

Workshop on Takaful
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INCEIF
THE GLOBAL UNIVERSITY OF ISLAMIC FINANCE

The Takaful industry in the Maldives, with a focus on Ayady Takaful as a case study

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The Maldives

Geographical Overview:

1. The Maldives is a small island nation located in the Arabian Sea of the Indian Ocean.
2. It is an independent country consisting of 1,190 coral islands, forming an archipelago of 26 major atolls.
3. Geographically, the Maldives stretches over 820 kilometers from north to south and 130 kilometers from east to west.

Cultural and Economic Significance:

1. Islamic principles play a significant role in shaping the culture and economic practices of the Maldives.
2. The influence of Islam extends to various levels of society, impacting traditions, customs, and daily life.

Administrative Structure:

1. The country is administratively divided into 20 regions.
2. There are 200 inhabited islands within the Maldives.

Archipelagic Nature:

1. The Maldives' unique geography consists of numerous coral islands, contributing to its archipelagic nature.
2. The presence of major atolls defines the country's distinctive layout.

Muslim Majority:

The Maldives has a full Muslim majority, and Islamic principles are generally followed in various aspects of social, cultural, and economic activities.

Inhabited Islands:

1. Out of the total islands, 200 are inhabited, showcasing the distribution of the population across the archipelago.



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Geographic Dimensions:

- 1.The north-south span of the Maldives covers more than 820 kilometers.
- 2.The east-west stretch measures approximately 130 kilometers.

Independent Nation:

- 1.The Maldives is a sovereign and independent nation, with its own government and administrative structures.

Economic Activities:

- 1.Economic activities in the Maldives are influenced by its island geography, with sectors such as tourism, fishing, and maritime-related industries playing crucial roles.

Tourism and Natural Beauty:

- 1.The Maldives is renowned for its pristine beaches, coral reefs, and crystal-clear waters, making it a popular tourist destination.

Environmental Concerns:

- 1.As an island nation, the Maldives faces environmental challenges, including issues related to climate change and rising sea levels.

Coral Atolls:

- 1.The major atolls in the Maldives contribute to its unique and picturesque landscape, attracting attention from nature enthusiasts and travelers.

Cultural Harmony:

- 1.The cultural fabric of the Maldives is woven with Islamic traditions, creating a harmonious blend of religion and daily life.

History of Takaful industry in the Maldives

The first form of Islamic finance witnessed in the country is takaful

In 2003, Amana Takaful Maldives began its operation under a conventional license



In 2014, the largest local insurer, Allied Insurance Maldives began its takaful operation via establishment of its window, Ayady Takaful

For the first time, family takaful was launched in July 2016



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INVESTING LIFESTYLE NEWS JULY 11, 2016

