

MicroTakaful

– the way forward

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Introduction

Micro-insurance defined:

“Risk-pooling products that are designed to be appropriate for the low-income market in relation to cost, terms, coverage, and delivery mechanisms”.

MicroTakaful refined:

“A mechanism to provide **Shariah-based protection to the blue collared, **under-privileged** individuals at an **affordable cost**”.**

Introduction Cont'd. ...

- Microfinance can help people improve.
- Microtakaful will help them sustain their financial wellbeing.
- Feeling of togetherness & security.
- Opens avenues for joint efforts for mutual benefits.
- Cooperative approach and outlook.
- Result – migration of individual level.
- Society benefits at large.

Historical Perspective

- Takaful concept evolved from individual common interest.
- Industrial era of early 1900s...
- Microfinancing hand in hand with Microinsurance and later Microtakaful.
- Bancassurance/*Bancatakaful*

Global Landscape

- Only eighty million out of the world's 2.5 billion poor are currently covered by some form of micro insurance.
- Only 3% of poor lives are insured in India and China.
- Only 0.3% of the poor are insured in Africa.
- In 23 of the poorest 100 countries in the world, there is currently no identified micro insurance activity.

MICROINSURANCE PRODUCTS IN DIFFERENT COUNTRIES

- **Life/Endowment**
 - India, Bangladesh, Sri Lanka, Nepal, Vietnam, Pakistan, Indonesia, Laos,
 - East Africa, South Africa, West Africa
 - Colombia, Guatemala, Mexico, Nicaragua
- **Health/Critical Illness**
 - India, Bangladesh, Philippines, Cambodia, China
 - East Africa, South Africa, West Africa
 - Colombia, Mexico
 - Georgia, Russia
- **Crop/Weather**
 - India
 - East Africa, North Africa
 - Mexico, Nicaragua
 - East Africa
- **Property/Asset/Livestock**
 - India, Nepal, Bangladesh
 - East Africa
 - Albania
- **Funeral**
 - East Africa, South Africa, West Africa
 - Colombia, Mexico
- **Integrated Package**
 - India
- **Rural Insurance Schemes**
 - India
- **Group Personal Accident**
 - West Africa
- **Unemployment**
 - East Africa
- **Flood**
 - China

DELTA LIFE INSURANCE COMPANY

A PRIVATE INSURANCE COMPANY SERVING THE POOR IN BANGLADESH

- Life insurance with savings; over 800,000 policyholders
- Delivery through its own workforce; door to door collection of premium
- Loan against policy; access to savings before maturity



Vimo SEWA – INDIA

an Integrated Insurance Package

- SEWA offers three different integrated insurance packages
- Covers death, sickness and loss of assets
- Premiums are paid annually or through fixed deposit



Marketing of SEWA Insurance through Outdoor Folk Theatre and some of the viewers

Photo by courtesy of SEWA

FLOOD INSURANCE

A Government of PRC and People's Insurance Company joint product

- **Mandatory for all residents in Yangtze River basin**
- **Government pays 70% of premium, policy-holders pay 30%.**
- **Capping on compensation**



FUNERAL INSURANCE – SOUTH AFRICA



- Funeral expenditure in 2004: US\$ 760 Million; average per burial is over US\$ 900.00
- Over 100,000 formal and informal insurance providers offer Funeral Insurance
- Annual premium: between US\$ 7.50 to \$ 50.00
- Average Payout: between US\$ 75.00 to \$1,500.00 per burial

UNEMPLOYMENT INSURANCE

OPPORTUNITY INTERNATIONAL BANK OF MALAWI

- Launched in 2003 in conjunction with a local insurance company
- Covers bank's low-paid, full-time employed loan customers
- Pays 3 months of loan repayment if borrower is made unemployed



Types of MicroTakaful Products

Property

Fire

Rainfall

Theft

Floods

Agriculture

Prices

Health

Surgical

Out-patient

Hospitalisation

Dread Disease

Dental

Optical

Disability

Permanent

Partial

Total

Temporary

Dismemberment

Credit Disability

Life Insurance

"Transition funds"

