

RETAKAFUL: INSURANCE FOR INSURERS

BY: FIKRU TSEGAYE WORDOFA

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## BRIEF PROFILE : FIKRU TSEGAYE WORDOFA

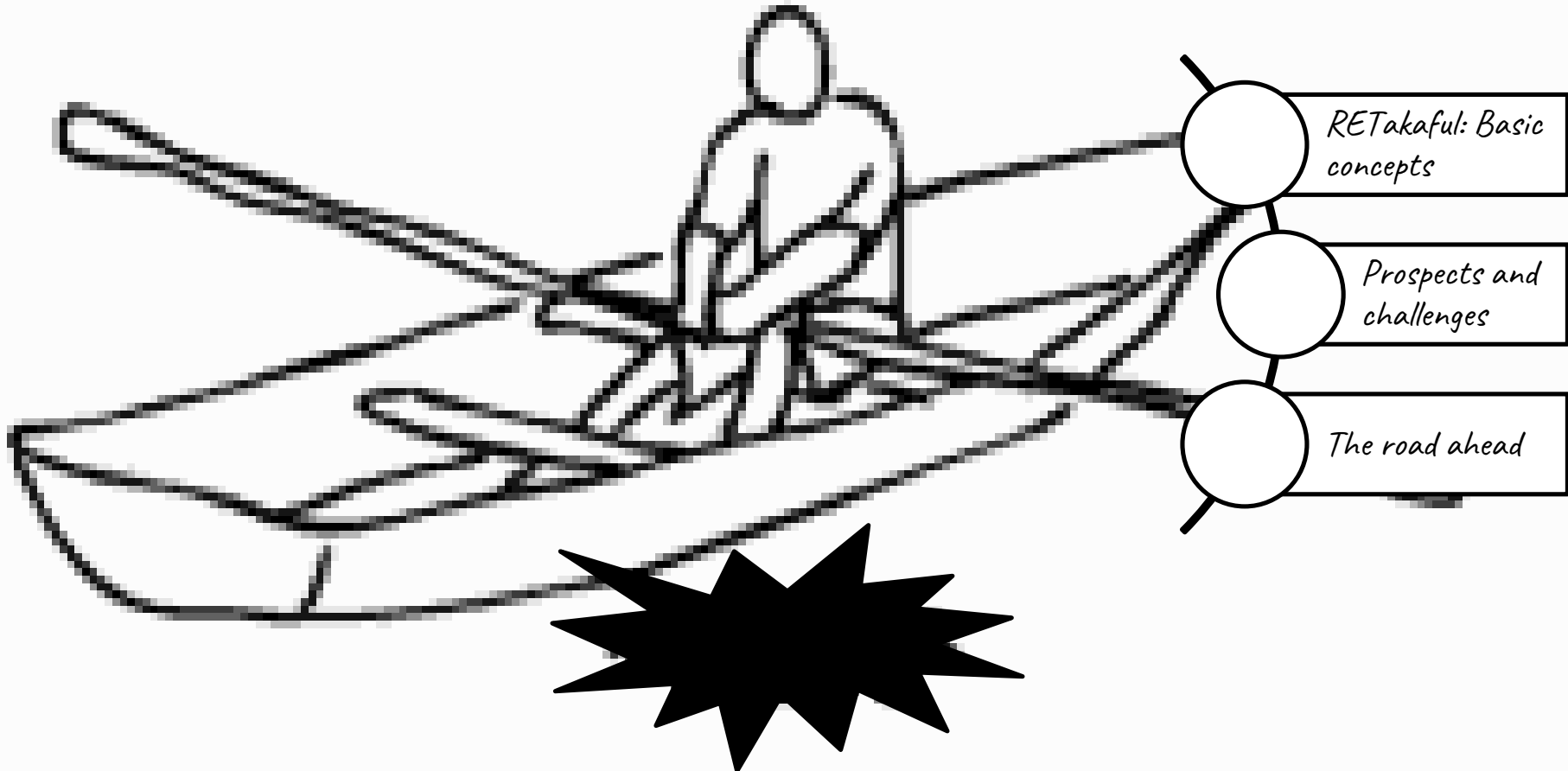
*Fikru Tsegaye Wordofa  
(Author)*

- *(CTP, ARA, ACS, FLMI, ALMI, Exec-IB&F, Cert- CII, MBA, MA (J&C), MA (HROD), MBA (IB&F), BA, BSC)*
- *19+years of experience: Executive Officer (EO) Strategy &BD, Company secretary-Ethio-Re*



- *Winner of AIO Book Award-2023 (Algeirs)*

# Outline



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# Basic Concepts



# TAKAFUL (ISLAMIC INSURANCE): DIFFERENT NAMES: SAME CONCEPT) 5

- ✓ Takaful Insurance
- ✓ Islamic insurance,
- ✓ Halal insurance,
- ✓ Ethical insurance,
- ✓ Islamic mutual insurance,
- ✓ Islamic-alternative Insurance



- ✓ Sharia compliant Insurance,
- ✓ Riba free Insurance
- ✓ Co-operative insurance and
- ✓ Community insurance.

# MEANING OF RETAKAFUL

- *“REtakaful”* is the Sharia Compliant brand name for the Islamic alternative to conventional Reinsurance.



*“Help one another in virtue, righteousness, and piety”.*

*5:2 The Holy Qur'an*

## DEFINING ELEMENTS:



□ *Retakaful* is where one party (the *takaful* operator) cedes a proportion of its risks on either *Treaty Retakaful* basis or *Facultative Retakaful* basis to another party (*Retakaful Operator*) for a proportion of *contribution* in the form of *tabarru* into a common fund in-exchange for cover against a specified loss or damage.

□ *Retakaful* is a "*Takaful for Takaful operators*". It is a way for a primary insurer to protect against unforeseen or extraordinary losses.





- ✓ *Retakaful has a big role to play in the success of any retail takaful market and is indeed an important component in the supply and value chain of Islamic finance*
- ✓ *In global Islamic finance, Retakaful is relatively young.*
- ✓ *The concept is still in the experimental stage, with issues being tackled by individual operators and cohesive industrywide efforts still not apparent.*





- ✓ This is evident in Retakaful operations, which often come in the form of a **“window”** or a **dedicated division within a conventional reinsurance company, a branch,**
- ✓ or **a stand-alone subsidiary or entity.**



## MAIN OBJECTIVES - RETAKAFUL

The main objectives of Retakaful, among others, are three.

- ✓ The first objective is to safeguard the operators against the possibility of insolvency and to engage the operators in shariah-compliant investment.
- ✓ The second objective is to provide adaptable underwriting practices for the operators and
- ✓ the last objective, is to prohibit interest in the reserves of the Retakaful fund.