Ayady Takaful launches Family Takaful package

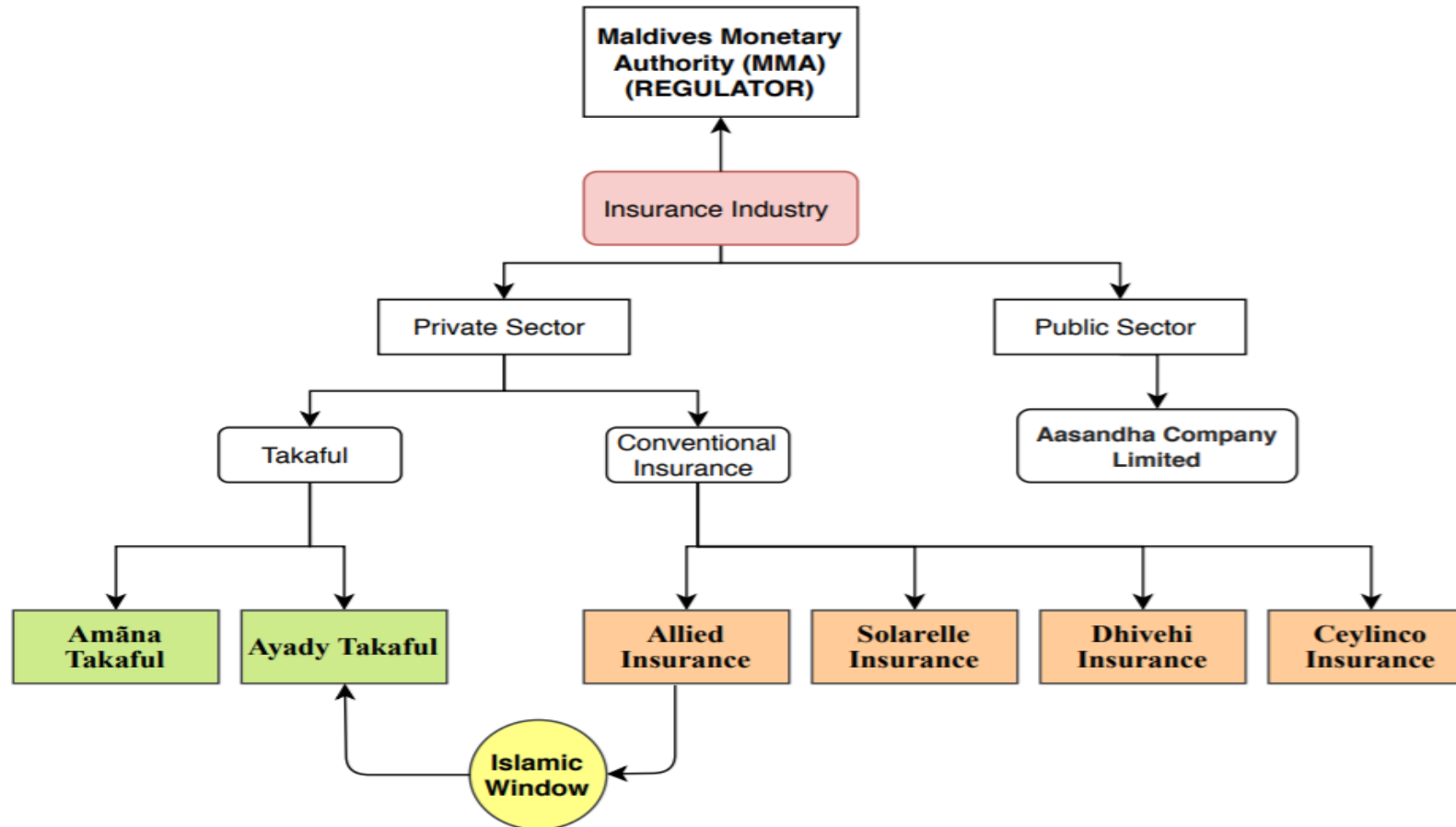
In a press conference held in Mookai Hotel, Allied Islamic window; Ayady Takaful introduces family Takafu Family Takaful is a package especially designed for families to ensure financial security and stability in the

In a press conference held in Mookai Hotel, Allied Islamic window; Ayady Takaful introduces family Takaful package. Family Takaful is a package especially designed for families to ensure financial security and stability in the long term.

Under slogan "Embrace life with Islamic values" this saving scheme consists of 3 Takaful plans, namely Child Education, Mortgage Takaful and Investment Takaful.

Speaking at the event, Chairperson of Islamic Shariah board Ms. Aishath Muneesa stated that today is a special occasion whereby the Maldivian community is offered a chance to experience shariah compliant family Takaful plans for the first time.

Takaful/Insurance Industry of the Maldives



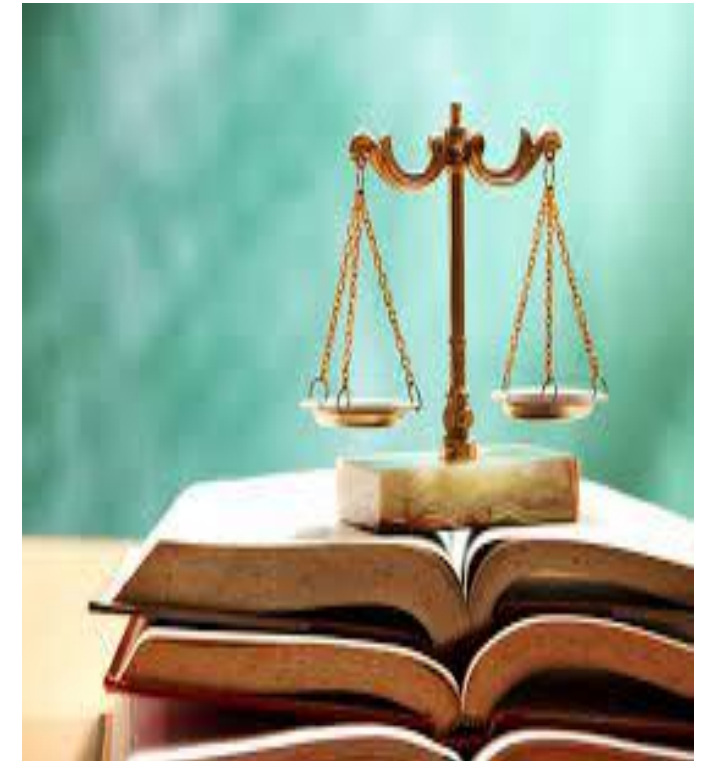
Laws and Regulations applicable to Insurance/Takaful in the Maldives

