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ASSESSING THE EFFECTIVENESS OF THE COVID-19 POLICY RESPONSES IN THE *TAKĀFUL* INDUSTRY

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**ASSESSING THE EFFECTIVENESS OF COVID-19
POLICY RESPONSES IN THE *TAKĀFUL*
INDUSTRY**

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November 2021

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ABOUT THE ISLAMIC FINANCIAL SERVICES BOARD (IFSB)

The IFSB is an international standard-setting organisation which was officially inaugurated on 3 November 2002 and started operations on 10 March 2003. The organisation promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. The standards prepared by the IFSB follow a lengthy due process as outlined in its Guidelines and Procedures for the Preparation of Standards/Guidelines, which involves, among others, the issuance of exposure drafts, holding of workshops and, where necessary, public hearings. The IFSB also conducts research and coordinates initiatives on industry-related issues, as well as organises roundtables, seminars and conferences for regulators and industry stakeholders. Towards this end, the IFSB works closely with relevant international, regional and national organisations, research/educational institutions and market players.

For more information about the IFSB, please visit **www.ifsb.org**.

ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
CMA	Capital Market Authority
GCC	Gulf Cooperation Council
ICD	Islamic Corporation for the Development of the Private Sector
IFSB	Islamic Financial Services Board
IFSI	Islamic Financial Services Industry
IsDB	Islamic Development Bank
ITO	Insurance/ <i>Takāful</i> Operator
RSAs	Regulatory and Supervisory Authorities
SMEs	Small and Medium-sized Enterprises

GLOSSARY

<i>Retakāful</i>	An arrangement whereby a <i>takāful</i> undertaking cedes a portion of its insured risks on the basis of treaty or facultative <i>retakāful</i> as a representative of participants under a <i>takāful</i> contract, whereby it contributes their <i>tabarru'</i> contribution into a common risk fund to cover against specified loss or damage.
Sharī'ah	The practical divine law deduced from its legitimate sources: the Qur'ān, Sunnah, consensus (<i>ijmā'</i>), analogy (<i>qiyās</i>) and other approved sources of the Sharī'ah.
<i>Takāful</i>	A mutual guarantee in return for the commitment to donate an amount in the form of a specified contribution to the participants' risk fund, whereby a group of participants agree among themselves to support one another jointly for the losses arising from specified risks.
<i>Wakālah</i> (agency)	An agency contract where the <i>takāful</i> or <i>retakāful</i> participants (as principal) appoint the <i>takāful</i> or <i>retakāful</i> operator (as agent) to carry out the underwriting and investment activities of the <i>takāful</i> or <i>retakāful</i> funds on their behalf in return for a known fee.

ABSTRACT

This working paper focuses on developments in the *takāful* segment of the Islamic financial services industry during the COVID-19 pandemic, up to August 2021. Based on responses obtained from *takāful* companies, insurance companies, and regulatory and supervisory authorities across IFSB member jurisdictions, the paper specifically assesses the performance of *takāful* companies. It also considers the COVID-19 experience and measures adopted by both operators and regulators across IFSB member jurisdictions, with an emphasis on their relative effectiveness. The paper provides an overview of the *takāful* industry post-COVID-19 and of the opportunities the pandemic offers to the industry during the recovery phase. The paper also provides views of key industry leaders and experts²² regarding issues highlighted in the survey and offers insights that may be taken into account by policymakers and regulators to support and encourage *takaful*'s sustainability and growth.

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SECTION 1: INTRODUCTION

1.1 Background

The COVID-19 crisis has had a significant impact on individuals, societies, businesses and economies across the world. The interconnectedness of the modern world in terms of globalisation has produced many economic benefits pre-COVID-19; however, it has also resulted, in 2020–1, in devastating economic, environmental and health shocks, the speed and magnitude of which no one had foreseen or could have imagined. COVID-19 first surfaced in December 2019 and proceeded to spread rapidly around the world. On 11 March 2020, the World Health Organization (WHO) officially declared it a global pandemic, and its subsequent severity has been totally unprecedented.

The impact of the pandemic on businesses and supply chains in every country has disrupted global economies and severely affected the lives and livelihoods of people everywhere. Most countries experienced stock-market depreciation and volatility, and many businesses have become insolvent. The price of oil fluctuated significantly, plummeting from USD 61 a barrel in December 2019 to USD 12.8 in April 2020. The global fall in oil prices was indirectly caused by COVID-19 after a drop in demand from China led to Saudi Arabia cutting export prices in March 2020. This caused a contraction in economies across the oil trade-dependent countries. Tourism was the first industry to be hit, with border closures and travel restrictions having a dramatic impact on several economies.

To the extent that COVID-19 has affected projects, businesses and people, it has also affected *takāful*, yet the pandemic has also created new opportunities for managing its risks. The world's developed economies were able to contain the spread of the virus through strict measures and vaccination programmes on a massive scale, but vaccine hoarding in some of the richest countries triggered shortages in other economies. Thankfully, there was a change in this position, which prevented the global economy from losing a projected USD 9.2 trillion had governments failed to secure COVID-19 vaccines for the developing economies, and this effort needs to continue at least until the end of 2021.

The road to recovery out of COVID-19 is long and winding. There is optimism that the world will return to some kind of normalcy, but there remain many unknowns about how normal it can be, especially in terms of the impact of “long COVID” and a prolonged pandemic. The resulting uncertainty raises questions about the effectiveness of government actions and of regulatory policy support for businesses. In order to mitigate the after-effects of COVID-19 and to be able to agree on better ways to manage in the future, it is important that the global community cooperates in identifying an effective approach for managing the challenges and monitoring regulatory policies for the financial services industry.

The role of *takāful*/insurance operators during the COVID-19 pandemic was highlighted in the Islamic Financial Services Board's (IFSB) *Islamic Financial Services Industry (IFSI) Stability Reports* of 2020 and 2021. Given the likely severe impact of COVID-19, it was recognised in those reports that *takāful* and insurance operators would need to adjust their budgets and should expect cash-flow pressures as a result of high claims, reduced new business and stressed investment returns. The pandemic has tested their resilience, requiring them to be well capitalised, well entrenched, and with strong risk management in place if they are to withstand the resulting shocks. The *retakāful*/reinsurance entities have an equally important role, of course, by spreading the risk over a much larger financial pool, collectively, to absorb the unexpected shocks.

In the end, during such unprecedented times, it will be the concerted efforts of all stakeholders that will save the day. In addition to the industry taking the necessary measures to minimise the impact of the pandemic, governments must be involved as “insurers of last resort”, while regulators evaluate insurers’ potential non-risk-bearing contributions to pandemic preparedness as well as their resilience building (e.g. risk assessment, risk mitigation and claims management).

In terms of COVID-19, insurance/*takāful* operators (ITOs) are expected to maintain sufficient funds on the liability side to manage the impact in anticipation of:

- an expected consequential spike in COVID-19 related claims
- material investment losses/write-downs of assets due to deterioration of the financial markets
- cash-flow issues due to any drop in volume of new business written, delays in the payment of existing contributions and a potential increase in claims.

On the asset side, there is the concern of how to manage and mitigate the risk of extreme stock-market volatility that could significantly impact on operators’ investment portfolios, thereby undermining growth and profitability.

The IFSB believes that its work over the past years on developing enhanced international standards for the *takāful* industry will provide the framework for supervision across countries and has assisted in strengthening risk management and enabling greater resilience of the industry. The IFSB supports the implementation of various measures by its members and, as the situation evolves, will continue to facilitate the sharing of information on supervisory measures being taken or planned in this regard, in support of the protection of consumers and the maintenance of financial stability.

Therefore, it is pertinent to assess the implications of the COVID-19 pandemic for the *takāful* business environment, as well as to examine the effectiveness of the adopted policy measures against such unfavourable pressures. It is also important to assess the effectiveness of the regulatory directives and internal measures undertaken to manage business continuity, especially where *takāful* operators have been significantly affected by COVID-19 and whose compliance with regulatory capital is threatened by short-term losses. In this regard, this paper also assesses if regulators' actions have triggered unintended consequences, such as fire sales of assets, due to the archetypal common and concentrated exposure of *takāful* operators.

1.2 Objectives

The process of monitoring the impact of COVID-19 is a continuous one and is in furtherance of the IFSB's mandate to ensure the resilience and stability of the various segments of the financial services industry, including *takāful*. In pursuit of this mandate, the IFSB conducted a round of surveys in July 2021 to assess how the *takāful* industry had benefited from the regulatory and supervisory authorities' (RSAs') policies and guidelines for coping with the pandemic.

Specifically, the survey aimed to elicit the following information:

- What are the pertinent COVID-19 challenges faced by the *takāful* industry?
- How effective have been the RSAs' policies and directives for managing the impact of the COVID-19 pandemic, the industry's response and the internal measures taken?
- Has COVID-19 impacted *takāful* and conventional insurance differently?
- What actions and strategies were being taken by *takāful* companies in the recovery phase?

The study presents the survey findings based on the experiences of participants in the *takāful* and insurance industry across various markets and the lessons they have learnt. The survey aimed to make *takāful* companies think about, assess and act with the following in mind, in developing strategies for coping with the impact of COVID-19:

- How customer-centric are we, and how do we continue to actively engage with customers?
- How strong and robust are our governance and controls in assessing customer claims?
- Are we proactively engaged with the regulatory/supervisory authority?
- To what extent has the COVID-19 crisis exposed risks to our business portfolio?

The shared experiences are intended to assist *takāful* executives, management boards and various stakeholders to identify the appropriate measures and most effective solutions for dealing with the COVID-19 pandemic, and to set useful precedents for coping with similar catastrophes in the future.

1.3 Scope of the Paper

This working paper is an exploratory cross-sectional study on the effectiveness of the various COVID-19 policy responses in the *takāful* segment. It focuses mainly on the views elicited from IFSB members in various jurisdictions, including RSAs, *takāful* operators and *retakāful* companies. In addition, the research draws on reports, discussions and findings from internationally recognised sources and bodies for a comprehensive global perspective.

1.4 Structure of the Paper

The paper is divided into five sections. Section 2 provides a brief description of the methodology, followed by an analysis of the survey report. Section 3 compares the experiences of both *takāful* and insurance companies in the COVID-19 recovery phase. Section 4 focuses on various countries' experiences. The final section presents conclusions and recommendations.

SECTION 2: METHODOLOGY

Apart from a few markets in Asia and the Middle East, connecting with all 300+ *takāful* companies in over 30 countries was a big challenge. The growth of *takāful* has indeed been phenomenal over the past 10 years, mainly in Asia and Africa, but up-to-date data are not so readily available. The industry itself is going through a process of consolidation through mergers and acquisitions (M&As) and the exact number of *takāful* providers keeps changing. This is reflected in Table 1.

Table 1: Global *Takaful* Market, 2019

	IFSB	ICD ^a	iPORTAL ^b
Number of countries	33	47	39
Number of companies	353	330+	237

^a *Shifting Dynamics: ICD–Refinitiv Islamic Finance Development Report 2019*

^b *Dedicated Islamic Economy Portal hosting World of Takāful with live holistic industry insights*

The survey questionnaires were sent out in June/July 2021 to over 300 *takāful* and insurance companies in 30 countries, including RSAs where *takāful* is offered. The survey was also sent to 15 RSAs in markets with a potential for *takāful*.

The data used in this study were collected via three sets of questionnaires: for *takāful* companies, insurance companies, and the RSAs in the jurisdictions covered by the IFSB between June and July 2021. The survey was based on online submissions and comprised mainly closed-ended questions with codes to indicate the option a respondent wished to select. In other instances, open-ended questions invited respondents to freely express their opinion on specific matters. An access link to the online survey was provided in the email invitation within the due date for submitting the completed survey. This due date was extended by three weeks to allow more submissions to be completed.

The response was slow due to a combination of reasons, including summer vacation time, COVID-19 lockdowns, working-from-home requirements, and the build-up to the Hajj season. By mid-August 2021, responses had been received from 33 *takāful* and insurance companies and RSAs (see Figures 1 and 2). Owing to the exploratory nature of the research, data elicited were subjected to descriptive data analysis only.

Figure 1: Survey Respondents by Type of Organisation

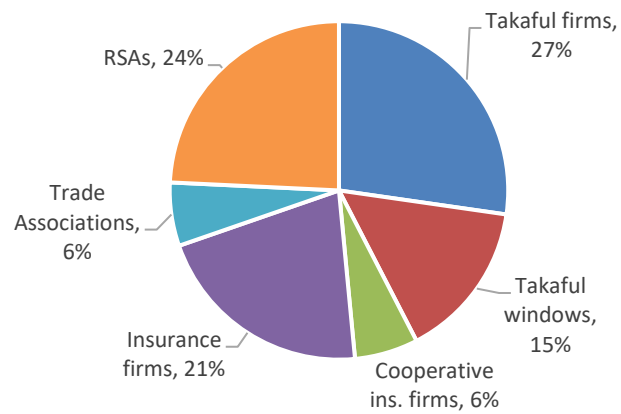
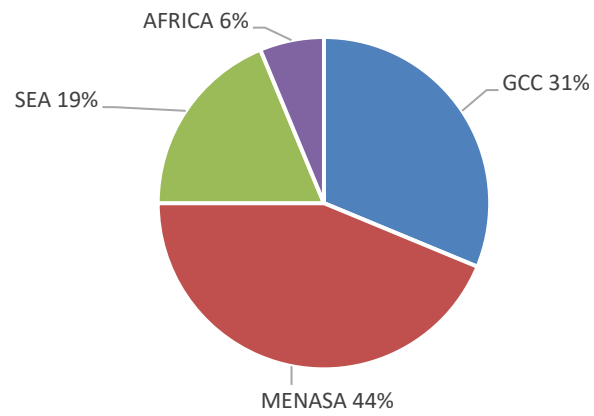


Figure 2: Survey Respondents by Region



SECTION 3: ANALYSIS OF SURVEY RESPONSES

Prior to the survey, several COVID-19 related regulatory measures had been taken by governments and regulatory bodies. These measures required *takaful* companies to follow various measures at the product and benefits level, and were given flexibility at the operational level as well as a guidance, awareness and stimulus package to cope with the impact of COVID-19.

3.1 Pre-Survey RSA Directives for the Industry

Product and benefits level: Companies were asked to:

- extend cover without additional cost
- avoid policy cancellations for late payment of contributions/premiums and without imposing penalties for family *takaful*/life insurance policies
- fast-track the approval of health insurance for customers with COVID-19 and allow the waiver of a co-payment.

Operational level: Regulatory relaxation was as follows:

- Temporary regulatory relief was provided on administrative and governance processes.
- Some flexibility was available in relation to technical requirements for valuation of insurance/*takaful* liabilities.
- Policies were allowed to extend beyond the normal reinstatement period.
- Companies were permitted to extend the period for regulatory reporting.
- Companies were asked to consider reducing their risks during the pandemic and to activate their disaster recovery plans to ensure business continuity.
- Some provisions were amended, such as letters of guarantee for insurance brokerage, insurance pricing on certain lines, renewal of policies, reducing insurance business fees, etc.

Guidance, awareness and stimulus packages: All RSAs took steps such as:

- providing a stimulus package for insurance and *takaful* sectors
- conducting training and human capital development activities for staff and intermediaries, including maintaining close interaction with the industry so as to understand the conditions and challenges

- actively communicating regulatory expectations, as well as online supervisory engagement, including digital-based supervision
- ensuring offsite supervision to monitor the sector using a risk-based approach
- applying online licensing processes and reporting, electronic document submission and other related activities.

3.2 Pre-Survey Action Taken by *Takāful* Providers

In addition to complying with the RSA directives, *takāful* providers adopted measures of their own to manage the impact of COVID-19. These measures included:

- helping small and medium-sized enterprise (SME) participants affected by COVID-19 with *qard* (out of the shareholders' fund), and with medical expenses for COVID-19 testing
- ensuring that business requirements were met in terms of maintaining quality and continuity
- overcoming most of the operational challenges
- responding to changes warranted by unfavourable financial conditions
- maintaining the quality and comprehensiveness of reports required by the RSAs.

3.3 Survey Findings: RSAs

The RSAs surveyed indicated that, despite the impact of the pandemic on the insurance and *takāful* sectors, business operations remained conducive for both.

In general, the RSAs indicated that the *takāful* sector managed the impact of the pandemic reasonably well, and that it was less significant due both to *takāful*'s smaller share of the insurance sector as a whole and to the relatively strong capital buffers built over the years in most cases. In fact, there was an increase in new business in *takāful* in certain jurisdictions.

The classes most impacted adversely were health and family *takāful*, due to escalating medical costs, including incidental costs, resulting in an upward repricing of health *takāful*. On the investment side, the depressed financial market performance (returns, profits, etc.) and rate movements (shifts in the yield curve, among others, due to central bank policy management) affected the *takāful* sector's financial and portfolio performance. The sector was also impacted, to some extent, by business interruptions but managed to maintain continuity of its business.

The insurance and *takāful* operators were requested by the RSAs to consider extending grace periods for the payment of renewal contributions, to ensure fairness to

all customers regarding clear disclosure in delivery of their services, and to have efficient claims processing. Operators were also encouraged to utilise digital or online payment modes for the collection of contributions and the disbursement of claim payments, and to utilise electronic media such as SMS, emails, mobile applications, online portals, etc., for claims handling, delivery of policy documents and the issuance of pre-authorisation for hospital treatment. In view of the anticipated low claims in auto-related policies due to lockdowns, RSAs recommended that operators ought to pass on to consumers the benefits of their low claims experience by granting free extension of coverage.

