

## Takaful in Bahrain: Leading the Way

Proactive regulation of takaful in Bahrain has encouraged its growth as one of the takaful hubs in the region, with speedy growth in the number of operators and insurance market share.

*MiddleEast Insurance Review* takes a look at the development of takaful in this small island country in the Persian Gulf.



Carpet at Al Fateh Mosque, Manama, Bahrain

The latest estimates from *sigma* indicate that insurance premiums have increased 11.5% to BHD132.1 million (US\$350.5 million) in 2007. The development of the takaful segment in Bahrain shows a similar upward trend, recording an impressive growth of nearly 60% in the same year. According to the Central Bank of Bahrain (CBB), total gross contributions increased from BHD9.9 million to BHD15.7 million in 2007 and market share increased from 8.4% to 11.6%.

The first takaful company, Bahrain Islamic Insurance Company, now known as Takaful International (TI), was established in Bahrain in 1989. The number of takaful companies has since increased to 18. CBB has continued to issue licences to local, regional and international players wanting to operate in the onshore market, as well as to use Bahrain as a stepping stone for international takaful operations.

### Market Structure

According to CBB, there are nine locally incorporated takaful firms and nine firms operating from Bahrain but restricted to business outside the country.

The domestic takaful market is dominated by two local giants, TI, and Solidarity. TI's gross contributions reached BHD5.8 million in 2006, while Solidarity collected BHD7.0 million worth of contributions in 2006.

On the retakaful front, the first retakaful company in Bahrain, Hannover Re Takaful, was established in December 2006 to write business across all lines globally. In 2008, ACR ReTakaful MEA, a subsidiary of Dubai-based ACR ReTakaful Holdings, was granted a licence to operate in Bahrain. It has a capital of US\$200 million and underwrites general large risk business.

**Table 1: Bahrain Market Structure**

<i>Company Name</i>	<i>Date Established</i>
<b>Locally Incorporated Takaful Firms</b>	
ACR Retakaful MEA B.S.C. ( c )	June 2008
AIG Takaful-Enaya	April 2006
Allianz Takaful Bahrain B.S.C (c)	February 2007
Hannover Re Takaful B.S.C.	August 2006
Solidarity Family Takaful B.S.C. ( c )	February 2008
Solidarity General Takaful B.S.C. ( c )	February 2008
Solidarity Insurance Company	June 2003
Takaful International Co.	April 1989
T'azur Company B.S.C. ( c )	October 2007
<b>Takaful Firms (Restricted to Business Outside Bahrain)</b>	
Allied Cooperative Insurance Group	January 1986
Arabian Malaysian Takaful Co.	November 2000
Heamayah Cooperative Insurance Co.	May 2003
International Islamic Ins Co	June 1992
Islamic Arab Insurance Co.	March 2001
Saudi Allied Co. for Co-operative Ins. & Reins.	February 1998
Saudi General Insurance Co	November 1992
Takaful & Retakaful Intl Investment Co. (Tariic)	August 1985
Takafol Islamic Insurance Co. E.C.	August 1983

### Award-Winning Regulator

CBB has put in place an insurance framework that recognises the distinct characteristics of the takaful industry, the first regulator in the region to do so. However, while both conventional insurance and takaful have separate regulations, the regulatory regime does not favour one over the other, and companies from both fields can conduct their businesses in a fair and competitive environment.

The adoption of a mixed takaful model is prescribed by the regulator so that benefits from both the wakala and mudahraba models can be enjoyed by operators. CBB does not mandate that takaful operators comply with Shariah laws, but instead requires each takaful operator to have a Shariah supervisory board.

International standards of insurance regulation, such as conduct of business, capital adequacy and management, systems and control, apply to all insurance operators in Bahrain, whether (re)takaful or otherwise.

In 2006, the CBB announced its intention to establish an International Takaful Association, the first of its kind to be based in the Gulf. There are, however, no plans for a domestic takaful association.

For its efforts, the regulatory body was recently recognised at the International Takaful Awards this year with the accolade of "Outstanding Contribution to the Takaful Industry".

