

Takaful in Bangladesh: Achievements and obstacles

Mr Kazi Md Mortuza Ali, Managing Director of Prime Islami Life Insurance, traces the development of takaful in Bangladesh, and calls for takaful regulations to be developed in the country.



Fishing boats at the shore of the Saint Martins Island, Bangladesh

Takaful was introduced in Bangladesh to meet the demands of Muslims – who form 85% of the population – to conduct their economic activities in line with Shariah. This has proven to be a viable alternative in providing insurance coverage for risks incurred in financial transactions as well as the avenue for financial planning needs that are in line with Shariah needs.

Today, the takaful (or Islami insurance as it is known locally) industry in Bangladesh has emerged as a fast-growing industry since its introduction in the year 1999. From total assets of BDT1.7 billion (US\$24 million) in 2004, it reached BDT9.7 million in 2008, constituting 7% of total assets of the insurance sector. Total premium increased from BDT1.4 million in 2004 to BDT5.7 million in 2008, constituting 12% of total premiums of the insurance sector.

From only one non-life takaful operator in 1999, the six existing full-fledged takaful operators and 13 window operations of conventional insurers now offer a wide range of family and general takaful products matching those available in conventional insurance. With the progress achieved, the takaful industry will be well-positioned to become an increasingly important component of the Islamic financial system in Bangladesh.

Market development

Takaful companies in the country have been sharing their decade-long experience with the takaful companies of Southeast Asia and the Middle East. Takaful operators are continuing their efforts to improve the knowledge, skills and expertise of their employees through trainings, seminars and conferences. New measures, particularly in the areas of information system and marketing, have also been implemented by the takaful operators as part of their efforts to enhance effectiveness and efficiency.

A significant achievement was the ISO 9001:2008 Quality Management Systems Award by Prime Islami Life Insurance Limited (PILIL) for its commitment to provide ethical and highest standard services based on the principles of Shariah. PILIL has also introduced several innovative products such as couple insurance, the gift assurance scheme, the two payment deposit pension scheme, workers' welfare scheme and so on.

Other takaful players in the market also showed much dynamism and resilience between 2004 and 2008, as evidenced by their enhanced ability to compete, sustain growth and profitability. Combined with reinforced institutional capabilities, the foundations are well in place for the in-

Table 1: Bangladesh – Paid-up capital, assets & premium

Figures in BDT million

Takaful operators	Year of Establish-ment	Share Capital	Assets			Premium		
			2004	2008	Growth Rate (%)	2004	2008	Growth Rate (%)
Life								
Fareast Islami Life Insurance	2000	281	1,091	6,451	492	756	3,195	322
Prime Islami Life Insurance	2000	158	137	1,568	1,046	182	1,010	454
Padma Islami life Insurance	2000	75	131	868	562	204	1,184	480
Sub-total		514	1,359	8,887	554	1,142	5,389	372
Non-life								
Islami Insurance Bangladesh	1999	150	131	238	82	119	137	15
Islami Commercial Insurance Co	2000	60	96	201	110	73	69	-6
Takaful Islami Insurance	2001	173	118	342	188	41	108	163
Sub-total		383	345	781	126	233	314	35
Grand total		897	1,704	9,668	467	1,377	5,703	314

Source: Bangladesh Insurance Association; US\$1 = BDT70

dustry to strengthen its competitiveness and evolve in the face of highly challenging financial environment.

Key performance indicators of the takaful industry are shown in Table 1.

In an environment of greater competition and changing dynamics in the domestic takaful industry, premium growth momentum, especially in family takaful, has been outstanding. The takaful industry has, in general, made significant progress in broadening and deepening its product mix in the market to meet the diverse needs of customers. The takaful industry has also deployed a more focused business strategy to increase market penetration.

The takaful industry has emerged as a viable sector within the prism of broader financial services. It can be expected to play an important role with greater significance,

both as a viable provider of financial security and a risk transfer mechanism for the general public, businesses, as well as institutional investors. This is shown in Table 2.