## RETAKAFUL :

- It has to be understood that like takaful, *Retakaful is also a risk-sharing mechanism. In Retakaful, the participants are the various takaful operators who seek to share their takaful risks.*



## RETAKAFUL : DEMAND DRIVERS

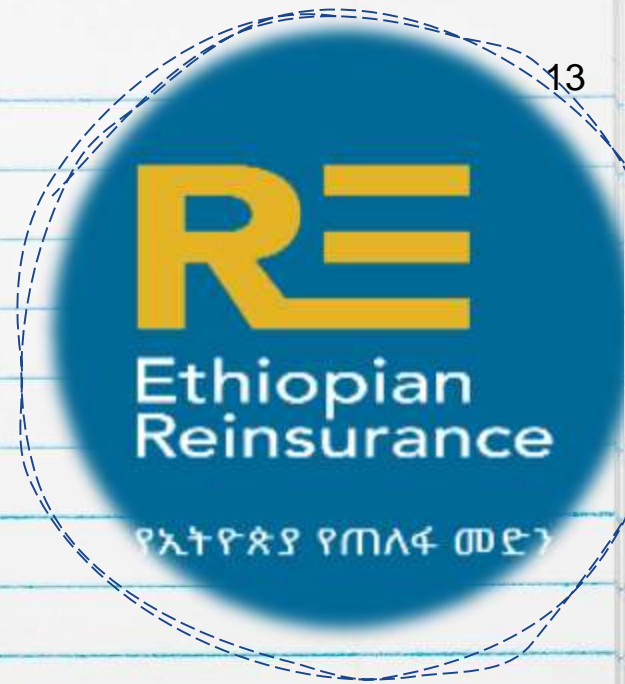
*The demand for Retakaful is motivated by*

- ✓ *the need for portfolio diversification,*
- ✓ *mitigation of investment risks, and*
- ✓ *capital strengthening for regulatory purposes.*



## RETAKAFUL : PURPOSE

- ✓ *The primary purpose of Retakaful is to reduce insolvency risk and engage the operators in a Shariah-compliant investment.*
- ✓ *In addition, Retakaful also provides flexible underwriting practices for the operators and prohibits the earning of interest in Retakaful fund reserves.*



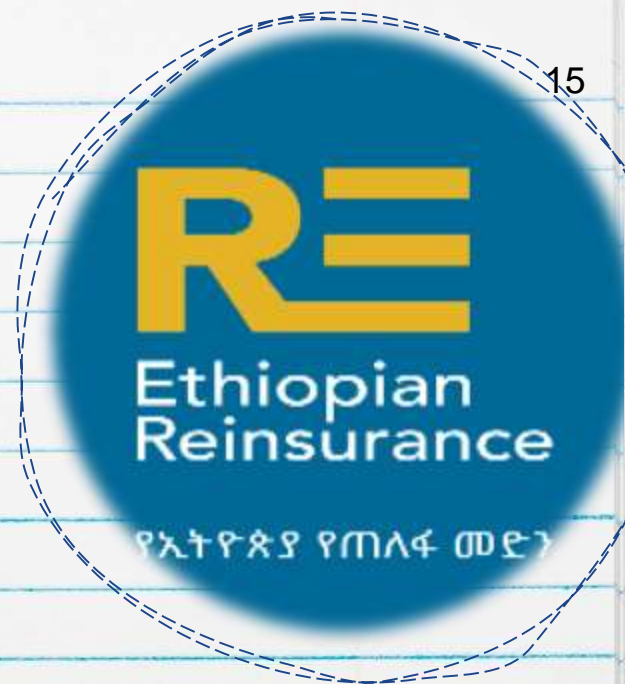
## SIMPLY PUT:

- ✓ In a world of risk, losses for insurance companies may be so high that even the combined capital and reserves of the company are not sufficient to cover them. That is why reinsurance companies were created.
- ✓ By the same mode, Re-Takāful operations are essential for Takāful companies conducting insurance operations per Islamic conventions, as reinsurance is necessary for the survival of insurance companies in the event of unforeseen losses.



## CHALLENGES:

- ✓ *In the absence of Retakaful operators, takaful operators used to rely on conventional reinsurers to meet market demand.*
- ✓ *This practice is still acceptable based on claims of compelling circumstances such as necessity (darurah) and urgent need (hajah).*
- ✓ *However, in response to the growing need, there is a strong need for retakāful operators that work in line with Islamic principles.*



## RETAKAFUL IS SHARIA BASED:

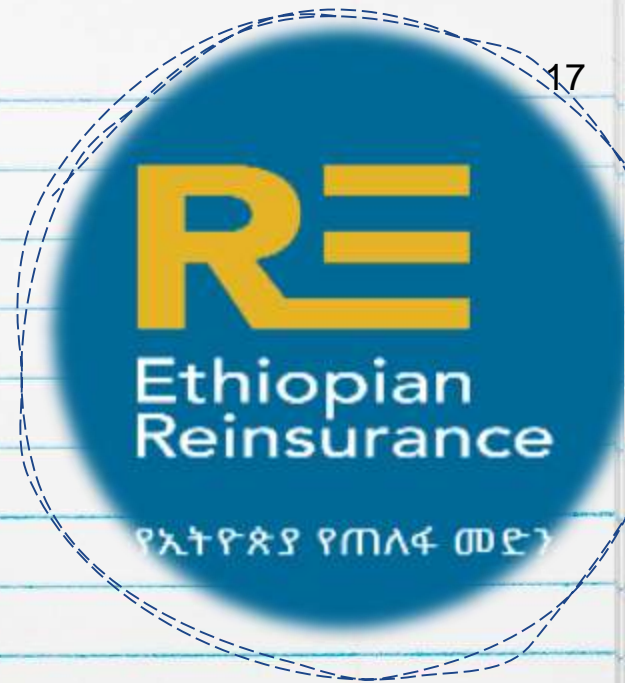
- ✓ *Elements of sharia compliance are the main factors differentiating between a Retakaful and a conventional reinsurance operation because sharia advocacy should remain paramount among industry stakeholders ahead of commercial returns.*





## THE ACCOUNTING AND AUDITING ORGANIZATION FOR ISLAMIC FINANCIAL INSTITUTIONS (AAOIFI)

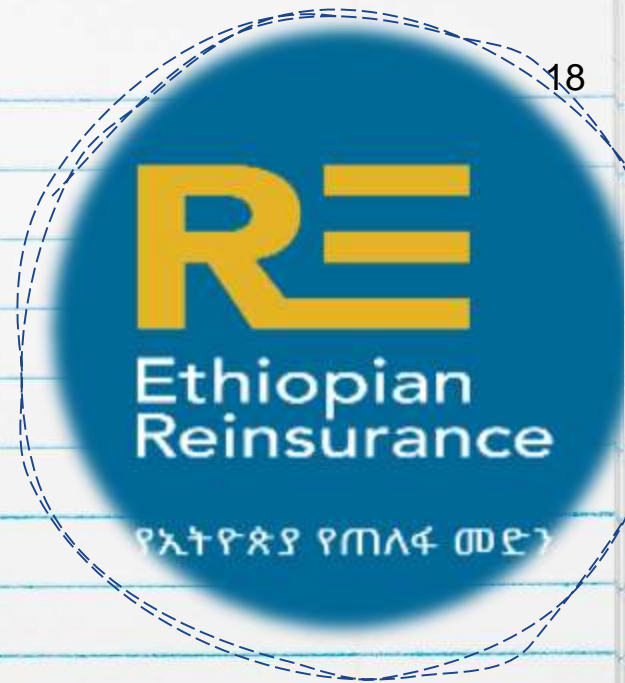
- defines *Retakaful* as “a **contractual arrangement** under which the **reinsurer** will be liable for part or all of the **risks that the insurer has insured**. The insured legal right will not be affected by the reinsurance arrangement and the insurer is liable to the insured for paying claims as per the insurance policy terms and conditions.”



