

## Takaful in North Asia: Following in the Footsteps of Islamic Finance?

Of the four North Asian countries *MiddleEast Insurance Review* will be looking at – China, Japan, Korea and Hong Kong – China has the highest potential for Shariah-compliant insurance, due to its sizeable Muslim population. However, in all the markets, Islamic financial services has been developing, albeit at varying levels.

While the Muslim population in North Asia is not large, nor are the market demographics appealing to takaful operators, Islamic finance and banking are nonetheless starting to develop in these countries as a means to tap into the growing Middle Eastern markets and petrochemical dollars.

As a precursor to introducing takaful into a local market, Islamic banking and other Islamic financial tools, such as sukuk, usually take root first. Many countries like China, Hong Kong, Japan and Korea have started to look into Islamic banking and sukuk and this may herald the entry of takaful into these countries.

### Islamic Finance in North Asia

#### China

China's status as an emerging market has seen various financial institutions, including Islamic ones, being set up in the country. The players include Bahrain-based Shamil Bank, which launched the first Islamic property fund for investment in the Chinese real estate market in 2006; DWS Investments, which offers a Shariah-compliant mutual fund capability; and Gulf Finance House (GFH), which plans to invest at least US\$1 billion in China.

The potential for growth of the Islamic finance sectors in China is huge, given the country's rapid economic growth over the years, especially in the capital market, as businesses invest in the country's vast infrastructure needs and growing liquidity. As the Islamic banking industry in China matures, there will be a shift in financial assets from the banking sector to the capital market as seen in countries such as Malaysia, Bahrain and Kuwait, which has introduced sukuk to facilitate the management of assets by Islamic financial institutions.

Earlier this year, the Islamic Banking and Finance Institute of Malaysia (IBFIM), along with the Shenyang Province Authority of China (SPAC), announced plans to set up an Islamic financial community on a 120-hectare site. The proposal for the development of the community was submitted in the third quarter of 2008.

Shenyang, located in the north-eastern part of China, is one of the top-ten largest cities in the country, with a population of 7.2 million and a relatively high income per capita. It is estimated that there are 100,000 Muslims resident in Shenyang.

The province has a Finance Development Target 2010, which includes plans to make Shenyang a regional finance centre, of which the Islamic financial community will be a part. The province currently has 59 financial institutions, including 25 banks, 25 insurance firms, seven securities branch agencies and two futures agencies.

### Muslim Populations in North Asia

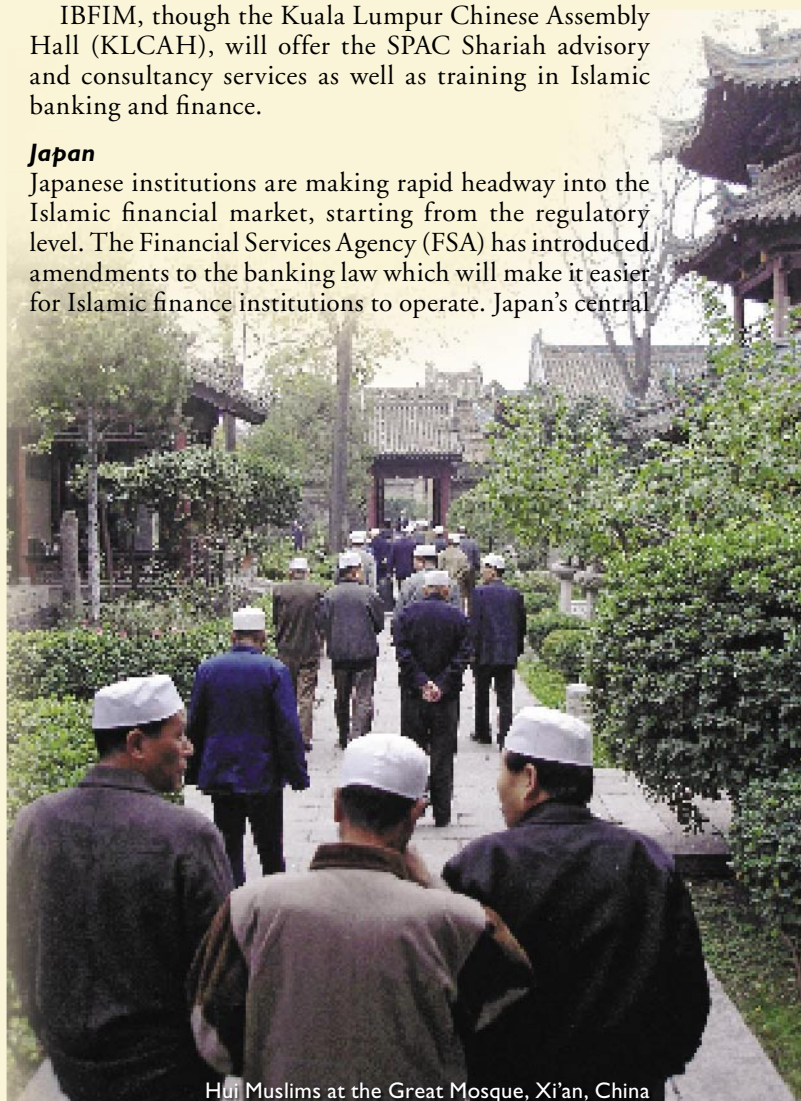
	Total Population <sup>1</sup> (July 2008 est.)	Muslim Population <sup>2</sup> (estimated)
China	1,330,044,544	20 million (1%-2% of total)
Japan	127,288,416	60,000-70,000 (of which 90% are foreign residents, 10% are ethnic Japanese)
South Korea	48,379,392	40,000
Hong Kong	7,018,636	20,000-100,000

Sources: <sup>1</sup> CIA Factbook, <sup>2</sup> Wikipedia

IBFIM, though the Kuala Lumpur Chinese Assembly Hall (KLCAH), will offer the SPAC Shariah advisory and consultancy services as well as training in Islamic banking and finance.