3.4 Survey Findings: ITOs

The survey focused first on issues and challenges that the ITOs faced during the height of the COVID-19 crisis (i.e. the early onset, when very little was known about how to manage the pandemic) and then the steps being taken in the recovery phase with lessons learnt for a post-pandemic approach to conducting business.

Some of the measures taken by ITOs in managing the adverse impact of COVID-19 were as follows:

- As part of the campaign for COVID-19 standard operating procedures (SOPs), additional incentives were offered for self-isolation.
- Covers were added to medical *takāful*, such as for mental health and occupational therapy due to COVID-19.
- A COVID-19 questionnaire was introduced for all underwritten insured customers.
- COVID-specific covers were added to individual and group family *takāful* policies for testing, treatment and death due to COVID-19.
- A temporary extension was offered in a grace period during the first lockdown (March–June 2020).
- Greater use of digital platforms and online connectivity became the preferred approach.

The overall impact for the industry in all markets was a slowdown in sales and an increase in claims, varying with the kinds of risks covered. The impact on the motor vehicle class was lower claims, due to a reduction in on-road exposures but also to a lower amount of new business due to motor leasing/*ijara* from banks. The medical class saw an escalation in claims for many ITOs.

In Malaysia, *takāful* providers added benefits to their medical and family *takāful* policies to provide Malaysian Ringgit (RM) 1,000 to the insured and RM 500 to the spouse/child on being diagnosed as positive with COVID-19, to a maximum limit of RM 1,500. A sum of RM 8,500 was added for the death of an insured person due to COVID-19. In Pakistan, an additional benefit of Pakistani Rupee (PKR) 100,000 was added, payable on death due to COVID-19, in the first lockdown between March and June 2020.

In the Gulf Cooperation Council (GCC) countries (Saudi Arabia, United Arab Emirates, Qatar, Oman, Bahrain, Kuwait), the insurance and *takāful* sectors experienced a slowdown in business. The GCC markets have a substantial expatriate workforce, and (like in so many Middle Eastern markets) there has been reduced economic activity, with expatriate job losses leading to a mix of reduction in new business, and policy cancellations and lapses.

Nevertheless, this did not dent the industry, as claims in motor and medical decreased, even though there were more death claims in life/family *takāful* than usual. The overall industry net profit was either stable or increased. Business continuity plans were activated to ensure that the insured were able to renew their policies and submit claims in spite of the emergency situation and lockdowns. There was more focus on delivering services by digital means to both the insured and shareholders, aligned with regulatory policies and guidelines.

Retakāful treaty renewals were completed online or through emails and did not cause any issues for *takāful* providers, except for ensuring there were exclusions of COVID-19 related risks from medical, property and liability policies. For facultative placement of risk, *retakāful*/reinsurers were more selective, with hardening rates and COVID exclusions. This was especially so in family *takāful* due to COVID-19 related death cases, where sums assured are payable on death due to any cause.

The findings indicated that *takāful* operators were likely to seek greater diversification of their investments and were now more conscious of the need to update their technology – in particular, the digitalisation of their systems and services.

The ITOs indicated that there were opportunities to enter new segments precipitated by the pandemic crisis, such as the following:

- expanded medical coverage to provide more crisis-driven flexibility
- cyber *takāful* for losses from damage or loss of information from information technology (IT) systems and networks
- connecting directly with customers digitally for simple protection products
- increased awareness (due to COVID) of the importance of family *takāful*, specifically among the middle class who are traditionally averse to purchasing it, and a greater realisation of the need to provide *microtakāful* protection for the masses and to pursue the growth of these lines with greater focus and digitalisation
- renewed interest from insurance/*takāful* brokers to place *takāful* commercial risks in the London market.

The ITOs were generally adequately ring-fenced through their diversified portfolios with time deposits, *wakala* deposits and government bonds; nevertheless, to some extent, they were affected by lower investment returns due to the economic slowdown caused by COVID-19's negative impact on investments and financial markets. The reduced

investment returns were due to lower deposit rates, bond and dividend yields, and lower capital gains from equity investments. Nevertheless, there were no instances of the forced sale of assets at low values.

The solvency of ITOs was not adversely impacted. On the contrary, in many instances solvency improved in 2020. Overall, the solvency position remained robust and well above the internal target limits for capital adequacy. Some insurance and *takāful* brokers were adversely impacted, as they were not sufficiently equipped to work from home and their business suffered during 2Q20.

The ITOs that participated in the survey offered the following lessons learnt from managing the COVID-19 crisis:

1. Front- and back-office processes and online services must be digitally transformed to enable remote access by staff, agents and brokers whenever and wherever needed.
2. All regulatory SOPs and internal procedures and business continuity plans must be clearly understood and strictly followed.
3. All necessary precautions must be taken to ensure the maximum protection of employees, service partners and customers, with options for working from the office or from home, supported by technology that is effective and productive.
4. There ought to be greater diversity in business lines and customer connectivity channels.
5. A robust business continuity planning (BCP) and enterprise risk management (ERM) culture can help in proactively managing sudden crises such as COVID-19.
6. The personal lines business must be given due importance, as this sector remained stable during the whole period.
7. Investment strategies must be strengthened and avenues sought for better returns within the Sharī'ah-compliant investment universe.
8. There is a need for greater and more active coordination with the Islamic finance industry for *sukuk* issuances that can best mitigate default risks, as well as for a focus on stock selection in equity investment to manage downside investment risks amid market volatility.

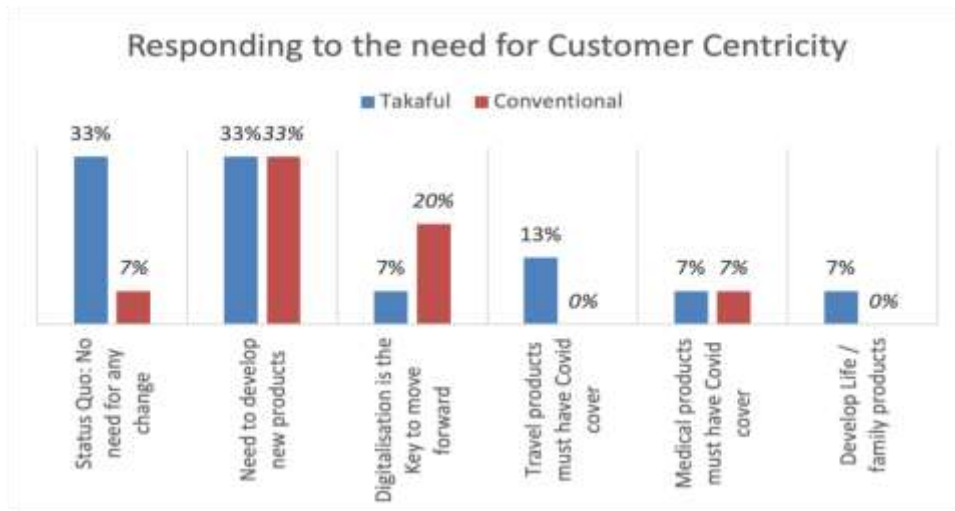
The response from the London market was that it would continue to work with its members and syndicates, and the wider market, to establish a Sharī'ah-compliant capacity for commercial risks and reinsurance in that market.

3.5 Recovery Phase Measures by ITOs: *Takaful* vs Insurance

The following represent the steps and policy measures that ITOs would adopt going forward in the recovery phase of the COVID-19 pandemic. One aspect that stood out in the survey was that conventional companies appeared to be more responsive than *takaful* companies to the idea of adopting new ways to connect with customers and of showing greater customer centricity. This applied more to personal lines and SME-driven strategies, as highlighted below in paragraphs 3.5.3 and 3.5.4.

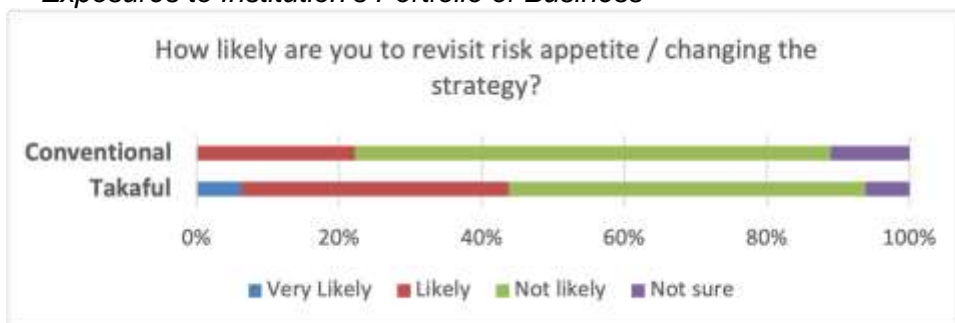
A further analysis of the survey responses highlighted that, even though both *takaful* and conventional companies equally expressed the need to develop new products, more of the *takaful* providers than conventional insurers felt there was no need to make any changes to their approach and offerings. Nor did *takaful* providers express the urgency, to the same extent as conventional insurers, of the need to digitalise their customer reach, servicing or processing, as highlighted Figure 3.1 below.

Figure 3.1



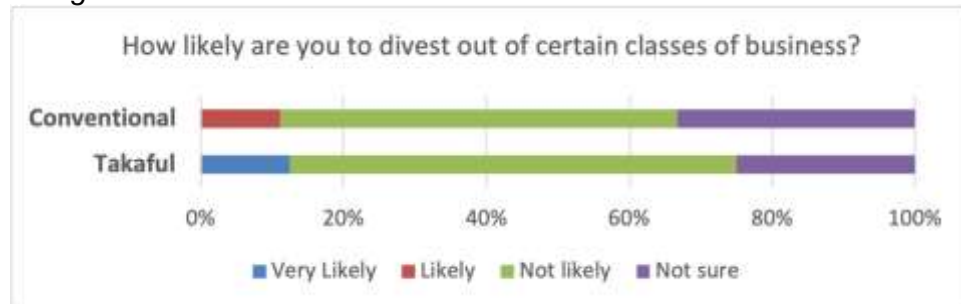
These results precipitated a mini-survey conducted in November 2021, involving key industry experts and leaders,²² to seek their views on reasons for this difference between *takaful* and conventional players and what needs to be done to make the *takaful* industry more durable and sustainable. The findings and recommendations of this mini-survey are summarised in section 5.4.

3.5.1 Revisiting Risk Appetite and Changing Strategies to Manage COVID-19 Risk Exposures to Institution's Portfolio of Business



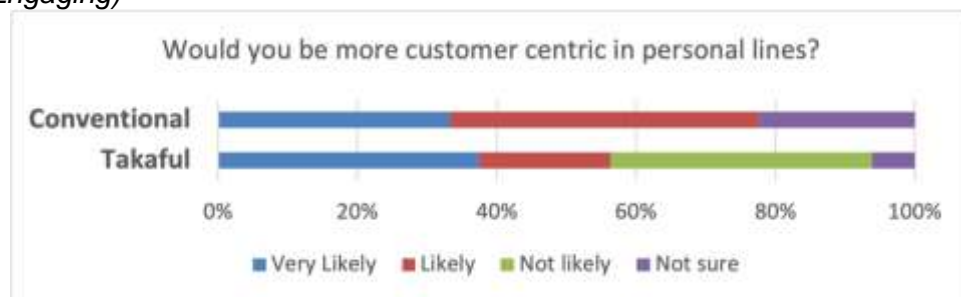
Takāful operators have shown greater drive to revisit their risk appetite strategies than the conventional insurance companies surveyed.

3.5.2 Divesting out of Certain Classes of Business



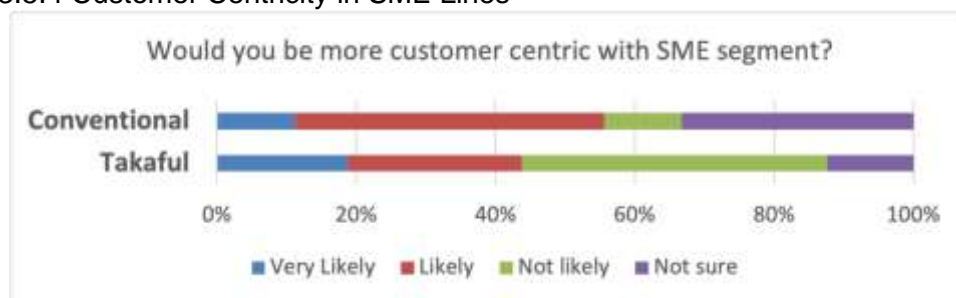
The general consensus among both takāful and insurance companies was to divest out of certain classes of business. The emphasis was more on strengthening online customer connectivity (via direct, agents and brokers) and encouraging an increase in long-term (family takāful) protection lines.

3.5.3 Customer Centricity in Personal Lines (e.g. Tangible Support, Actively Engaging)



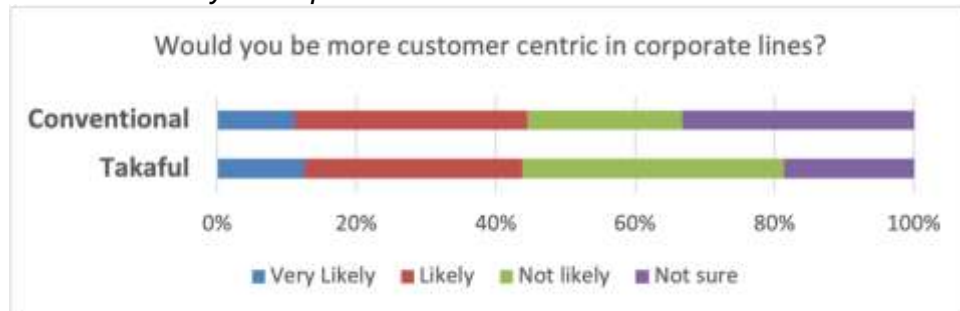
Both the takāful and insurance companies surveyed expressed the need to be more customer-centric than ever before through active digital engagement in all personal lines. The conventional insurers appeared to be more driven to it, and specifically mentioned its importance in the medical, cyber, travel, motor and life insurance lines of business. Takāful operators more often mentioned the medical, householders, travel, motor and family takāful lines of business.

3.5.4 Customer Centricity in SME Lines



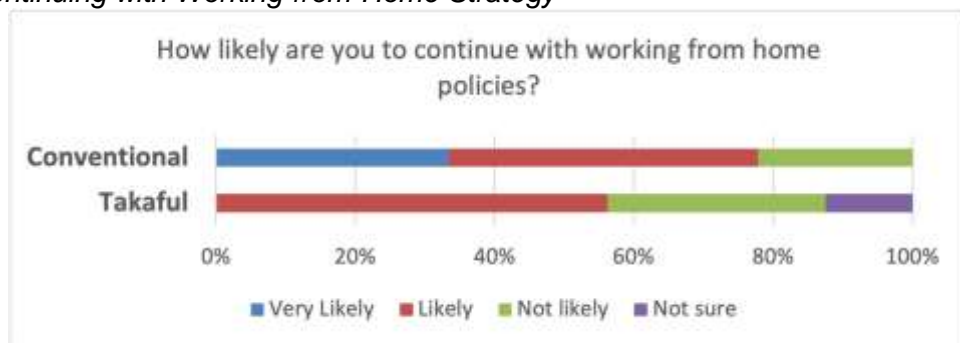
The pandemic has increased the focus on segments that have not been so well served. In Malaysia, several digital offerings have been introduced to cater for traditionally excluded segments, including coverage for children with learning disabilities, usage-based protection and micro-SMEs on e-commerce platforms.

3.5.5 Customer Centricity in Corporate Lines



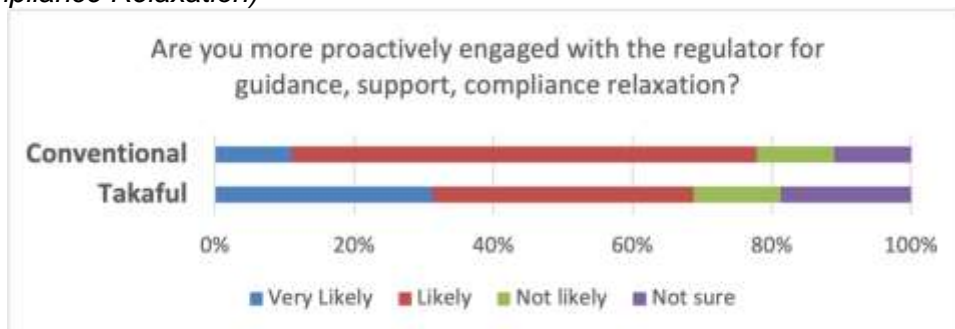
The pandemic has increased the focus on segments that have not been so well served. In Malaysia, several digital offerings have been introduced to cater for traditionally excluded segments, including coverage for children with learning disabilities, usage-based protection and micro-SMEs on e-commerce platforms.

3.5.6 Continuing with Working-from-Home Strategy



Working from home has been a necessity and is likely to continue at different levels at least for the foreseeable future. There has been a resumption of working from the office in stages and phases, with all the necessary SOPs, including new seating arrangements and new technology connecting those staff working in the office with those working from home.

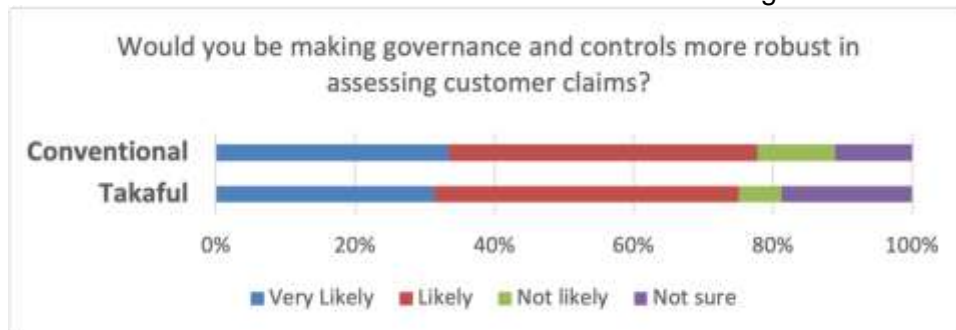
3.5.7 Proactive Engagement with the Regulator (for Guidance, Support, Compliance Relaxation)



There is universal realisation of the importance of proactive engagement of the industry with the regulator in order to find timely solutions to issues and matters that are new and unprecedented. All RSAs and ITOs are committed to digitalising, to creating clear and unified policies, and to making greater use of electronic and online mediums of reporting and compliance.

