

Aspects of Business Operations in Different Takaful Modalities

**Ajmal Bhatti
29th March 2007, Kuala Lumpur**

Scope of this Presentation

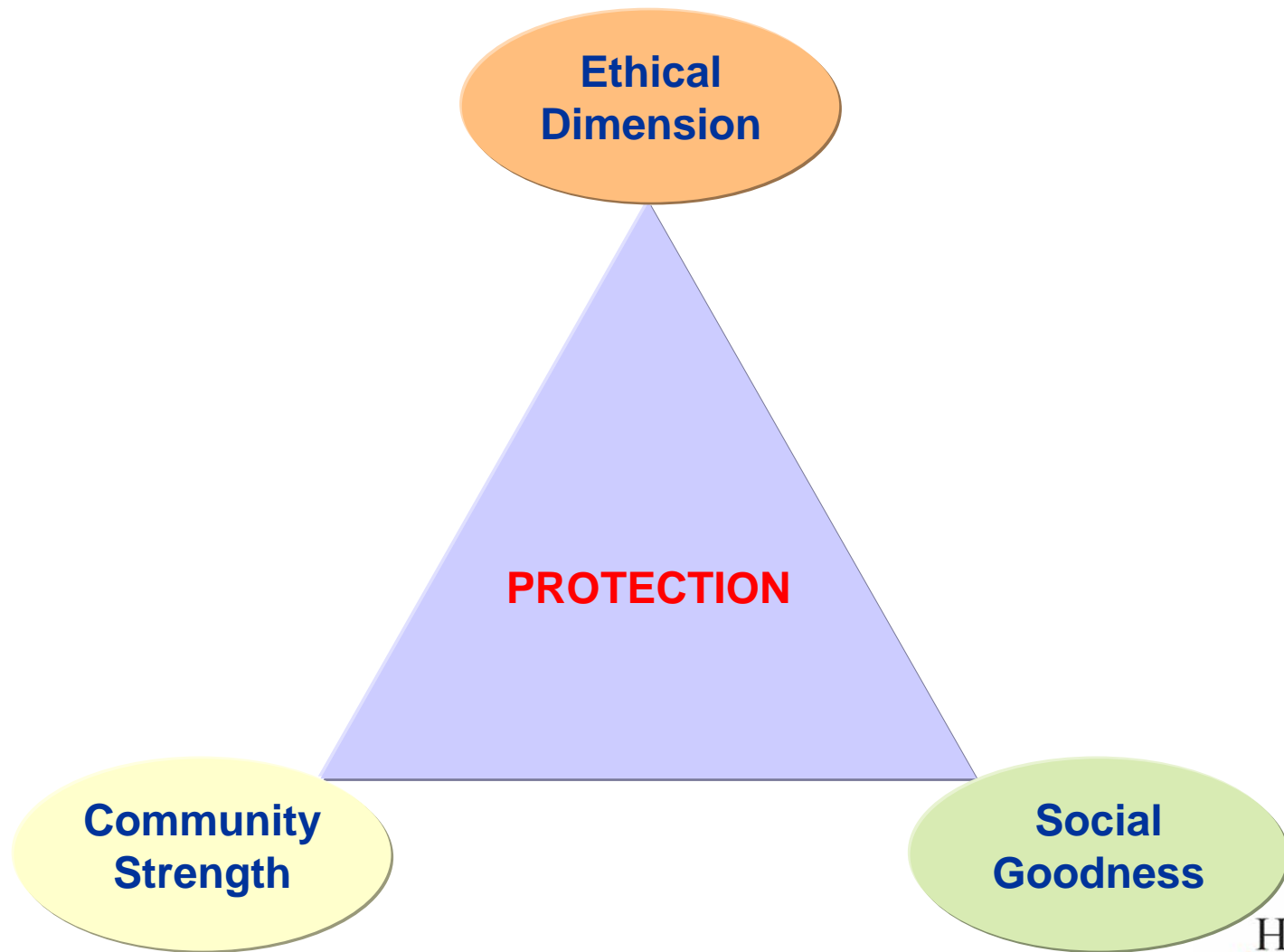
Business aspects of Takaful Models
(excludes the Risk Management aspects)

- Market and Customer perspective
- Takaful Value System
- Why do we need Takaful Models?
- Wakala Model
- Mudaraba Model
- Surplus Sharing

Why do we need a takaful model in the first place?