Credit

Pensions

Funeral

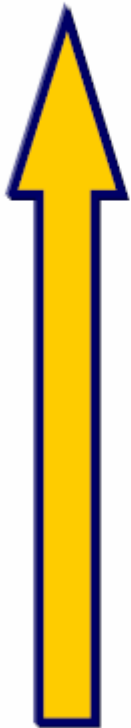
Life

Endowments

Education Life

RELATIVE COMPLEXITY OF MICROINSURANCE PRODUCTS

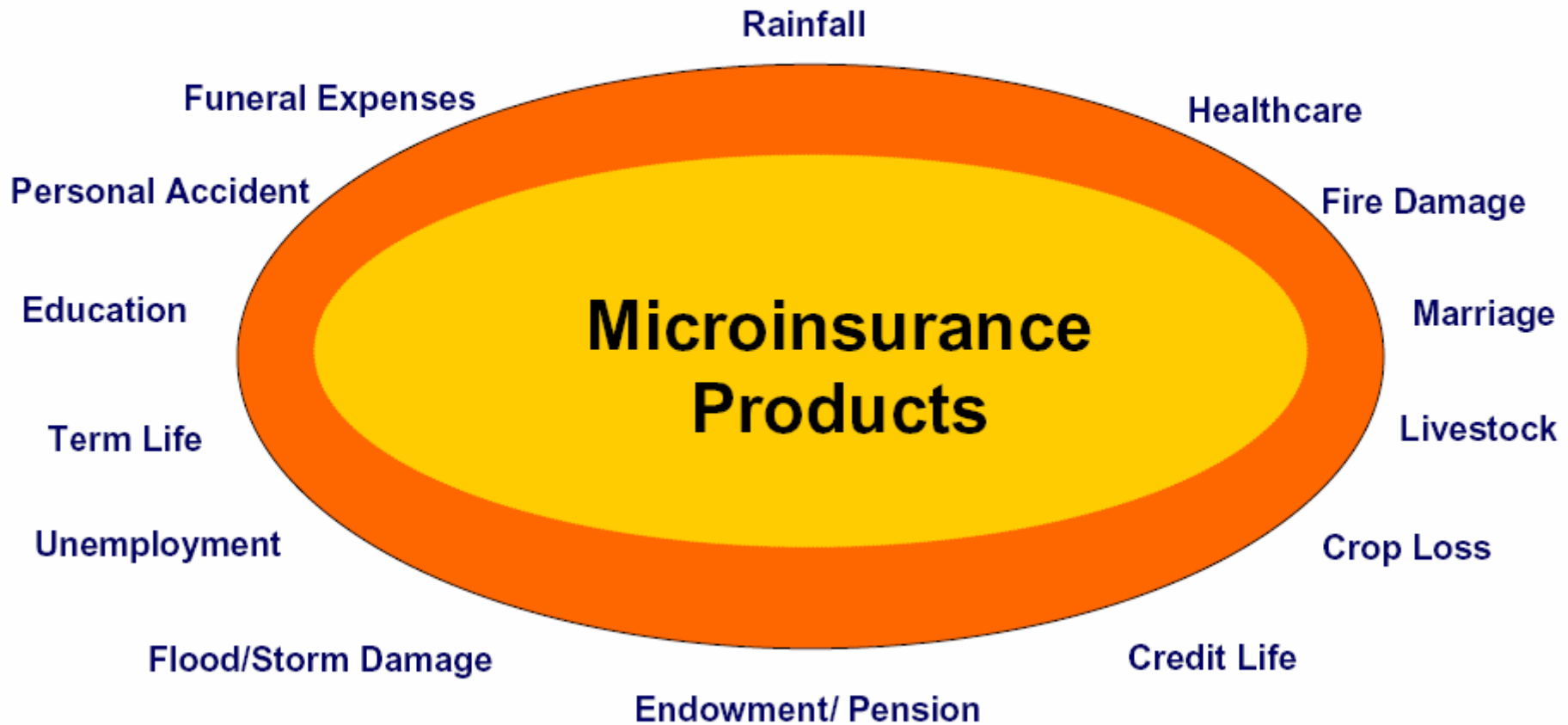
MORE COMPLEX



