

European Takaful emergence



Ezzedine Ghlamallah is the executive director of SAAFI. He can be contacted at ezzedine.ghlamallah@saafi.fr.

Muslims now number 16 million in the EU, with one of the highest rates of banking and insurance penetration in the world. Muslims in Europe are among those with the most bank accounts and insurance coverage. This high penetration rate can benefit the Takaful boom in this zone. In addition, there are many forms of insurance companies provided by European jurisdictions to practice both General and Family Takaful while remaining faithful to the principles of mutualism and philanthropy.

The official Brexit negotiations between London and the EU started on the 19th June 2017 in Brussels. The negotiations should be completed in two years, on the 29th March 2019, as provided by the treaties. The political consequences of Brexit for the EU are difficult to predict and the economic consequences for the UK are also unpredictable as the experts are unable to speak with one voice. The exit of the EU has not taken place yet and the UK economy has not suffered damage despite the fall of the pound sterling in the months following the referendum in June 2016.

Nonetheless, the London market of Islamic Takaful insurance has not been left out and in Europe, countries like Germany, Spain and France are beginning to structure their offers in order to meet the demand of their Muslim populations.

Review of 2017

Recently, US insurer AIG, in collaboration with London broker Cobalt Underwriting, presented the first Takaful insurance policy for the MENA zone. This policy protects investors making mergers and acquisitions in this area from any risk of asset depreciation related to mispricing.

The London office also has a lobbying institution: the Islamic Insurance Association of London (IIAL) whose main objective is to promote the London Takaful insurance market. The IIAL has been formed to create a truly representative body to support the work of those in the UK reinsurance markets who are transacting Islamic finance.

Development must continue with a new re-Takaful capacity offered by Lloyd's Dubai. The creation of this platform potentially offers a re-Takaful capacity for business risks and allows London to increase its footprint in the Middle East and Southeast Asia.

Germany was the first western country to tap the Islamic capital markets in 2004. With the largest economy in Europe and a large Muslim population, Germany has everything to see its Islamic financial sector grow. In 2017, the first Islamic bank in continental Europe, KT Bank, opened a new branch in Cologne and INAIA Finance launched a new Family Takaful product brought by FWU.

In Spain, Mussap signed an agreement with CoopHalal, Spain's leading Islamic financial services cooperative. Through this agreement, the entity will offer different Takaful products from Mussap and Previsora.

In Europe, the market for Islamic finance and insurance remains a niche: conventional operators fear a risk for their image. In France, this is the main reason why the Takaful distribution model is based on brokers' networks allowing the transfer

of reputational risk from risk-bearers to distributors. In 2017, brokers' networks continued to grow with the opening of new branches for Noorassur and the emergence of new brokers such as Coveris Assurance, Dine Assur, Ethical Capital, MKSS, NCC, Courtifi and Keen Finance.

Preview of 2018

With strong domestic demand, substantial purchasing power and a high penetration rate, the European Takaful market will continue to consolidate and London has a considerable lead over other European financial places which have remained at a standstill in this area.

The key elements that can allow the development of a strong Takaful market in Europe are multiple. First, it is important to demystify in order to convince institutional operators of the considerable growth reserves offered by this segment. Secondly, it is necessary to carry out promotional and information campaigns in the media to stimulate demand.

Finally, supply must help create the market. To achieve this objective, human, financial and information technology resources must be invested in the design and management of new products adapted to the needs of compulsory insurance, and must be able to cope with rapid growth.

Takaful insurance players must improve innovation and broaden the scope of the offers through multidistribution while offering high-quality service. This is why European players in 2018 will continue to design and offer new solutions.

In France, SAAFI as a wholesale broker should deliver to the market new Takaful offerings including funeral and credit insurance. According to Les Echos Etudes, the potential turnover of Takaful in France is estimated at EUR3.5 billion (US\$4.13 billion) or 1.7% of the market.

Conclusion

The Takaful industry should not have too much difficulty in developing itself in Europe, because the European market is more welcoming in terms of the adoption of tax instructions and the development of the Halal market, and also has high-level expertise with advanced skills and many small and medium players despite a lack of investment and communication.

The adoption of digitalization is a factor that should allow Takaful to realize its full potential in Europe. Digitalization has the ability to disrupt existing business models, because of its ability to transform and reinforce product innovation, transparency, services, cross-selling, engagement and customer experience.

A strategy to meet the needs requires adapting to the needs and evolution of the expectations of customers. A defensive strategy would be to copy the products of other conventional players in the market.

Strategically, it is mandatory to use an approach that adapts, improves and creates new products that meet the needs and sociocultural values of individuals. It is therefore necessary to establish a differentiation strategy based on compliance and on the embodiment of the alternative values offered.

Takaful must also be available to non-Muslims. There are more non-Muslims than Muslims in Europe and many of them would appreciate the ethical, transparent and equitable nature of Takaful. ☺