- why is it that we cannot use the usual insurance system to manage expectations and risks of takaful system?
- Takaful has its own value system

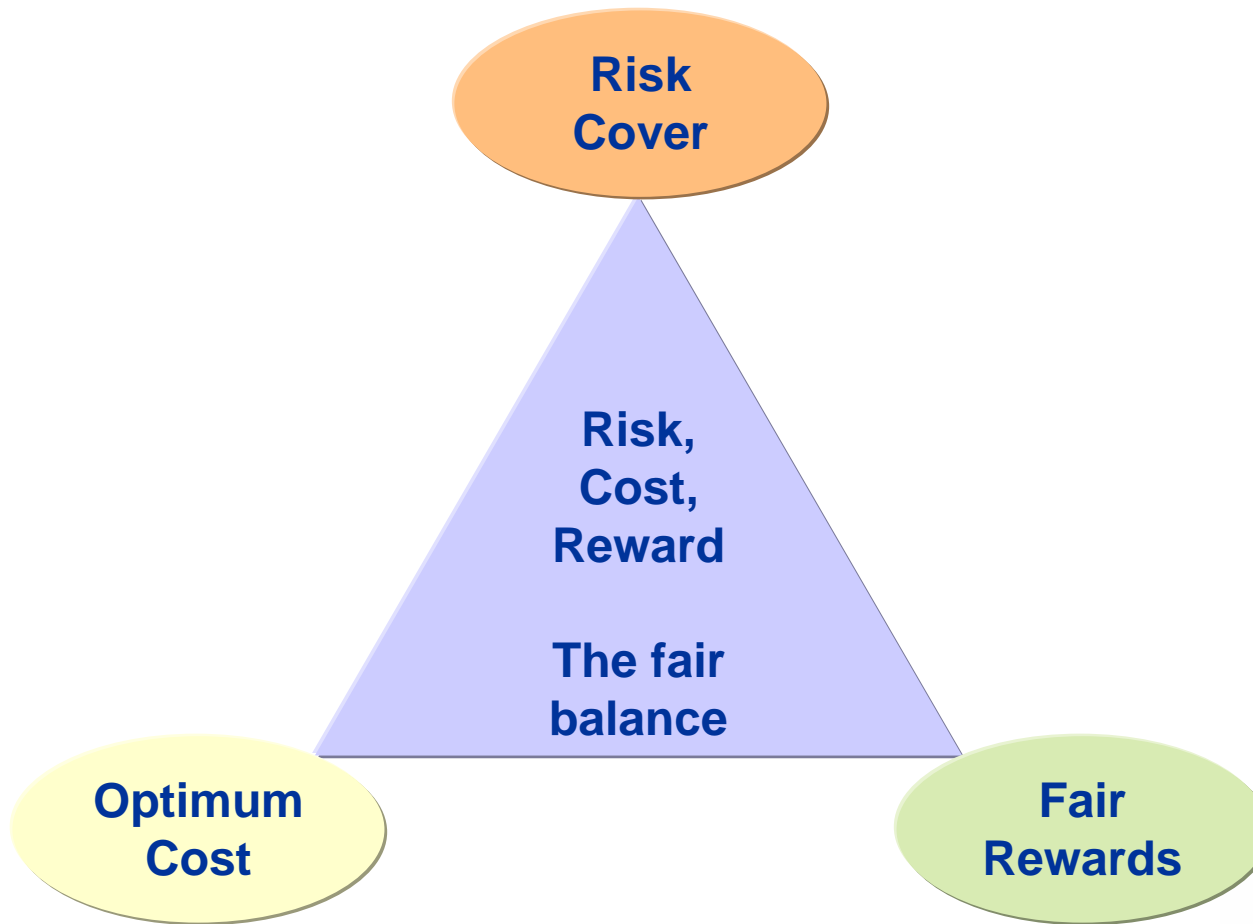
Takaful Value System



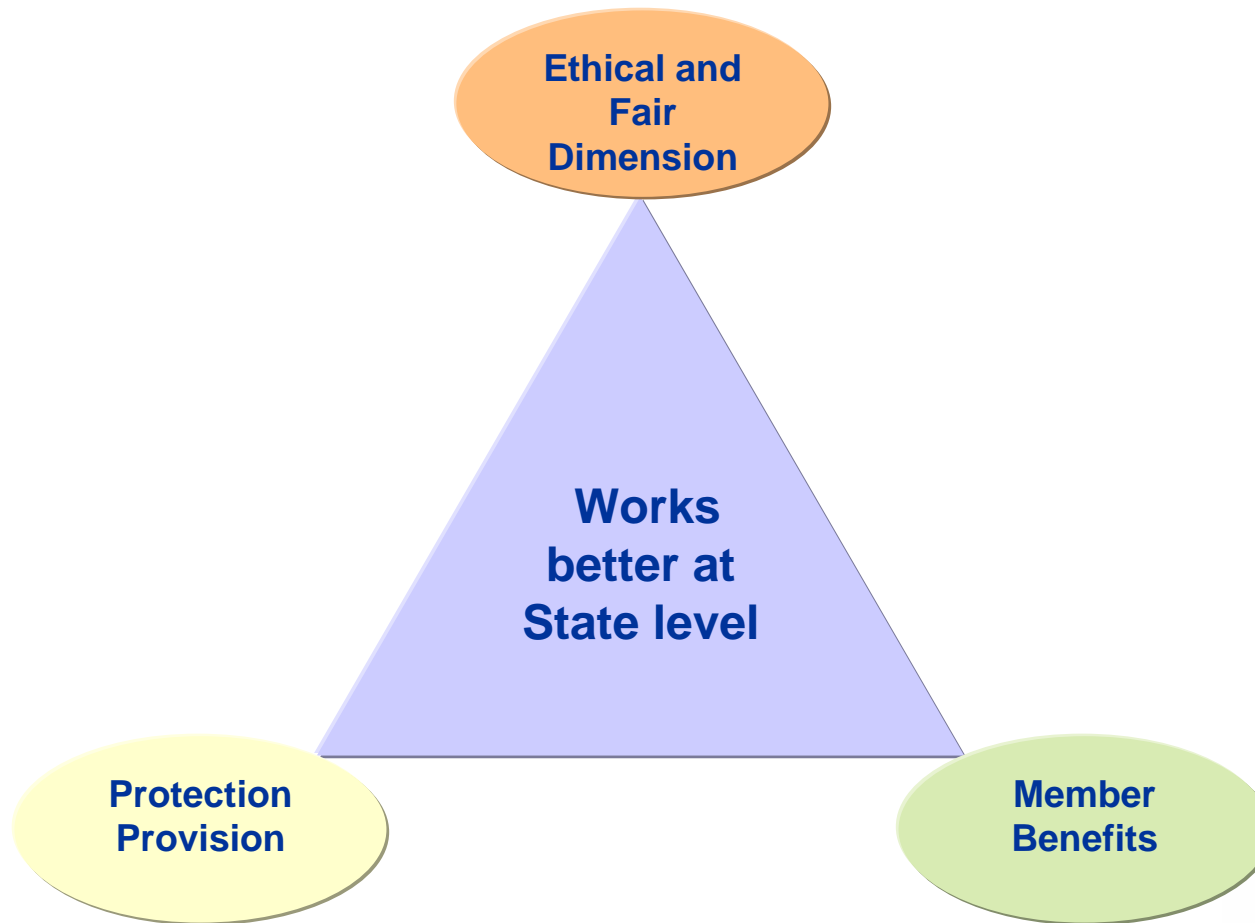
Fairness of Takaful System



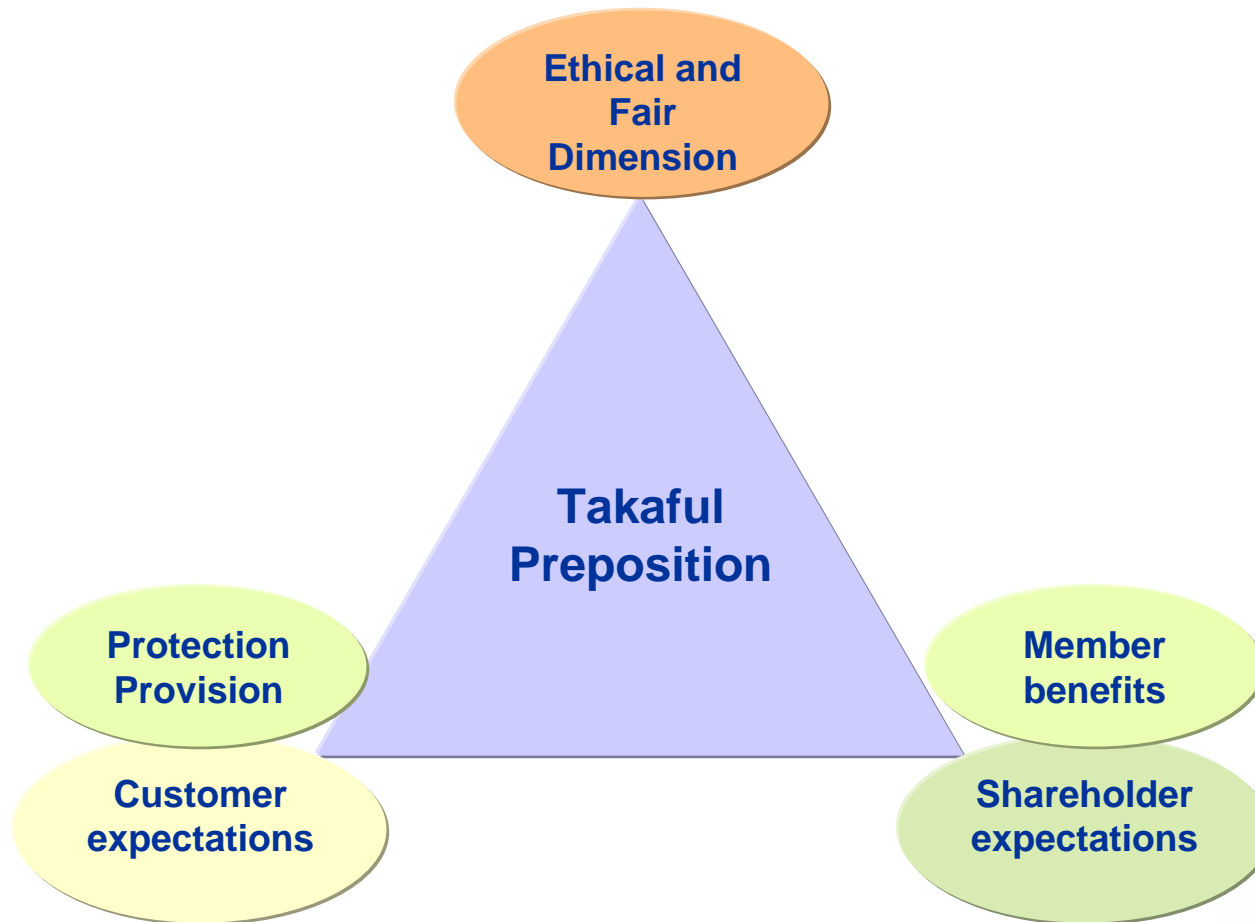
Takaful Preposition



Bait al-Maal – State Provider



Takaful – a commercial offering



Takaful Models

- For the client the model must address aspects of donation, co-operative pool and benefits.
- For the Company the model must address aspects of expenses, margins and returns.

