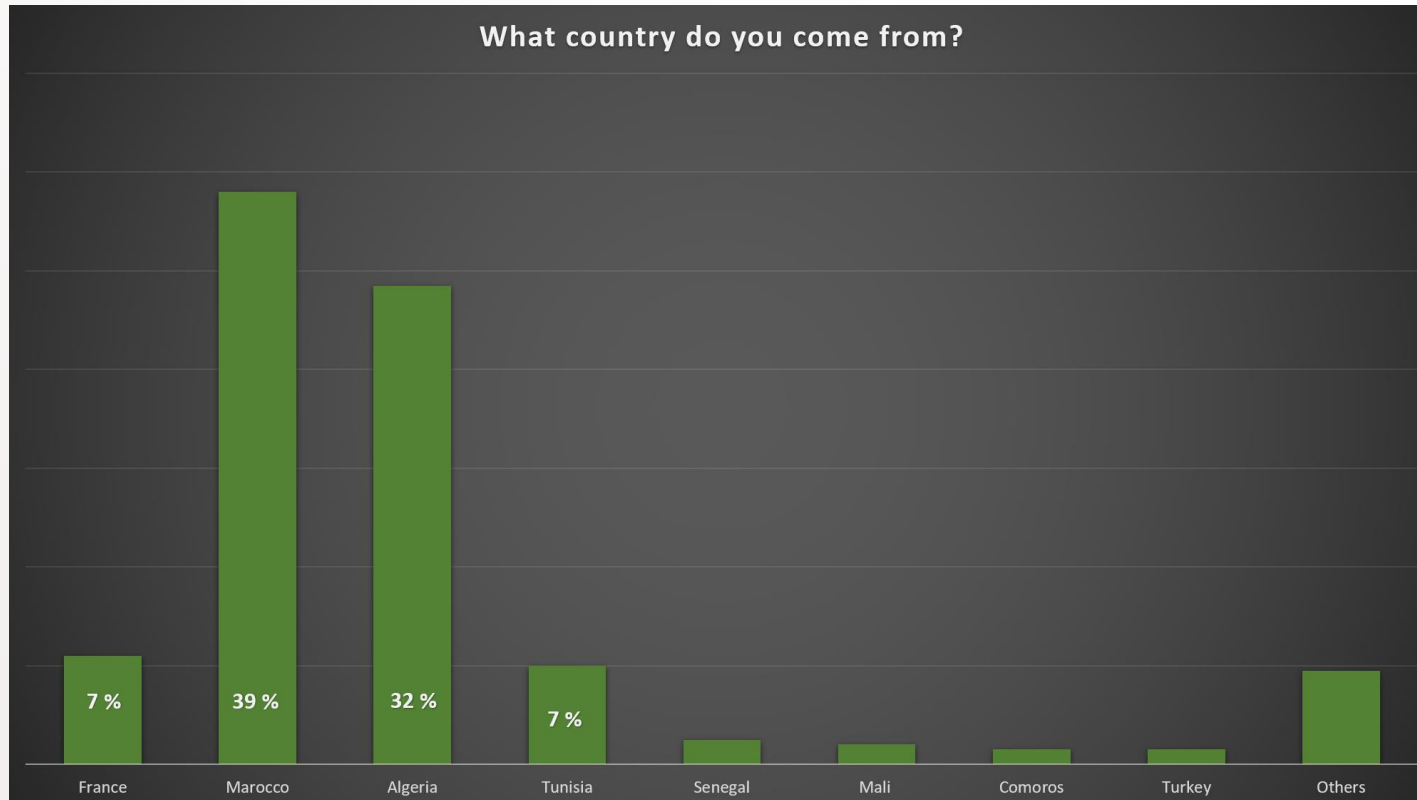
1. Concepts
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# 4.1 Market study