Law and regulations applicable for both Takaful and Insurance

1. Insurance Industry Regulations (2004)
2. Regulation for life insurance Business and Family Takaful Insurance Business on Prevention of Money Laundering and Financing of Terrorism.
3. Regulation for Provision of Annuity by Insurance Companies
- 4.4. Guideline on Prudential Requirements for Insurance Undertakings (2010)
5. Regulation on Fees and Charges Applicable to Financial Institutions (2016)

Regulations and circulars unique to Takaful

Takaful operators ceding to conventional reinsurance



Takaful and Insurance products available in the Market

Product/Cover	Conventional Insurance Operators				Islamic Insurance operators	
	Allied Insurance	Solarelle Insurance	Dhivehi Insurance	Ceylinco Insurance	Amana Takaful	Ayady Takaful (Window)
PERSONAL PLANS						
Family/Life	Life	-	-	-	-	Family
Home	-	Physical Assets	Homeowners	Property	Home	Home
Hajj and Umrah	-	-	-	-	-	Hajj and Umrah
Motor 3 rd Party Liability	Motor	Motor Insurance	Motor	-	Motor	Motor
Motor comprehensive	Motor	Motor Insurance	Motor	-		
Travel	-	Travel Insurance		-	Travel	Travel
Individual Health	Health	Health Insurance		-		Individual Health
Individual Personal Accident	Individual Personal Accident	Personal Accident Insurance	Personal Accidents	-	Personal Accident	
Dive Insurance	Dive Insurance			-		
Fire	-	Fire Insurance		Fire		
Boats and Small craft	-	Boats and Small craft		-		
Burglary Insurance	-	Burglary Insurance		Crime		
All risk Insurance	-	All risk Insurance		Erection of All Risk		
Adequate Coverage	-	Adequate Coverage		-		
Sum (property) Insured	-	Sum Insured		-		

BUSINESS PLANS						
Fire & Additional Perils	Fire & Additional Perils	Fire Insurance	Fire & Additional Perils	Fire		Fire
Group/Employee Health	Group Health	Miscellaneous		-		Group Health
Group/Employee Personal Accident	Personal Accident	Miscellaneous	Group Accident	-		Group Personal Accident
Key Person Insurance	Key Person Insurance			Directors Liability		
Expatriate Insurance	Expatriate Insurance			-		Expatriate
Group Term Assurance	Group Term Assurance			-		
Guest House	Guest House			Property		
Hull	Hull Insurance	Marine Insurance	Marine Hull	Hull & Machinery	Hull	Hull
Boat Building	Boat Building	Marine Insurance		Boat Builders Insurance		Boat Building
Cargo	Cargo	Marine Insurance	Marine Cargo	Cargo		Cargo
Consequential Loss	-		Consequential Loss	-		Consequential Loss Takaful
Contractors	Contractors All Risks	Engineering Insurance	Contractors All Risks	Contractors All Risks		Contractors
Dive Centres/Equipment	Dive Insurance			-		Dive Equipment
Travel	Travel	Travel Insurance	Travel	-	Travel	Travel

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Electronic and computers	Electronic and computers	Engineering Insurance				
Machinery Breakdown	Machinery Breakdown	Engineering Insurance		-		
Erection All Risks	Erection of All Risk	Engineering Insurance		Erection All Risk		
Fidelity Guarantee	Fidelity Guarantee	Miscellaneous		-	Fidelity	
Miscellaneous	-	Miscellaneous		Miscellaneous		
Public Liability	Public Liability	Liability	Public Liability	General Liability	Public Liability	Public Liability
Property	-	Physical Assets		Plant, Machinery & Equipment	Property	Plant, Machinery & Equipment
Marine	Hull Insurance	Marine Insurance	Marine Cargo	Marine	Marine	
Engineering	-	Engineering Insurance		Engineering	Engineering	-
Money in-transit	Fidelity Guarantee	Miscellaneous	Money	Money	Money in- transit	Money

Burglary	Fidelity Guarantee	Miscellaneous		Crime	Burglary	
Business Interruption				Business Interruption		
Speciality			Aviation risk and Liability, Political Risk, and Protection and Indemnity	Aviation, Terrorism, Trade Credit, Bankers Bond		

Note: Some of the operators did not classify the personal and business plans. Therefore, the classification will be made by making assuming one product or plan into both personal and business plans.