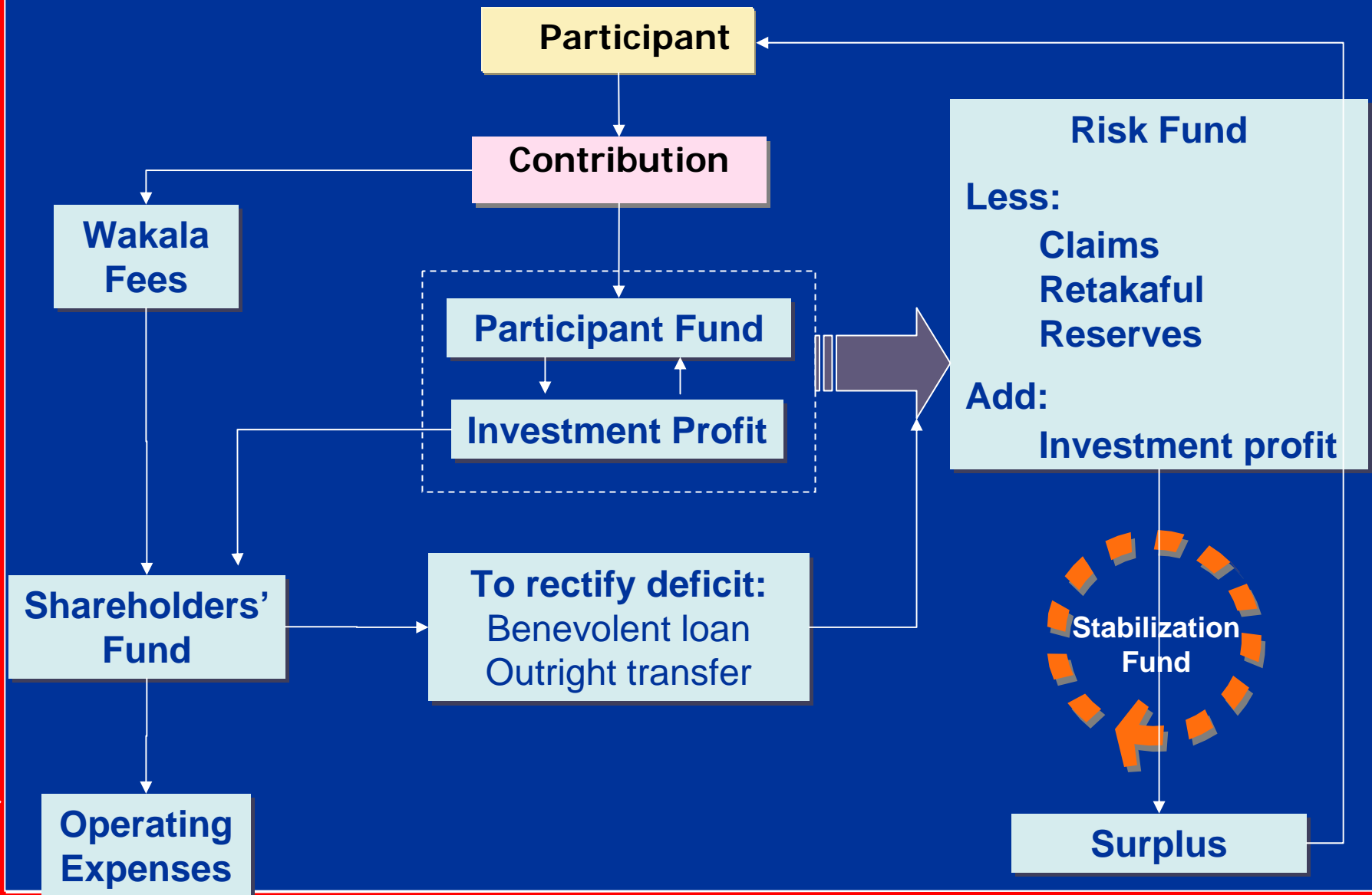
Expenses

- A proportion of contribution
- A percentage of pool (risk fund, participant fund etc)
- A percentage of investment profits