### Strong Industry Association

The Bahrain Insurance Association (BIA), an umbrella association for the entire insurance industry, including takaful, currently has 41 members, of which four are takaful operators and two are retakaful players.

According to Mr Ashraf Bseisu, the General Arab Insurance Federation (GAIF) conference, held in Bahrain earlier this year, was a platform which BIA used to enhance the awareness for the takaful segment in the country. The association is also working closely with CBB to finetune and further develop takaful specific regulations.



Mr Ashraf Bseisu

### Why Bahrain?–

#### A Testimonial from a Retakaful Player

Bahrain has established its credentials as a financial services hub for the region, with a good mix of many positives – a transparent regulatory climate, the availability of local expertise, accessibility of travel for clients and generally lower costs compared to other GCC countries.

The insurance sector has also become increasingly buoyant in Bahrain. Robust economic growth, renewed government investment in large infrastructure projects and strong private sector investment in real estate and other economic sectors are driving the expansion of the insurance sector in Bahrain.

In addition, increasing acceptance about the need for insurance is also contributing to the growing demand for insurance products, both conventional and Islamic.

It is against this backdrop that ACR Retakaful MEA has selected Bahrain as its operating headquarters.

Mr Patrick Byrne,  
Managing Director of  
ACR Retakaful MEA

On the future of takaful in Bahrain, he commented: "The industry is growing at a faster pace than other segments. We have seen this clearly from the market statistics over the past few years. We believe that there is tremendous interest and growth potential for this segment."

### Takaful Training

Bahrain is home to two prominent insurance training institutes in the region, the Bahrain Institute of Banking and Finance (BIBF) and the Gulf Insurance Institute (GII), both of which offer courses in takaful.

The Chartered Insurance Institute (CII) has tie-ups with BIBF and has accredited the recently launched programme on takaful. The new qualification was made



Manama skyline at dusk, Bahrain

available in the UK in September 2008, the first time in CII history that it accredits and adapts a qualification from outside the UK as part of its curriculum.

**Trends and Opportunities**

Speaking at the Takaful Network Seminar in June, Mr Gopinath Rao, General Manager of Solidarity Family Takaful, identified four specific areas in Bahrain which the takaful segment can take advantage of. One is a growing realisation that takaful is an ethical alternative to conventional insurance, and can be bought by anyone regardless of religious orientation. The second is the growing religious sentiment among Bahrainis which will drive consumers to seek out Shariah-compliant products. The increasing use of Islamic banking and financial services, as well as the property boom and mortgage needs, present opportunities for takaful operators as well.



Mr Gopinath Rao

Mr Patrick Byrne, Managing Director of ACR Retakaful MEA, said that the economic growth in the Bahrain and the Middle East is expected to outstrip that of the West for some years. Therefore, there is a growing need for expert reinsurance support in complex risk areas and specifically retakaful support as much of the financing for this economic growth is through Islamic institutions.



Mr Patrick Byrne

As for bancatakaful, Mr Bseisu believes that there will be a stronger penetration of

this distribution channel as banks and takaful operators align their interests.

**Challenges for the Industry**

One of the challenges faced by insurance companies as well as takaful operators in the Bahraini market is the need to offer competitive rates, as consumers in the market are price conscious, observed Mr Rao. Low entry barriers, which encourages new players, may raise the standards of insurance and takaful offerings in the market, but at the same time increases competition. There is also a lack of consumer data for targeted marketing.

Takaful products in the market are considered as cost alternatives rather than inherently different products, so operators need to distinguish themselves by educating the public about the takaful concept as well as offer products that are different from the conventional. Mr Rao commented that conventional insurance products are largely accepted by consumers and strongly entrenched in the market, an obstacle takaful operators have to overcome.

**The Future of Takaful**

Bahrain has a leading role to play as a dedicated centre for Islamic finance and (re)takaful businesses. “Regulators are looking beyond the current requirements and focusing on corporate governance and management”, observed Mr Byrne.

The momentum is expected to persist along with the worldwide growth of takaful, with continued efforts by the CBB. With the establishment and operation of the International Takaful Association on its shores, the position of Bahrain as a takaful hub is likely to be boosted even further. ■

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