Takaful Model in the Maldives Using the case of Ayady Takaful

Wakalah Model for General Takaful

Step	Description
1	Participant contributes to Ayady Takaful based on the principle of Ta'awun and pays the contribution on the basis of TABARRU (donation).
2	Takaful Operator charges a Wakalah fee of x% upfront (directed to the Takaful Operator's fund) from the contribution and allocates the remaining 66% to the Participant Risk Fund (PRF) for claims and other direct expenses of the Takaful fund.
3	A portion of the PRF is invested in Shariah-compliant financial instruments. The amount allocated for investment depends on the claim history and other prudent fund management policies. The remaining portion is used for underwriting costs and reserves.
4	If the investment profit rate is y% or below, y% of the profit goes to the PRF. If the profit rate exceeds y%, the surplus goes to the Takaful Operator as a performance fee (Ju'alah).
5	A certain amount of surplus from the PRF is set aside as a stabilization reserve for the next year. The remaining surplus is distributed among eligible participants for that specific year

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Wakalah Model for Family Takaful

Step	Description
1	Participants contribute funds to Ayady Takaful, which are deposited into three major funds: Participants' Risk Fund (PRF), Participants' Investment Fund (PIF), and Takaful Operator's Fund. Contributions are made after deducting the Wakalah fee.
2	A Wakalah fee of a specified percentage is deducted upfront and directed to the Takaful Operator's Fund. The remaining amount is deposited into the Participants' Investment Fund (PIF). Additionally, a monthly Tabarru' portion is deducted from PIF and transferred to Participants' Risk Fund (PRF).
3	PRF bears the expenses of claims, Retakaful, and reserves. Operating expenses are covered by the Takaful Operator's Fund. Maturity and withdrawal payments are disbursed from the Participants' Investment Fund (PIF).
4	If a deficit occurs in the Participants' Risk Fund (PRF) at the end of the financial year, the Takaful Operator's Fund provides a benevolent loan (Qard Hasan). This loan is later recovered from the surplus of the PRF in subsequent years. Any additional surplus is distributed to participants based on Ayady Takaful's discretion.
5	The Participants' Investment Fund (PIF) is invested by Ayady Takaful on a Mudharabah basis. Profits from investments are shared between participants and Ayady Takaful based on a X:Y ratio, respectively.

Cont.. Example:

New Hajj & Umrah Takaful



Benefits

	Umrah	Hajj and Umrah
Personal Accident		
Death	MVR 100,000	MVR 100,000
Permanent Total Disability	MVR 100,000	MVR 100,000
Medical and Emergency Expenses		
Coverage	MVR 100,000	MVR 100,000
Hospital Benefits		
MVR 150 for each day (24 hours) of hospitalization	MVR 1,500	MVR 1,500
Loss of Checked Baggage		
Coverage	MVR 15,000	MVR 15,000
Delay of Checked Baggage		
MVR 800 for each 12 hours period delay	MVR 2,400	MVR 2,400
Loss of Passport		
Coverage	MVR 1,500	MVR 1,500
Loss of Money and Valuables		
Coverage	MVR 5,000	MVR 5,000
Personal Liability		
Coverage	MVR 100,000	MVR 100,000
Optional Cover		
<input type="checkbox"/> Covid Cover		
Contribution	MVR 250	MVR 250
	MVR 550	MVR 750

<https://myallied.mv/type/hajj-umrah-ayady/new>
Note: The participant shall give written notice to the Takaful Operator stating the full particulars of such event, including all original bills and receipts.


New Crop Takaful





Step 1 of 4


Crops


Select all the crops you grow.



 Papaya



 Brinjal



 Butternut


 Watermelon


 Pumpkin


 Cucumber


 Melon


 Banana

<https://myallied.mv/type/crop-ayady/new>

Continue

Identified Challenges Hindering Takaful Growth in the Market



Absence of a Comprehensive Regulatory Framework: Lack of a Dedicated Takaful and Insurance Act and Subsidiary Regulations

The primary hurdle lies in the absence of a tailored regulatory framework for Takaful and Islamic Financial Institutions. Takaful operators currently operate under the Insurance Industry Regulation (2004), lacking the specificity required for the distinct nature of Takaful. The regulation, while incorporating a Shariah Committee, falls short in conferring full authority to Takaful as a significant financial market component.

Insufficient Shariah-Compliant Investment Opportunities

A significant challenge emerges from the limited investment avenues available for Takaful, reliant on participant contributions. The Maldivian economy presents a scarcity of investment opportunities, with only seven listed companies in the national stock market. The private sector also lacks low-risk investment opportunities, constraining Takaful operators from engaging in high-risk portfolios, aligning with the cautious nature of mutual protection objectives.