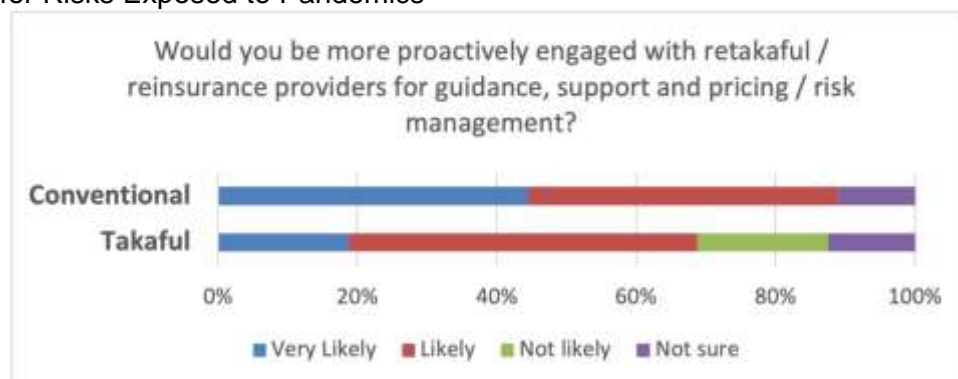
In Palestine, for instance, timely RSA action made it possible to give discounted prices for motor insurance of public transport vehicles that helped the insured in this category, since they had lost a large portion of their income as a result of the pandemic lockdown and restrictions on movements between cities within the country. In Saudi Arabia, remote litigation sessions were allowed for insurers.

3.5.8 Governance and Controls to be More Robust in Assessing Customer Claims



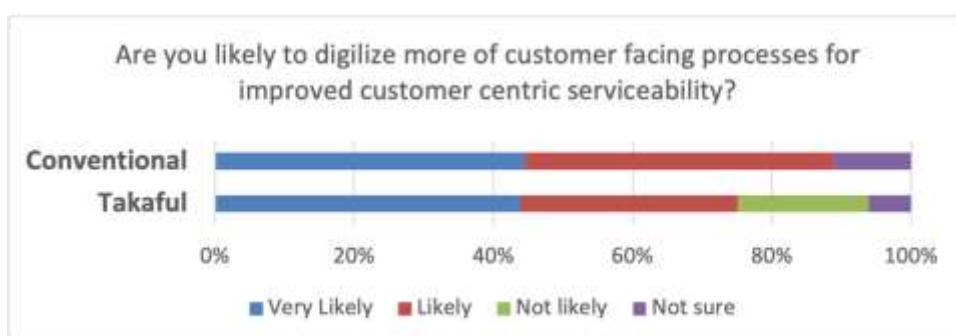
Digitalisation is seen as an important vertical in improving the combined ratios for ITOs, and its governance and control have become fundamental for the effectiveness of this approach.

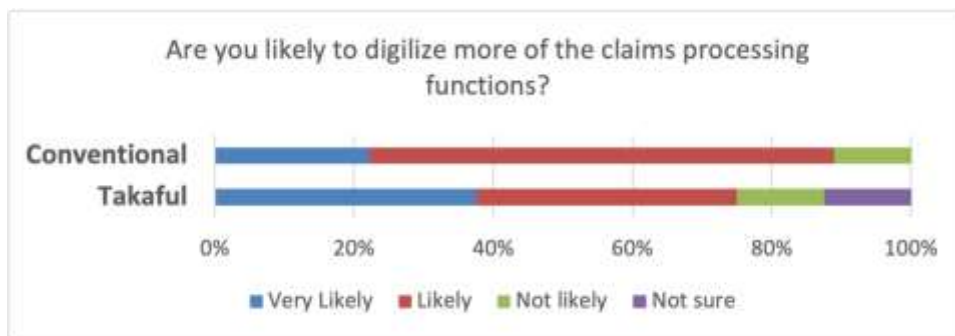
3.5.9 Proactive Engagement with Retakāful Providers (for Guidance, Support, Pricing) for Risks Exposed to Pandemics



The findings illustrate an even greater emphasis on proactive engagement with retakāful providers, compared with the regulators, as part of an effective risk management approach.

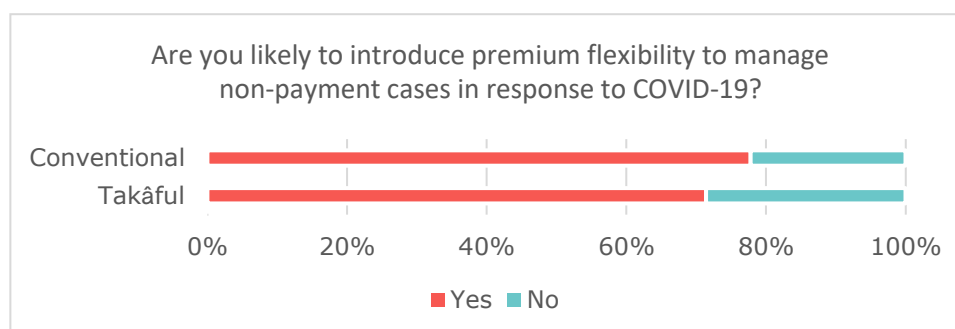
3.5.10 Digitalisation: Customer-Facing Operations and Claims-Processing Functions





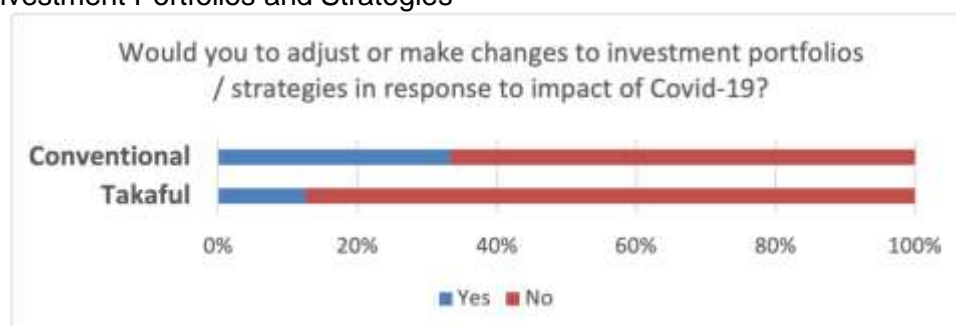
If there is one thing where everyone is aligned, it is digitisation. Almost 90% of the respondents agreed with the importance of digitalizing their customer-facing processes and claims-processing functions.

3.5.11 Premium Payment Flexibility to Manage Policy Non-Payment Cases



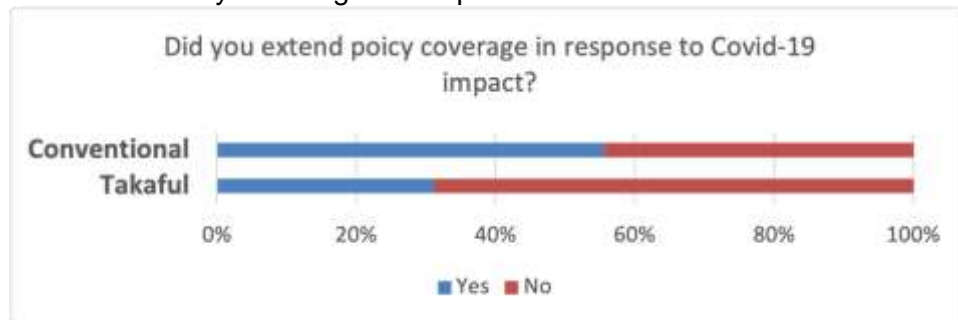
Both the conventional and *takaful* companies have a similar approach to allowing premium payment flexibility to avoid lapses. Conventional insurers provided extensions for their loyal customers with valid reasons for delays and allowed premiums to be deferred for three months or payment in instalments, on a case-by-case basis. *Takaful* providers allowed contribution deferment for three months or until 31 December 2021, partial payments, or instalments (including discounts). They accepted online payments and benefits and extended grace periods from 30 days to 60 days.

3.5.12 Investment Portfolios and Strategies



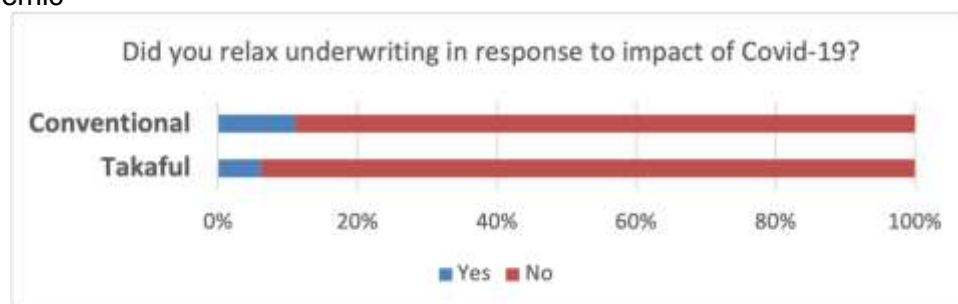
The response to this question highlights a clear difference between conventional insurers and *takāful* providers, the latter indicating less of a need to change their investment strategies and portfolios. Conventional insurers indicated a shift towards considering strategic asset allocation of their investment portfolios into different asset classes such as cash, bonds or equities in terms of asset liability management. The tactical asset allocation bands would be adjusted to address returns from other assets on the back of poor yields and to focus on sectors likely to benefit from the pandemic, such as technology and health, hedging against market fluctuations. *Takāful* operators also indicated a preparedness to follow tactical asset allocation within the compliant investment universe of equities and *sukuks*.

3.5.13 Extension of Policy Coverage in Response to COVID-19



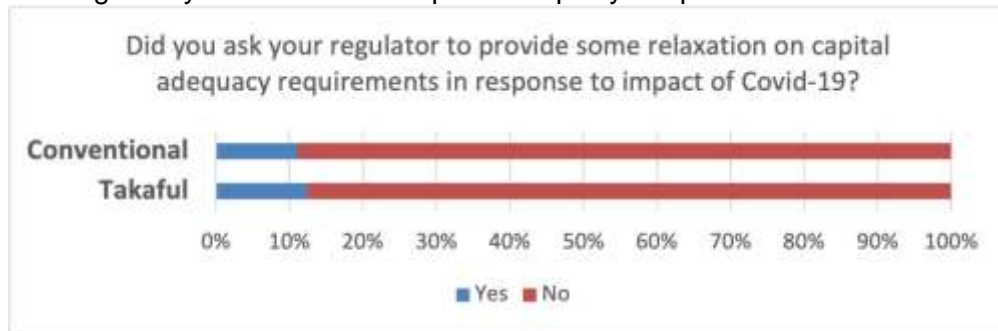
Even though the survey responses reflect that conventional insurers have been more active than *takāful* providers in extending the policy coverage, it does not necessarily mean that this is representative of the approach by *takāful* providers. A notable coverage extension by conventional insurers was the reimbursement of 17 hospitalization benefits for insured who were treated for COVID-19. *Takāful* operators in Malaysia set up special COVID-19 funds (RM 3 million in total in tranches of RM 1 million) that provided hospital cash benefits and death benefits due to COVID-19 until 31 December 2021 or until the fund is depleted, whichever comes first.

3.5.14 Relaxing Underwriting to Encourage Participation in Response to the COVID-19 Pandemic



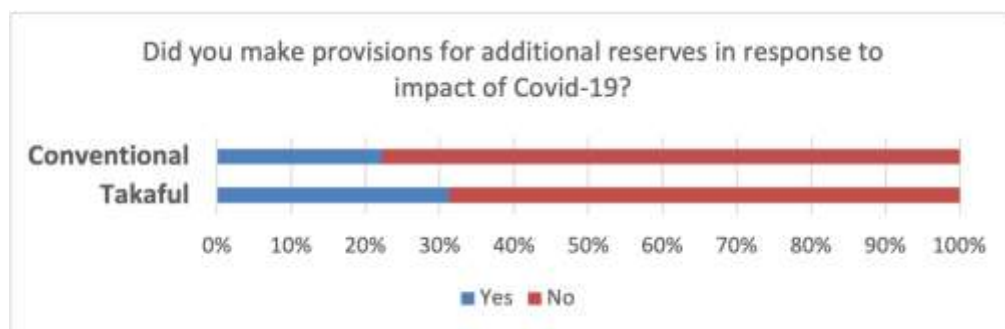
Conventional insurers introduced higher non-medical limits, while *takāful* operators made COVID-19 questionnaires mandatory for frontline workers only in order to cover them.

3.5.15 Regulatory Relaxation on Capital Adequacy Requirements



The solvency position and capital adequacy of the ITOs surveyed was not impaired by COVID-19 related risks.

3.5.16 Provision for Additional Reserves



Conventional insurers had to provide additional reserves in the property and business interruption classes. *Takāful* providers responded with having to manage accounts receivable and investments, and to strengthen their incurred but not reported reserves.

3.6 Similarities and Differences in the COVID-19 Experience: *Takāful* vs Conventional Insurance

It must be noted that the findings reflect the responses of a small number of *takāful* and insurance companies, and the results may change with a larger universe of responses.

Similarities

Most respondents:

- did not feel the need to divest out of any of the classes of business they currently offered
- recognised the need to be more customer-centric in their corporate lines and SMEs
- wished to engage more proactively with the regulator
- recognised the need for more robust governance and controls
- accepted the need to digitalise their customer-facing and claims-processing

functions

- allowed for premium flexibility for non-payments to avoid lapses
- felt no need to adjust/change their investment portfolios/strategies
- were reluctant to relax their underwriting for the purpose of encouraging more participation, but conventional insurance showed some leeway
- had no expectation of regulatory relaxation for capital adequacy
- felt no need to make extraordinary provisions for additional reserves.

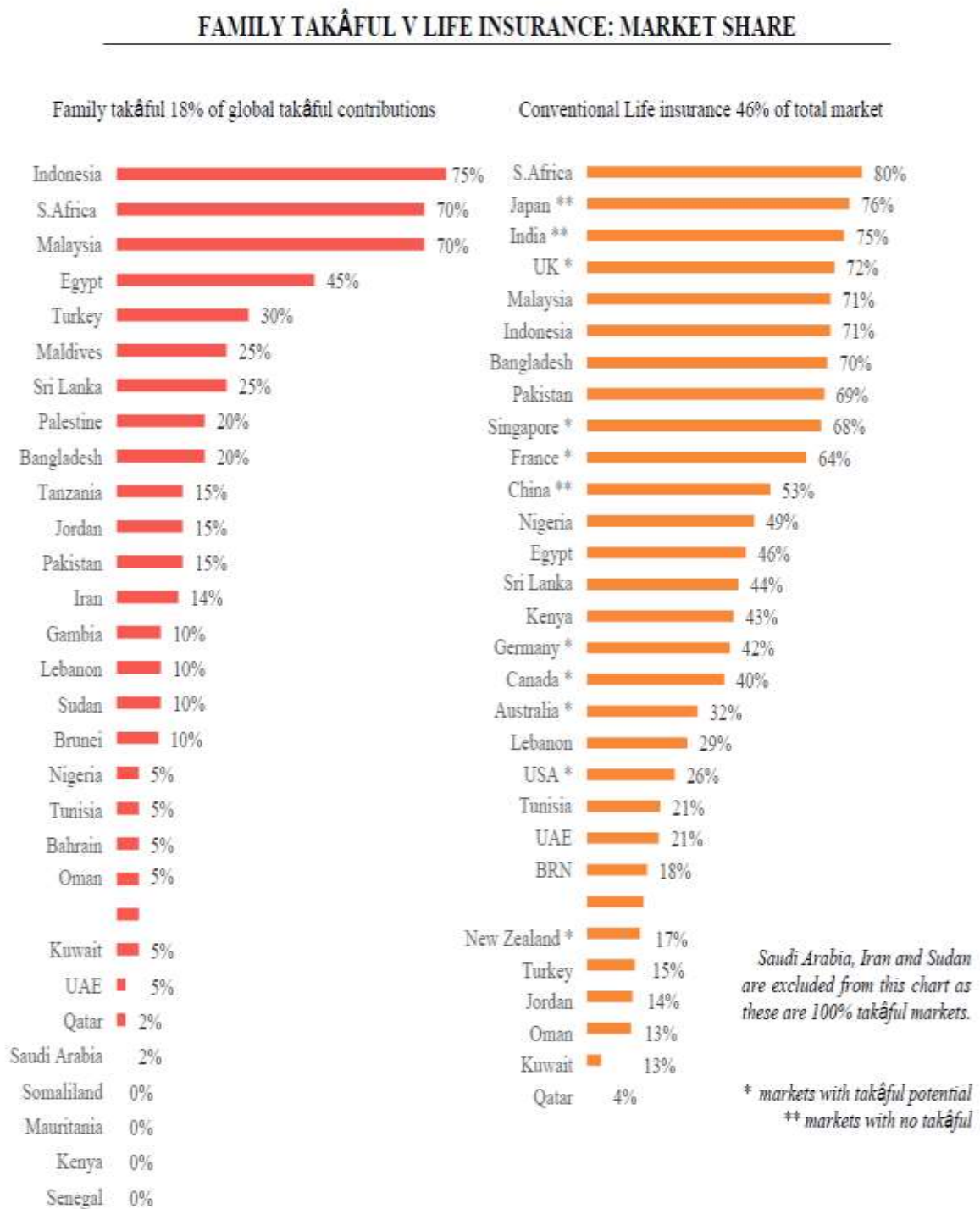
Differences

- *Takāful* operators were more likely than conventional insurers to revisit their risk appetite and change their strategies.
- More of the conventional insurers expressed the need to act than the *takāful* providers, although *takāful* providers expressed a similar need to:
 - be more customer-centric in personal lines
 - continue with their working-from-home policies
 - be more proactively engaged with the reinsurer provider
 - be more open to extending policy coverage.

