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NTUC INCOME'S EXPERIENCE IN DEVELOPING TAKAFUL INSURANCE

Introduction

Takaful is an Arabic word that means 'guaranteeing each other'.

The primary objective in establishing a takaful operation is to assist members in dire situations or in times of need.

Principally the main objectives of takaful are:

- a. to pay a defined sum from a defined fund
- b. participants that need protection with the sincere intention to donate to each other, when faced with difficulties
- c. supporting each other in times of needs on the basis of mutual understanding.

This concept of mutual cooperation among tribal members in the Arabian Peninsula started even before the advent of Islam 14 centuries ago. Some examples in pre-Islamic history whereby families and tribes voluntarily pooled their resources and means to help the needy were:

- a. The Pooling System of A'qila
- b. Surety System called "Daman Khatr Al-Tariq"
- c. Trade Alliance Confederation using Al Hlif.

Such practices were accepted and incorporated within the community of the first Islamic state. Recently, the evolution of Takaful has been the result of scholars being more appreciative and receptive of its similarities in the teaching of the Syariah.

Some examples are:

- a. Fatwa issued by Higher Council of Saudi Arabia in 1976 in favor of Islamic model
- b. Fatwa issued by the Fiqh Council of Muslim World League in 1977 AH in favour of Islamic insurance
- c. Fatwa issued by the Fiqh Council of the Organization of the Islamic Conference in 1984 in favor of insurance under Islamic model
- d. The Grand Counsel of Islamic Scholars in Mekkah, Maja Al-Fiqh, approved the Takaful system in 1985 as the correct alternative to conventional insurance in full compliance with Shariah.
- e. Takaful Act of 1984 authorized by the Ulama and Government of Malaysia

Basic Principles

The basic fundamentals of takaful are geared towards these noble values:

- cooperation for a common good
- participation is to assist one another
- losses and profit are shared according to a pooling system

- uncertainty is eliminated in an agreement between parties based on participation and compensation
- does not derive advantage at the cost of others

These underlying principles have many similarities to our cooperative values and purpose.

Takaful and Cooperative Insurance

Islamic jurist has concluded that insurance in Islam should be based on

- mutuality and cooperation
- elements of shared responsibility
- joint-indemnity
- common interest and solidarity

Many of these jurists have agreed that takaful should be a mutual assurance and cooperative assurance. Some even hold the view that takaful should be a 'cooperative insurance'. Therefore we can conclude that cooperative and mutual insurance organisations have the basic fundamentals to spearhead takaful insurance.

With the developments at the international level, there are opportunities for commercial advantage for cooperatives world wide. This is increased if there is a sizeable amount of Muslims in the country, and in most cases similar to our experience in Singapore where takaful has attracted a good proportion of Non Muslim clientele.

Takaful and Conventional Insurance

Basically, conventional insurance has three elements that contradicts the Syariah (Islamic Law)

a. Uncertainty

- uncertainty of payment will be accepted as promised in the agreed contract
- amount paid when mishap happens is not clear and made known
- the time of occurrence not known

b. Gambling

- participants contributes a small sum with hope of gaining larger sums
- the loss of premium paid by the participants when event does not occur
- company in deficit if claims are higher than contributions

c. Usury (Riba')

- interest is derived as earnings paid to the insured upon claims and so earns more than the premiums paid.
- insurance fund invested should also stay clear of counters that has major earnings from interest.
- insurance funds will also have to avoid gambling, tobacco, alcohol, pork, arms and also pornography (companies that have tendency to promote social ills)

Another important aspect of transactions in Islamic transaction is openness, transparency and fair dealings.

With some adjustments and modifications, conventional insurance can be made into a takaful product.

This is where insurance cooperatives can make use of their cooperative values which are similar to the Islamic principles of takaful.

Cooperative and mutual insurers can begin takaful operations with very only minor changes but with benefits to many and the whole community at large.

