With the rapid growth of global takaful business in recent months, Lloyd’s and the London market need technological solutions for addressing Shariah compliance issues, says Richard Bishop.

The Islamic insurance market has undergone significant growth in recent years and the expectation is that this expansion will continue.

To be able to meet this change head-on the London market has, after a few false starts, formulated quality products to meet the requirements of Shariah law.

Cobalt Underwriting, launched in 2012 as an MGA exclusively handling Islamic insurance, with the backing of XL, AIG and QBE, is an example of the innovative nature of the London market in addressing Shariah compliance issues on a commercial scale across multiple classes of business.

Global takaful

According to EY’s “Global Takaful Insights 2014” report, gross takaful contribution in the Gulf Cooperation Council countries is estimated to have reached around $8.9bn in 2014, up from an estimated $7.9bn in 2013.

In the Association of Southeast Asian Nations (ASEAN) region, the gross takaful contribution is estimated to have grown to around $4.2bn in 2014 from an estimated $3.5bn in 2013.

The biggest region for pure takaful insurance is Malaysia. However, with Muslims comprising less than half its population the country has taken the stance of making takaful competitive for all.

Malaysian takaful business is expected to hit $3.024bn (10.1bn ringgit) in 2014, up from $2.43bn in 2013, on the back of continued improvement in industry performance. This growth means takaful is now on a par with the conventional insurance industry in Malaysia.

Within the ASEAN region, Malaysia accounts for nearly three-quarters (71 percent) of total gross takaful contributions. Indonesia’s share of gross takaful contributions stands at 23 percent, with the rest of the ASEAN region accounting for the remaining 6 percent.

Both Malaysia and Indonesia had reasonably strong GDP growth of about 5 percent in 2014.

Within the Gulf region, Saudi Arabia accounts for the majority of gross takaful contributions with a share of 77 percent, followed by the United Arab Emirates, which accounts for 15 percent. The rest of the Gulf countries account for just 8 percent of gross takaful.

Richard Bishop is managing director of Cobalt Underwriting.

Continued on page 56
contributions.
Penetration is still an issue for many of the major Islamic insurance markets. But in Malaysia, where the penetration rate is 15 percent, the country’s central bank, Bank Negara Malaysia, is aiming to achieve a rate of 75 percent by 2020.

Growing potential
Added to this, the opening of a new Lloyd’s operation in Dubai will move the market ever closer to its Islamic clients.

The potential for the expansion of the risk classes that can be delivered in a Shariah-compliant manner is self-evident and the launch of the Islamic Insurance Association of London with the backing the UK government (which is determined to create a global centre for Islamic financial services in London) has added to the growing recognition of the Islamic finance sector’s potential.

For Islamic insurance, brokers remain the major distribution channel and Cobalt Underwriting is keen to work with brokers to ensure their Islamic clients are aware they now have the capability to place their insurance programmes in a Shariah-compliant way.
But there are still challenges. Providing cover for risks across the world and via both the UK company market and Lloyd’s platforms brings with it a number of those challenges – several of which relate to technology issues.

One of the key issues is the ability to deliver the data required by the regulators and Lloyd’s – along with the ability to transact business across several countries and a broad range of risks in a specific manner that is compliant with the relevant laws of Islam.

Shariah compliance
Like our conventional peers we deal with clients and broker partners that operate different IT platforms. Finding a system that was flexible enough to take all classes of business whilst being rigid enough to follow strict procedures took a beauty parade of most of the market contenders.

We needed to be able to work with the authors to tailor the system to meet our needs for both Lloyd’s and company market processing, yet we were a small MGA in its early years, mindful of our budget, and we couldn’t build something from scratch. Budget aside – we didn’t have that kind of time.

Morning Data’s eNOVUS product ticked so many boxes: it handled the separation of the Wakala (Islamic agency contracts) and PRF accounts as well as the need to handle a variety of taxes and fees from all over the world, calculated and based on different aspects of the business.

We wanted a hosted system to provide the necessary data back-up and access flexibility, as well as to create all our documentation and provide risk, premium, claims and cash management for a variety of policy structures ranging from line slips and binders to facilities and proportional treaties.

In time we wanted to be able to expand to hold our full company operations on the system with integrated divisionalised nominal and purchase ledger and management reporting – all the familiarity of the London market operations with the process controls of Shariah compliance.

We were very comfortable with the knowledge that eNOVUS provided everything we were looking for and in November 2014 we commenced the installation, which – refreshingly in the world of IT – went to schedule and within budget, going live on 1 January. With back loading of policy data and cash we were able to sign off at the close of business on 8 February.