The charts in Figure 2 highlight the differences between *takāful* and conventional insurance businesses in terms of life share of the total market. The *takāful* industry's average exposure in family *takāful* is below 20%, ranging from above 70% in Indonesia, Malaysia and South Africa to 5% or less in the GCC countries. The world average share of life insurance of the total market is 46%, and 53% for the emerging markets.

The differences between *takāful* and conventional companies, in terms of their experience during the COVID-19 pandemic, are also driven by the extent of the risk exposure of their underlying portfolios to general lines and life insurance/family *takāful*, by commercial lines versus personal lines, and by their exposure to long-term business with a savings element and in long-tail general liability risks.

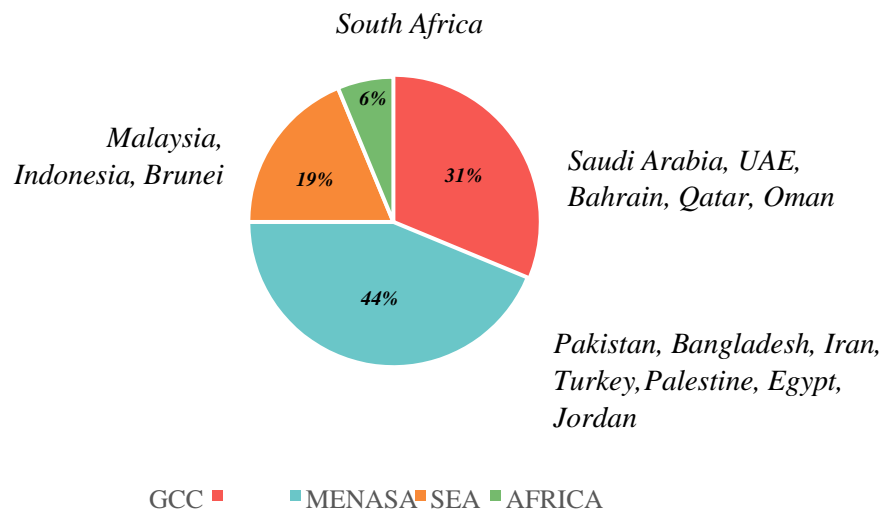
Figure 2



SECTION 4: COUNTRY EXPERIENCES

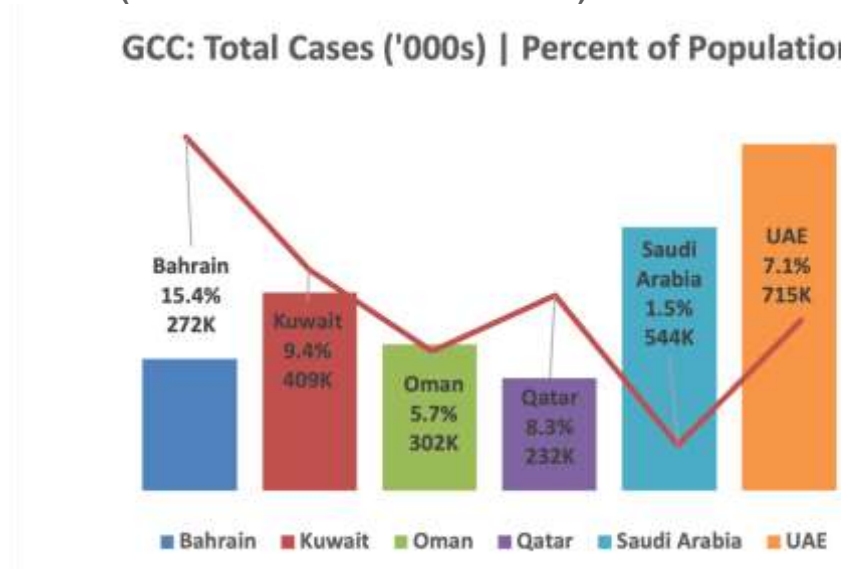
4.1 COVID-19 Spread by Regions

This section covers the experiences of 16 selected countries, specifically on policy measures adopted to address COVID-19 challenges, based on responses received in July and August 2021.



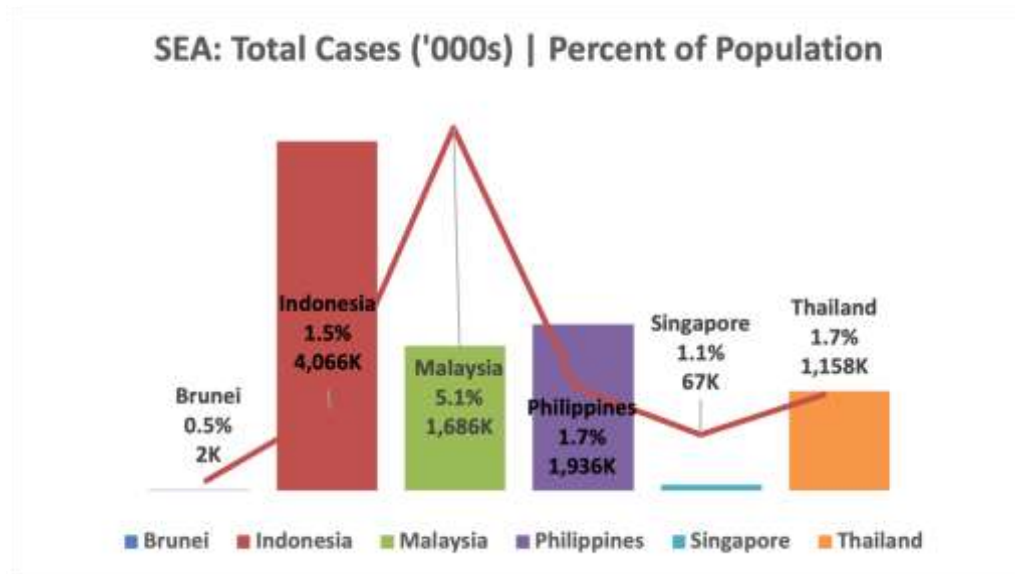
The latest positions with regards to COVID-19 cases in these regions (as at 28 August 2021) are illustrated in the following charts (*source: www.worldometers.info*). It should be noted that the statistics issued by each of the selected countries may or may not reflect the actual severity of the impact of the pandemic.

THE GCC (GULF COOPERATION COUNCIL): TAKĀFUL MARKETS



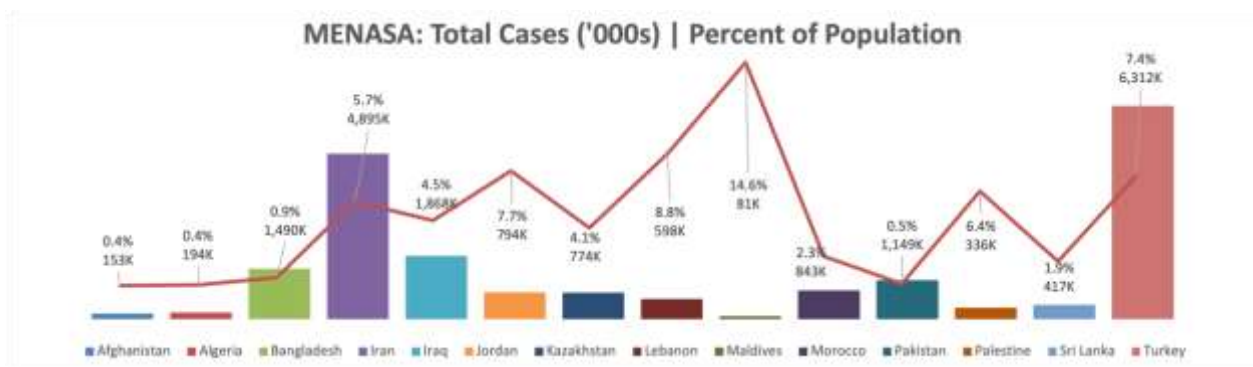
Of all the GCC countries, Saudi Arabia was the most effective in controlling the spread of COVID-19. Bahrain registered the highest percentage (15.4%) of the population infected, but the UAE registered the highest number of people affected (715,000) despite having the strictest SOPs proactively imposed by the government.

SOUTH-EAST ASIA: *TAKĀFUL* MARKETS



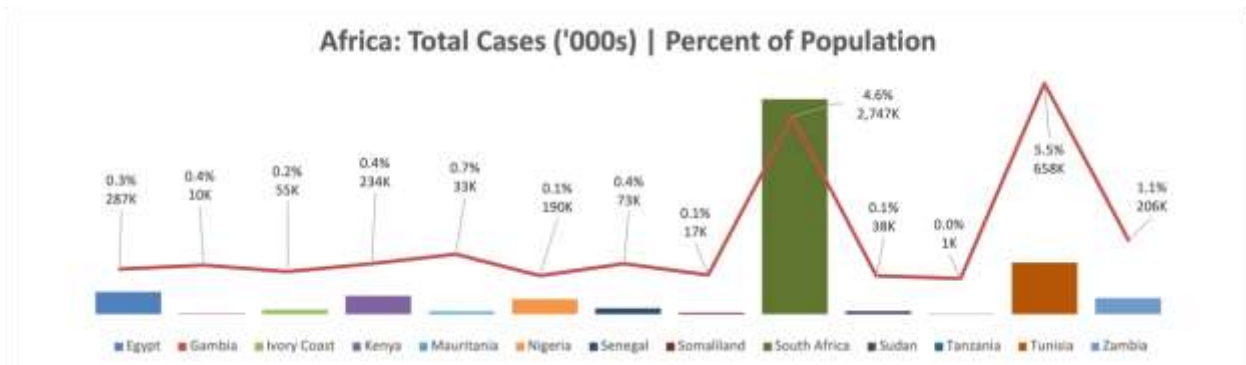
Brunei was most successful in controlling the spread, with only 2,000 people infected, while Malaysia experienced the brunt of the spread, with 5.1% (1.7 million) of its population infected. There are new waves of the spread in the region as of August 2021.

THE MIDDLE EAST, NORTH AFRICA & SOUTH ASIA: *TAKĀFUL* MARKETS



These figures reflect a low spread of COVID-19 in several MENASA countries; for example, only 0.4% (153,000) of the population was infected in Afghanistan, 0.5% in Pakistan, and under 1% in Bangladesh. However, these numbers represent the registered cases, and it is thought that the actual spread and severity could be higher.

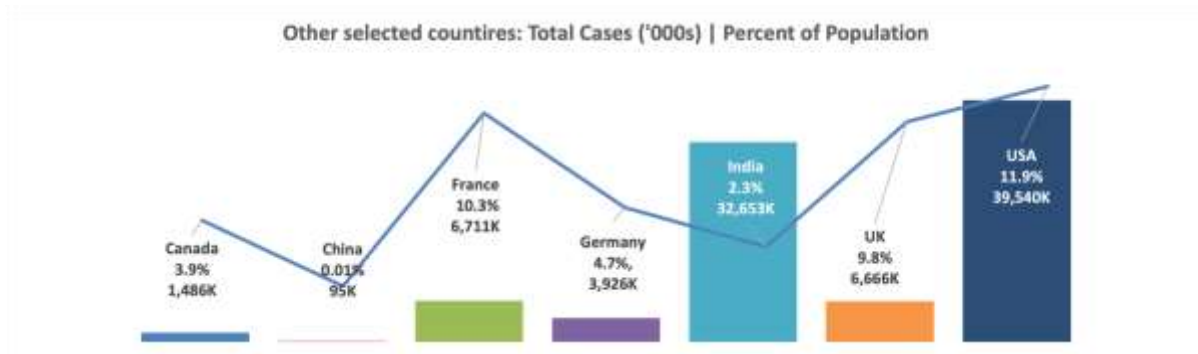
AFRICA: *TAKĀFUL* MARKETS



South Africa registered the highest number of cases in Africa (2.7 million, representing 4.6% of its total population). The numbers in most other countries are much lower, but – like the MENASA countries – this represents the registered cases only, and it is thought that the actual spread and severity could be much higher.

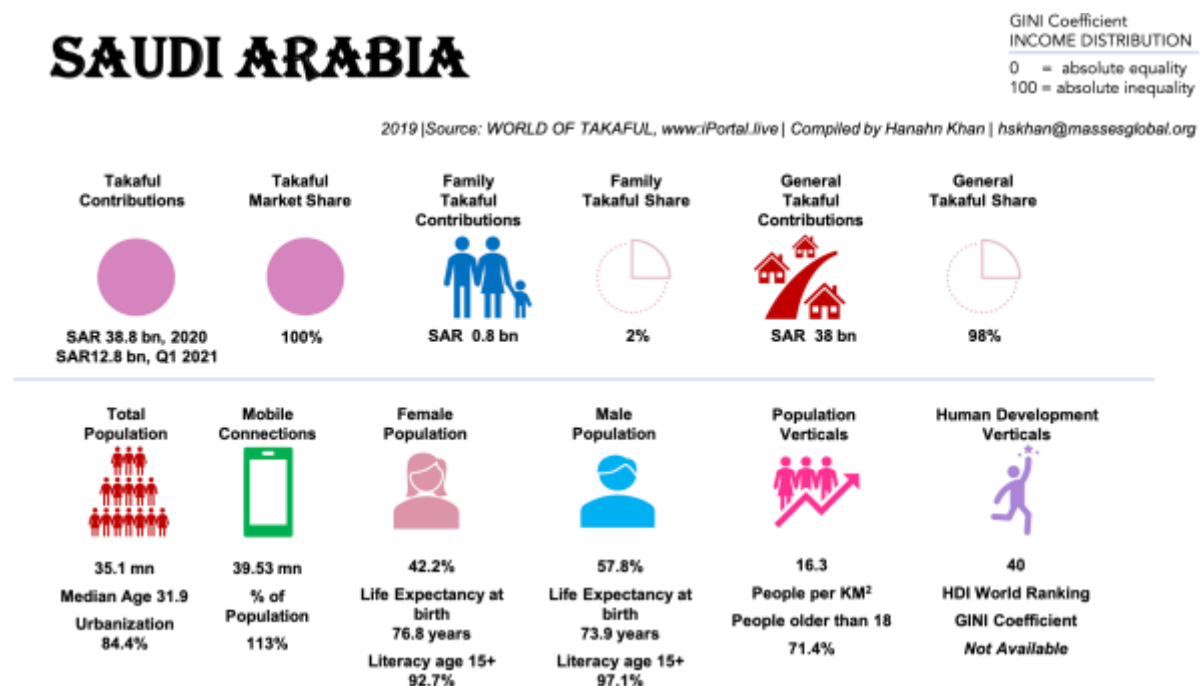
Other Countries for Comparison with *Takāful* Markets

The following chart represents those countries in the world with the highest number of infections, excluding China.



The USA and India had 39.5 million (12% of the population) and 32.7 million (2.3%) cases, respectively.

4.1.1 The GCC (Gulf Cooperation Council): *Takāful* Markets



There are 29 cooperative insurance companies operating in Saudi Arabia, with Saudi Riyals (SAR) 38.8 billion of gross written contributions in 2020. As of 1Q21, the gross written contributions were SAR 12.8 billion.

Saudi Arabia has taken physical, monetary and prudential measures to combat the negative impact of COVID-19. In particular, the Saudi Arabian Monetary Authority (SAMA) implemented policies for the financial system based on two pillars, namely: (i) maintaining the stability of the financial system; and (ii) supporting the sustainability of the most affected economic sectors to support the growth of the national economy. For the cooperative insurance sector, SAMA issued instructions permitting companies to sell their protection and saving products through online channels. The instructions also asked to relax the requirements for pricing and debt provisions.

The various initiatives and instructions issued by SAMA were as follows:

- the extension of all existing motor insurance policies for a period of two months
- the addition of two months' cover to motor insurance policies purchased during the period from 8 May to 6 June 2020
- allowing remote litigation sessions for insurance committees
- approving a new travel insurance product for Saudi citizens travelling abroad that included a cover for COVID-19 infection risk.