Growth Potential

Presently, there is a global interest in Islamic finance. Many financial institutions around the world see this area as having large potential, yet to be developed and tapped. Specifically for takaful, it is projected that the premiums increase to be around USD 7.4 billion in the next 15 years. This huge market is presently being developed in the Muslim countries, however its development in Non-Muslim countries is yet to be established.

In the context of our ICMIF members countries, we can observe that many of them do not have access to Syariah compliant insurance products. This is because many of the insurance products are confined to their domestic laws, or that they may not have the resources and the expertise to establish takaful.

With the rise of awareness and popularity, Islamic products such as takaful and investment vehicles could be quite substantial. Thus members in non-Muslim countries with a sizeable Muslim population, are well positioned to provide takaful for local Muslims.

NTUC Income's Experience

I would like to share NTUC Income's experience as a cooperative insurer, in a non Muslim country, providing takaful for its Muslim population. It highlights some of the practices that NTUC Income has adopted in the spirit of an insurance cooperative, that have some similarities with Islamic principles of transactions, business and takaful.

NTUC Income was founded in 1970 with a share capital of S\$1.2 million (US\$700,000). The share capital was contributed by the trade unions. The aim was to provide insurance to workers and lower income people at affordable rates. It helps them to be protected by insurance and give greater security to their family.

We made good progress over the past 35 years.

Today, we have:

- 1,200,000 policyholders
- total assets of S\$15 billion
- annual premium of \$2,000 million
- rated 'AA' rating by Standards & Poor (highest rating in Asia)
- expense ratio is 10% lower than the industry

We have the largest market share in general and health insurance, and the third largest in life insurance in Singapore.

Products

Our practice is to simplify our products, use simple language with clearly defined coverage that cover the real risks of our customers and are easily understood by them.

We have a comprehensive range of life insurance products that caters for:

Savings - for retirement, children education, rainy days

Investments - grow your capital

Financial protection - death, disability, accident, dread disease

Annuities - stable retirement income for life.

We pay special attention to educate our customers about the concept of insurance. We want to tell them honestly about the features of each product, including its cost and benefits. If they wish to have more comprehensive coverage, they have to pay a higher

cost. If they wish to have a lower cost, they have to accept a simpler product with more basic coverage.

We also invite our customers to attend our educational talks, where they have a chance to talk to our managers. Our aim is to help them to make the right choice.

Our web site contains educational materials to explain our products in a manner that is easily understood by the public. By educating our customer in an honest way, we earned their trust.

Settlement of Claims

When our customers make a claim, they are provided with practice notes to explain how to lodge a claim and the reason to ask for some of the requirements.

We settle claims promptly and with the least hassle. This builds up the trust and confidence of our customers. We handle disputes and difficult claims well and want our customers to know that we are fair in our dealings.

We identify and control inflated or fraudulent claims. We handle our claims effectively, so that they do not inflate the claim cost and force us to raise our premium rates.

Customer Satisfaction

Our transparent approach has led to a high customer satisfaction rate. 98% of our customers are happy with our service. We provide a high standard of service by being prompt, open and positive.

We adopt a 3 level approach in handling customer enquiries.

- 90% of issues are handled by our frontline officers
- Particular issues are referred to a specialist who will return a call to a customer within 1 hour.
- Disputes and complaints are escalated to specially trained managers. We build a brand name of being trustworthy, providing excellent service and taking care of our customers' need.

We provide many channels in our service delivery :

- email
- Internet
- Call centre
- Branches

Product Design and Rating

We believe in a sound approach in the design and pricing of our insurance products. We charge a fair rate of premium to cover the actual cost of the risk, low expense ratios and a modest profit margin. We provide competitive premium rate through:-

- reduce the cost of operations
- retain a small margin on the product
- reduce the cost of selling the product
- pro-active claims management, avoid paying inflated claims

This allows us to offer our product at a premium that is 5% to 10% lower than the market. It made our product easier to sell, and generate a higher volume of business.