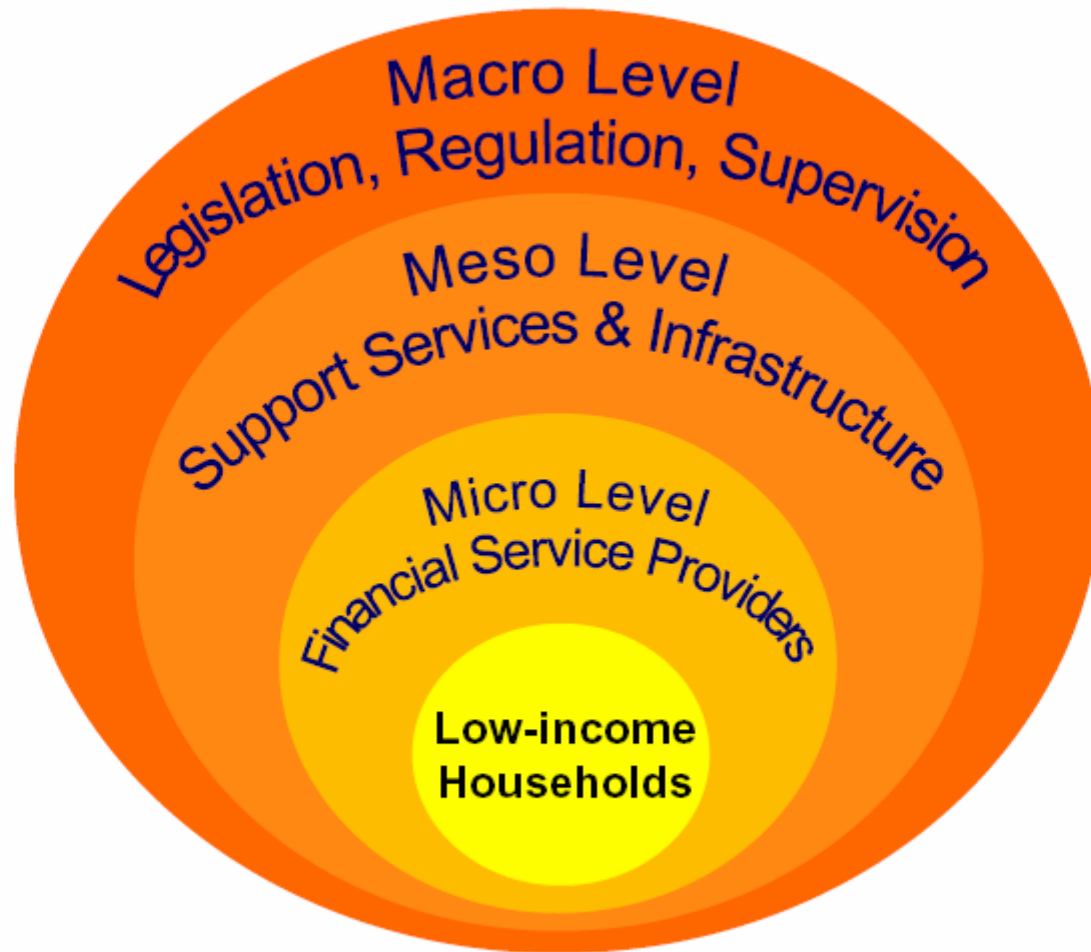
- Crop/Weather Insurance
- Integrated Insurance Packages
- Health/Disability Insurance
- Annuities/Endowment
- Property/Livestock Insurance
- Personal Accident/Unemployment
- Life Insurance