## BENEFITS TO TOS

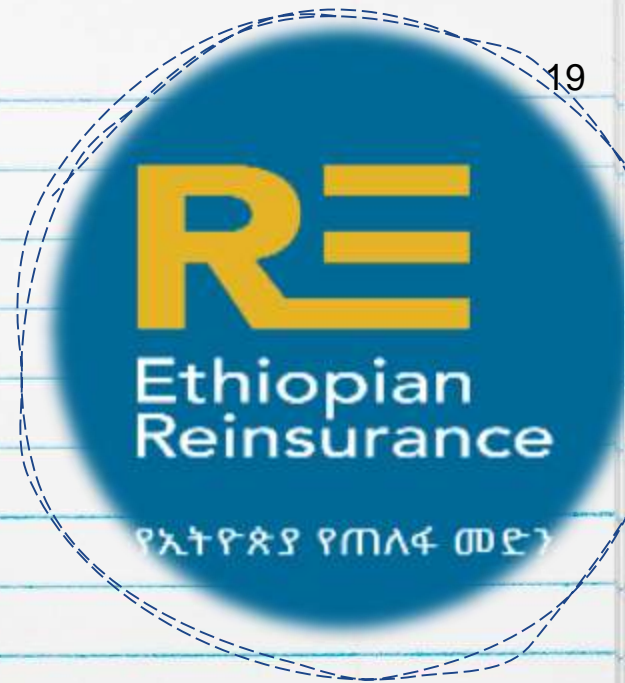
- *Retakaful operators (RTOs) manage the TFs on behalf of their respective participants. The mechanism of Retakaful would benefit TOS in the form of:*

- ✓ *risk spreading;*
- ✓ *capacity boosting;*
- ✓ *financial stability; and*
- ✓ *protection against catastrophic losses.*



✓ The party that cedes the risks i.e. the cedant is Takaful Operator and the party that underwrites and offers capacity for the ceded risks is called the Retakaful Operator. The relationship between the two parties is governed by a Retakaful Contract.

- There are two categories of retakāful these are:
  - General Retakaful; and
  - Family Retakaful.



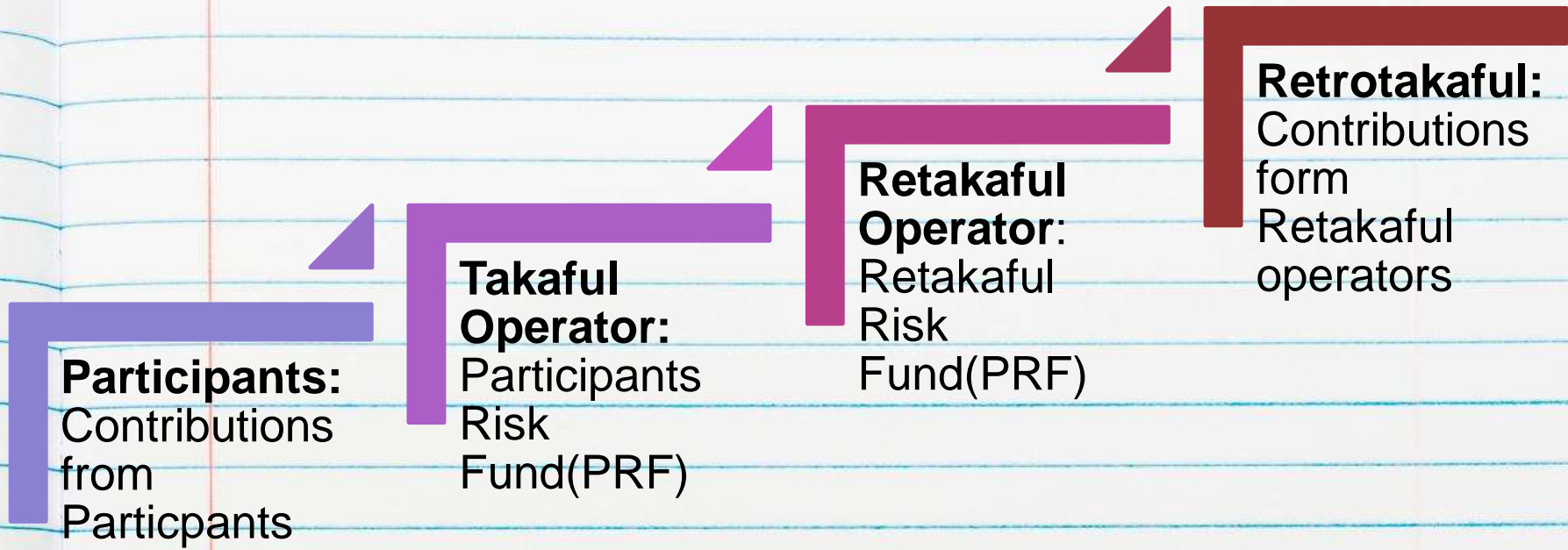


illustration of the flow of risk between various parties, from Takāful participants to Retrotakāful.

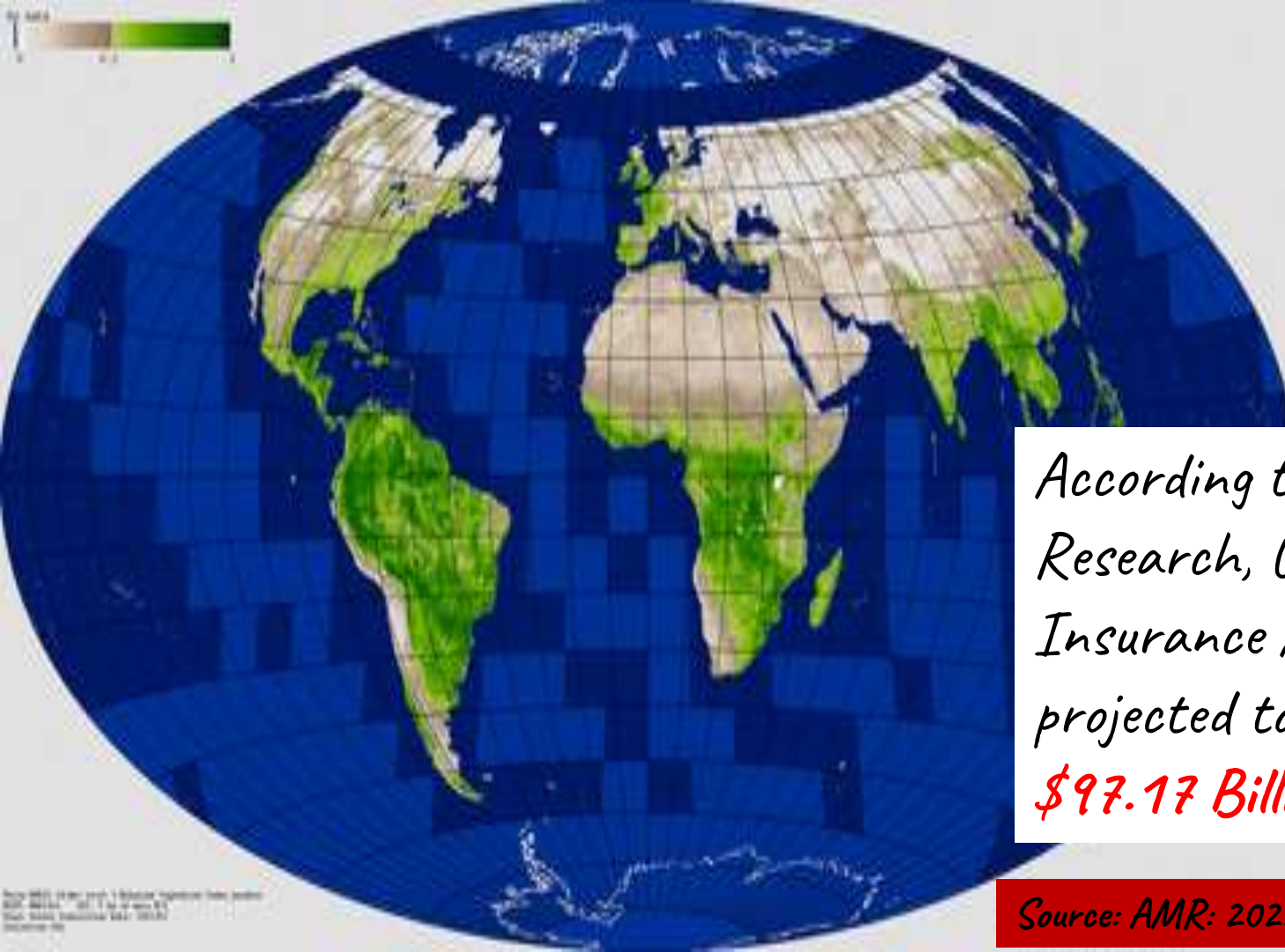
*RETAKAFUL:  
Market  
Developments*



# GLOBAL TAKAFUL MARKET DEVELOPMENT



- *The Global Takaful Insurance Market is valued at approximately USD 33.6 billion in 2023 and is anticipated to grow with a healthy growth rate of more than 14.6 % over the forecast period 2022-2028*



