

Part 1: Underwriting in Assurance Business

Part 2: Broad overview of Assurance Risk Management



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Part 1: Underwriting in Assurance Business



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Assurance Business

- **Conventional Insurance & Islamic Insurance (Takaful) business**

Underwriting

- **A process where insurance companies evaluate the suitability of an assured person or property or asset or business to be insured, and if accepted determine the appropriate premium.**

Underwriter

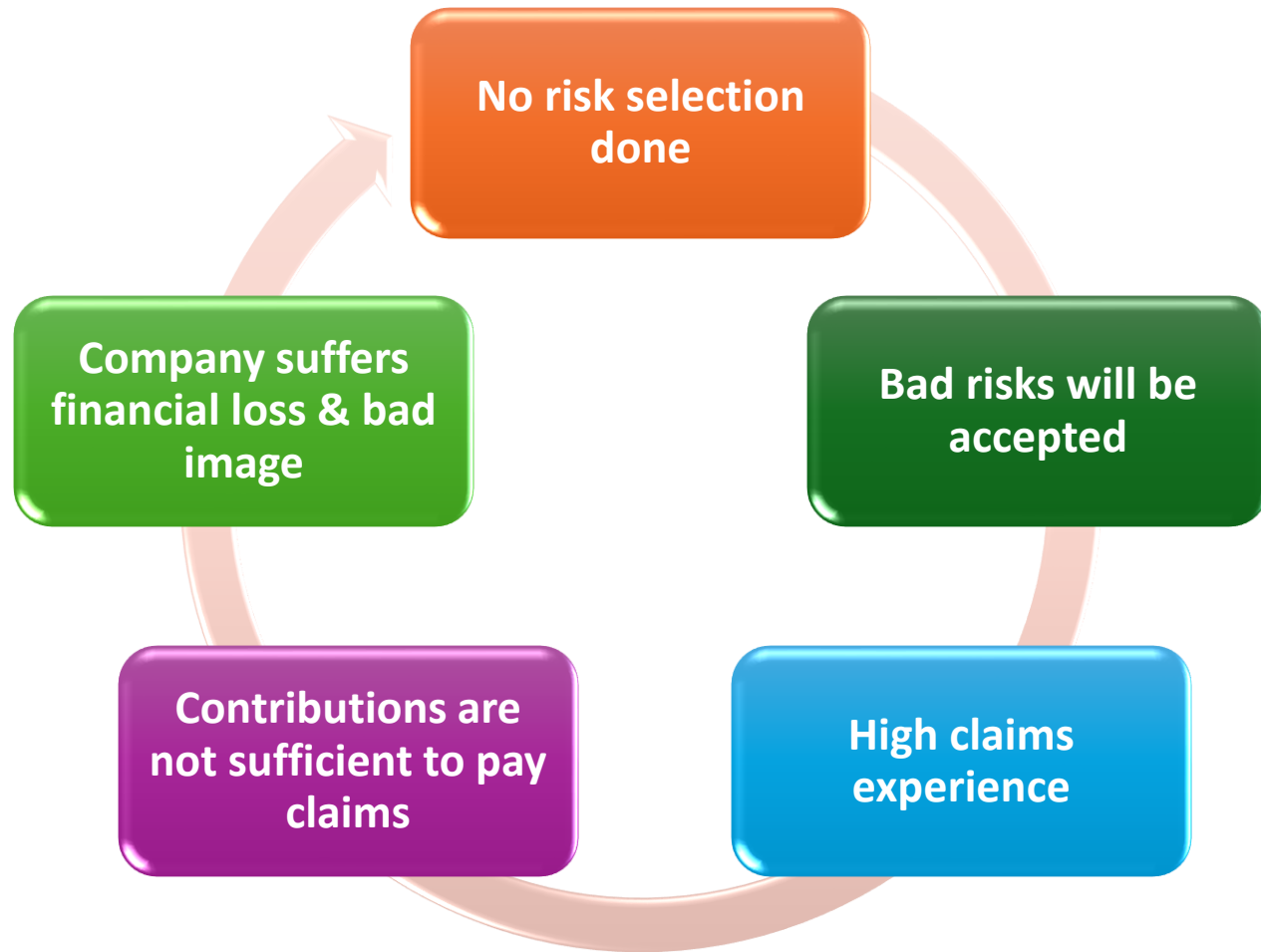
- **An employee of insurance companies who is responsible for doing the underwriting process**