MORE SIMPLE

THE HORIZON OF MICROINSURANCE IS EXPANDING

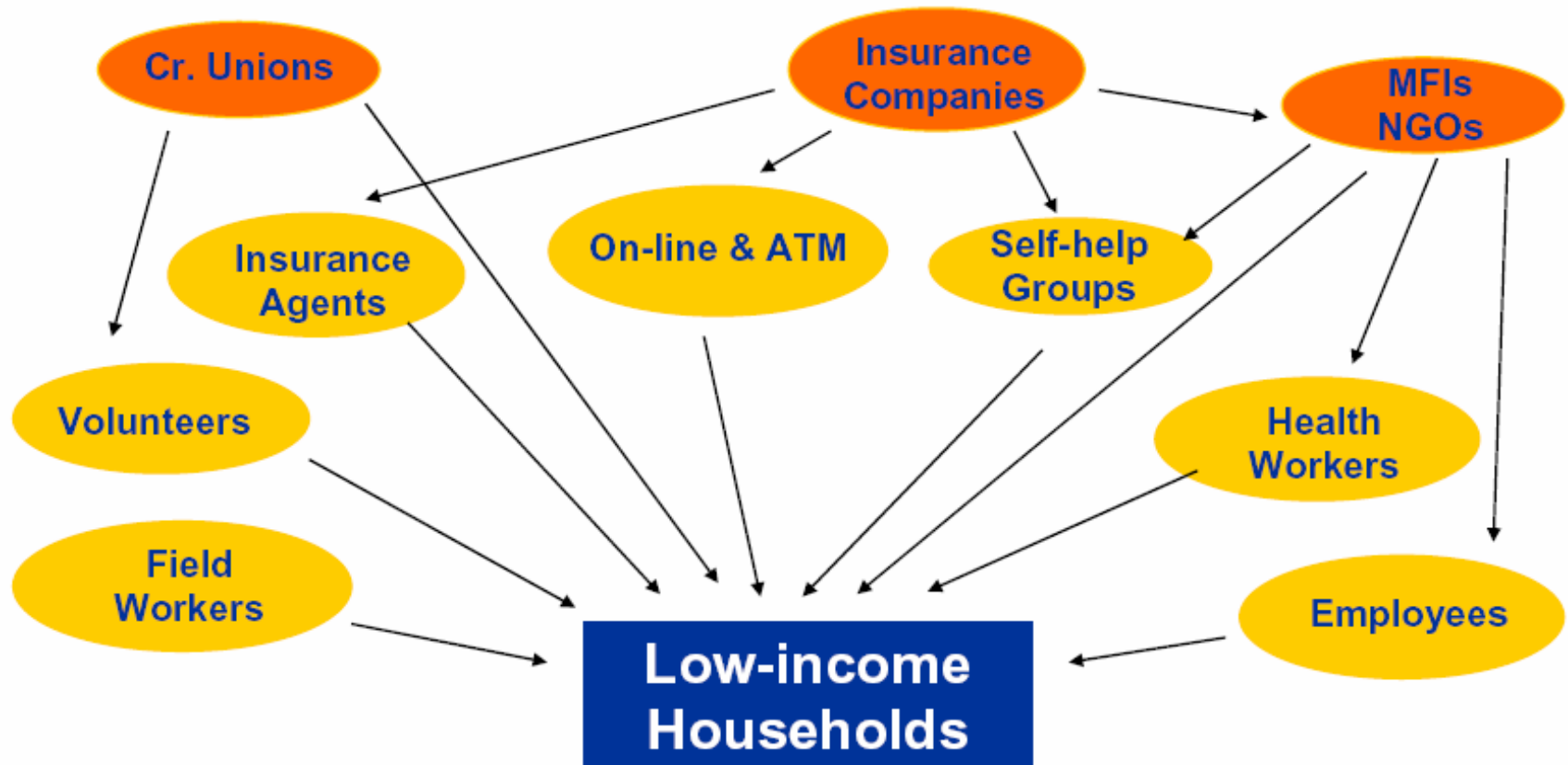


INTERESTED PARTIES



DELIVERY CHANNELS

Existing and new channels of delivery for microinsurance products



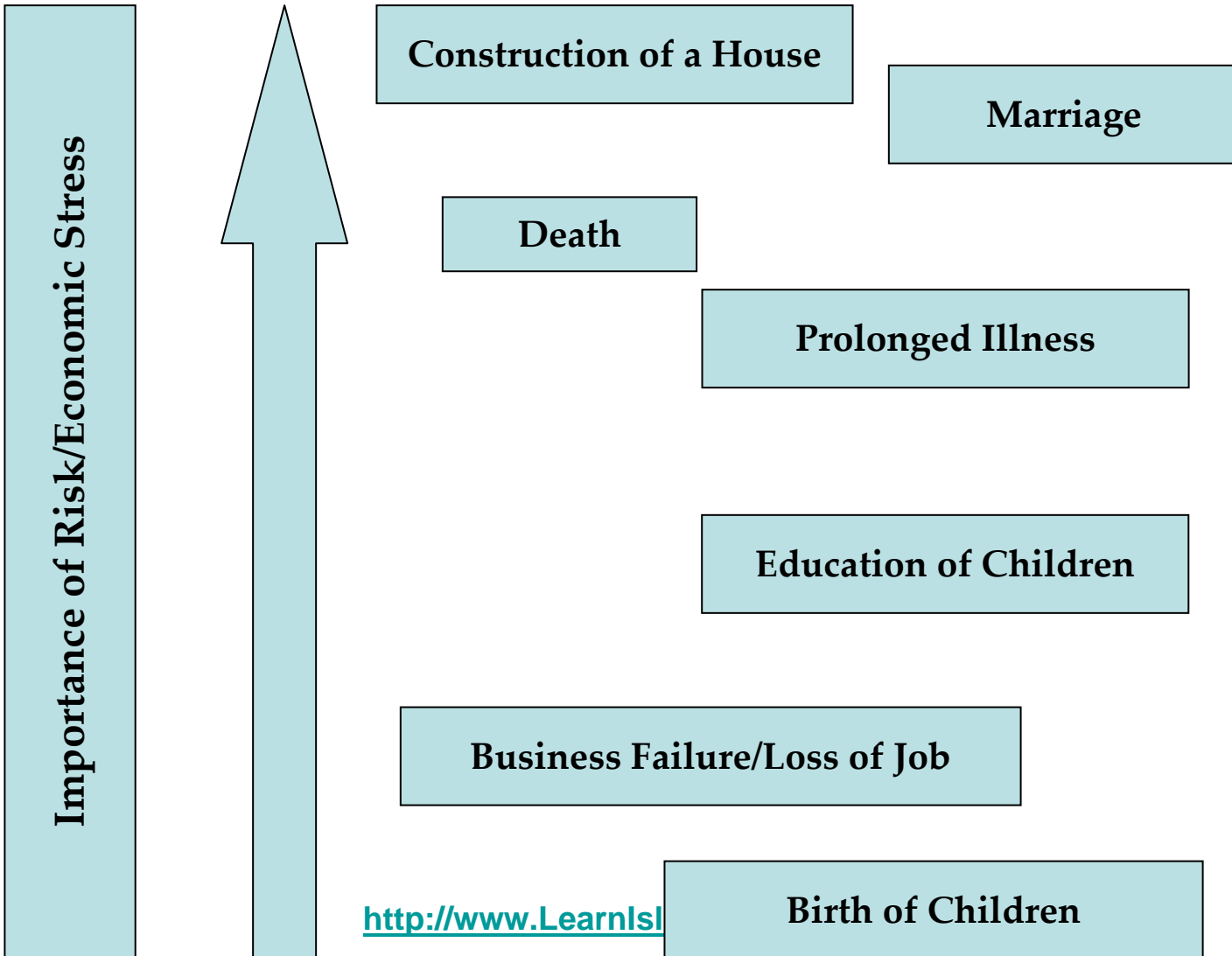
Prospects in Pakistan

- Serious efforts at national level only picked up during the last decade.
- Advent of Microfinance banks.
- Large rural/urban divide (65% : 35%)
- 40% population below poverty level.
- Scope for extensive work.
- Mushroom growth of NGOs.

Prospects in Pakistan (Cont'd. ...)

- Government's initiatives – Rural support programs.
- SMEDA.
- Financial Support from ADB, WB, etc.
- State Bank's initiative – 20% branches of commercial banks required in rural areas.
- Agriculture/Crop & Livestock Finance and Takaful.