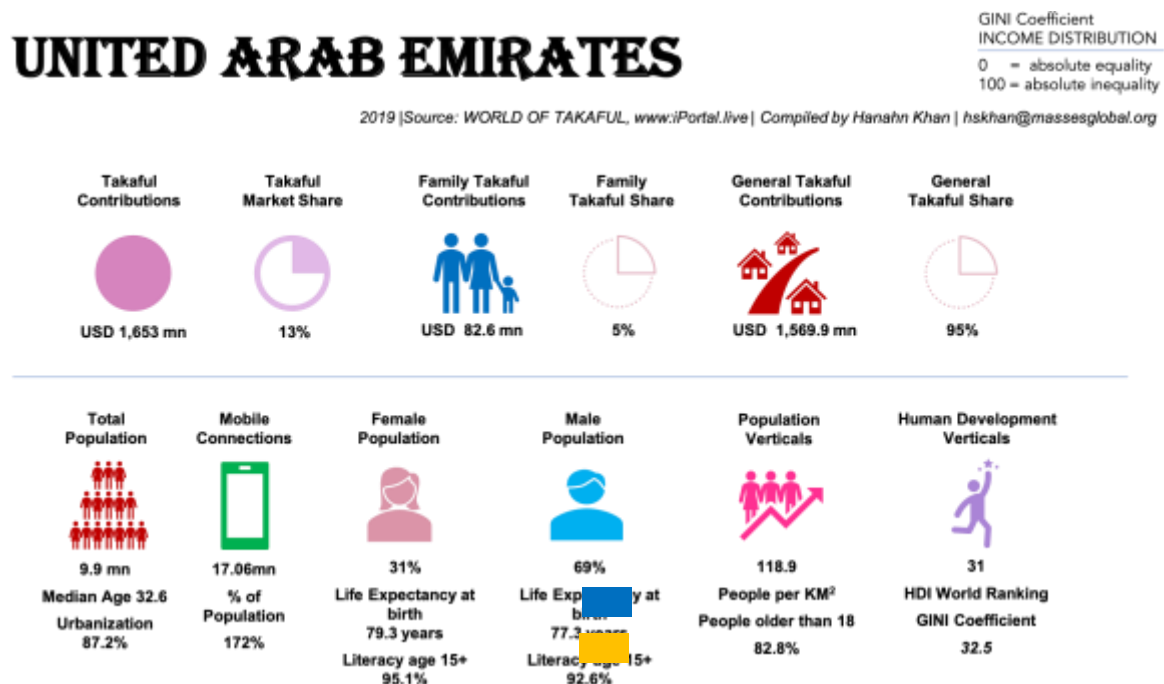
As per SAMA, the overall volume of gross written cooperative insurance contributions increased by 5% in 2Q20 compared to the same period the previous year. The motor insurance class increased by 6%, while the health insurance class decreased by 2%. The increase in motor contributions could be due partly to the free two-month extension of those policies.

Claims decreased as a result of COVID-19, especially in the motor and health classes, resulting in an improvement in loss ratios to 50% and 70%, respectively. There was M&A activity in Saudi Arabia among the cooperative insurance companies during the course of 2020 and 2021, but this had started before the spread of the pandemic and therefore was not driven by it.

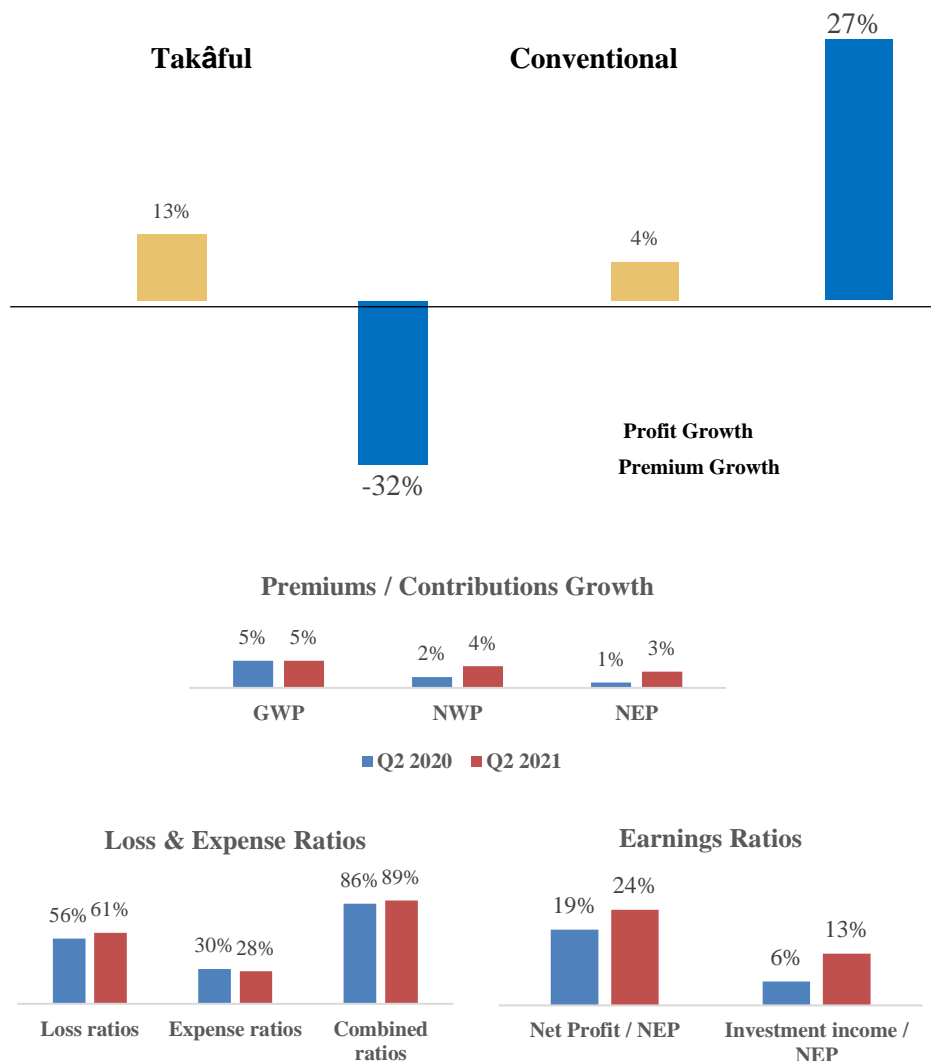
SAMA carefully supervised the sector through regular reports submitted by the companies and noted that several had developed their own policies to support their disaster recovery plans. For instance, many had adopted working-from-home policies during the pandemic. Moreover, the sector had facilitated the customer experience by digitalising their services and processes, such as providing online purchase of policies and online submission of claims, facilitating interactive communication, etc.

Looking ahead, SAMA is reviewing the unified policies to ensure that pandemic-related clauses are clear. It aims to update its regulations to expedite the use of electronic and online channels for the sector's activities, as well as connectivity with the regulator.

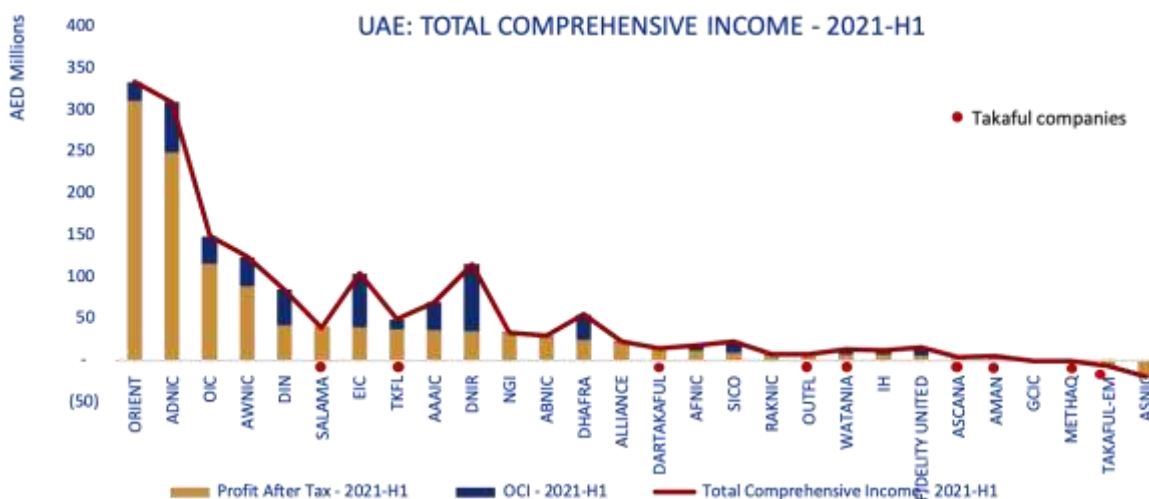
4.1.2 THE GCC (GULF COOPERATION COUNCIL): TAKĀFUL MARKETS



The UAE has 21 insurance and nine *takāful* companies. In 1H21, *takāful* constituted 16% of the total business written, increasing from UAE Dirham (AED) 2.1 billion to AED 2.4 billion in 1H21, year-on-year (y-o-y). The conventional gross written premiums (AED 16.4 billion) grew by 4% in 1H21 compared to 6% in 1H20. While *takāful* business grew more than conventional business, the conventional companies' profits increased by 27% (from –8% in 1H20) compared with *takāful*'s massive drop of –32%. All but two *takāful* companies generated profits in 1H21.

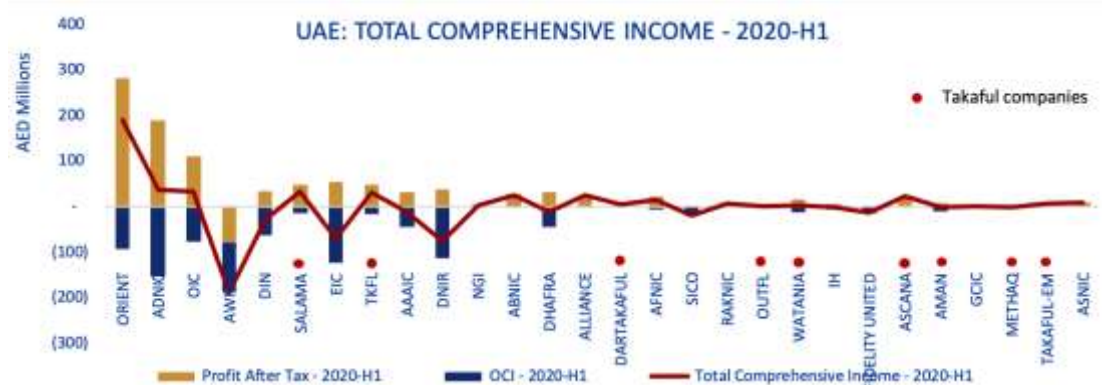


Post-lockdown since 2Q20, insurance and *takāful* companies are reverting back to the usual trends. The 5% growth in topline is the same as in the previous year, while the loss and combined ratios in 2Q21 are slightly higher y-o-y (61% and 89%, respectively). The return on investments increased markedly measured as earnings ratios, with the net profit to net earned premiums ratio increasing from 19% to 24% and the investment income ratio increasing from 6% to 13%. The investment values of assets of insurance and *takāful* companies in the UAE were impacted considerably by COVID-19 in 2020, showing a decline in “Other comprehensive statements” for most companies, as shown in the graph below for 1H20



(OCI is revenues, expenses, gains and losses, etc. yet to be realised, normally excluded from net income in the income statement.)

The recovery of the financial markets in 1H21 has been phenomenal, as seen below.



The UAE implemented a range of measures to manage the impact of COVID-19 at both the federal level and through the governments of each of the seven emirates. Overall, these measures have been stringent, but there has been relatively limited regulatory intervention specific to the insurance sector.

Medical insurance premiums in the UAE increased in 2020 as residents became more cautious about their health. Several insurers increased the premium/contribution rates of medical insurance policies as new types of benefits were added, such as COVID-19 testing cover, COVID-19 treatment cover, and mental health and occupational therapy covers. COVID-19 death cover was also added to group and individual family *takaful* policies.

Medical insurers have observed a dip in the frequency of claims during the pandemic due to a reduction in unnecessary use of health-care facilities (BadriManagement). However, the severity of the medical claims increased during the period, which triggered an increase of between 8% and 10% in medical costs. This is expected to go up further in 2021.

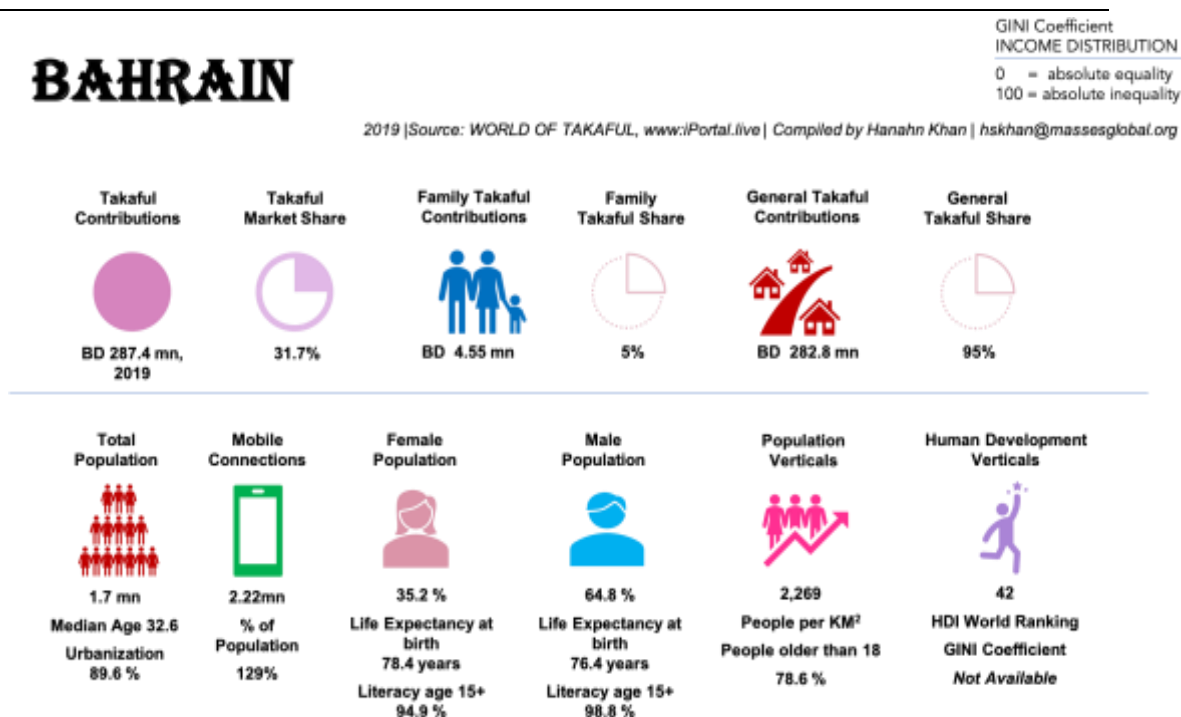
The market is seeing new trends of digitalisation accelerated by COVID-19 across the entire insurance value chain, from distribution to claims handling and recovery. UAE residents have actively adopted telemedicine for outpatient services.

Some regulatory measures designed to ease the financial burden of regulatory compliance were implemented, particularly for UAE insurance intermediaries, reducing the amount of the letter of guarantee by 33%. The early guidelines issued by the Insurance Authority required insurers to conduct stress testing in order to understand the impact of COVID-19 on their businesses. The tests initially looked at the impact on premiums and claims and on the solvency of insurers.

Policy measures issued by the Insurance Authority for the insurance industry included:

- guidelines on insurance entities' readiness to work remotely, including the identification of business-critical roles and the allocation of funds to ensure that necessary systems and equipment were in place to facilitate this
- extending the delivery dates of technical reports for the whole sector, including insurance companies, brokerage companies and health insurance third-party administrators
- reassuring the public of a quick response to COVID-19 related claims under mandatory medical insurance
- directing insurers to grant discounts of up to 50% on insurance premiums for frontline workers
- providing insurance discounts aimed at relieving the burden on the insured and some segments of society, including workers in the health-care sector, armed forces, police, civil defence, the elderly, people of determination and drivers with accident-free records
- granting partial insurance premium refunds or reduced renewal premiums on valid motor policies
- considering basing charges for new or renewal premiums on motor policies on the mileage driven by the insured motor vehicle.

4.1.3 THE GCC (GULF COOPERATION COUNCIL): *TAKĀFUL* MARKETS



The Central Bank of Bahrain (CBB), the regulatory and supervisory authority of Bahrain's financial services industry, issued a string of guidelines from 2020 during the COVID-19 pandemic period to ensure the smooth continuity of business operations of the insurance and *takāful* industry aligned with the government SOPs, including fast-tracking digital initiatives.

Some of these guidelines were about modifying, exempting and relaxing reporting requirements, including some rules for easing operational pressure on licensees, in light of the widely implemented precautionary strategies of working from home and social distancing. A circular was issued on 24 March 2020 to ensure that disaster recovery plans (DRPs) were in place.