According to Allied Market Research, Global Takaful Insurance Market is projected to **Generate \$97.17 Billion by 2030.**



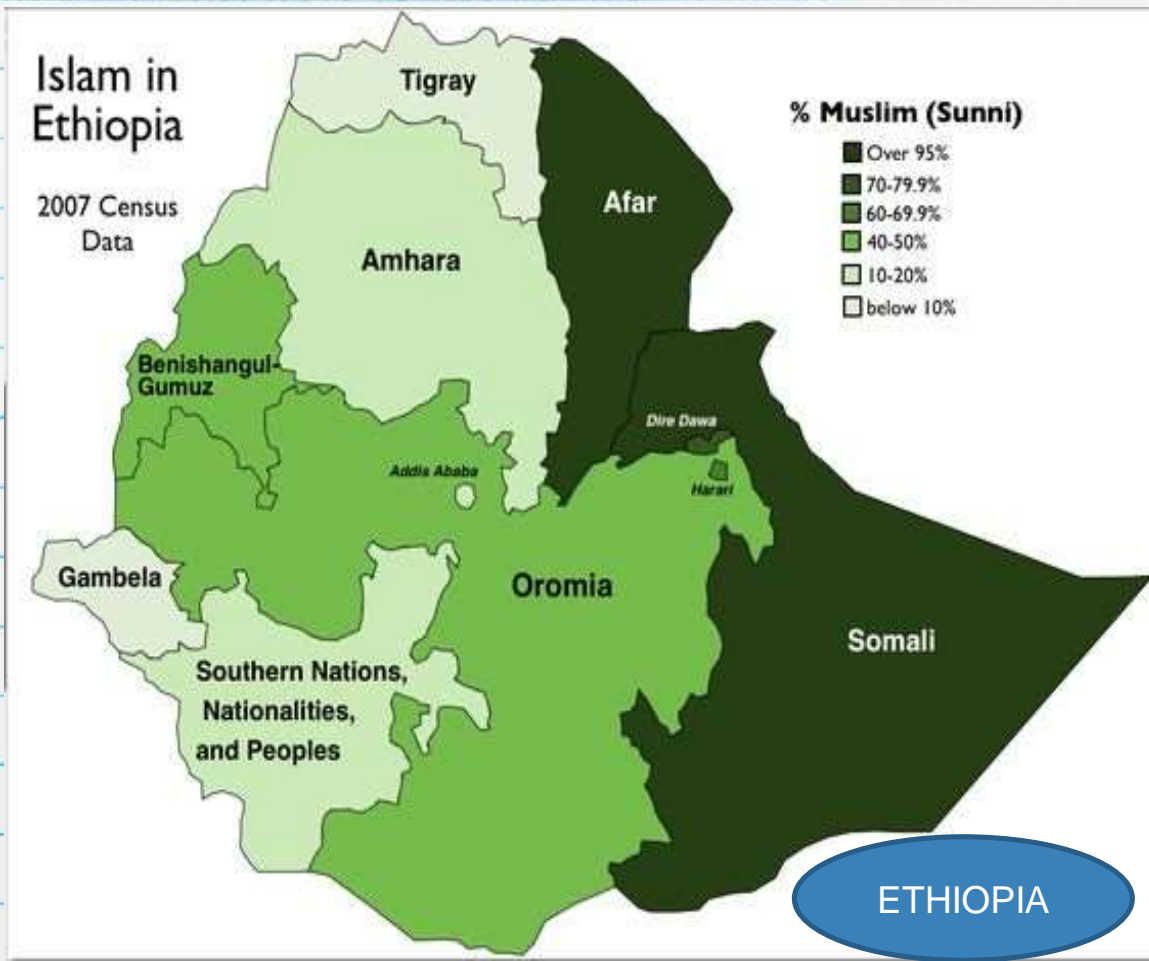
## GROWTH: MORE THAN CONVENTIONAL

- ❑ witnessing a *CAGR* of 14.6% from 2021 to 2030.
- ❑ It was also projected that the Family Takaful segment will register the highest *CAGR* of 16.3% during the period 2021-2030.
- ❑ Expected to reach *US\$ 74.0* Billion by 2032, exhibiting a growth rate (*CAGR*) of 8.9% during 2024-2032.



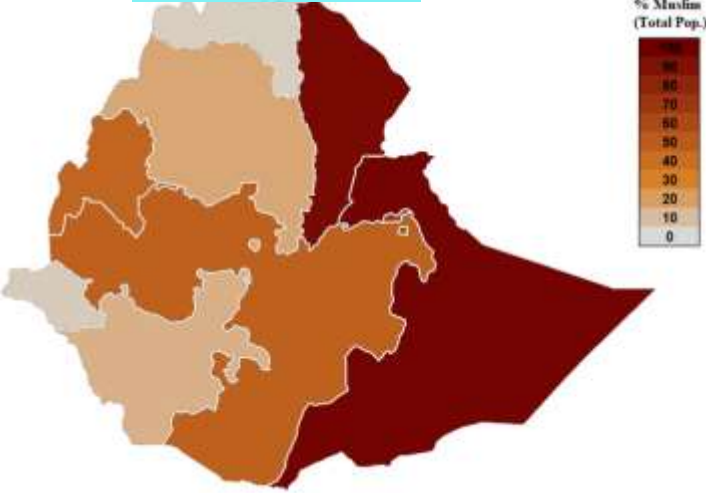
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*ETHIOPIA:  
EPITOME OF  
ISLAM  
RELEGION*





## LARGE POPULATION: POTENTIAL MARKET



Islam is the second-largest religion in Ethiopia and the total population is estimated at around 123.5 million as of 2022.

Islam is the second most followed religion, with 33.9% of the population being adherents. Ethiopian Orthodox 43.8%, Muslim 31.3%, Protestant 22.8%, Catholic 0.7%, traditional 0.6%, other 0.8% (2016 est.).

Unfortunately, the last national census was conducted in the year 2007. Hence, as per the Central Statistical Authority (CSA) governmental data, Muslims are 33.9% of the population, up from 32.8% in 1994 (according to the census data of that year).

Before the publication of the 2007 census results, however, the U.S. State Department estimated that "approximately 45 percent of the population is Sunni Muslim."

Source: Ethiopian Population estimates: 2022

33.9%

45%

# MUSLIM POPULATION: ETHIOPIA

Muslim population in zones in Ethiopia by percentages



50-56%

60-70  
Million

☐ Islam is most prevalent in the Somali (98.4%), Afar (95.3%), and Oromia (47.5%) Regions.