1. Concepts
2. Takaful industry
3. Prospects and potential
4. Case study: Full Digital Sakina Funeral

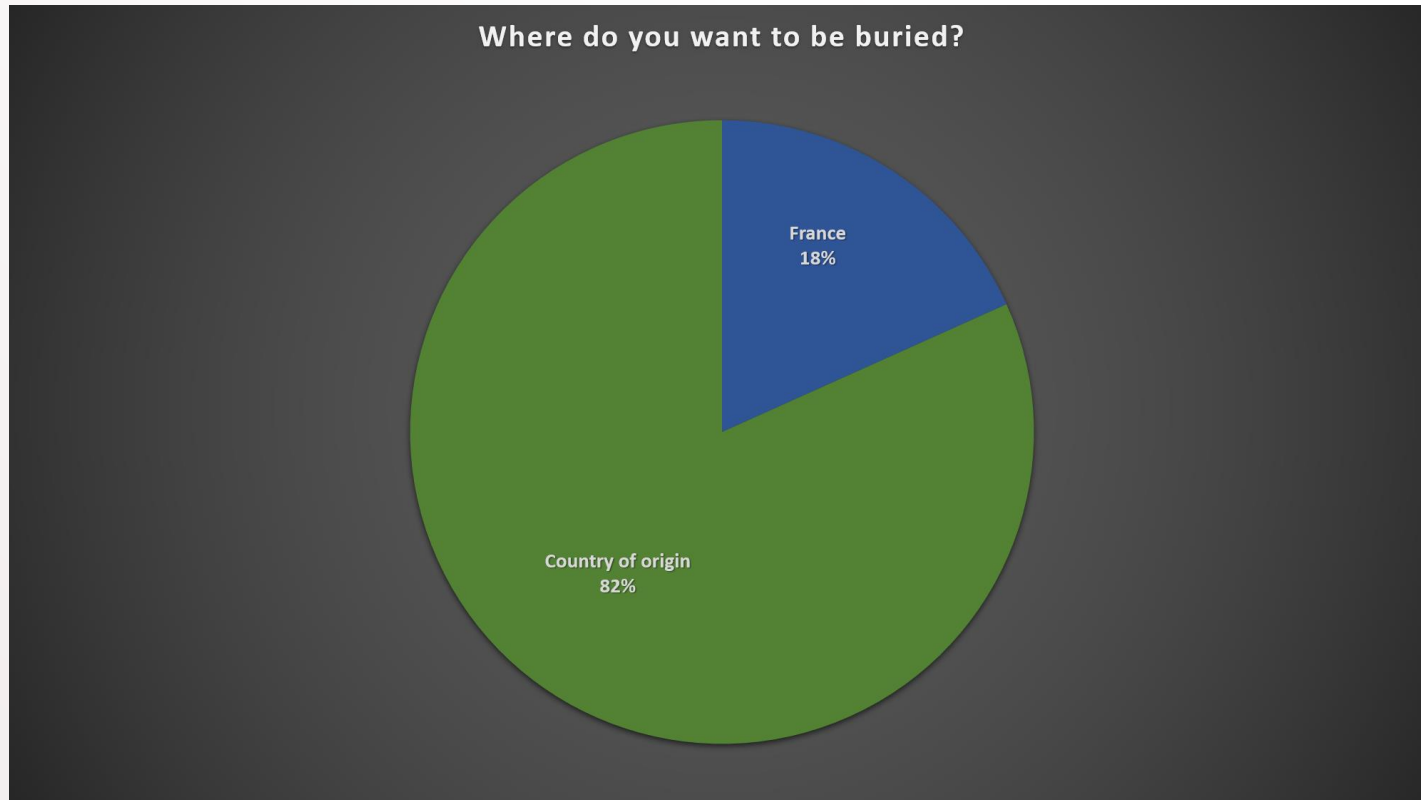


- Market study performed in 2015 by SAAFI with a sample of 1,169 people.

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# 4.1 Market study

1. Concepts
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- Market study performed in 2015 by SAAFI with a sample of 1,169 people.