Underwriting

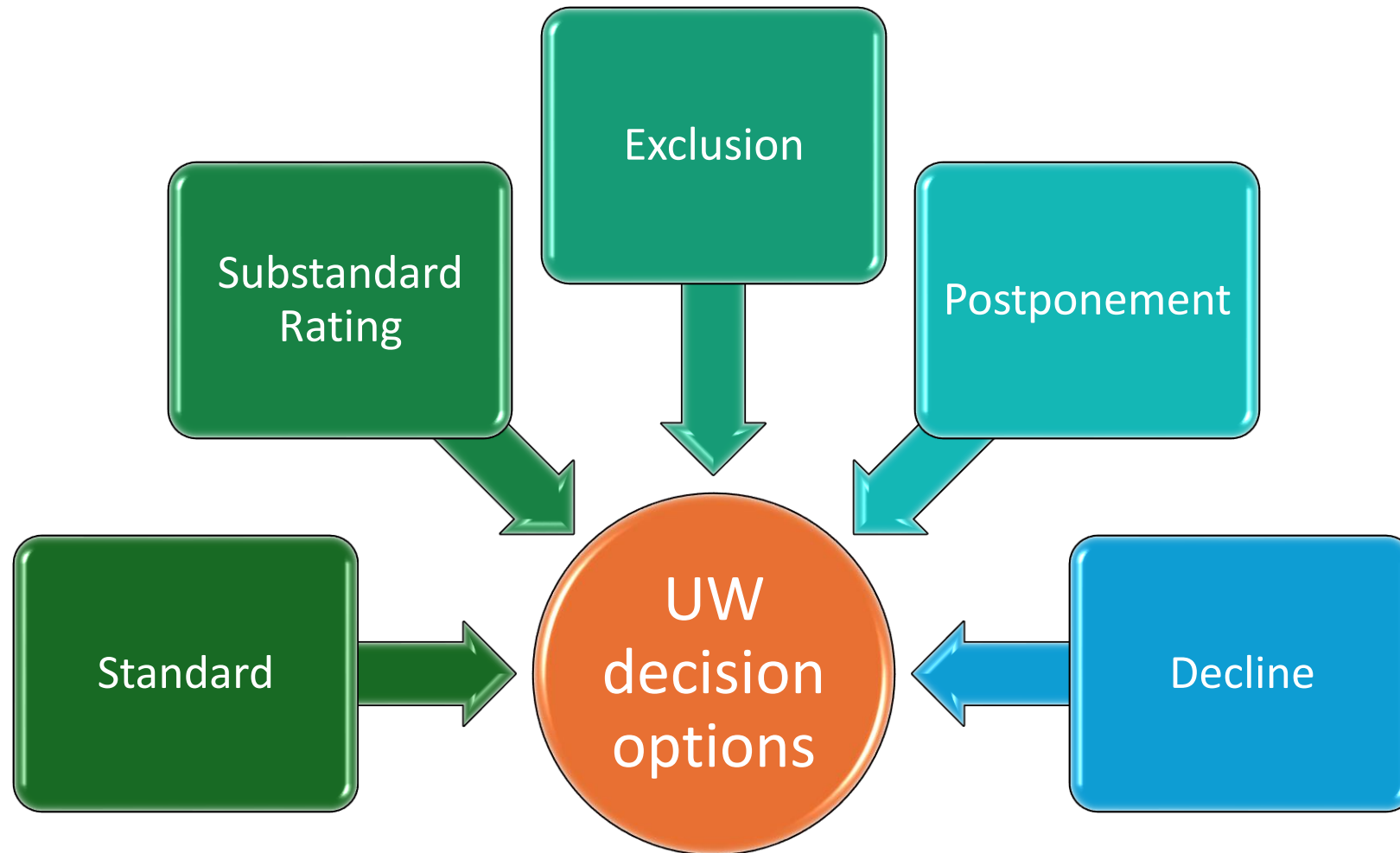
- Underwriting is the process of evaluating an application, determining whether the applicant is acceptable for coverage being proposed and if so, at what rate.
- “Risk Selection” is important to prevent the applicant from abusing the insurance fund