Challenges

Low awareness

Currently, increasing efforts are being made to increase public awareness on takaful. This is of particular importance to the takaful industry as the market penetration of the total population is still very low. Despite impressive growth, it has had to face an increasingly challenging environment.

Lack of takaful regulations

Islami life insurance companies are facing difficulties as they have to follow the conventional Insurance Act. The

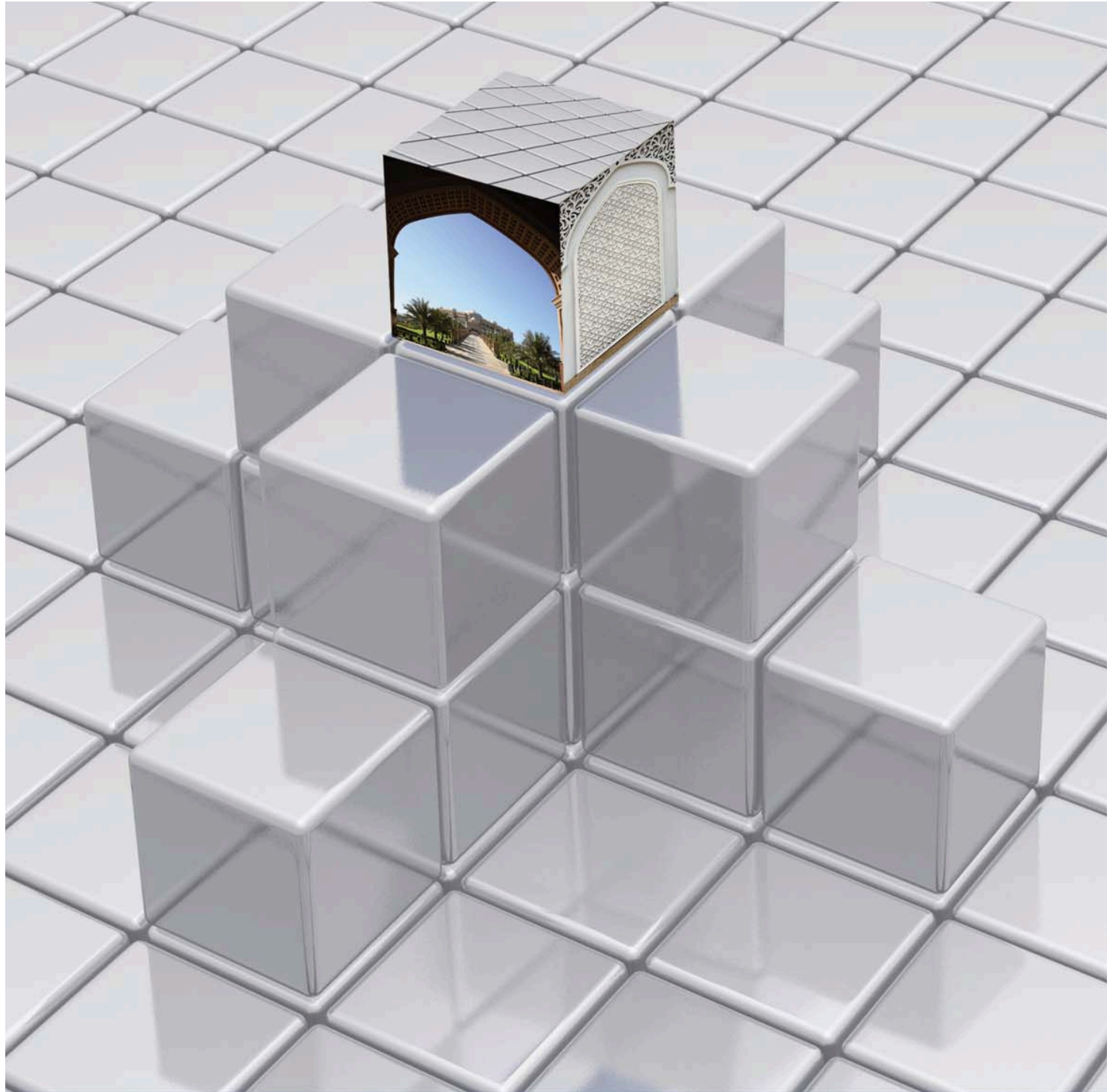
Table 2: Bangladesh – Value of shares, dividend and credit rating of takaful operator