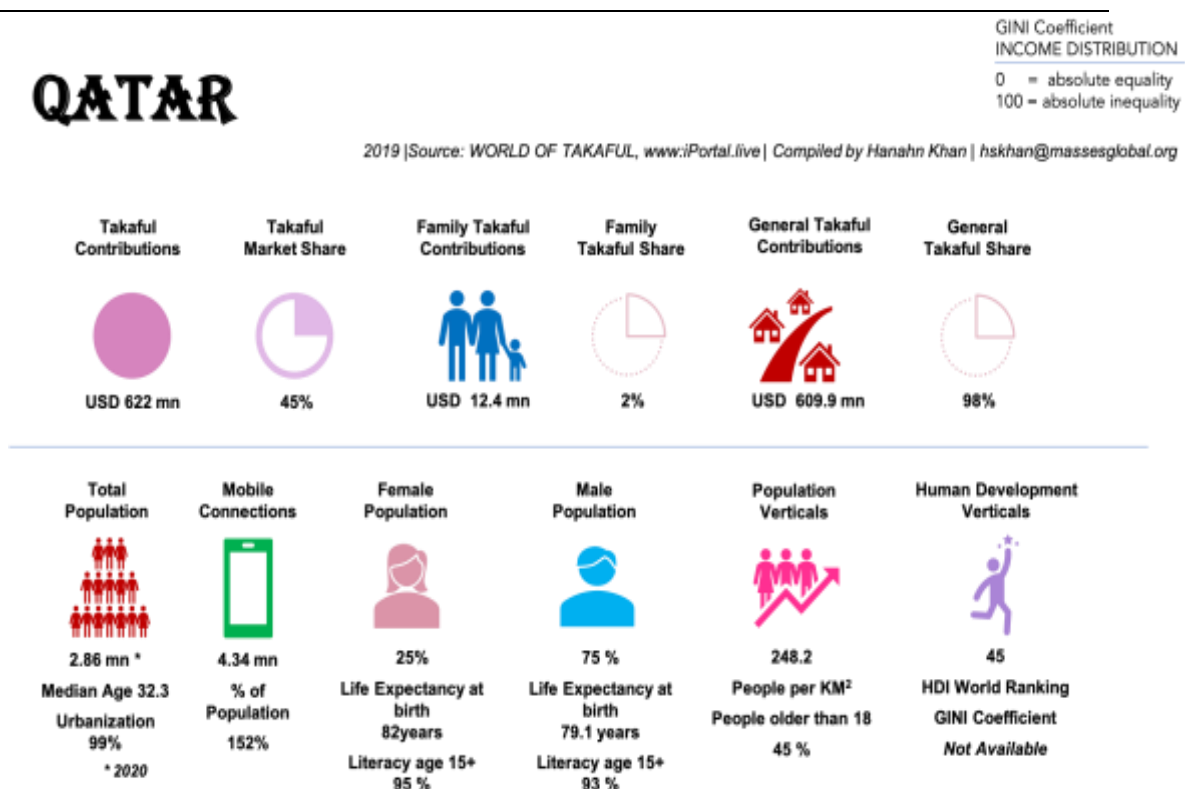
The CBB's proactive efforts and strategies were introduced before the pandemic in order for the industry to digitalise and innovate. This was in tandem with reporting requirements where the external auditors are required to report on licensee-readiness for business continuity and DRPs. Many of the measures related to business continuity and DRP were therefore already in place, and the CBB had only to ease the operational pressure on licensees so that they could focus on the business side. This readiness enabled the regulator to navigate the crisis smoothly.

The CBB had started the digitalisation strategy along with simplifying/streamlining the customer experience and standardisation well before the pandemic, given that Bahrain has high internet and mobile penetration rates along with highly advanced fintech solutions and infrastructure (such as mobile payment systems, etc.). Examples of areas for digitalisation are medical and motor, and their claim and accident processing.

Many deadlines related to digitalisation were pre-set to be implemented in 2020–1 before the pandemic occurred. The pandemic accelerated this process, resulting in many organisations fast-tracking their implementation of the CBB’s strategies and innovative digital solutions.

Almost all companies adopted the work-from-home practice, but whether this practice will continue post-pandemic is entirely at the discretion of individual companies. The impact of COVID-19 on the industry’s new business and claims ratios is being collated at the time of this survey. Pre-pandemic, there were intentions for M&A between some insurance/*takāful* companies. The pandemic fast-tracked those intentions into actions, leading to greater M&A activity in Bahrain. Post-pandemic the CBB intends to look at new venues to digitalise, and at new innovative solutions, and plans to continue to standardise and simplify/enhance the customer experience.

4.1.4 THE GCC (GULF COOPERATION COUNCIL): *TAKĀFUL* MARKETS



The initial spike of COVID-19, in the first and second quarters of 2020, was controlled through a strict lockdown, social distancing and travel restrictions. Qatar experienced a path of low and stable new cases and a relatively low number of deaths, which allowed the authorities to gradually unwind the restrictions.

The insurance sector as a whole was affected, including by the uncertainty of employment and a reduction in expatriate jobs. Working-from-home and business continuity plans were in place. The industry was nevertheless resilient in managing the impact of the pandemic. The downside risks from COVID-19 have put considerable pressure on the economy, especially on real estate, trade and hospitality – these being the main sources of insurance business. Other key developments in Qatar that have

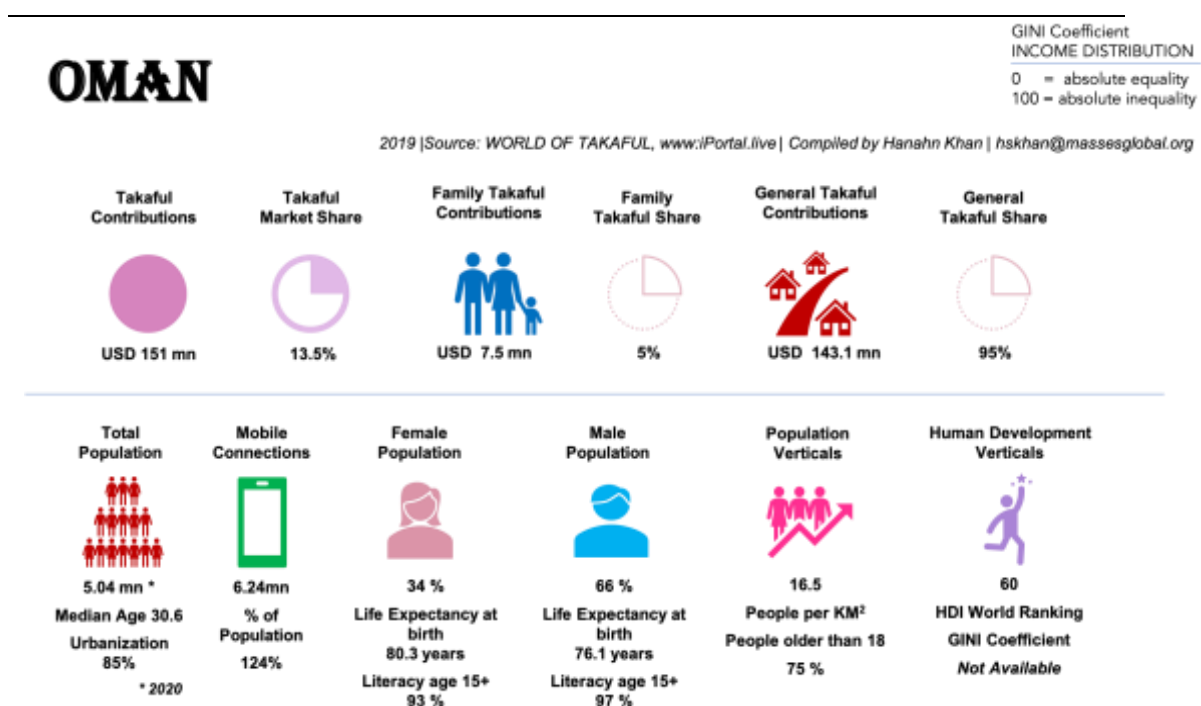
an impact on insurance include the FIFA stadiums, the airport, and various other programs such as food security, health care, etc.

Exclusion clauses were introduced for COVID-19 in most insurance classes except for individual and group life policies. Reinsurance treaty renewals included COVID-19 exclusions, with hardening of facultative reinsurance rates. There was an increase in new business in life and family *takāful*. Lower claims were seen in the motor, workers' compensation and medical classes, while business interruption and life insurance/family *takāful* claims increased.

Qatar is well prepared to manage any financial shocks from COVID-19 with its substantial fiscal headroom able to absorb liquidity issues. The Qatar Central Bank (QCB) issued guidelines that include the most important types of risks that financial institutions operating in the country may face in light of the spread of COVID-19. All financial institutions, when applying the risk-based approach and managing risks, threats and challenges, are required to take measures in accordance with the provisions of the Anti-Money Laundering and Terrorist Financing Law and its executive regulations, instructions and guidelines issued by the QCB.

The insurance sector and premiums decreased in 2020 but are expected to rebound in 2021, supported by sovereign spending ahead of the 2022 FIFA World Cup, according to the credit rating agency A. M. Best. Government-related engineering and property policies are considered highly profitable for local insurers, which benefit from strong levels of inward reinsurance commission due to the extensive reinsurance participation in these policies.

4.1.5 THE GCC (GULF COOPERATION COUNCIL): *TAKĀFUL* MARKETS



COVID-19 has impacted the Oman insurance market, triggering a drop in overall gross written premiums registering about Omani Rial (RO) 309 million in 3Q20, a decline of 3% from 3Q19. However, some of the larger insurers observed a growth in premiums compared to the previous year.

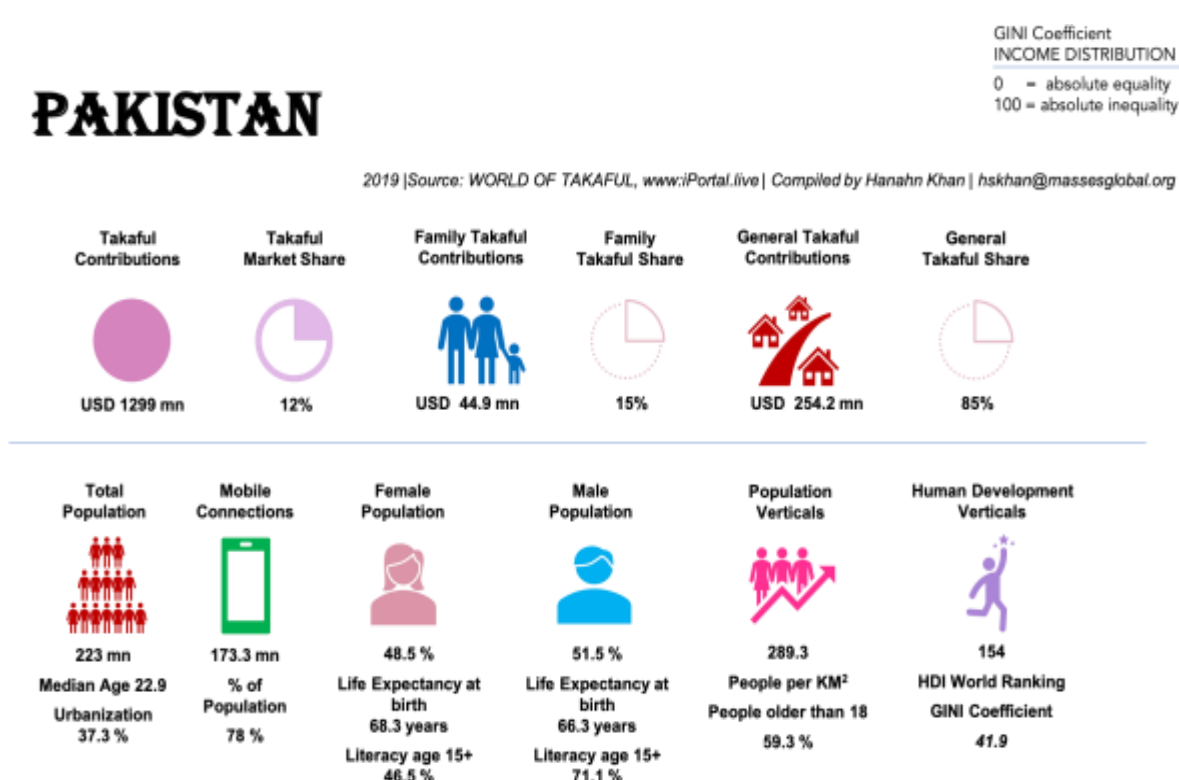
The average reinsurance level is around 43% in 3Q20 (life business: 30% and non-life business: 53%). The average combined ratio for *takāful* and conventional insurers was 95% and 86%, respectively. The average loss ratios of *takāful* companies were, in fact, lower than conventional loss ratios, but their higher expense ratios raised their combined ratios to 95%. The profits recorded for the first nine months of 2020 showed a growth of 52% year-to-date (*source*: Badri Management Consultancy, UAE).

A number of insurance companies contributed to a *waqf* fund as a support to provide health care to manage the COVID-19 impact. The fund covered the costs of medical tests and the treatment of insured individuals infected with the coronavirus.

The Capital Market Authority (CMA) instructed the insurance industry in the following areas in regards to managing the impact of COVID-19:

- Provide coverage to and indemnify drivers with expired driving licences.
- Provide electronic insurance services and suspend manual transactions, with no face-to-face meetings, ensuring the availability of their service through electronic media and applications. All documentation related to claims to be acceptable only through clearly stated electronic means.
- Provide customers access to communication centres operating 24/7 for various services, including underwriting, claims, inquiries and support.
- Provide CMA a work plan to ensure continuity and ease of provision of insurance services.
- Branches of insurance companies, brokers and agents to implement the instructions of the Supreme Committee, including instituting social distancing measures, and to limit dealings in cash through the use of electronic payments.
- Companies to include COVID-19 death cover for insured policyholders.

4.1.6 The Middle East, North Africa, South Asia: *Takāful* Markets



The gross written premium in 2020 was Pakistani Rupee (PKR) 297 billion, 65% of which was life insurance and 34% non-life insurance. *Takāful* constituted around 12% in 2019, but this reflects the growth phase as insurance companies are permitted to offer *takāful* through *takāful* windows.

The insurance industry is generally well prepared for major loss events and has responded well to the impact of the coronavirus in terms of risk and investment management, claims management and the maintenance of customer services. The business most impacted by COVID-19 was the individual life business.

COVID-19 has highlighted the need for insurers to streamline, improve, simplify and digitise their operations and claim functions. The Securities and Exchange Commission of Pakistan (SECP) states that the insurance industry has facilitated management of the impact of the pandemic by relaxing its reporting and statutory filing requirements under the applicable regulatory framework. The SECP advised the insurance industry as follows:

- Companies to implement and maintain a comprehensive business continuity plan to manage the effects of COVID-19 in assessing disruptions and other risks to their services and operations.
- Ensure that specific measures are in place to provide necessary relief to policyholders. For example, in view of the anticipated low claims in motor insurance due to lockdowns, companies are advised to facilitate and pass on the benefit of low claims to motor insurance policyholders by granting them one month's free

coverage.

- Pakistan's life insurance industry has a high exposure to equities, so that adverse movements in the equity market put pressure on the profitability of life products and investment management fees related to savings products. The SECP has allowed insurance companies to show impairment loss, if any, due to significant or prolonged decline in the fair value of equity investments. This is related to impairment in AFS (available for sale) investments, keeping in view the effects of COVID-19 on the investment portfolios of insurance companies. (Reference SECP S.R.O. 414(I)/2020, dated 11 May 2020, relief to companies/entities from the requirements contained in IAS 39.)
- Insurance companies have been allowed to waive non-mandatory requirements for claims processing, such as using alternative methods for verifying the authenticity of claims.
- To facilitate policyholders, companies should consider extending the grace period for payment of renewal premiums under their insurance policies.
- Insurance companies have been encouraged to utilise digital or online payment modes for the receipt of insurance premiums and the disbursement of claim payments; and to use electronic mediums such as SMS, emails, mobile applications, online portals, etc., for claims handling, delivery of policy documents and the issuance of pre-authorisations for treatment in hospitals.
- Insurers to provide coverage against claims incurred in non-panel hospitals, along with recommendation for increasing the list of panel hospitals.
- The SECP has provided relaxation and relief to the insurance industry by extending the timeline for renewal of licences for insurance brokers, insurance surveyors and their authorised surveying officers.
- Companies have been allowed a general extension of 30 days where they faced difficulties in holding an AGM within the due time. Similar extensions were allowed in respect of filing of returns.

Some of the measures taken by the insurers are as follows:

- managing operations and services with staff working from home and the office
- additional benefits payable on death of PKR 100,000 to cover those who died from COVID between March 2020 and June 2020
- temporary extension of the grace period in the first lockdown (March 2020 to June 2020)
- personal lines of business to be given due importance, as this sector remained stable during the whole period
- digitalisation of processes and granting of access to the system to employees from any location.