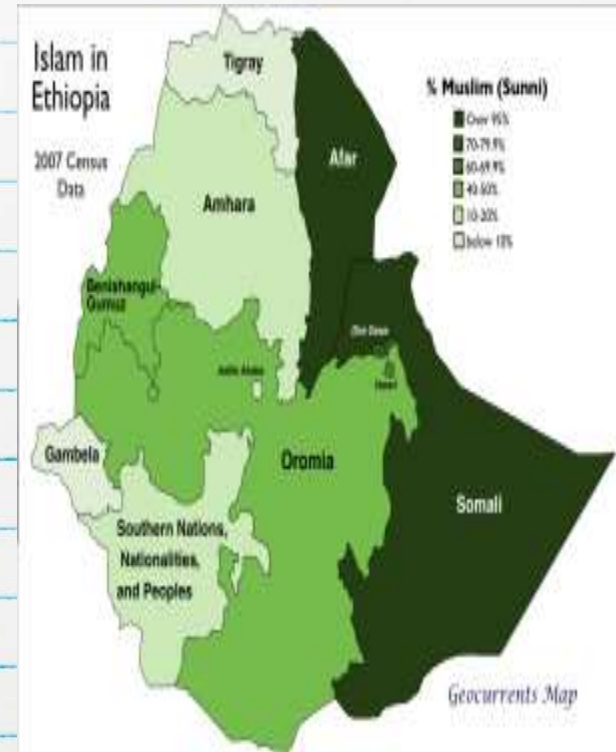
☐ Other sources and a country study claimed that Islam made up 50% of the total population

☐ “According to various sources, the number of muslim population in Ethiopia ranges from a minimum of 31% to a maximum of 56%.

☐ When computations are made out of the current population in 2022. i.e. 126 million, the number of muslims ranges approximately between 38.2 to 70.6 million”

# Demographic

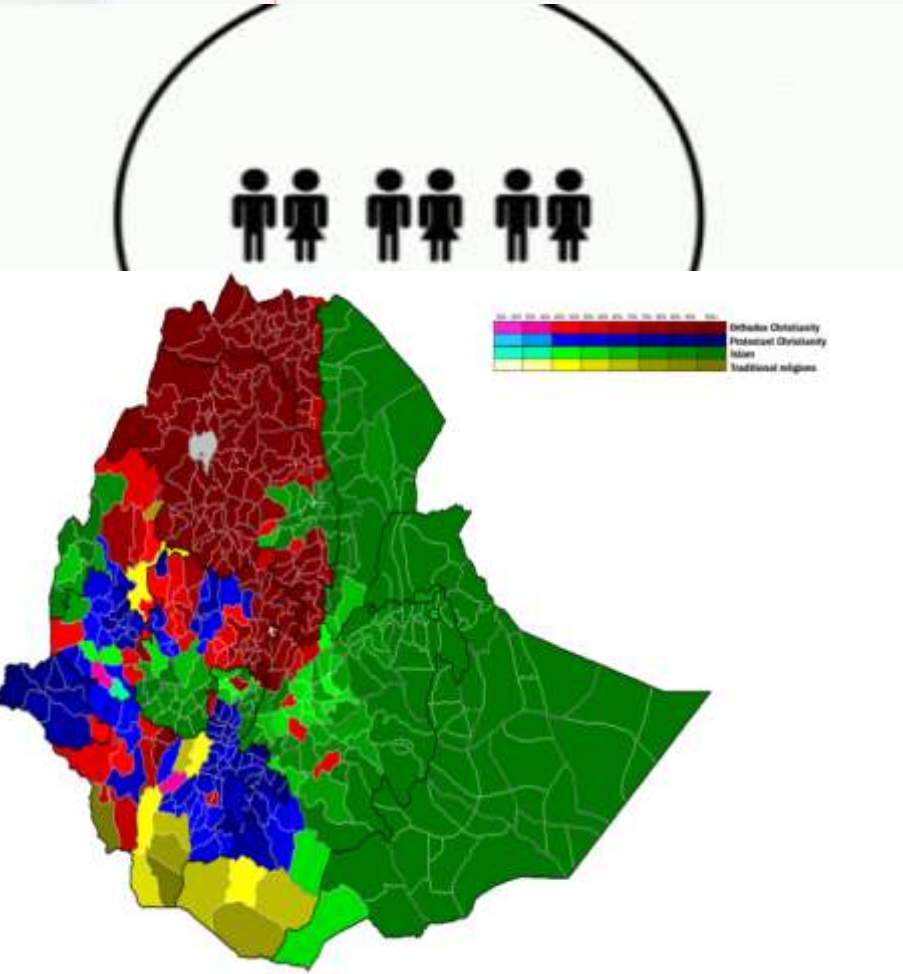
- ✓ It is important, however, to put the significance of Ethiopia's Muslim population in perspective.
- ✓ Estimates put the total number of Muslims in Ethiopia more than the number of Muslims in Saudi Arabia, Syria or Yemen and almost as many as in Sudan.
- ✓ All these provide potentials to broaden Islamic finance in general and insurance coverage using takaful, in particular.



# MUSLIM POPULATION: ETHIOPIA

- Ethiopia is currently one of the fastest growing countries in the world, with a growth rate of 3.02% per year.
- If Ethiopia follows its current rate of growth, its population will double in the next 30 years, hitting 210 million by 2060.

210 million  
by 2060



# The Chronology of Events of the Takaful Industry in Ethiopia.

2008

- NBE indicated Islamic finance on the banking proclamation of 2008

2011

- (NBE) has issued a directive in September 2011 allowing the provision of interest free banking services through dedicated windows in branches of conventional banks. During this period interest free banking services has only contain less than 1% of the banking portfolio in Ethiopia.

2018

- Efforts to create a more hospitable climate for “Islamic financial Services” have been renewed since Prime Minister Abiy Ahmed came to power in April 2018.

2019

- NBE, has allowed fully Islamic law-compliant financial institutions, late June 2019.

2020

- The National Bank of Ethiopia's Directive No.STB/1/2020, a Directive to license a takaful operator or a takaful window operator, - effective 15<sup>th</sup> day of June 2020

2022

- Four Insurers in Ethiopia are providing Takaful Insurance.

*The long journey towards Islamic financial services*



# PROMISES

*Characterizing the  
Ethiopian Insurance  
Industry*



# SHARE OF GWP: AFRICA VS. WORLD

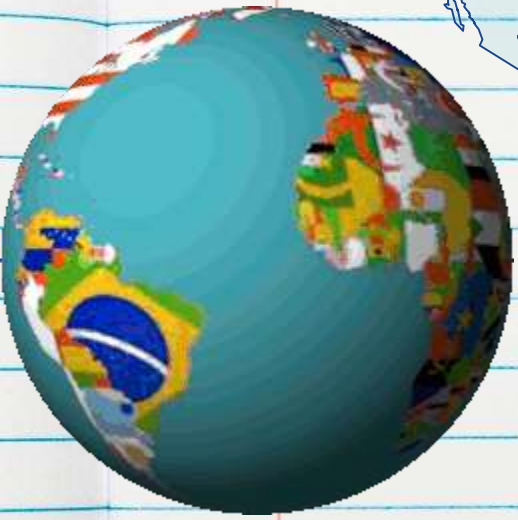
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- 1% OF INSURANCE
- 2% OF REINSURANCE
- global insurance premiums are poised to surpass USD 7 trillion for the very first time in 2022 on the back of 6.1% growth
- "Despite having close to 16% of the global population, the current insurance penetration in Africa is about 3.5%."
- 1.4 BILLION :POP

Swiss Re Institute's latest world insurance sigma report, 2022



# WHERE ARE WE?





ERTALE: ACTIVE VOLCANO IN ETHIOPIA



Population -126 million people

Number of insurers- 18-(7 specialists(non life), 11 composite- 3 under formation

Total GWP reached Birr 22.8 billion(407 million USD)

Insurance density-2.75 USD

Insurance penetration -0.43%

Share of life(long term insurance) - 8% app

Total asset has reached birr 41 billion

Regulation: Licensing of foreign insurers: not allowed-closed door

Ins

Reinsurers- 1 and 2 local reps

S.N	Items	Amount
1	Number of Employees	7,909
2	Number of Branches	690
3	Number of Sales Agents	2,504
4	Number of Brokers	62
5	Loss Assessors	107
6	Number of Insurance Surveyors	3
7	Banks	30
7.1	state owned	2
7.2	private	28
8	MFIs	43.00
9	Growth rate	25%