Our customers are aware about our values and practice. They have a high level of trust that we are fair in our dealings, and will offer good products at fair prices. They are

willing to recommend to their friends to buy their business from us and subsequently we enjoy a high level of loyalty from our customers.

We do not engage in aggressive competition that results in inadequate rates that may cause financial difficulty.

Serving the Muslim community

We have been active in reaching out to the Muslim community, which represents about 15% of the population in Singapore.

As a cooperative, our operating principles are similar to those promoted by Islam, including transparency, fair dealing with our policyholders, sharing of risks and collective decision making in a consultative approach. We have enjoyed the endorsement of the religious council on the suitability of our insurance products to serve the Muslim community.

In 1996, we became partners with a Muslim professional body to promote Takaful insurance. These are ethical investments that promote the sharing of the investment risks and avoid business dealings that go against the teachings of the religion. As a cooperative, we involve our partners in discussions and consultation before making any decisions, as this collective decision making is not only a cooperative principle we adopt but also what Muslims also practice in their dealings.

Subsequently we have been able to attract in total around US\$40 million in the Takaful fund. Most of these investors are Muslims. The fund is also open to non-Muslims who support the concept of ethical investments.

Amanah Fund

With all these ingredients and principles in place, NTUC Income launched its second takaful product in the market. It is the biggest Islamic Fund in Singapore with the first Islamic bond to be introduced locally. The fund has S\$450 million invested in Islamic equities and S\$100m invested in Syariah compliant bonds.

It offers the flexibility of investing in a single or regular premium, and using cash or savings from the Central Provident Fund. Investors can also choose their own proportion of investing in equities and bonds. They can also choose to invest solely in one fund fully.

NTUC Income has also set its own Syariah Panel consisting of international, regional and local renowned Syariah experts. The fund is managed by carefully selected fund managers of international expertise with good experience in managing funds.

The Amanah Equity fund has performed well since its launch on 25th of May 2005.

So far the fund has been well received by the local Muslim and non-Muslim community alike.

Out of this initial subscription in our Amanah Funds:

- 50% are Malay/Muslims
- 35% are Chinese
- 15% are other races

We find this very encouraging, and we are still getting positive responses from the general public.

From this perspective, takaful can also be a good vehicle to promote and help the general public understand and appreciate the beauty of cooperative principles.

Reaching Globally

Many ICMIF members operate in countries with a large Muslim population. Many do not have access to Syariah compliant insurance products. Presently, there is an interest in Islamic products globally, this is due to the way it is operated. Principles such as fair trading, openness and transparency is well received generally and as such is an attraction to potential policyholders.

This is exhibited through NTUC Income's experience.

We are able to have:

- A large fund invested in equity and bonds that comply with Syariah principles
- Global diversification of investments
- Fund management expertise - managed by international experts with a good track record
- A Syariah panel, comprising of international, regional and local experts

Our aim is to offer our Amanah Fund to ICMIF members to enable them to create insurance products for their Muslim community and invest their savings in our Amanah fund.

Conclusion

The interest in insurance, based on Syariah principles provides an opportunity for ICMIF members to develop a new source of business to serve the Muslim community.

Muslims appreciate the need for insurance as a fact of modern life. However, their less-than-receptive attitude towards insurance has been due to the un-Islamic manner in which it is presently conducted. Cooperative values embodies a pragmatic and visible approach in illustrating Islamic ways of insurance in its similarities of philosophy and operations.

Nevertheless, it is not without its challenges.

In this very competitive world, there is a need for us answer to challenges which in turn can be an opportunity for us.

Most importantly, what differentiates us all from the competition that we face in our own countries is our cooperative advantage.

If you would like more information on ICMIF and its services to the takaful sector, please contact Sabbir Patel (sabbir@icmif.org), or visit www.takaful.coop.

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