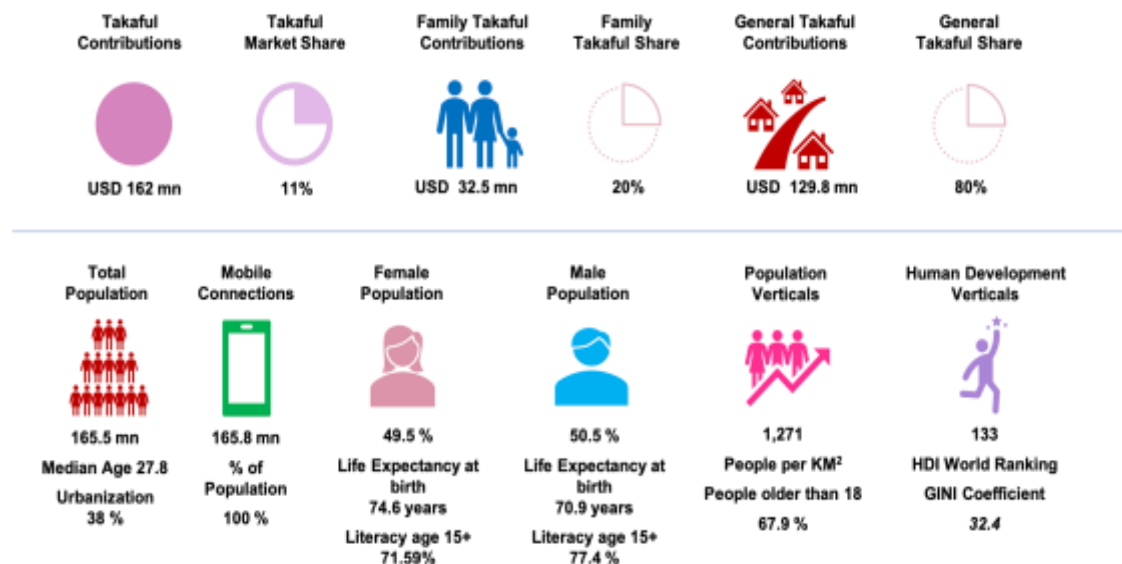
4.1.7 THE MIDDLE EAST, NORTH AFRICA, SOUTH ASIA: TAKĀFUL MARKETS

BANGLADESH

GINI Coefficient
INCOME DISTRIBUTION

0 = absolute equality
100 = absolute inequality

2019 | Source: WORLD OF TAKAFUL, www.iPortal.live | Compiled by Hanahn Khan | hskhan@massesglobal.org

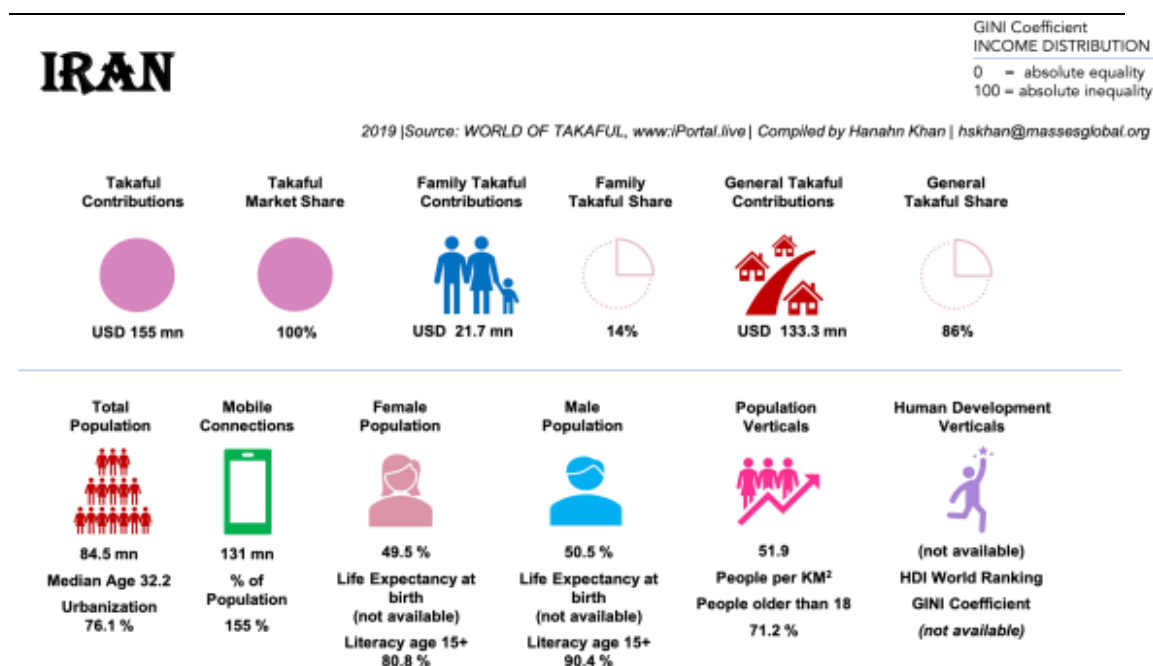


The COVID-19 pandemic had a major impact on the performance of the non-life industry in Bangladesh, with GWP down by 20% in 2Q20. The life insurance business also showed a significant slowdown in premium volumes as a result of the ongoing pandemic. The slowdown triggered fierce competition for distribution, with upward pressure placed on the commission levels offered to distributors.

Given the growing awareness of mortality and morbidity risks among the population, some insurers introduced products to provide cover specifically related to COVID-19. This has created a positive awareness among customers of the protection benefits of life and medical insurance offerings and services.

The impact of COVID-19 has also regenerated the debate surrounding the introduction of bancassurance in the near future, coupled with changing regulatory and consumer attitudes towards the protection business. There is also increased interest among multinational insurance companies in having a presence in this market.

4.1.8 THE MIDDLE EAST, NORTH AFRICA, SOUTH ASIA: TAKĀFUL MARKETS



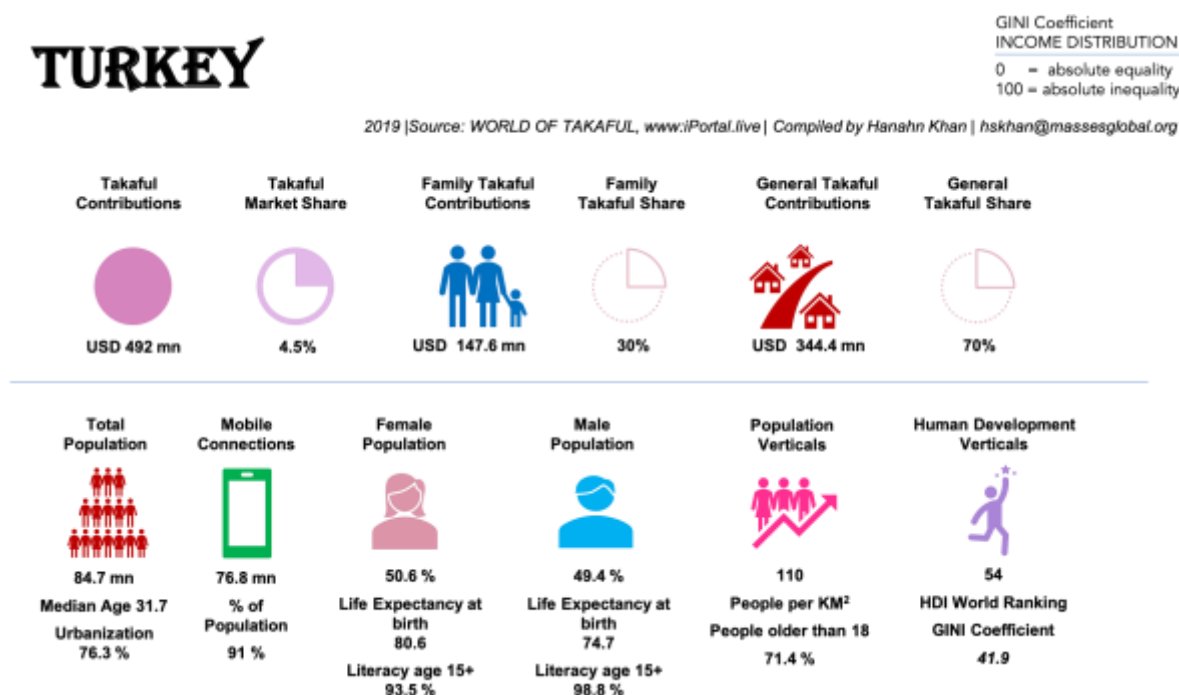
The Iranian insurance industry generated Iranian Rial (IRR) 817.3 trillion (USD 3.43 billion) in premium income in the fiscal year March 2020–1, posting 37.8% growth compared to the year before. In claims, there was a y-o-y increase of 12.2%, amounting to IRR 42 trillion in claims.

More than 25 million individuals are covered under medical insurance, and the medical premiums showed a 42% y-o-y increase, although the medical segment's share of the total premium declined to 13%. The sector paid a total of IRR trillion (USD 28 million) to medical centres affiliated with the Ministry of Health to help them overcome financial constraints caused by the spread of the coronavirus. Motor is a dominant class of insurance, with a one-third share of the total market premiums at IRR 274 trillion (USD 1.15 billion). As per the law, insurance companies are obliged to pay 10% of their revenue from third-party motor insurance to the Health Ministry.

The Central Insurance Company of Iran, the regulatory body of the industry and insurance companies, developed a package for business interruption to cover losses to the business community due to COVID-19. The policy covers business losses for up to 60 days. A number of insurance companies extended their medical insurance coverage to include a portion of hospitalisation bills incurred by infected policyholders. Some insurers extended third-party auto policies for some months without requiring customers to pay the premium in advance.

The government and insurance industry in Iran recognise the critical need to develop intelligent platforms, innovation and big data by insurers to mitigate losses from the pandemic that will also help in any future health emergencies and natural disasters. Companies are actively considering digital transformation of their operations that would make their services and processes more agile, responsive to and connected with their customers and stakeholders.

4.1.9 THE MIDDLE EAST, NORTH AFRICA, SOUTH ASIA: TAKĀFUL MARKETS



The Turkish insurance market is dominated by motor, with third-party liability and casco (motor own damage) making up more than 40% of the market's total premium income. In 3Q20, the Turkish market saw an average growth of 22%, mainly driven by life and medical insurance. It also saw continued growth in liability risks, along with an increase in property, credit and surety bond insurances.

The industry responded positively with regards to different fees and treatment costs of COVID-19 (which are normally excluded and only covered by the state scheme) and covered this cost during the epidemic as ex-gratia payments within the scope of existing policies. Most insurers operated by working remotely at the very beginning of the pandemic.

COVID-19 has accelerated digitalisation in Turkey, and several companies have accepted it as a necessity if they are to remain competitive in the market. The pandemic has highlighted the importance of insurance for health, cyber security, supply chain management, etc., as well as the need for risk management. There is also a greater focus on fixing the gaps and finding appropriate risk management solutions for business interruption, cyber security and parametric insurance.

Turkish insurers' technical results improved in 2020, driven by a coronavirus pandemic-induced lower claims frequency in the motor and health lines, and by adequate premium growth despite the pandemic. Solvency and capitalisation of the insurance sector remained adequate, having benefited from positive retained earnings and lower dividends to shareholders.

Many insurance companies have announced that, regarding individual and corporate health insurance policyholders benefiting from private and complementary health insurances, the different fees and treatment costs limited to the treatment of COVID-19 in all private hospitals designated as pandemic hospitals by the Turkish Ministry of Health will be covered during the epidemic as ex-gratia payments in the scope of existing policies.

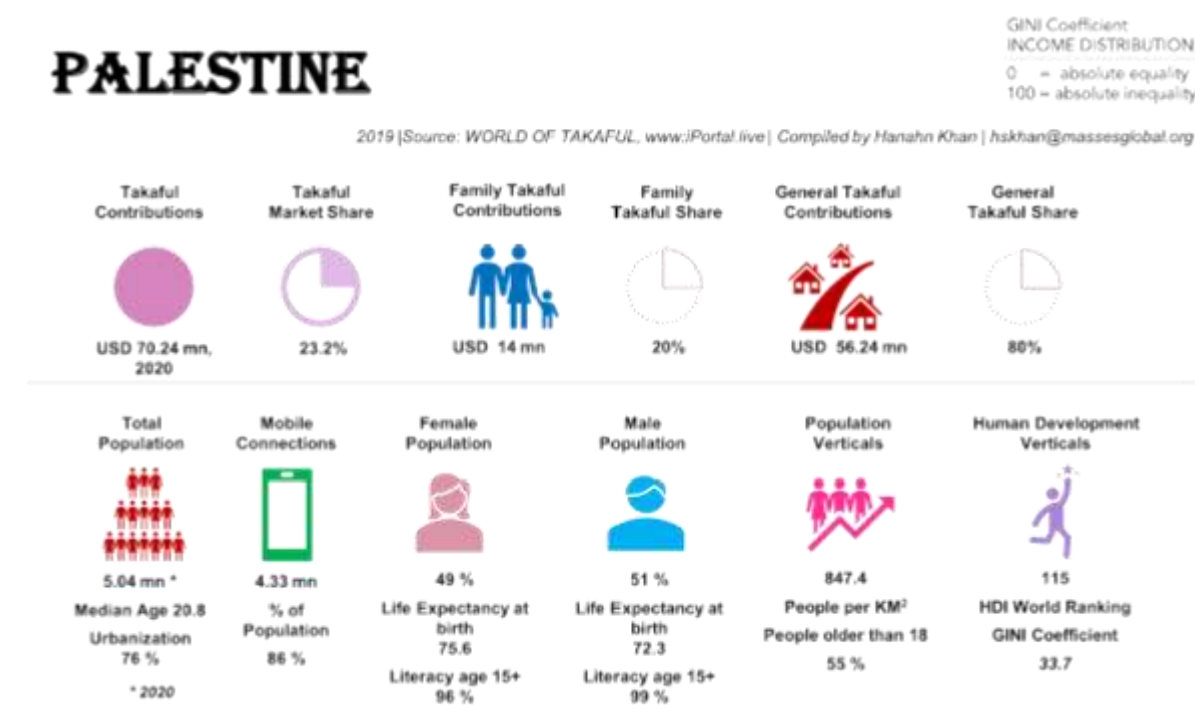
The Turkish Ministry of Treasury and Finance and the Insurance General Directorate (RSA) stipulated several measures of precaution and certain facilities for the insurance sector, as well as new arrangements relating to commercial credit insurance for SMEs.

The Insurance Association of Turkey and a number of insurance companies also actively pursued the coverage of treatment costs for COVID-19 patients in private and complementary health insurance policies.

The RSA enforced the following measures to manage the impact of COVID-19 and to ensure the continuation of insurance services:

- Claims assessments are to be performed electronically. Also, any rejections of claims in branches that apply a specific time period are to be carefully assessed as per the legislation regarding indemnity payments.
- Disputes and petitions before the Insurance Arbitration Commission s are to be presented and sent electronically.
- On renewal of motor policies, insurers are not to apply additional premiums for any COVID-19 related risks and are not to adversely affect the insurer's right to use their no-claim bonus within the scope of Circular No. 2019/19 on Implementation Principles for Motor Vehicles Compulsory Financial Liability Insurance.
- Exemptions granted not requiring original invoices for health insurance compensation claims are to be sent to insurance companies. The RSA has given approval for a structure comprising text messaging, call centre or telephone services, email and internet, to be established via E-Government ("E- Devlet" in Turkish), and all kinds of similar tools or media to be accepted, provided they are recorded by the insurer.
- A grace period is to be granted to facilitate any delays in the payment of insurance premiums and to avoid policy cancellations.
- Companies' obligations regarding the submission of financial statements are to be relaxed.
- Insurance companies are to cover all diagnostic testing expenses until confirmation of a COVID-19 diagnosis. Treatment costs incurred after a positive diagnosis may be paid, depending on the policy.

4.1.10 THE MIDDLE EAST, NORTH AFRICA, SOUTH ASIA: *TAKĀFUL* MARKETS



In Palestine, gross written premiums in insurance (average for all classes) increased by 0.24% in 2020, with marine registering the highest negative growth (18%), while fire (property) increased by 10% y-o-y. *Takāful* contributions grew by 5.69% for 2020, with health showing the highest growth of 13.4%. The claims ratio dropped overall by 1.7% for the whole industry in 2020, but *takāful* experienced an overall increase of 5.9%. The fire claims ratio showed the highest increase – 78% – in *takāful*, while the health claims ratio registered the highest decrease – 6%. The population insured for health care by *takāful* and the insurance private sector is 2.53%.

Policies and resolutions issued by Palestine's RSA, the Palestine Capital Markets Authority (PCMA), in response to the impact of COVID-19 were as follows:

- Motor insurance policies expiring during the COVID-19 emergency period were automatically extended.
- A 15% discount was allowed on motor insurance premiums for taxis and buses used for public transportation.
- The deadline for public disclosure of audited financials for the period ending 31 December 2019 was extended.

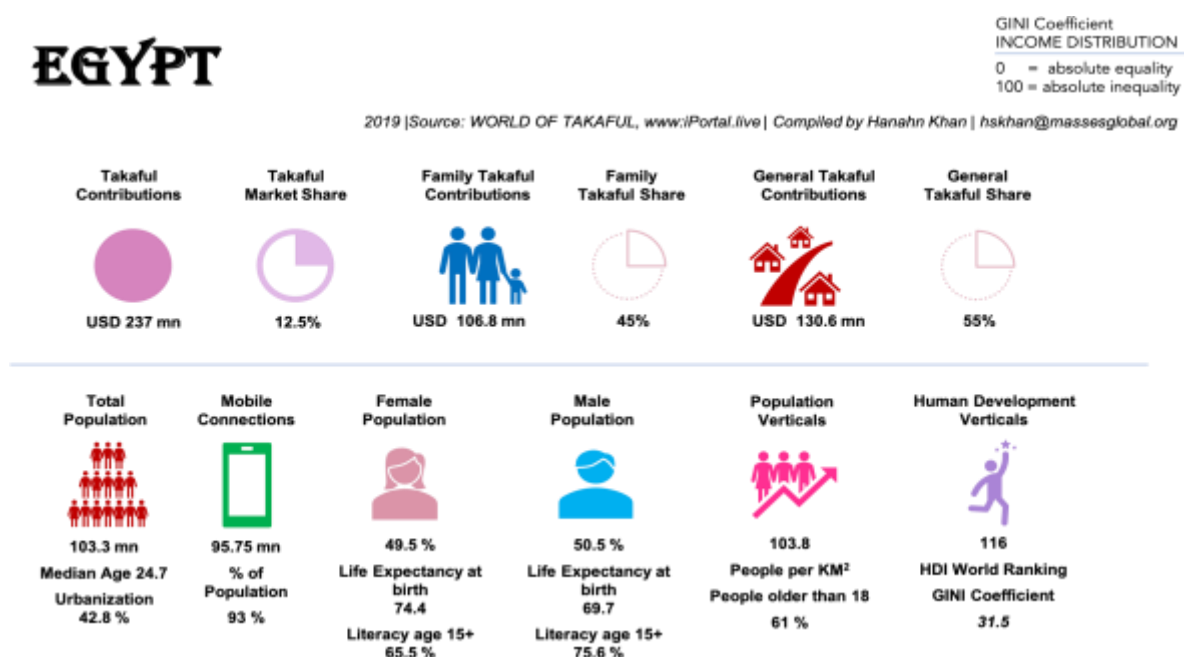
The prudential regulatory policy guidelines were effective overall in protecting customers against losses incurred from motor accidents during the pandemic period. The discounted prices for the motor insurance of public transportation vehicles greatly helped those insured customers who had lost a big portion of their income as a result of the pandemic lockdown and restrictions on movement between cities in Palestine. In

addition, extension of the financial statement disclosure period made it easier for *takāful* and insurance companies to meet specified deadlines given the limitations imposed by having fewer of their employees working from their offices during the pandemic.