Figures in BDT

Name of company	Face value of share	Market value of share	Dividend		Credit rating (Claims paying ability)
			2008	2009	
Life					
Fareast Islami Life Insurance Co	10	426	45%	45%	A+
Prime Islami Life Insurance	100	3,540	30%	40%	A+
Padma Islami Life Insurance Co*	100	N/A	N/A	N/A	BB3
Non-Life					
Islami Insurance Bangladesh	100	603	Nil	Nil	BBB+
Takaful Islami Insurance	100	1,187	Nil	15%	BBB3
Islami Commercial Insurance Co*	100	N/A	N/A	N/A	BBB+

Source: Credit Rating Information and Services Limited of Bangladesh; Credit Rating Agency of Bangladesh Limited.

*Not listed in the stock exchange



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desired Takaful Act was not considered for promulgation by the previous government, while the present government is keen to frame its policies in line with secular principles and not likely to reconsider the proposed Act. At the same time, the consultants now working under IDB's loan to finalise the proposed rules and regulations have failed to come to a consensus in respect of framing takaful regulations.

Lack of expertise in this field is a great obstacle in developing such regulations. As a result, takaful operators cannot operate on a level playing field. For example, in the stock market, Islami insurance companies are obliged to invest funds with Shariah-compliant companies, which are few, restricting investments avenues and returns.

The Insurance Act 2010 provides for the appointment of Shariah consultants for the proposed Insurance Development and Regulatory Authority (IDRA) to function properly. Unfortunately, the government has yet to form the five-member board for the body, although the Act was passed in March 2010. Bureaucracy, coupled with the doldrums in the political environment, is causing much delay to make the new law effective. It is high time for the government to form the board for the proposed IDRA in order to frame takaful rules and regulations in line with the developments in the takaful industry in the Middle East and Southeast Asia. This is very crucial in ensuring the uniformity of Shariah interpretations.

Investment restrictions

The biggest problem is the regulatory requirement to invest 30% of the investable funds with government securities and bonds. While the government securities provide interest from 8% to 10% depending on the period, the Islami Investment Bond (BGIB) issued by the Central Bank give Islami insurance companies profits between 2% to 4% only. The investment returns of Islami insurance companies are therefore 60% to 75% less than their competitors in the conventional insurance from compulsory investment portfolio.

Furthermore, the funds which are in-


vested in Shariah-compliant Islamic bonds are reinvested by the Central Bank to Islami banks of the country, which hold excess cash liquidity and seldom in need to buy Islami bonds. Therefore, a major portion of the fund of BGIB remains idle without investment. This is a real financial strangulation for the Islami insurance companies.

In order to address this issue, immediate steps are needed. The regulator must find ways to enlarge the investment areas of 30% compulsory investable funds. The same may be done through investing in mudarabah term deposits with Shariah-compliant banks, purchasing Shariah-compliant unit funds, trading in Shariah-compliant shares in capital market and so on.

In addition, profit-bearing public private joint investment and issuance of profit bearing development bonds and sukuk need to be considered. Neither the regulatory body nor the Central Bank has taken any tangible initiative to address these issues.

Alternatively, the government may allow takaful companies to invest in Islami bonds, only when funds can be utilised properly. Presently, the Central Shariah Councils for Islami banks and insurance need to put forward their joint cause with the regulatory body, the Central Bank and the Ministry of Finance, so that the takaful operators can play more effectively in the insurance sector.

Takaful needs special attention

A strong Shariah framework will definitely enhance consumer confidence and will provide takaful operators with greater flexibility and innovativeness within the boundary of Shariah. The proposed Shariah framework should allow operators to follow any of the prevailing operational models and combination of the models based on the Shariah concepts of wakala, mudarabah, juala and so on. The rules for investment should allow takaful operators to adhere to principles and injunctions of Islam as well as to operate on a level playing field. The nascent takaful industry needs the special attention of the government and the regulatory body. 



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