

Where is the UAE's takaful sector heading?

Mr Adeel Mushtaq of **KPMG** assesses the prospects facing the UAE's takaful sector as it grapples with challenges in the market and the global environment.



The UAE's (re)takaful sector is one of the largest and most dynamic in the MENA region. Although still immature, it is increasingly gaining recognition as a credible model with growth in premiums of compound annual growth rate (CAGR) of 20% in the last five years and is estimated to grow at a CAGR of 19% from 2012-2015.

The UAE is ranked as the third largest market for (re)takaful globally based on industry reports. There is continued demand for rated retakaful capacity for large industrial and specialist risks in the UAE and in the region.

Key challenges

Whilst survival and recognition has been the number one priority for many (re)takaful firms since the sector emerged, growth opportunities have largely been oriented towards the predominantly Muslim population. Nevertheless, takaful has attracted interest from all segments of market.

For (re)takaful firms based in the UAE and the region, the challenge largely has been to meet growing demand for Shariah-compliant insurance in highly competitive, low economic growth and volatile investment market environment. Meanwhile, the world continues to change around us – from extended life expectancy to increasing urbanisation, from more extreme weather events to greater use of social media, in an increasingly interconnected world where trust in global financial institutions has been eroding, change is ever increasing.

Key issues in the minds of executives in takaful firms are how to achieve growth in this fast-changing and competitive environment coupled with equally fast-evolving regulatory and governance landscape.

Global megatrends

At KPMG, we have distilled the themes we see emerging today globally, regionally in GCC and in the UAE (re)takaful and insurance sector into four over-arching megatrends that are going to shape future of re(takaful) and insurance sector:

- **Demographics** – Growing populations and longer life expectancy create opportunities, but pose important questions about how (re)takaful healthcare and retirement products are best structured and delivered.
- **Technology** – Greater connectivity and use of social media provide (re)takaful firms with access to an unparalleled wealth of data.
- **Environment** – The combination of natural catastrophes, urbanisation and growing wealth are changing the shape of risk.
- **Social values and ethics** – There is a significant opportunity to harness the power of social media to empower stakeholders as ambassadors for responsible business.

Impact of challenges on the takaful business model

I have grouped our thoughts to reflect the future of the UAE takaful sector in the context of global megatrends, in the four key components of the (re)takaful business model below:

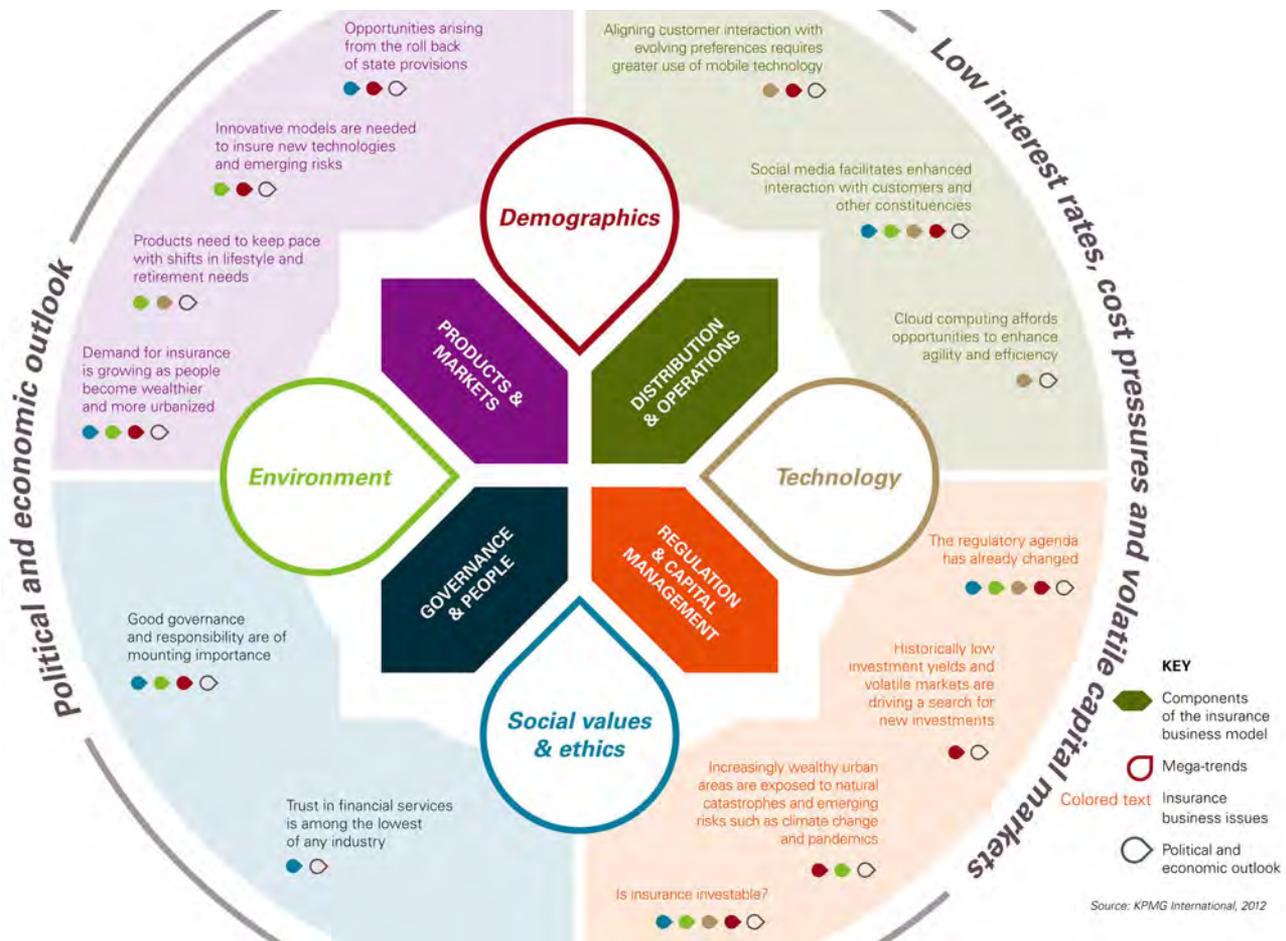
Products and markets

As the takaful sector establishes itself, the greatest challenge is to meet the shift in environment (such as the impact of growing urbanisation, infrastructure projects in the UAE and the region) on demand for insurance and takaful

Table 1: SWOT analysis of the UAE's takaful sector

Strengths	Weaknesses
<ul style="list-style-type: none"> • High value infrastructure development projects in the UAE & GCC region • Two tier onshore/ offshore regulatory environment to support requirements of business with commitment from supervisors for best in class regulatory environment • Compulsory lines of insurance 	<ul style="list-style-type: none"> • Shortage of retakaful capacity for large industrial and specialty risks • High level of competition between conventional and takaful companies • Low-level of retentions within insurance/ takaful carriers
Opportunities	Threats
<ul style="list-style-type: none"> • Low-level insurance penetration • Low penetration of life business and hence the opportunity to develop family takaful distribution model • Growing popularity of Shariah-compliant products 	<ul style="list-style-type: none"> • Customer awareness/ understanding of takaful theory is less compared to other segments of Islamic finance • Takaful model – risk sharing vs risk transfer • Shortage of expertise and human capital development • Higher business operating cost i.e. cost of compliance and operator's fees

Figure 1: Emerging trends in GCC & UAE



products. The combination of urbanisation, growth and population growth, as well as emerging risks, is changing the shape of risk and need for retakaful capacity for specialist risks.

Takaful firms investing in Shariah-compliant products and capacity are likely to benefit most due to rising in demand.

Distribution and operations

Customers increasingly expect to access services where, when and how they want, using smartphones and tablets. Forward-looking takaful firms are starting to explore the growing impact of using social media to communicate with customers, cater to evolving buying behaviours and mine a rich source of customer insights. Exploring opportunities in social media can also facilitate distribution products and enhance interaction with customers, sales agents and intermediaries, in particular for family takaful business.

Governance and people

Takaful as an Islamic finance concept is less understood by customers compared to other elements of Islamic finance such as Islamic banking, and is thus less distinguishable against conventional insurance. Against the general backdrop of diminished trust in global financial institutions, there is a clear opportunity for takaful firms to play a role to enhance transparency and communication to create value.

Many supervisors also continue to build upon the G20 concepts of Treating Customers Fairly and Customer

Outcomes and include some key learning points from recent insurance conduct issues.

Regulation and capital management

The unrelenting pace of regulatory reform across the financial services sector continues with important insurance initiatives. The UAE Takaful Act of 2010 has been a step in the right direction. It recognises the distinctiveness of takaful business, however, more needs to be done in the light of global regulatory developments such as the IAIS Insurance Core Principles (ICPs), which would be the key focus for takaful firms and supervisors for next few years.

As UAE insurance supervisors (the Insurance Authority and the Dubai Financial Services Authority) begin to examine how best they introduce the new IAIS/ ICP requirements, a growing strategic challenge for insurers will best accommodate compliance and reporting requirements and extracting value.

New state of play

The UAE takaful sector is undoubtedly vibrant and well placed for the new state of play. Takaful firms that wish to stay ahead will need an international perspective and strategy to build the tools and capabilities to cut through the complexity for the implementation of successful strategy to chart the future.

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