# 4.2 Conception

1. Concepts
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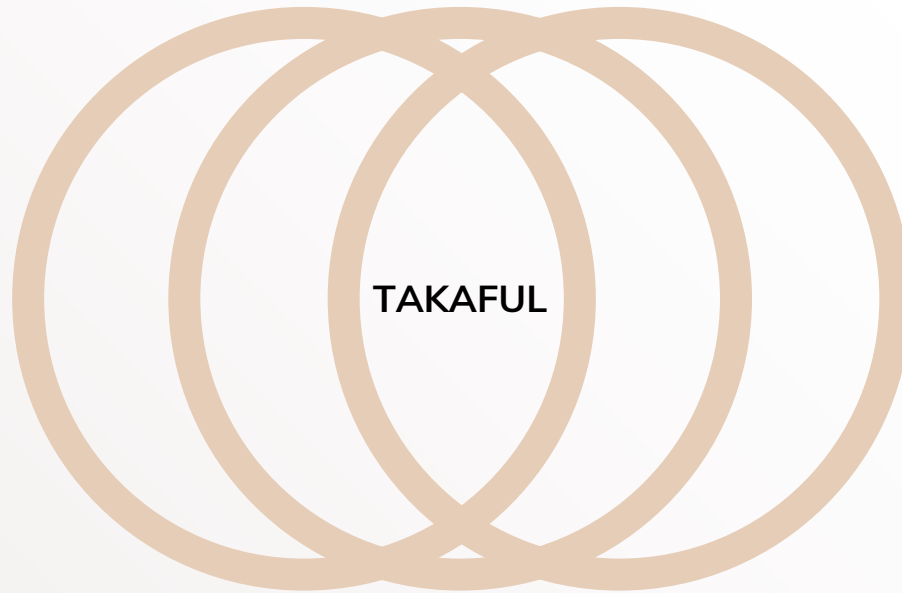
ISLAMIC LAW

REGULATION

FRENCH LAW



The Takaful operator must ensure that insurance operations comply with the rules and principles of Shari'ah.



To exercise takaful, it is necessary to transpose Islamic law in compliance with the legal framework of the country in which the operator wants to exercise (POG, IDD, etc.).

The solvency regime must reflect the risk nature.

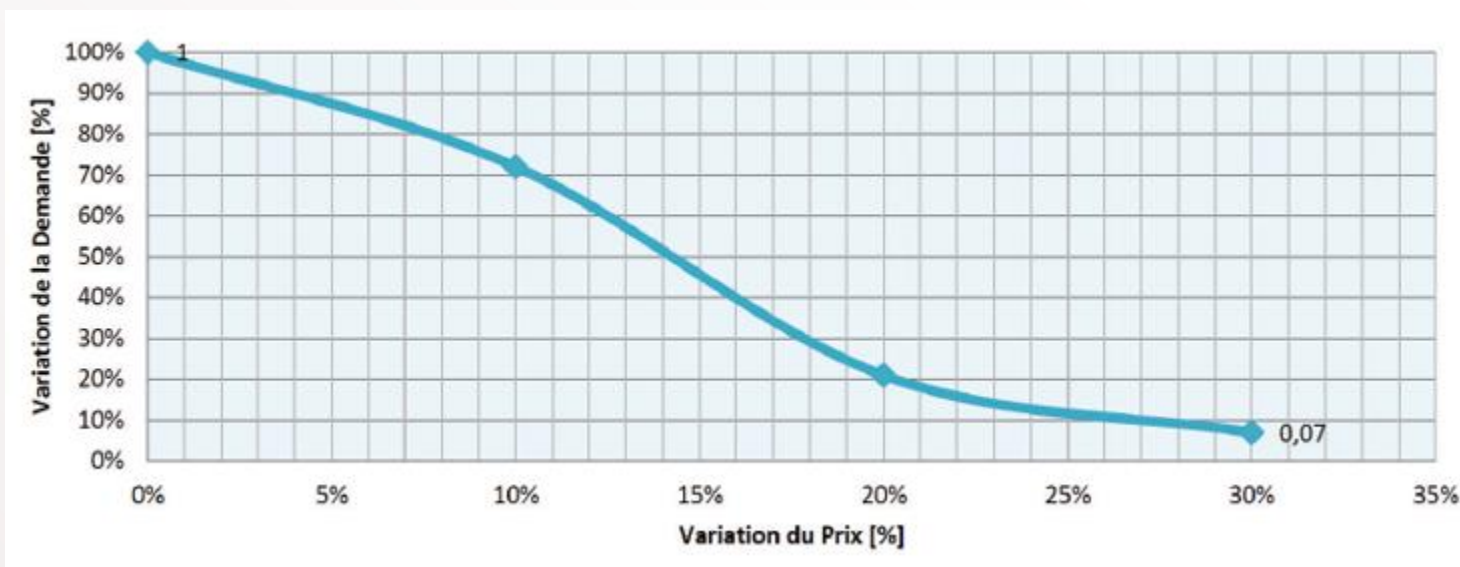
If there is a deficit in the subscription fund, the insurer must grant an interest-free loan, or make a contribution reminder to the members.