## MARKET PLAYERS

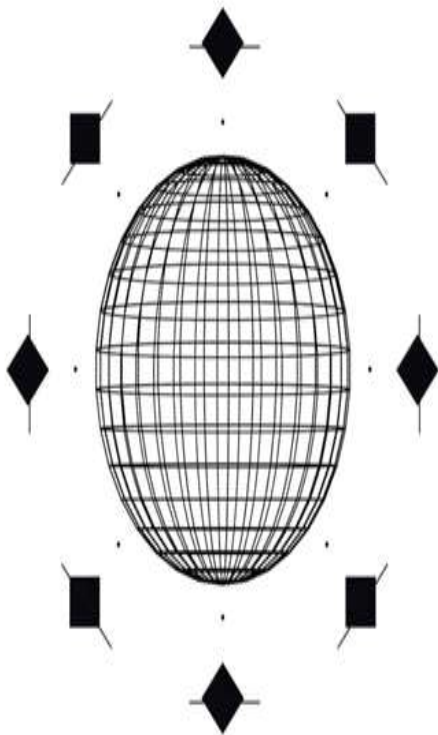


## Ethiopian Reinsurance SC

## Gross Premium and Market Share Overall Business of the EI

Gross Premium and Market Share Overall Business of the EI										
SN	Insurance Companies	(In Million Birr)								
		2022/23			2021/22			Growth		Remark
		Gross Written Premium	Market Share (In %)	Rank	Gross Written Premium	Market Share (In %)	Rank	(In Birr)	(In %)	
1	Abay	678.3	3.0	12	425	2.6	12	253.3	59.6	
2	Africa	1,071.80	4.7	8	583.5	3.5	9	488.3	83.7	
3	Anbessa	869	3.8	11	476	2.9	10	393	82.6	
4	Awash	2,391.40	10.5	2	1,758.00	10.6	2	633.4	36.0	including Takaful Birr 40.0 million for 2022/23
5	Berhan	410.4	1.8	15	242	1.5	15	168.4	69.6	
6	Bunna	925	4.0	9	473.2	2.9	11	451.8	95.5	
7	EIC	6,901.50	30.2	1	6,545.00	39.5	1	356.5	5.4	
8	Ethio-life	531	2.3	13	351	2.1	14	180	51.3	
9	Global	347.6	1.5	16	162	1	17	185.6	114.6	including Takaful Birr 56.6 million for 2022/23
10	Lucy	285.2	1.2	18	213	1.3	16	72.2	33.9	
11	NIB	1,104.60	4.8	6	709.7	4.3	7	394.9	55.6	
13	NICE	526.7	2.3	14	410	2.5	13	116.7	28.5	
14	Nile	1,092.80	4.8	7	783.8	4.7	6	309	39.4	including Takaful Birr 10.4 million for 2022/23
12	Nyala	1337	5.8	5	892	5.4	5	445	49.9	
15	Oromiya	1,600.00	7.0	3	939	5.7	3	661	70.4	including Takaful Birr 26.0 million & Agriculture Birr 40.0 million for 2022/23
16	United	1,555.00	6.8	4	930	5.6	4	625	67.2	
17	Tsehay	923.5	4.0	10	585	3.5	8	338.5	57.9	
18	Zemen	327.5	1.4	17	77	0.5	18	250.5	325.3	
Total		22,878.30	100		16,555.20	100		4,846.80	29.3	

# TAKAFUL OPERATORS: ETHIOPIA

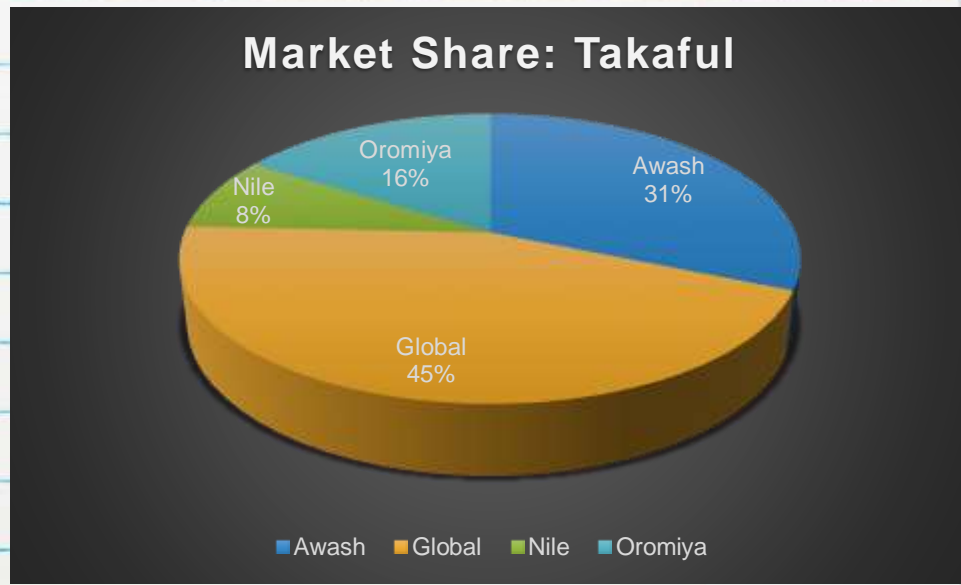


SN	Name of takaful operators	Date of license	Takaful Brand	Class of takaful insurance
1	Global Insurance Co.(S.C) (GIC)	2020	Ahli Takaful	General takaful
2	Awash Insurance Company S.C. (AIC)	2021	Salaam Takaful	General takaful
3	Nile Insurance SC	2022	Aman Takaful	General takaful
4	Oromia Insurance SC	2022	Halal Takaful	General takaful

