

**2ND BANK OF AFRICAN
ANNUAL EAST AND
CENTRAL AFRICAN
ISLAMIC CONFERENCE**



INTRODUCTION

- The concept of Takaful insurance is a new one to Africa save for Sudan and Egypt yet it is taking root in the continent's financial sector very fast. The concept stands to revolutionize the way financial services are offered in Africa in general and East and Central Africa in particular.



INTRODUCTION contd.

- It is true that a substantial proportion of citizens of East and Central Africa are Muslims accounting for over 20% of the regions population. Opening up the markets for Takaful insurance is bound to increase insurance penetration which currently stands at a meager 2.7% of the Gross Domestic Product.



INTRODUCTION contd.

- Muslims, according to their faith do not subscribe to certain etiquettes of the conventional way of conducting financial business, be it insurance or banking. As such, Muslims are left out of the mainstream financial sector save for compulsory ones.



INTRODUCTION contd.

- The entry and development of Takaful financial models is bound to address this anomaly. The adoption of Muslim friendly financial models stands to expand the region's Gross Domestic Product substantially given the rate at which Muslims are increasingly participating in the region's financial sector.



INTRODUCTION contd.

- Banks, Building Societies, Co-operatives, Insurance, Savings and Investments, Pensions, Health Management Organizations are some of the sectors to benefit from the Takaful concept.

TAKAFUL AND THE REGULATORS

- There are four main regulators of the financial service sector in Kenya. Retirement Benefits Authority regulates pensions, Capital Markets Authority regulates investments, Central Bank of Kenya regulates deposit taking and money lending institutions while the Insurance Regulatory Authority regulates the insurance sector.



TAKAFUL AND THE INSURANCE REGULATORY AUTHORITY

- ▶ The Insurance Regulatory Authority (IRA) is the principal regulator of the Insurance industry in Kenya. IRA operates under the aegis of the Insurance Act CAP 487 of the Laws of Kenya. The Act prescribes the way insurance business is supposed to be conducted in Kenya and all persons registered under the same act must comply with its provisions. The adoption of the Takaful model must take this challenge.




TAKAFUL AND THE INSURANCE REGULATORY AUTHORITY

- The Insurance Regulatory Authority is moving with care to address the above challenges with a view to licensing the first Takaful operators in the insurance sector in Kenya. Already we have licensed one Takaful window operator. We have since received two applications for licensing of Takaful operators and we are analyzing them.




THE MAIN CHALLENGES FACING TAKAFUL INSURANCE

 **INVESTMENTS** : Investments by members of the insurance industry in Kenya is prescribed under the insurance Act. The main reason for such prescriptions is to minimize financial losses should a crisis face the financial service sector.



THE MAIN CHALLENGES FACING TAKAFUL INSURANCE

 The Insurance Act's investment prescriptions are aimed at ensuring stability, minimizing exposures to investments, ensuring spread of investments as well as guaranteeing returns. Liquidity is very crucial in insurance and the prescriptions are meant to address it.

INVESTMENTS AND TAKAFUL

- ▶ Investments by Takaful operators has been a major challenge to the regulator as most of the existing investment instruments are prohibited under the Takaful concept. In an effort to address this challenge, the Government of Kenya has introduced the first Sukuks (Interest free financial instruments).



INVESTMENTS AND TAKAFUL

- There are short term and long term Sukuks sold by the Central Bank of Kenya. The main challenge here is that in the Middle East Sukuks are mostly purchased by commercial banks from the primary markets and are barely accessible to insurance companies unless they buy them from the secondary market which makes them very expensive.



INVESTMENTS AND TAKAFUL

- ▶ Investment of assets of insurance companies in foreign markets is restricted under the Insurance Act. The Act provides that assets of insurance companies be invested in Kenya. Any other investment in foreign markets must be approved by the Commissioner of Insurance. However, in the Middle East these restrictions barely exist making investment avenues abundant for Takaful operators.



INVESTMENTS AND TAKAFUL

- There are only two banks offering Takaful banking services in Kenya. Given that the Insurance Act requires deposits with commercial banks not to exceed 5% of their admitted assets, this will be a challenge for Takaful operators. There is therefore need to incorporate more Takaful commercial banks to fill this gap.



VARIOUS TAKAFUL MODELS

- We have been introduced to three Takaful Models meant for the Insurance sector. The three models include the Mudharaba or profit sharing model, the Wakalla or fees based model and the welfare based Waqf model. There is a tendency by those applying for registration to mix the models.



VARIOUS TAKAFUL MODELS

- Given that each model has its own ideals to protect, it is very important for the applicants to come out clearly about the models they are proposing and what they intend to achieve by mixing the models. The treatment of the various funds falling under individual models should also be addressed.

TAKAFUL INSURANCE PRODUCTS

- Takaful applicants should come out clearly about the products they intend to sell to the public. There are twelve classes of business under short term and four classes under long term insurance business.



TAKAFUL INSURANCE PRODUCTS

- It would be interesting to ascertain whether Takaful operators are keen on introducing unique products or whether they intend to compete for the existing business by selling the traditional products under the name Takaful. Takaful products should be actuarially priced to avoid unduly affecting the shareholders who will be called in to provide Qard Hassan should there be a deficit in the fund.

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