Impact of not doing underwriting

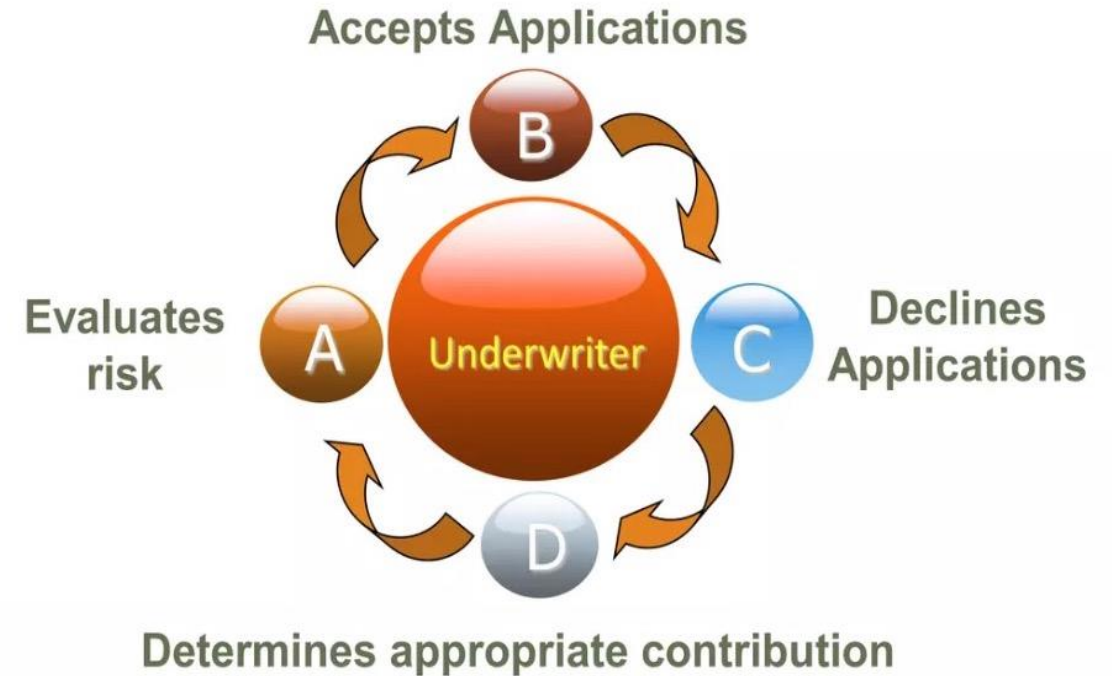


UW decisions approach



Underwriting process or steps

- **Appropriate declarations in applications**
- **Determine appropriate sum assured**
- **Determine insurable interest**
- **Evaluate the applications**
- **Decides acceptance and fees levied**



Underwriting principles

- To ensure every assured person fees (premium) levied is appropriate to that person and make all payor premium equitable.