<https://www.maldivesnewsnetwork.com/2021/07/14/issues-facing-institutions-offering-takaful-in-maldives/>



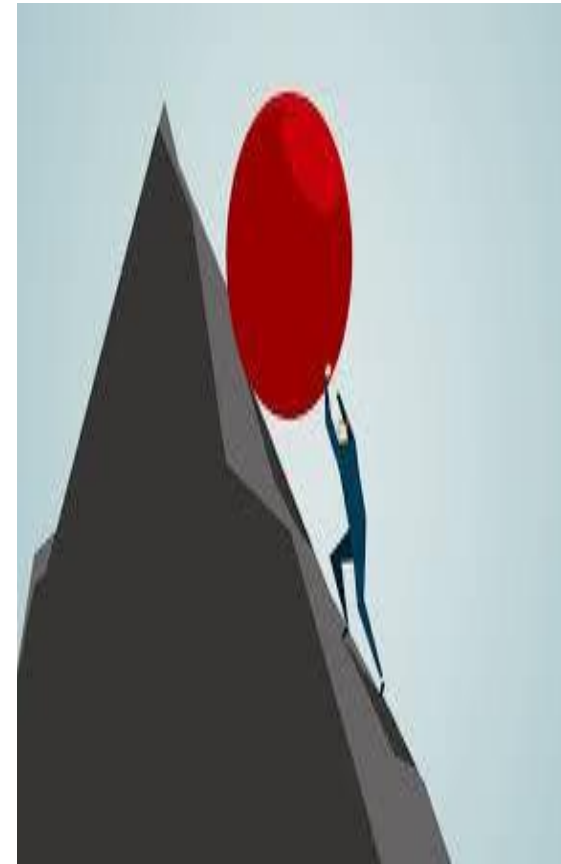
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Low Financial Literacy and Public Awareness: Inadequate Understanding of Insurance and Unawareness of Prohibited Elements in Conventional Insurance

A prevalent challenge is the lack of financial education regarding the importance of insurance for wealth and self-protection in Maldivian society. While certain policies are legally mandatory, such as Third-party Motor insurance or student medical insurance, other insurance products remain underutilized due to a general lack of awareness. Small boats, personal risks, and properties often go unprotected, leading to significant losses for individuals and businesses. The absence of awareness poses a substantial challenge for Takaful and insurance operators seeking sustained profitability.

Underdeveloped Family Takaful/Life Insurance Market

Another impediment is the underdeveloped nature of the family Takaful and life insurance market. Limited awareness among citizens, coupled with regulatory constraints, results in only one operator offering family Takaful or insurance officially. The unique nature of life insurance, with the potential for high returns but accompanied by inherent risks, makes it challenging to expand the market. This underdevelopment poses difficulties in reaching a market of less than 500,000 people.



Ways to Enhance Takaful Industry in the Maldives

Develop a Takaful Act before the existence of any conventional Act:

1. Prioritize the creation and implementation of a dedicated Takaful Act that specifically addresses the unique principles and practices of Islamic insurance.
2. Ensure that the regulatory framework is tailored to the Takaful industry, offering clarity on operational standards, governance, and compliance requirements.
3. By establishing a Takaful Act first, the regulatory environment can be designed to accommodate the distinctive features of Takaful, fostering a supportive ecosystem for its growth.

Awareness about Takaful:

1. Conduct comprehensive awareness campaigns to educate the public about the principles and benefits of takaful.
2. Collaborate with religious leaders, community influencers, and educational institutions to promote a better understanding of Takaful, addressing any misconceptions.
3. Emphasize the ethical and Sharia-compliant nature of Takaful to attract a broader customer base and create a more informed consumer market.



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Encouraging new operators to enter the market:

1. Provide incentives and a conducive regulatory environment to attract new Takaful operators to enter the Maldivian market.
2. Streamline the licensing process for Takaful companies, making it more accessible and efficient.
3. Encourage healthy competition among Takaful operators, leading to product innovation, improved services, and increased market penetration.

Encourage Family Takaful products to be offered in the market by the existing Takaful company:

1. Promote the development and expansion of life insurance and family Takaful products by the existing Takaful company.
2. Create awareness about the benefits of life insurance and family Takaful, emphasizing financial security and protection for individuals and their families.

Establishing a Takaful Association:

1. Form a Takaful Association to serve as a platform for collaboration and information exchange among Takaful operators, regulators, and other stakeholders.
2. The association can facilitate industry-wide initiatives, share best practices, and address common challenges collectively.
3. Strengthening unity within the industry through a Takaful Association can contribute to the overall growth and sustainability of the Takaful sector in the Maldives.





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