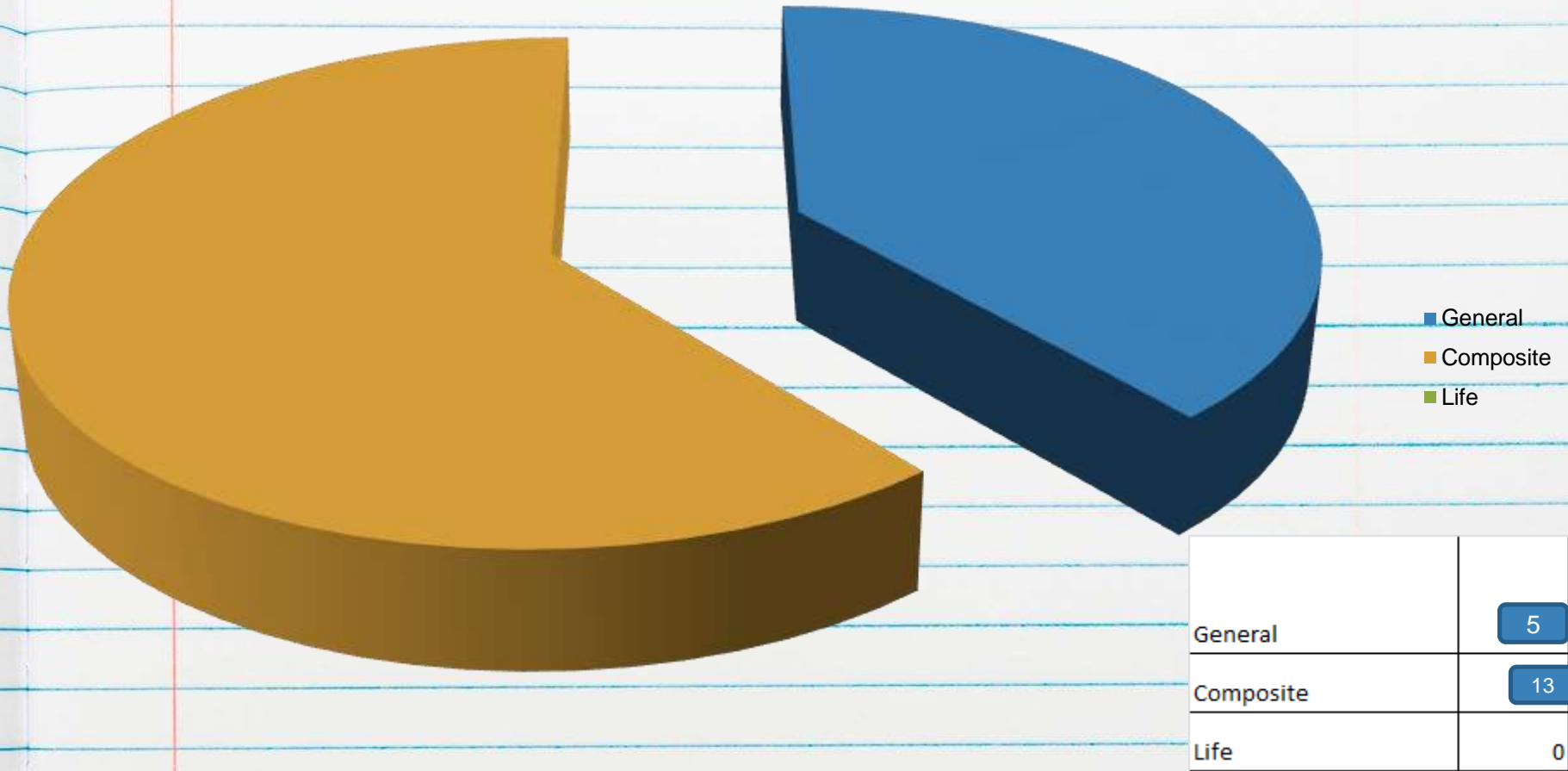
# TAKAFUL MARKET: ETHIOPIA: 2023

0.56%

Gross Premium and Market Share Overall Business and takaful					
(In Million Birr) TAKAFUL					
		Total GWP	RANK	GWP	%GE SHARE
4	Awash	2,391.40	240		31.3
9	Global	347.6	16	56.6	44.4
14	Nile	1,092.80	7	10.4	8.2
15	Oromiya	1,600.00	3	20.6	16.1
Total		5,431.80		127.6	100.0



# ETHIOPIA



# Operators shall have .

## *DARURAH*

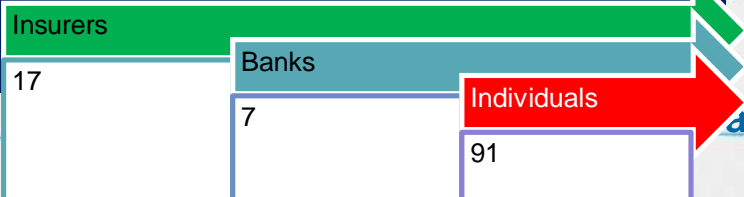
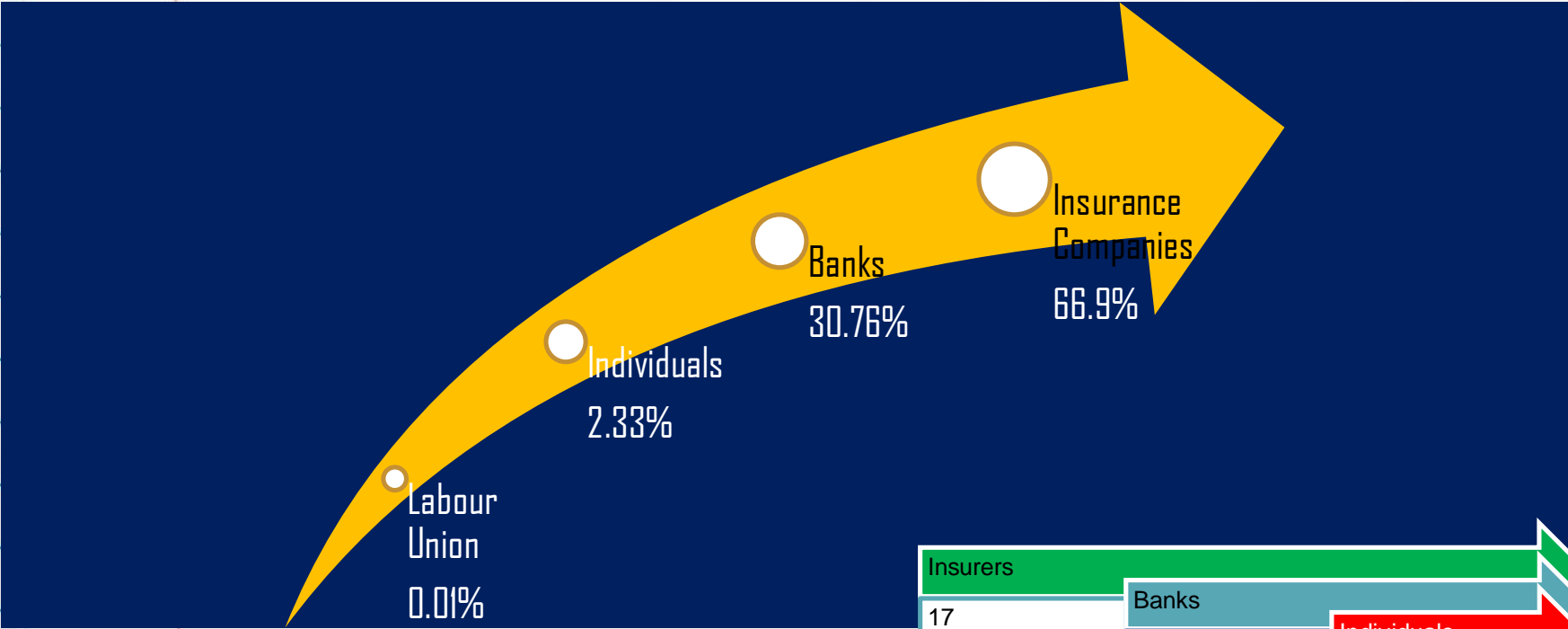
USING CONVENTIONAL RE-INSURANCE IS FORBIDDEN TO TAKAFUL FUNDS, AS ALL TRANSACTIONS MUST BE SHARIA COMPLIANT. HOWEVER, THE WORLDWIDE SHORTAGE OF RE-TAKAFUL CAPACITY HAS FORCED SOME SCHOLARS OF ISLAMIC JURISPRUDENCE TO PERMIT THIS UNDER THE CONCEPT OF *DARURAH*, WHICH ALLOWS EXCEPTIONS TO SHARIA IN CASES OF UNAVOIDABLE NECESSITY. THIS IS SIGNIFICANT AS IT COULD ALSO APPLY TO OTHER SITUATIONS, FOR EXAMPLE REGULATORY REQUIREMENTS THAT CONTRADICT SHARIA.







# Shareholdings





## Capital structure

- ❖ The legal minimum paid up capital to establish a reinsurance company in Ethiopia is Birr 500,000,000 (Birr Five Hundred Million).
- ❖ The subscribed capital of Ethiopian Re is Birr 2.5 billion million (50 million USD) which by any standard is huge for a company just started operation.