- Benefit of economies of scale to make these viable ventures.

Potential areas of action



Takaful Pakistan's initiatives

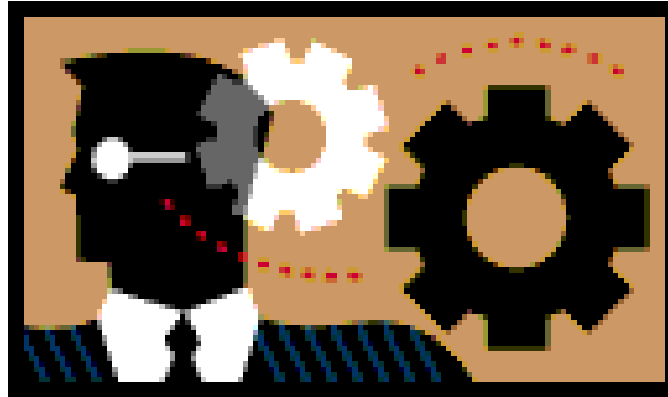
- Coverage to over 100,000 low-cost houses.
- Synergy with NGOs.
- Students Healthcare/Campus care cover
- Factory workers' & Daily wagers
- Crop Takaful
- Credit coverage for Islamic Microfinance.
- Covers tailored for SMEs financing.
- All above at 'no profit basis'.

The way forward

- Tax incentives
- Goodwill
- Awareness
- Extensive documentation
- Distribution channels
- Strategic alliances
- Incentives & Awards



The way forward



??????

NO



THEN



The Takaful Advantage

“ ... they seemed satisfied with the convenience and affordability of the policy, but some thought that the premium should be reimbursed if they do not file a claim”.