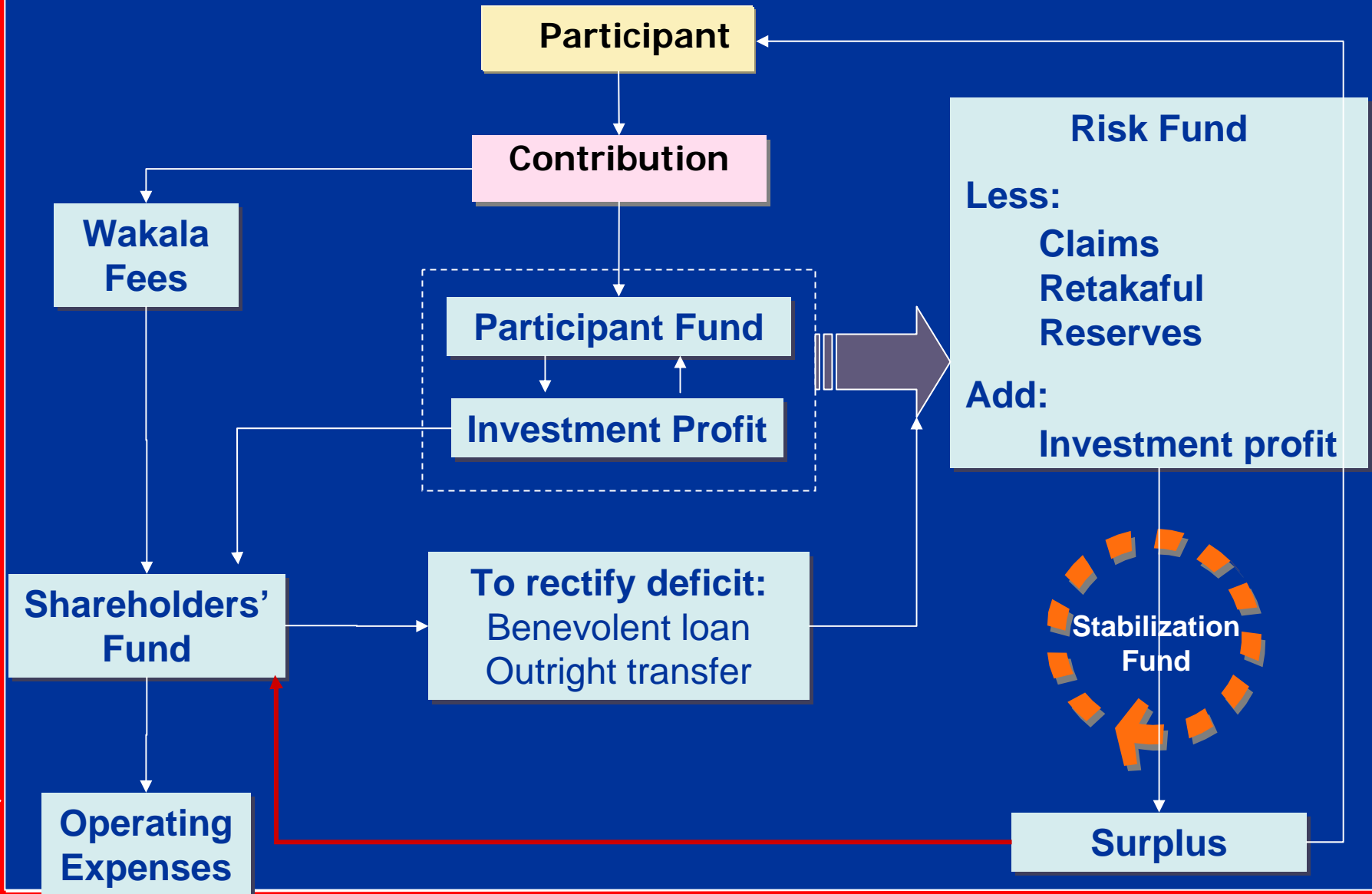
Different Models

- Wakala model
- Mudaraba model
- Co-operative model
- Waqf model
- Hybrids of Wakala and Mudaraba models