# 4.3 Pricing

1. Concepts
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## Demand elasticity



We aim for affordable prices without seeking to take advantage of the absence or weakness of competition to increase them, at the risk of creating mistrust.

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- Source: Study prospects for the development of Takaful in France carried out by IFSO and SAAFI between November 10 and December 12, 2013, with a sample of 927 people representative of French Muslims.

# 4.4 Compliance & Model

1. Concepts
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## Compliance to French law

### Product Oversight and Governance

- Identification of co-designers
- Target market identification
- Risk assessment relevant to the target market
- Definition of a suitable distribution strategy
- Technical monitoring
- Commercial monitoring
- Anticipation and detection of any conflict of interest
- Product review planification

## Compliance to Islamic law



- The Fund must not be involved in a transaction in which there may be interest
- Any interest income, even if it is improperly earned by the Fund, must be distributed to charities
- No document of the Fund may contain any expression implying an interest charge or payment, ambiguity, excessive uncertainty or games of chance.
- It is strongly recommended to keep the funds collected from participants in a separate Shari'ah compatible bank account

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## 4.4 Compliance & Model

1. Concepts
2. Takaful industry
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### MUTAC, a unique mutual



- Created in 1973, MUTAC has since been the only national mutual insurance company specializing in funeral insurance.
- A member of the **Fédération Nationale de la Mutualité Française**, it defends the interests and wishes of members in the funeral world.
- Mutual **certified ISO 9001**.
- **170 000 members** with individual or collective coverage.
- **25 million €** turnover.
- 85% of death cases settled on the same day, 14% within 24 hours, the rest within 48 hours.



## 4.4 Compliance & Model

1. Concepts
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Sakina Funerals is a Takaful fund that allows participants to cover the burial expenses.

A new form of participatory, moral and solidarity mutual insurance, combining modernity and tradition.