#### Japan

Japanese institutions are making rapid headway into the Islamic financial market, starting from the regulatory level. The Financial Services Agency (FSA) has introduced amendments to the banking law which will make it easier for Islamic finance institutions to operate. Japan's central



Hui Muslims at the Great Mosque, Xi'an, China

bank, the Bank of Japan, joined the Islamic Financial Services Board (IFSB) in 2007, while the Japan Bank for International Cooperation, another government agency, also sits on the board as an observer.

The first Islamic real estate finance deal took place in Japan in January this year, when Boubyan Bank of Kuwait purchased three office buildings in Tokyo through its subsidiary, Boubyan Global Real Estate.

May 2008 saw the launch of the Daiwa FTSE Shariah Japan 100 Index, representing the performance of the largest and most liquid Shariah-compliant companies in Japan. Daiwa Asset Management (Singapore) is the fund manager and Yasaar Limited is the Shariah adviser.

In 2007, Aeon Credit, one of the country's largest insurers and credit providers, issued Islamic bonds through Malaysia, and in June this year, Toyota followed suit. Last year, Mitsubishi UFJ allied with Malaysia's CIMB Group to provide Islamic banking services, such as issuing Islamic bonds to Japanese companies operating in Malaysia.

### Hong Kong

Besides its reputation as a solid financial centre, Hong Kong's proximity to China and its position as a gateway into the mainland market also makes it an attractive place for Islamic businesses to take root.

Hong Kong's Chief Executive, Mr Donald Tsang, travelled to India, Middle East and other parts of Asia in 2007, in a bid to entice borrowers and investors to issue Islamic bonds in the country. This is in line with its ambition to be an Islamic financial hub in Asia.

Since July 2007, the Hong Kong Monetary Authority has been working to establish laws, tax systems and regulations to encourage and put Islamic financing on an equal footing to its conventional counterparts. The Arab Chamber of Commerce and Industry has lent its support in the form of a five-member Shariah advisory council to assess and rule on Islamic products in Hong Kong.

### South Korea

Traditionally, Korean companies have not been able to make any headway into the capital market in the Middle East as the country's financial and accounting standards are in conflict with the Islamic finance regulations. However, regulators are revising laws to help local banks and brokerages to enter the lucrative Islamic financial market.

Korea's Financial Services Commission and Financial Supervisory Service have been recently admitted into IFSB, which will aid in the development of Islamic finance in the country.

### Possibilities for Takaful

#### China

Of the four countries, China has the largest group of Muslims and opportunities for Islamic finance, including takaful, are plentiful. The majority of the Muslims can be found in the north western regions of China, in provinces of Xinjiang, Gansu and Ningxia. There is also a significant number of Muslims in the south western province of Yunnan and the central province of Henan.

In absolute numbers, 20 million Muslims constitutes a sizeable market for takaful business to operate in. However,

most Muslims in China, especially those in Xinjiang, are ranked lowly in terms of their levels of education, employment and socio-economic development. This may hamper the growth of takaful as well as conventional insurance. There are currently no available statistics on the uptake of insurance by the Muslim population, but if one assumes that conventional insurance is haram, then takaful would have an untapped market to reach out to.

#### China: Premiums by Class (January to August 2008)

(US\$ million)	Total	General	Life	PA	Health
Xinjiang province	1,679	539	998	35	97
Gansu province	992	235	700	18	39
Ningxia province	316	101	177	8	30
<b>Total China</b>	<b>104,385</b>	<b>24,157</b>	<b>71,955</b>	<b>1,993</b>	<b>6,295</b>

Source: CIRC website

Having said that, reaching out to the remote areas where Chinese Muslims are located and raising consumer awareness of takaful would be a difficult and expensive challenge for takaful companies to take up, although the potential is huge.

### Hong Kong, Korea and Japan

The number of Muslims in other North Asian countries such as Hong Kong, Korea and Japan are too small to sustain a thriving takaful market.

According to Mr Scott Hassan Odierno from Mercer Zainal Consulting, there has been a slight interest in insuring Indonesians in these countries, especially Hong Kong, but nothing has been put in place at the moment. He reiterated the three main reasons why people buy insurance. One, the local government requires it; two, there is a perceived protection need; and lastly, there is a savings need. Indonesians working overseas probably do not have any of these requirements, and would prefer to send their money home on a regular basis. Unless there are insurance or takaful schemes that allow non-local Muslims to purchase a product and then bring it back to their home countries, selling takaful to this sector would be difficult.

### Marketing of Takaful

Since Islamic finance and banking are making its way into the markets of North Asia, can takaful be far behind? Takaful is an important component of the Islamic financial system as it provides risk protection. Looking at the Muslim populations in these countries, other than China, one would be tempted to throw the idea of takaful out of the window. However, if there can be positioning of the takaful concept as a co-operative form of insurance or a stable alternative to conventional insurance, takaful can take root in these countries by catering and appealing to the needs of Muslims as well as non-Muslims. Introducing micro-takaful to the Muslim populations of Xinjiang can also be a step forward.

Perhaps as Islamic finance and banking gain more acceptance in North Asia, takaful operators will be more willing to take up the challenges presented to them in these countries. ■