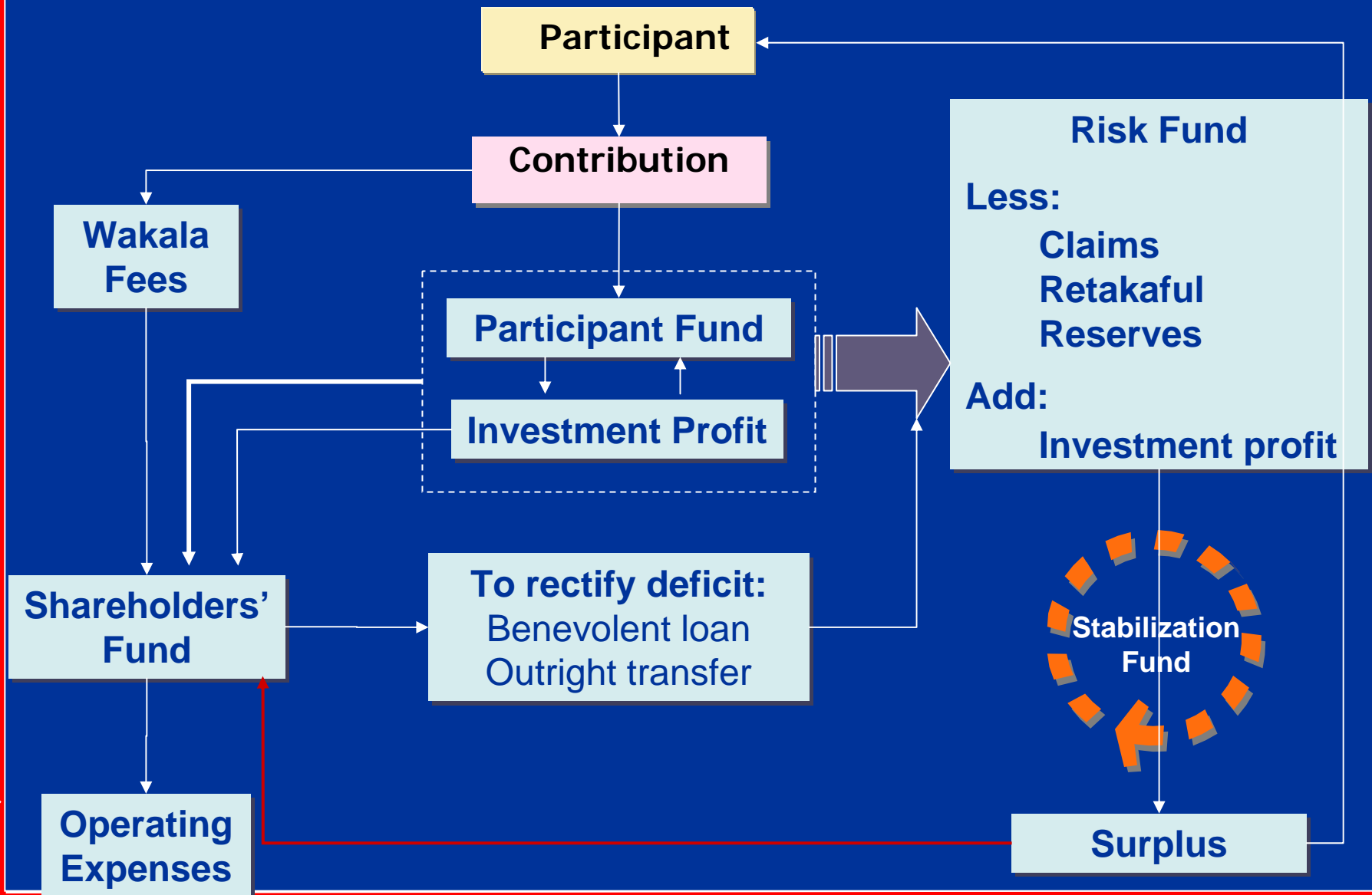
Pure Wakala Model



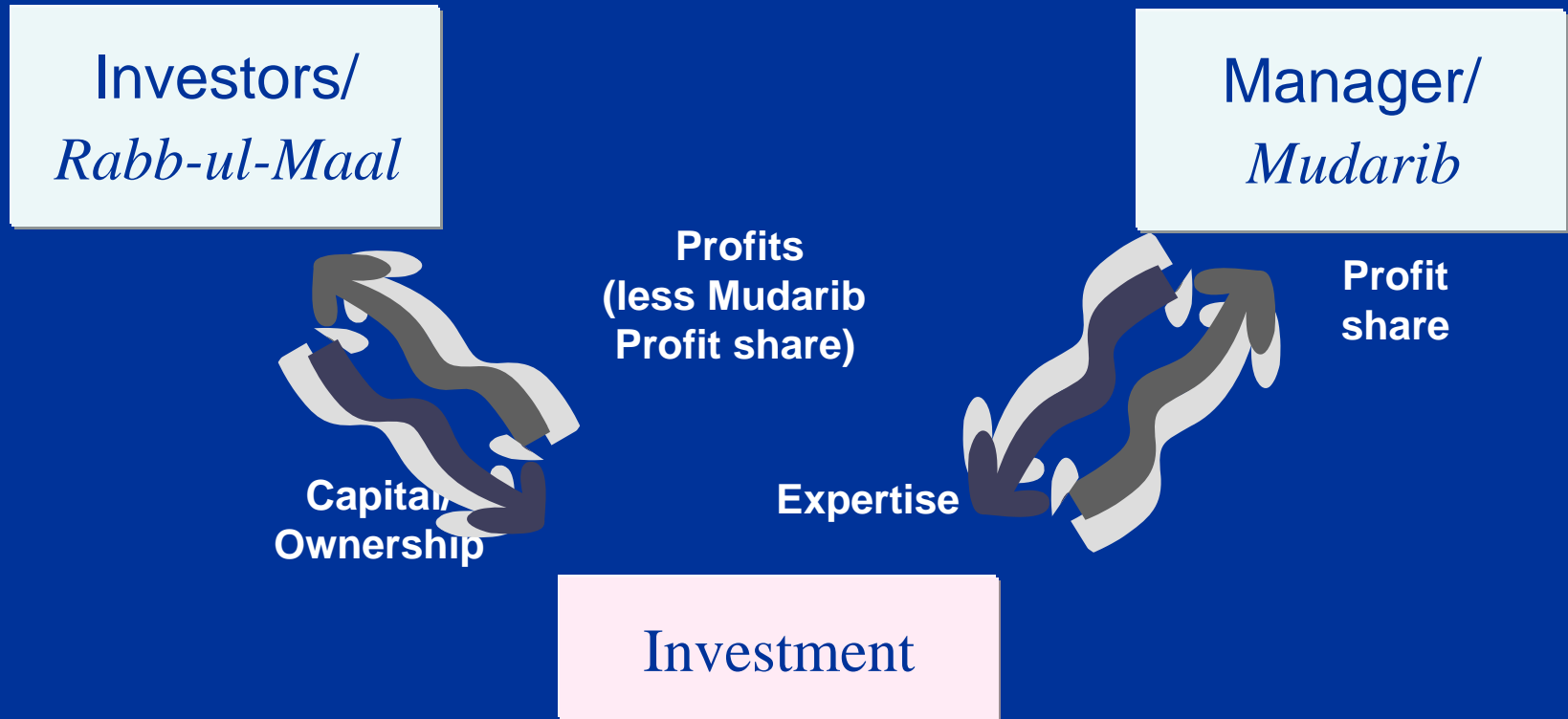
Modified Wakala Model - 1



Modified Wakala Model - 2



Mudaraba



Mudaraba

- One party (Investor/s) provide capital (rabb-ul-maal)
- Other party undertakes management and the actual work (mudarib)

Conditions

- Profits distributed in pre-agreed ratios
- Capital provider owns assets
- Losses lie with capital provider
- Mudarib only shares in profits and has no right to receive a fee/salary

Types of Mudaraba

Al Mudaraba Al Muqayyadah (Restricted Mudaraba)

- *Rabb-ul-Maal* may specify a particular business or a particular place for the *mudarib*, in which case he shall invest the money in that particular business or place. This is called *Al Mudaraba Al Muqayyadah* (restricted *Mudaraba*).

Al Mudaraba Al Mutlaqah (Unrestricted Mudaraba)

- *Rabb-ul-maal* gives full freedom to *Mudarib* to undertake whatever business he deems fit, this is called *Al Mudaraba Al Mutlaqah* (unrestricted *Mudaraba*).
- However, he is not authorized to:
 - a) keep another *Mudarib* or a partner,
 - b) mix his own investment in that particular *Mudaraba* without the consent of *Rabb-ul Maal*.

Authority of Rabb-ul-Maal & Capital of Mudaraba

Authority of Rabb-ul-Maal

- Oversee the *Mudarib's* activities and;
- Work with *Mudarib* if the *Mudarib* consents.

Capital of Mudarabah

- The capital in *Mudaraba* may be either cash or in kind. If the capital is in kind, its valuation is necessary, without which *Mudaraba* becomes void.