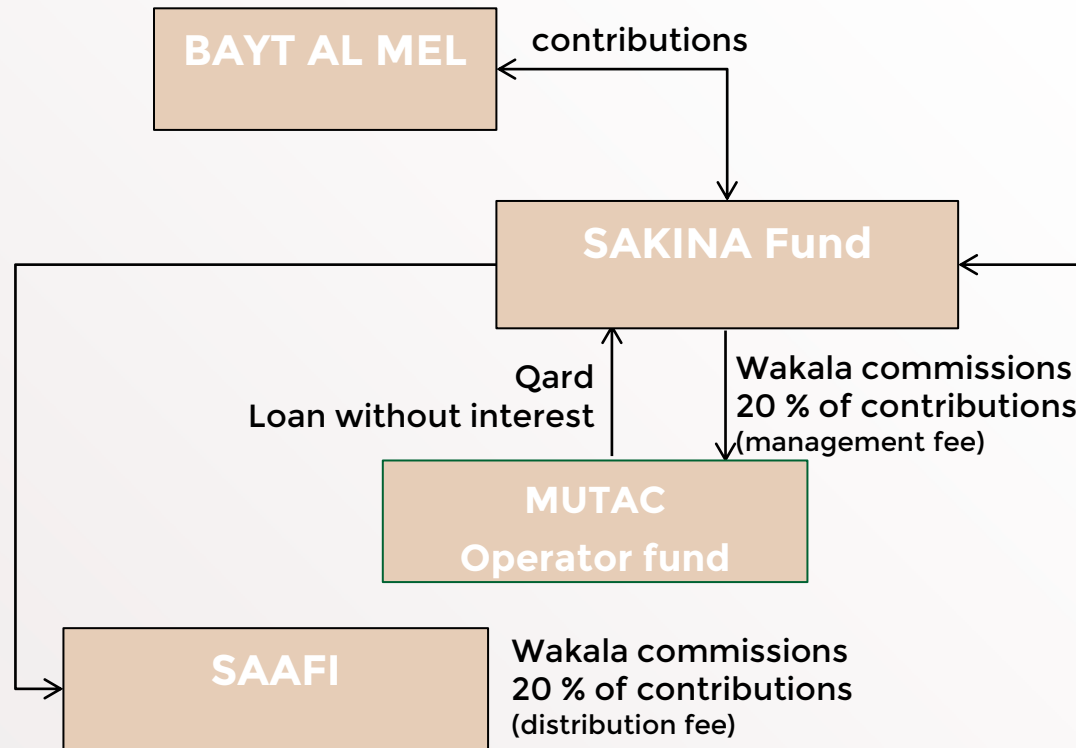
- 12 to 85 years old
- Without medical questionnaire
- Certified interest-free
- Contributions are deposited into an interest-free account and are only intended to pay the funeral expenses of deceased participants. As for the surpluses, they are returned to the social action fund of the subscribing association Bayt Al Mel in accordance with the specificity of Takaful.
- 4 different guarantee thresholds choice : The fund guarantees the beneficiaries, in the event of the participant's death, the payment of a capital of € 2,000, € 3,500, € 5,000 or € 7,000.

# 4.4 Compliance & Model

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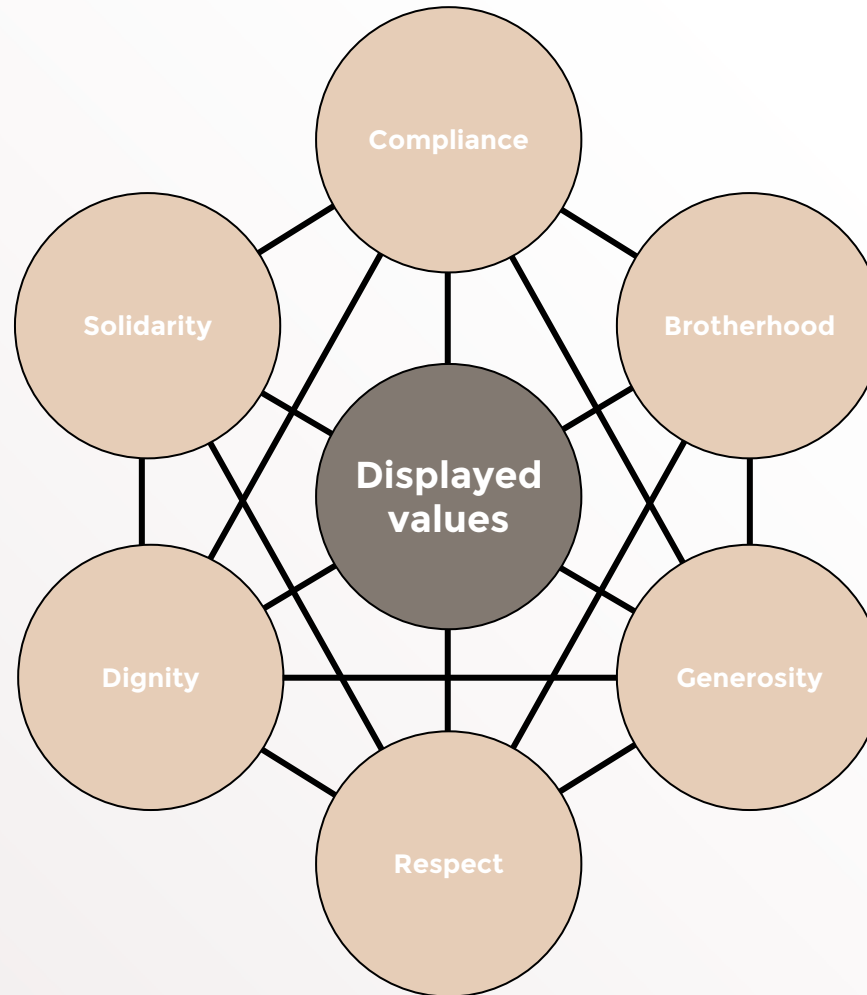
## Pure Wakala for funeral and repatriation coverage