## OUR TARGET MARKET



- ✓ *Ethio Re strives to secure business from domestic and international markets.*
- ✓ *In the short term however it primarily focuses on building strong market base in Ethiopia and Sub Saharan Africa although Ethiopia will remain the major source of the Company's business in the foreseeable future.*
- ✓ *However, the Company has a well thought plan to expand its reach to international markets with special focus on accepting business from African, Middle East and Asian markets on selective basis.*

# OUR CREDIT RATING-2022/23

- *Our Plan-2024*



## OUR GLOBAL PRESENCE: MEMBERSHIPS AND ASSOCIATIONS



- ✓ *Currently, Ethio- Re is a member of the various continental and local institutions. In this regard, it is an institutional member of African Insurance Organization (AIO), Federation of Afro-Asian Insurers and Reinsurers (FAIR), Organization of Eastern and Southern Africa Insurance (OESAI) and Association of Ethiopian Insurers (AET).*

# PRODUCTS AND REINSURANCE SOLUTIONS



*Ethio Re provides all life and non-life reinsurance covers except energy, oil and gas.*

- Fire and engineering;*
- Accident and motor;*
- Marine and aviation;*
- Life and health;*
- Non demand bonds;*
- Liability;*
- Agriculture and Political Violence and Terrorism (PVT);*
- Re-Takaful; and*
- Others*

# OUR UNDERWRITING CAPACITY



	Capacity in ETB	Capacity in USD
<b>Fire and Engineering</b>	2,320,000,000.00	42,200,000.00
<b>Marine Hull &amp; Cargo</b>	600,000,000.00	11,000,000.00
<b>Bond</b>	250,000,000.00	4,600,000.00
<b>PVT</b>	250,000,000.00	4,600,000.00
<b>Casualty</b>	150,000,000.00	2,700,000.00
<b>Motor</b>	40,000,000.00	730,000.00
<b>Aviation-Small Aircrafts</b>	82,500,000.00	1,500,000.00

*Challenges faced by  
the retakaful  
Industry*





## Challenges that are inhibiting the uptake

Limited Capacity and limited number of sharia-based reinsurers

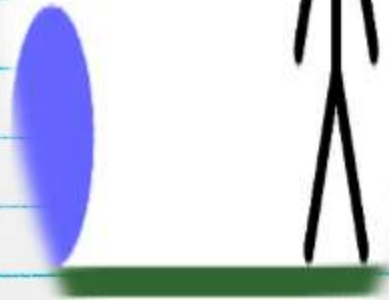
Limited sharia compliant investment options

Regulatory challenges

Limited skill and knowledge of professionals working in the industry

## Regulatory concerns

- ✓ Gaps in the regulatory front:
- ✓ Comprehensive directives
- ✓ Experience of regulators on retakaful
- ✓ Trained manpower – scarcity of human resources



# THE ROAD AHEAD



# The future of takaful and Retakaful- Requires the concerted effort of all

- ✓ Exploit the untapped potential
- ✓ **Regulators**- Create enabling regulatory environment
- ✓ **Policy makers**- The potential of islamic finance
- ✓ **Result**= alternative service, penetration, density, contribution of insurance to GDP, accessibility,....



*Narrow the gap*



✓ **Insurers**- Value adding products-Understand takaful aspects but lack knowledge of sharia principles and the real demand of the people  
come up with real solution

✓ **Religious scholars**- know the sharia principles but barely understand the principles of takaful

✓ **Together** avoid myths and biases

# TAKAFUL-RE

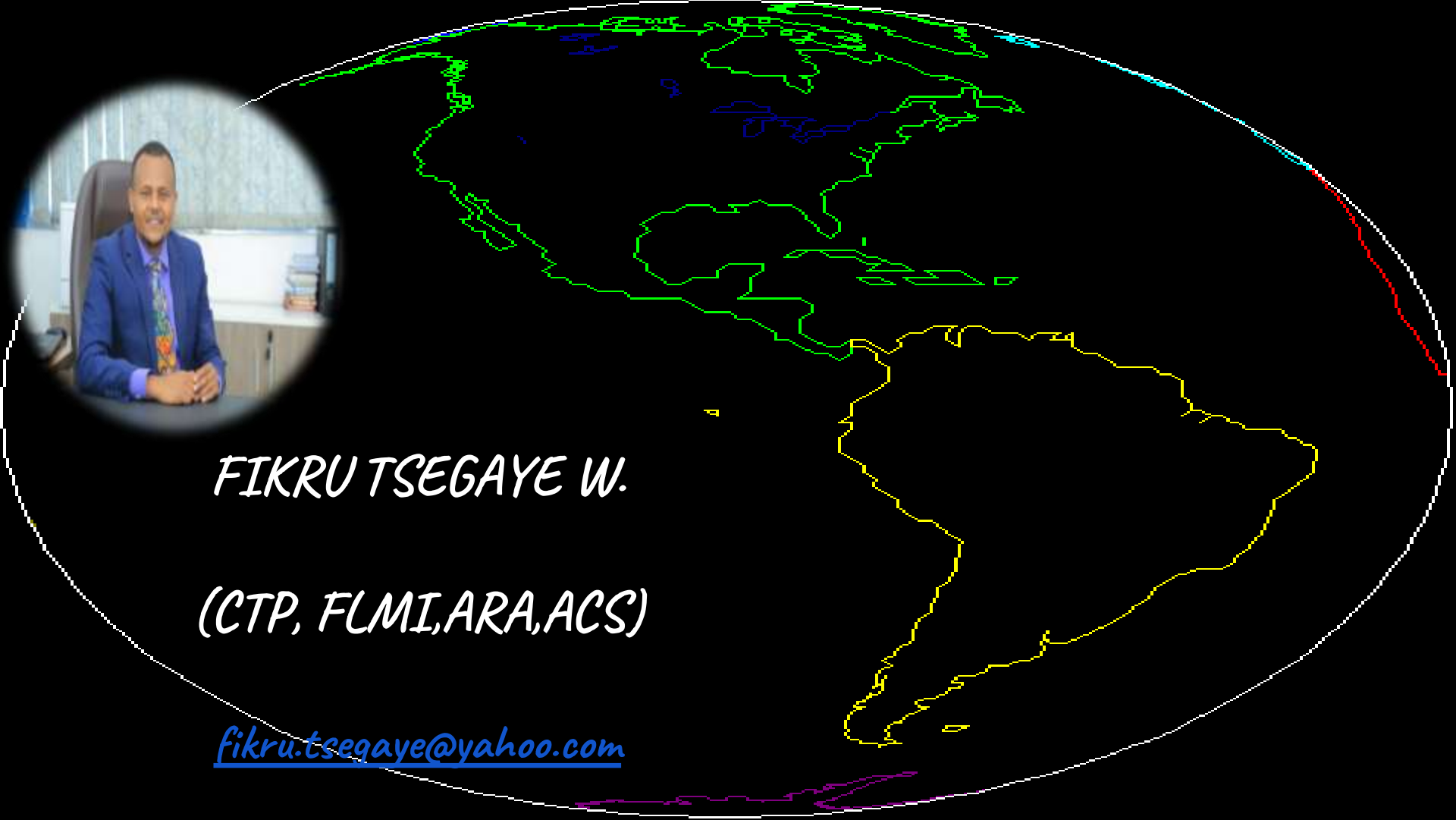
- ✓ Reinsurers should avail the necessary capacity
- ✓ i.e. the *existing reinsurers / new takaful reinsurance companies*
- ✓ There is an *opportunity for retakaful operators to assist the growth and expansion of takaful insurance.*
- ✓ *Regional – strong retakaful company for the horn of Africa by pooling resources*





### *Concerned stakeholders*

- ✓ *As always, my recommendation is intended to draw the attention of policy makers- design a clear and participatory policy and strategy addressing the insurance sector*
- ✓ *can be a panacea for addressing structural problems and even the odds of the industry that hampered its growth and development*



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