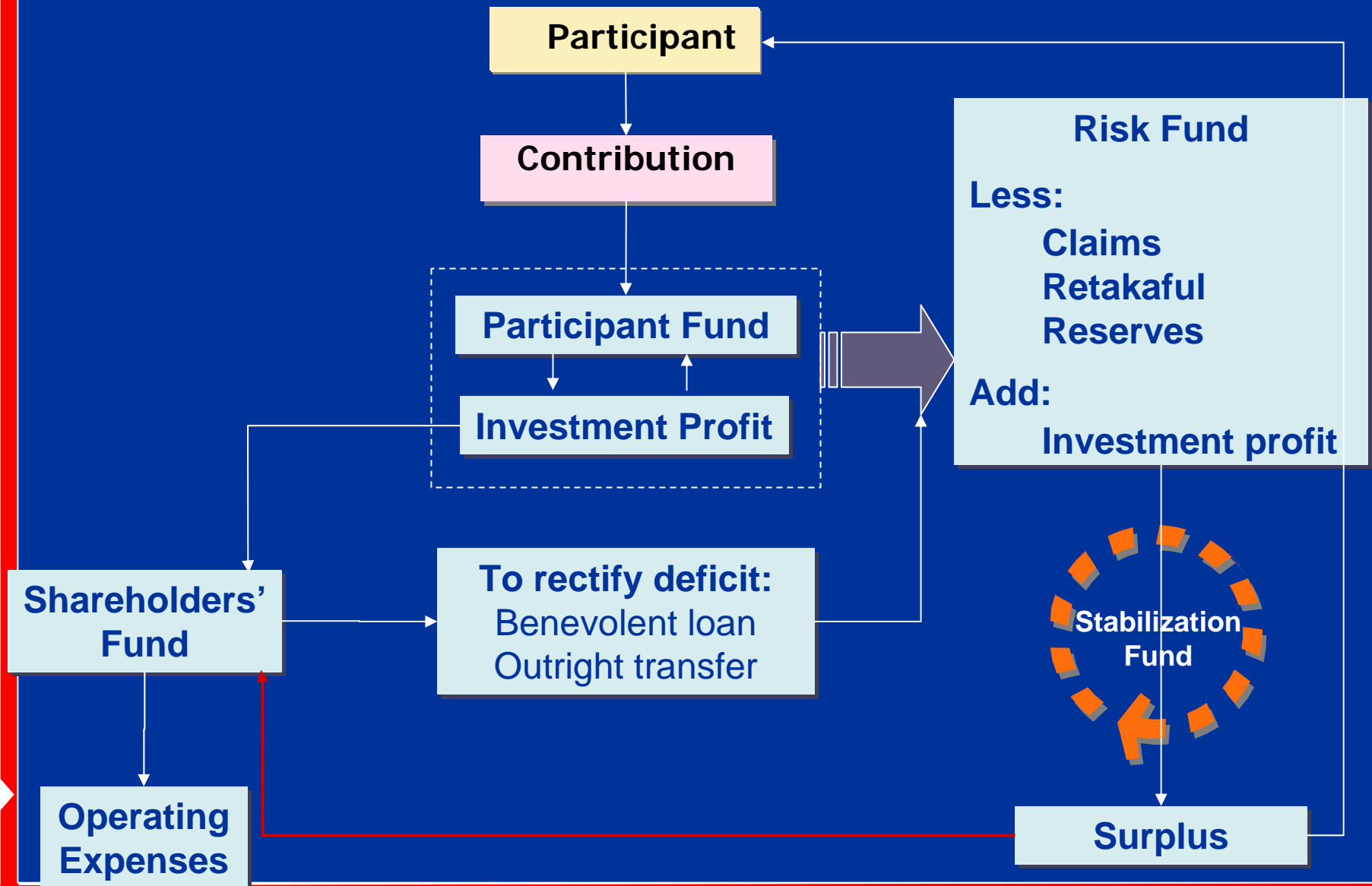
Distribution of Profit & Loss

- The parties must agree, right at the beginning, on a definite proportion of the actual profit to which each one of them is entitled.
- However in case the parties have entered into Mudaraba without mentioning the exact proportions of the profit, it will be presumed that they will share the profit in equal ratios.
- Mudarib may be provided with incentives.
- Apart from the agreed proportion of the profit, the *Mudarib* cannot claim any periodical salary or a fee or remuneration for the work done by him for the *Mudaraba*.

Termination of Mudaraba

- Mudaraba can be terminated any time by either of the two parties by giving notice.
- If Mudaraba was for a particular term, it will terminate at the end of the term.
- Termination of Mudaraba means that the Mudarib cannot purchase new goods for the Mudaraba. However, he may sell the existing goods that were purchased before termination if that was part of his mandate.

Mudaraba Model



Fairness of Takaful system for all Stakeholders

- Balanced return: customers, shareholders and staff.
- Balanced provision for expenses, claims and return on capital
- Surplus Sharing

Surplus Sharing

Surplus emerges through a combination of factors:

- Price and volumes
- Quality of underwriting risk management
- Expenses ratio control
- Claims experience
- Investment returns
- Durability of business

Conclusion

- Takaful models must ensure uniqueness of takaful system.
- Easily understood by customers.
- How much of conventional system is understood by the customers?