- The SAKINA Fund has a separate bank account which does not produce any interest rates.
- Technical surpluses are returned to Bayt Al Mel's social action fund.

# 4.5 Branding

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# 4.5 Branding

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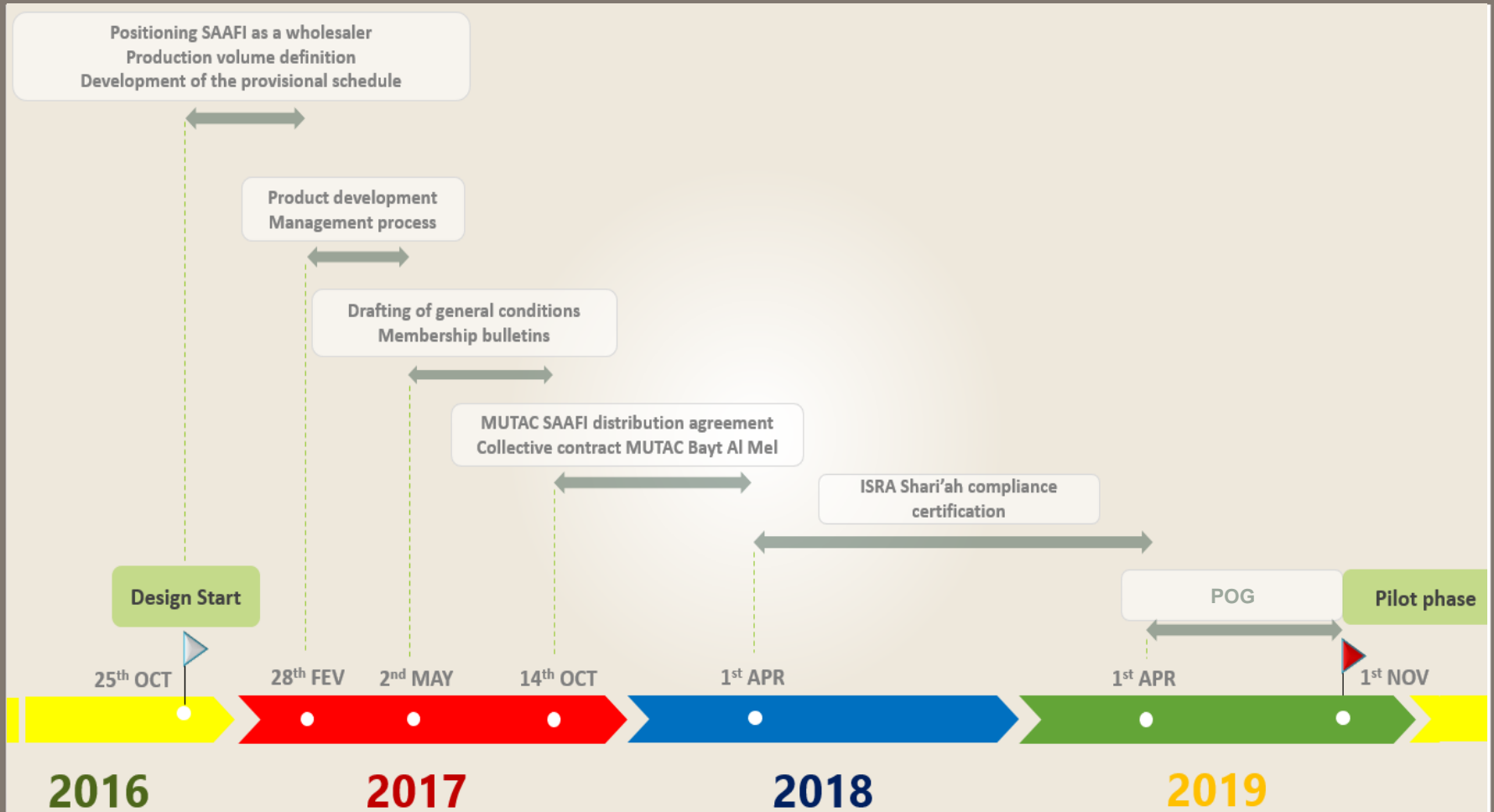