Excerpt from

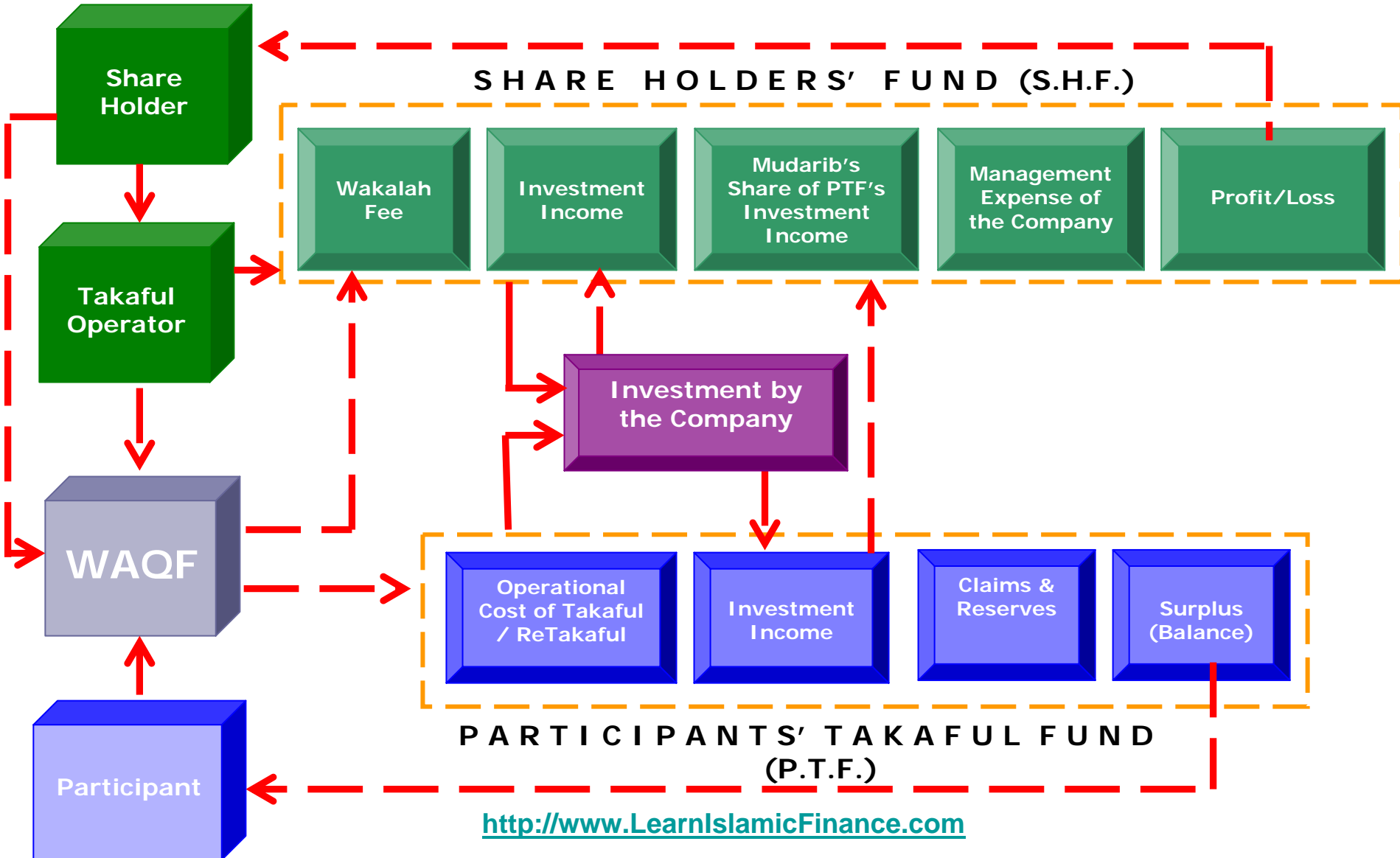
The Demand for Micro insurance in Pakistan

by

ELIZABETH MCGUINNESS AND VOLODYMYR TOUNYTSKY

MARCH 2006

The Takaful Advantage



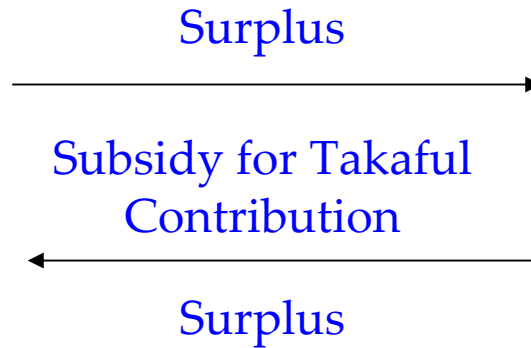
The Paradigm shift



ALONG
WITH



Urban – Subsidy – Rural



Current scenario



What is required?



When there is a will,
there is way!