

You've got to be able to show and tell

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By **Ian Forwood**

Islamic insurance may be attracting more interest but still needs to exist side-by-side with conventional business. Flexible IT is the key to servicing both markets, says Ian Forwood

Takaful – or Islamic insurance – is predicted to grow about 20% a year, despite the economic gloom. It allows Muslims to comply with Sharia law, which prohibits interest, gambling and investments in non-complying companies.

Technology can help companies to succeed in this competitive market.

Several key factors will influence systems and processes, including the marked differences between takaful and conventional business, local conditions and compliance with the different regulatory regimes.

MARKET OPPORTUNITIES

Although takaful is attracting growing interest from traditional business centres, and demographic changes have created an increasing demand, the volume and value of business is still relatively small.

Interested UK companies are likely to find that they must be able to write a mixture of takaful and conventional business so they get enough volume to become viable and deliver a return on investment. This may change as the takaful market becomes more established, but it seems likely that the current economic downturn will contain the rate of growth in the medium term.

Therefore, companies must be able to service the different requirements of takaful and conventional business side-by-side.

Competition across the Middle East, North Africa and Asia is intensifying. Local businesses set themselves apart through factors such as pricing, their local knowledge and unencumbered capital, as well as the more traditional aspects such as AM Best ratings. Some are very successful and can be expected to compete on the wider international stage.

UK entrants also need to think about localisation. For example, regulations vary across the takaful markets. There are different reporting requirements according to where they are operating and their major risk grouping.

Companies also need to be aware of the need to accommodate the Mudharabah model (profit sharing), the Wakalah model (agency contract), or a combination of both, depending on the market. Again this highlights the need for flexibility.

TAKAFUL CONSIDERATIONS

In some respects the takaful model, as approved under Sharia law, is similar to a traditional mutual insurance arrangement. Policyholders make “contributions”; they can then share in the profits or be called upon to make further contributions if necessary. Similarly, the insurance company becomes a manager that takes a fee and can also share in the profits.

A risk must also be acceptable under Sharia law. Here you may need extra elements in the audit trail of written business to demonstrate that you’ve applied the necessary checks. In a sense this is similar to FSA requirements for contract certainty and Treating Customers Fairly.

Alternatively, if a product has been deemed acceptable and therefore all individual policies are automatically approved under the takaful model, the organisation may still be obliged to ensure that the key terms of the product are strictly applied. It must be able to demonstrate that this is the case.

The charging of interest is another area that needs to be handled carefully. For example, premium reserves that are retained by the cedant in a proportional reinsurance agreement can often bear interest, something that may not be acceptable in a takaful arrangement.

These issues again point to the need for flexibility, so that requirements such as additional checks at point of sale and alternative fee structures can be accommodated quickly and easily.

A MODEL IT SOLUTION

An IT solution should have the sophistication of modern systems with the flexibility to handle the requirements of takaful business, markets and regulatory regimes. UK companies therefore should make sure their systems are not too rigid or prescriptive.

A good IT solution will enable the business to grow without the need for a proportionate rise in headcount. It will avoid the need for manual workarounds and re-keying of data, which can distract from the company’s main goals, ultimately resulting in lost business from poor service, fines from regulators due to missed deadlines, and diminished performance through bad decision-making.

A model IT solution will help an organisation to monitor operations and control decision-making in a way that is clearly visible to all stakeholders. It should support the day-to-day operations across the business from a single, integrated system, ensuring efficiency and thereby delivering accurate, timely management information.

While many insurers can see the potential benefits of good management information, it can be difficult to quantify it.

For new opportunities in the takaful market, good management information can help to contain costs such as ceded reinsurance, by demonstrating visibility and control throughout the book of business. It can also keep the business plan under control by monitoring performance versus budget in real time.

Management information is too often seen as an optional extra, especially when tackling new opportunities where speed to market can be vital. A model IT solution will include these features as standard, so enhancing the business's competitive position.

TECHNOLOGY AND COMPLIANCE

Compliance may arise from areas such as internal management requirements, takaful considerations and local regulators. Technology has long been associated with enforcing compliance in terms of justifying the investment in new or upgraded IT systems. Examples include the need to deliver accurate management information as part of a new business initiative, or to help monitor the risk-adjusted return on capital.

There is no doubt that technology helps with the automation that is required to enforce discipline and demonstrate compliance. In the context of takaful opportunities, one specific example is the need to differentiate clearly between takaful and conventional business. Separate and secure access to each area, for different groups of users but from within one integrated system, may be necessary.

Regulatory compliance varies in different parts of the world, so there is a need to differentiate between local and overseas businesses. This should be taken into account when defining the longer-term business strategy and the technology implications.

Technology must cater for the differing requirements of takaful and conventional business, especially if the two models are to be run alongside each other.

Companies will want to focus on developing their business opportunities rather than becoming concerned with detailed technology issues. But modern, proven solutions can deliver against the requirements quickly and effectively so that technology helps the business to succeed in what will be an increasingly competitive takaful market place. IT

Ian Forwood is account director for Eurobase Insurance Solutions.

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For further information please contact:

Nicholas Reed
Marketing Manager, Insurance Solutions
Eurobase International
Tel: +44 (0)1245 496 706
nicholas.reed@eurobase.com

Alex Moorhouse or Tony Martin
Portfolio Communications Ltd
Tel: +44 (0)20 7240 6959
Alex.moorhouse@portfoliocomms.com
tony.martin@portfoliocomms.com