sakina

- Sakina in Arabic signifies **tranquility**
- The leaf symbolizes the **return to the earth**

# 4.6 Digitization

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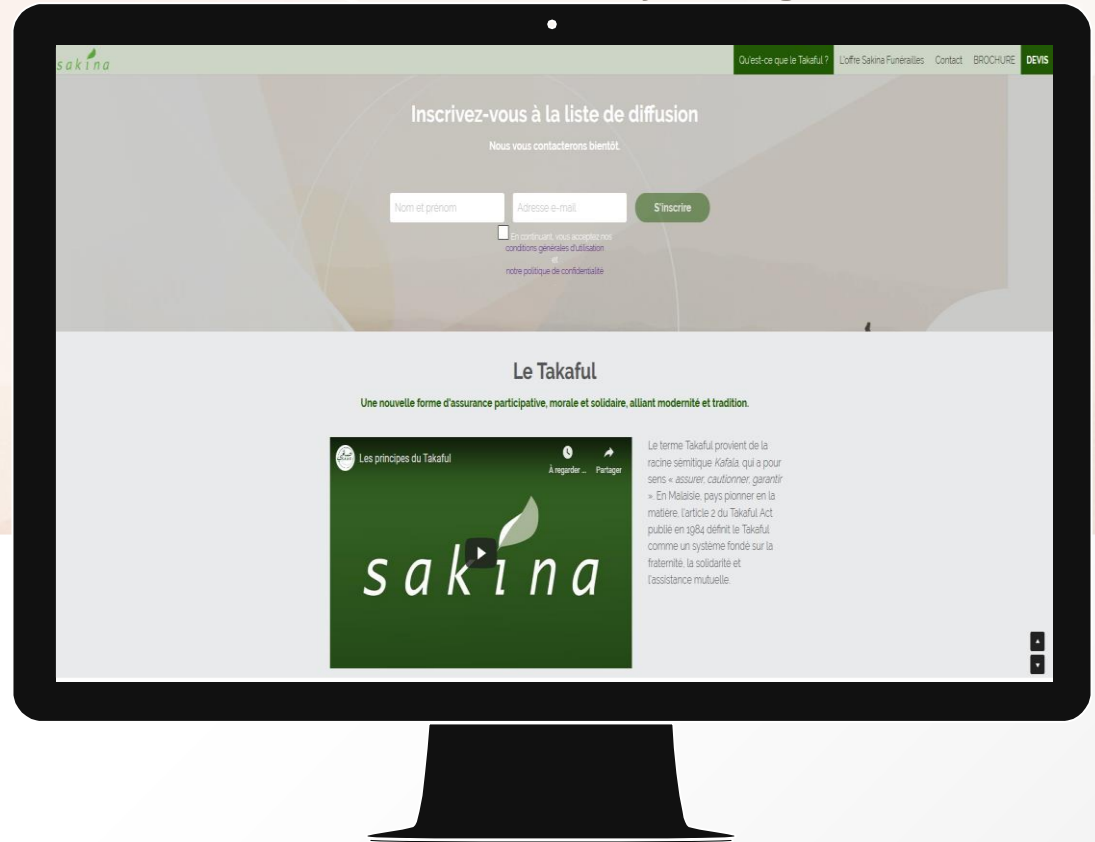