Underwriting principles

- **To ensure every assured person fees (premium) levied is appropriate to that person, make all payor premiums (fees) equitable, and ensure that there is a surplus in the underwriting fund.**

Takaful & Insurance Underwriting

- **The process is the same**
- **Additional underwriting requirement under Takaful**

Takaful Underwriting

- **Making sure that the assured life, assets, and business are acceptable from company Shariah policies**
 - **All life is halal.**
 - **Scholars disagree on the acceptability income source that will be used to pay the premiums that will mix with other contributors**
 - **Income from forbidden activities is not acceptable**
 - **Arak-making company etc**
 - **Prostitution etc**
- **In general, almost everything is insurable if the basic process of insurability assessment is met**

Part 2: Broad overview of Assurance Risk Management



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Assurance Risk Management: A broad overview

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Assurance Business

- Conventional Insurance & Islamic Insurance (Takaful) business

What is Assurance Risk Management

Assurance Risk Management (ARM) refers to a **periodical financial impact assessment** of the company

- due to the changes in regulatory policies and the business environment
- done qualitatively and quantitatively

That **may have a financial impact** on the companies' ability to serve their customers.

Assurance Business Risk

○ Reputational Risk

Reputational risk refers to the risk that arises from the actions of the **company management and employees** that may lead to **damage to the public's perception** of the company which affects the **company's value**.

○ Liquidity Risk

The **ability and speed to convert assets into liquid capital** to meet unexpected **capital demands** from claims or policy surrenders.

○ Actuarial Risk

The actuarial risk that affects the **pricing determination to be levied** on policy owners.

Includes

- Inappropriate **data** used
- Inappropriate **inferences** from existing studies
- The **processes review** in pricing determination

Assurance Business Risk

- **Underwriting Risk**

The review process of applicants to determine suitability to be insured, the quantification of the premium to ensure that the underwriting results yield a surplus

- **External Risk**

Regulatory changes (expected or unexpected) that have an impact on the company.
For example, **Tax revision, Recession, Investment climates**

- **Business Risk**

Cybersecurity risk- **hacking risk on company policy owner data and breach of Personal Data Laws**

Assurance Risk Management Methods



Assurance Risk Management Methods

- **Product Development Process**

Ensuring a **cross-sectional involvement** in product development – Marketeers, Data Analytical Teams, Product Managers, Pricing Teams, Underwriters, Legal & Compliance & Actuaries. Need to have **clear and documented processes**.

- **Liquidity Risk Monitoring**

CAR and investment strategies to ensure appropriate **short-term liquidity demand** can be addressed.

- **Business Risk**

Cybersecurity risk- **hacking risk on company policy owner data** and **breach of Personal Data Laws**

Assurance Risk Management Methods

- **Shariah risk management**

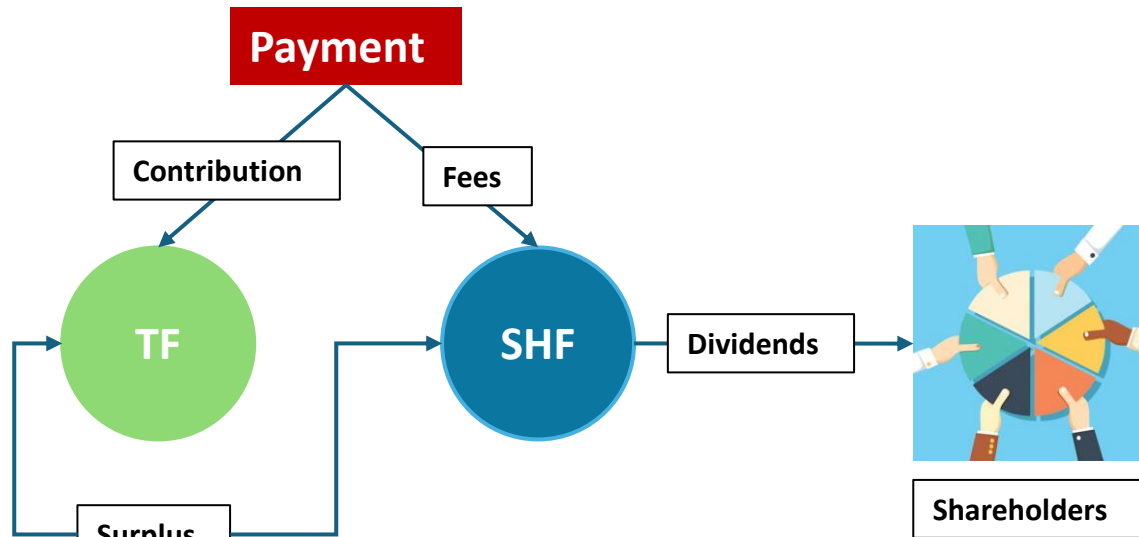
Ensuring a process that identifies and prevents any occurrence of Shariah non-compliance events that can lead to direct loss as well as indirect loss. Mainly covers the following