# 4.6 Digitization

Online quotation and registration with electronic signature and credit card payment

Online Subscription & Interface Management

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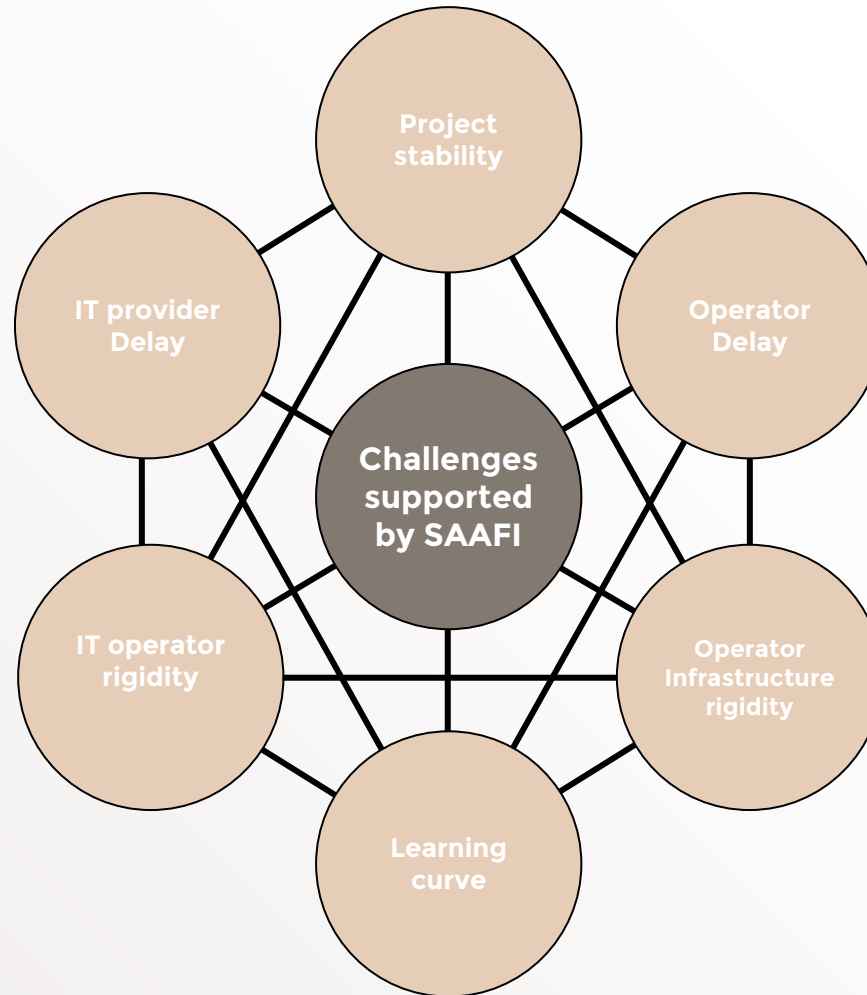
# Sakina-takaful.fr

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# 4.7 Challenges of digitization

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