- Elimination of Gharar and Maysir in contracts and assurance business model
- **Avoiding Maysir** in business conduct and contract
- **Avoiding Riba** in asset management and investment
- Avoiding **Forbidden risk** from being insured – for example, insuring factories that produce weapons

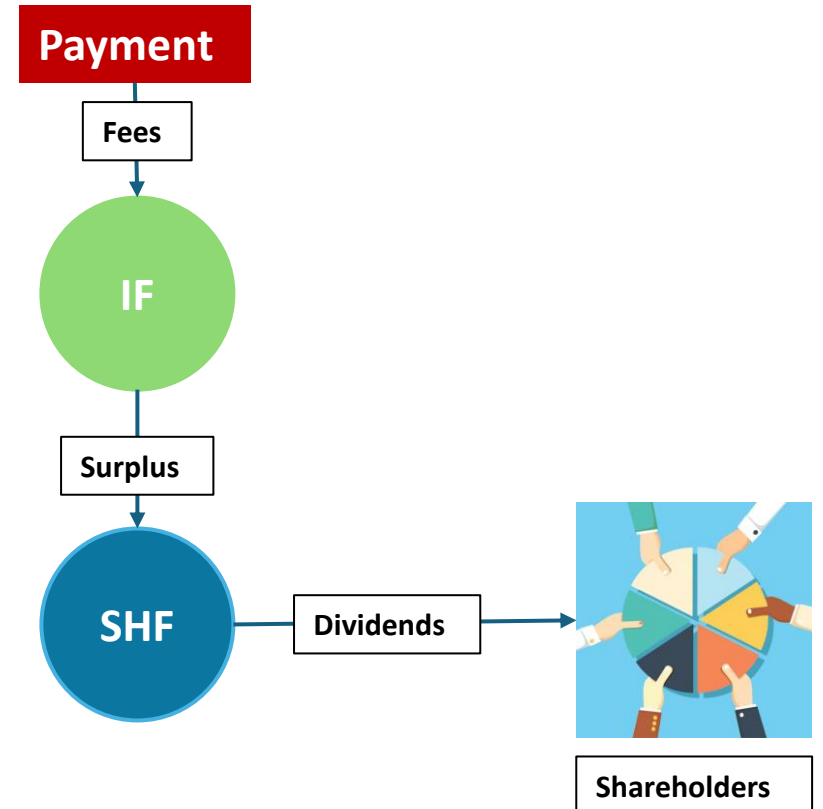
Assurance Risk Management Methods

- Step 1: Shariah risk management by using appropriate business models
 - Takaful (Mutual) Model, Kafalah (Fee-based) model, Mudarabah

Takaful (Mutual) Model



Insurance Model



TF= Ta'awuni Fund

SHF= Shareholder/Company Fund

Assurance Risk Management Methods

- **Step 2: Ensure all sales document is clear and not misleading**
- **Step 3: Develop a policy contract in simple amenable language**
- **Step 4: Have a Riba free investment process**
- **Step 5: Have an internal shariah governance process**



Thank You

Any easy

Questions



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Thank You

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