Digital transformation could not be mobilised during lockdown periods, but the pandemic did increase the sense of urgency for some operations to start to be digitised, such as the issuance and payment of insurance policies. The PCMA is also working on formulating soft regulations to help the market adopt the use of technology in their operations.

The industry adopted working-from-home SOPs and effectively managed and performed daily operations and activities. While working from home will not be the new post-pandemic norm for daily operations, it is expected that online meetings will be used more frequently in future, as these have been found to be as effective as face-to-face meetings. Nevertheless, it is envisaged that various digitisation strategies will be in place in Palestine in the near future as a result of the pandemic.

4.1.11 THE MIDDLE EAST, NORTH AFRICA, SOUTH ASIA: *TAKĀFUL* MARKETS



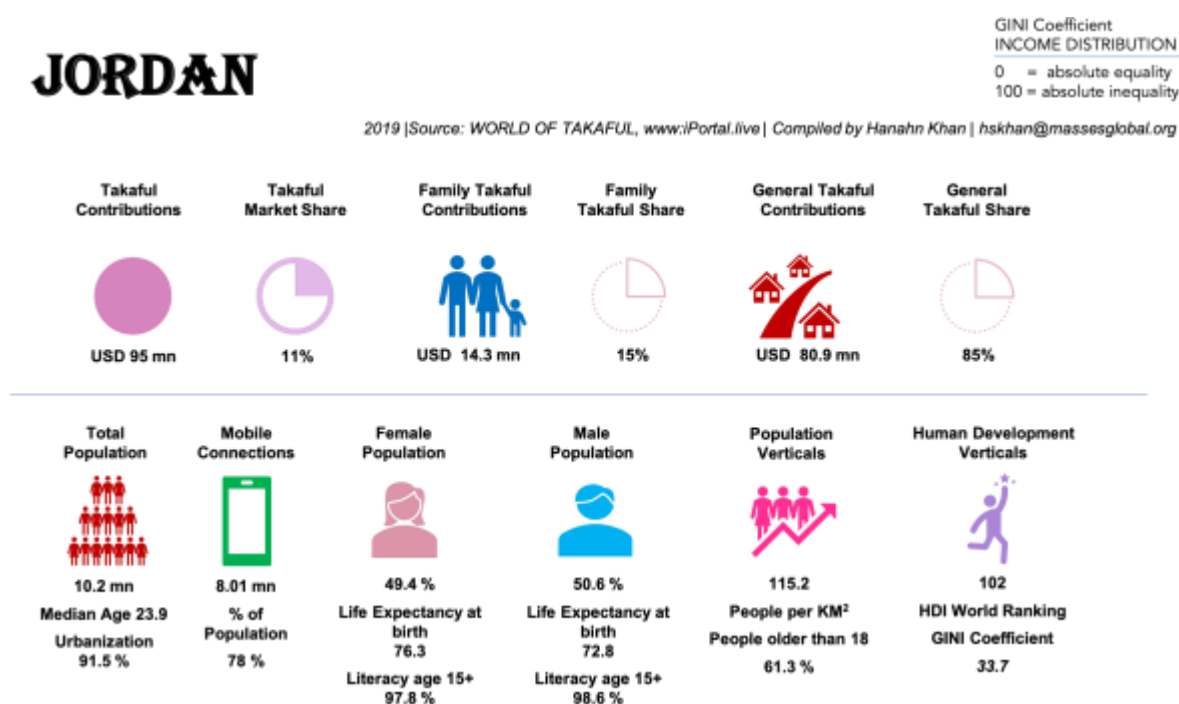
The IFSB was still awaiting survey submissions from insurance and *takāful* operators in Egypt when this study was completed for publication. This section provides only general regulatory and industry positioning in response to the COVID-19 measures for Egypt.

- Insurance and *takāful* companies in Egypt granted policyholders and participants grace periods for payments on their policies, being 60 days for life and family *takāful*,

and 30 days for medical and motor policies. Where the granted period had ended and the policy was cancelled, there was flexibility for reinstatement according to procedures without incurring any administrative fees or new issuance. A 30-day grace period was also granted to corporate customers for group life/family and property insurance.

- The supervisory authority encouraged companies to enable their customers to use the available electronic payment methods and required them to pay the incurred claims as soon as possible through multiple payment methods.
- The Egyptian RSA suspended the granting of any new insurance and reinsurance company licences for a year.
- The RSA undertook to study conditions and controls regulating the work of ITOs in order to assist them to perform their objectives in accordance with best international practices and experiences in the global insurance markets.
- The RSA conducted stress testing and a scenario analysis to measure the impact of risks associated with the COVID-19 pandemic on the non-banking financial sector. The results of the analysis and stress testing showed the strength and durability of the financial position of companies in the sector. The stress testing results showed the necessity to maintain business continuity plans, to promote digital transformation and to change the patterns of business performance. They also highlighted the importance of continuous monitoring of companies facing risks of capital erosion and of the need for them to improve their capital adequacy.

4.1.12 THE MIDDLE EAST, NORTH AFRICA, SOUTH ASIA: TAKAFUL MARKETS



The Government of Jordan was very proactive in taking any measures necessary to protect the industry against the impact of COVID-19. The Jordan Insurance Federation (JIF) fully and actively supported these efforts, which included the following:

- Of the Jordanian Dinar (JOD) 250,000 donated to the Ministry of Health's COVID-19 relief efforts, JOD 200,000 came from insurers, while the JIF donated the remainder.
- Several insurers contributed to the Himmat Watan (A Nation's Effort) fund as a public awareness campaign. Arab Orient Insurance Co. First Insurance, Jordan French Insurance Company, Jordan Insurance, Islamic Insurance and Middle East Insurance Co. each extended JOD 100,000 to the fund.
- The industry and the JIF are working with reinsurers to monitor costs and adjust underwriting conditions to help manage the impact of COVID-19.
- The JIF coordinated with health-care service providers to ensure the smooth functioning of the health insurance industry and to monitor the cost indicators.

On the whole, insurers maintained profitability due to the reduction in risk on the back of the nationwide closure. This slowdown resulted in a decline in general accident and medical new business, a marginal increase in new business in other lines, and a decrease in motor and medical claims, but there was a spike in death claims in life insurance and family *takāful* classes. The industry in general was committed to paying their staff salaries in full.

Some of the policy measures adopted by the industry to protect against COVID-19's impact included:

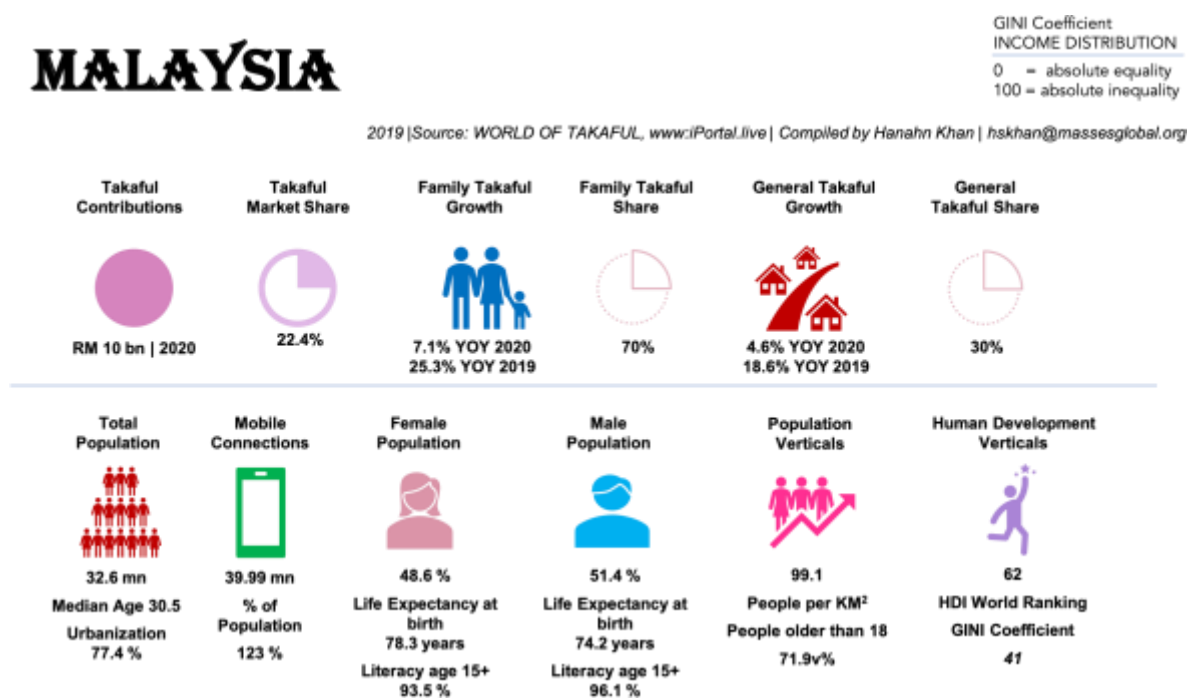
- Business continuity plans were activated to ensure that customers were able to renew their policies and submit their claims in spite of the emergency situation and the lockdown circumstances.
- There was a greater focus on delivering services by digital means to both policyholders and shareholders, aligned with the regulatory policies and measures issued.
- There was a workforce reduction, with 50% of employees working from their offices and 50% working online from home.
- Some ad hoc financial support was provided by *takāful* companies to participants paying high premiums, in the form of premiums/subscription payment deferrals and instalments, and special discounts.

The JIF conducted a study on the impact of the COVID-19 pandemic on the performance of insurance in Jordan that involved 24 insurance companies. The study,

which covered financial, technical, technological and human dimensions, found the following:

- The financial performance of insurance companies was impacted, as well as their financial relationship with reinsurers in terms of prices and coverage, resulting in financial losses. There was a decrease generally in the amount of business written.
- On the positive side, due to increased digitisation, companies' IT capabilities were expanded because of insurance staff working remotely and conducting business and providing necessary services to customers online, as well as increased cyber-security efforts. All companies maintained safe distancing, health-care procedures, and a safe working environment as much as possible.

4.1.13 South-East Asia: *Takāful* Markets



Malaysia has 15 *takāful* providers, three *takāful* windows and three *retakāful* providers. The total gross written premiums were Malaysian Ringgit (RM) 44.6 billion in 2020, of which 22.4% (RM 10 billion) was *takāful* contributions. The total business written up to May 2021 was RM 19.3 billion. The total insured population for health insurance was 41.6%, of which 67.7% was covered by *takāful*.

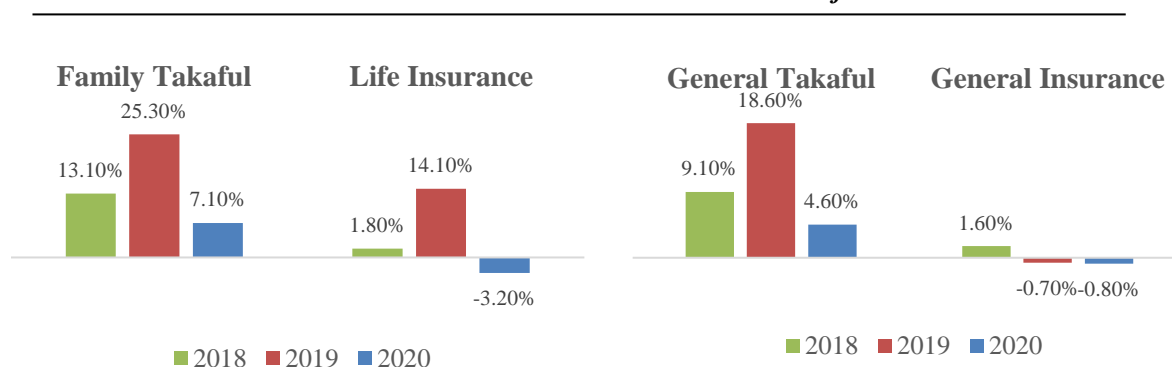
Takāful in Malaysia has been growing at a faster rate than insurance, albeit from a smaller base. COVID-19 appears to have dented the growth of insurance more than *takāful* in 2020. This was experienced amid the implementation of containment

measures for COVID-19, such as the Movement Control Order (MCO) as well as contraction in the GDP and the surge in the unemployment rate.

Impact on New Business in Insurance and Takāful

The table below shows the impact of COVID-19 on *takāful* and conventional insurance new business in 2019 compared to pre-COVID in 2018. The new business growth in family *takāful* was in health and endowment, while the mortgage-reducing term *takāful* contracted amid weaker property market conditions in 2020. A decline in new business was also registered in *takāful* contributions from personal accident, marine, aviation and transit classes, while the motor and fire segments of general *takāful* increased. The industry responded in different ways to support its customers. One *takāful* company widened its reach to disabled segments, offering plans for children with learning disabilities associated with autism spectrum disorder, Tourette's syndrome or attention-deficit hyperactivity disorder, and provided coverage to parents.

New Business: Insurance vs Takāful



On the insurance side, the decline in life insurance new business was mainly attributable to the mortgage-reducing term and endowment business, while personal accident and motor segments declined in general insurance.

The claims experience for family *takāful* in 2020 remained largely comparable to pre-COVID-19 levels, with a y-o-y increase in net certificate payouts of 11.3% (2019: 11.1%; 2018: 12.4%). On the insurance side, life insurance saw net policy benefit payouts reduced by 0.7% (2019: +10.1%; 2018: +4.6%). The ratio of the net certificate benefits over net contributions was 45.6% (2019: 42.2%; 2018: 44.7%) for *takāful* and 66.5% for insurance (2019: 69%; 2018: 67.7%).

In general *takāful* and insurance, the overall claims settlements in 2020 had contracted by 7.8% and 16.2%, respectively, against 2019 results. The segments that experienced lower claims for *takāful* were motor, medical and health, which was offset by an increase in claims in other segments such as fire and personal accident.

For general *takāful* and insurance, claims settlements declined across almost all segments except bonds. The claims ratio for *takāful* was 55.7% (2019: 58.2%; 2018: 55.9%), and 52.6% for insurance (2019: 58%; 2018: 56.1%). The contraction in claims,

which was against the backdrop of lower *takāful* contributions or insurance premiums, has led to a lowering of the claims ratio. Up to May 2021, larger payouts were experienced compared to the same period in 2020, largely attributable to payouts of surrender and death benefits (for *takāful*) and surrender and medical benefits (for insurance). A similar trend of an increase in claims for general *takāful* and insurance is also observed, notably in the motor and fire segments. On the other hand, medical and health and personal accident experienced lower claims.

The past year has seen a little upward trend. Up to May 2021, both the *takāful* and insurance sectors recorded better results against the same period in 2019, with growth in business observed generally across the main lines of business in the family/life and general sides, except for medical and health (general *takāful*) and personal accident (general insurance). However, with the reinstatement recently of the MCO restrictions, the operating environment will remain challenging for the *takāful* and insurance industry.

The regulatory flexibilities, such as those stated below, provided some relief to industry players, which has been key in getting them to be forthcoming in assisting their customers. As of May 2021, the deferment of premium/contribution payment initiative benefited over 1.2 million life insurance policy holders (9% of in-force policies) and 0.5 million family *takāful* certificates (8.7% of total in-force certificates). This resulted in a deferment of premium/contribution value amounting to over RM 2.6 billion for life insurance and RM 0.8 billion for family *takāful*. Additionally, despite supervisors exercising reasonable flexibility, ITOs' capital position remained resilient throughout the period.

Bank Negara Malaysia (BNM) introduced regulatory relief measures in 2020 including:

- Adjustments to the computation of interest/profit rate risk charges (PRCC) by lowering the PRCC stress factor caps to better reflect the prevailing market conditions. (See paragraph 3.12, page 44, of *Risk-Based Capital Framework for Takāful Operators*.)
- Temporary waiver of credit risk capital charge requirements for exposures arising from the three-month premiums/contributions deferment provided by ITOs to the affected policy/certificateholders.
- Supervisors to exercise reasonable flexibility in taking supervisory action where the capital adequacy ratio falls below the internal target capital level (ITCL) as a result of significantly heightened market volatility or actions taken by ITOs to support policy/certificate holders.
- To support any short-term liquidity needs, ITOs may continue to access BNM's reverse repo facility to meet any liquidity shortfall.

Change of approach due to the pandemic crisis:

- The upgrading of self-service customer touchpoints and digitised system infrastructures to support *takāful* business operations and improve the customer's experience.
- To facilitate the increasing consumer awareness of health protection, insurers and *takāful* operators expanded digitally enabled health-care and preventive services such as telemedicine, wellness apps and wearables.
- Several digital offerings have been introduced to cater for traditionally excluded segments, including coverage for children with learning disabilities, usage-based protection and micro-SMEs on e-commerce platforms.

Business Continuity

Insurers and *takāful* operators have been following strictly the business continuity and disaster recovery measures that were issued on 3 June 2011 as regulatory guidelines on business continuity management (BCM). The document provides the guiding principles for banks and ITOs on the following matters:

- the role of board and senior management in ensuring the implementation of an effective BCM framework within the institution
- clearly defined policies for BCM
- clearly defined roles and reporting lines of individuals and/or the committee responsible for BCM
- BCM practices to be embedded into business operations and the corporate culture of the institution.

The insurance and *takāful* industries continue to comply with the government's directives on working from home for the private sector, following the relevant SOPs in light of the MCO. Post-pandemic, it is expected that this arrangement will continue in view of the digitalisation transformation strategies implemented to sustain operations and improve service quality.

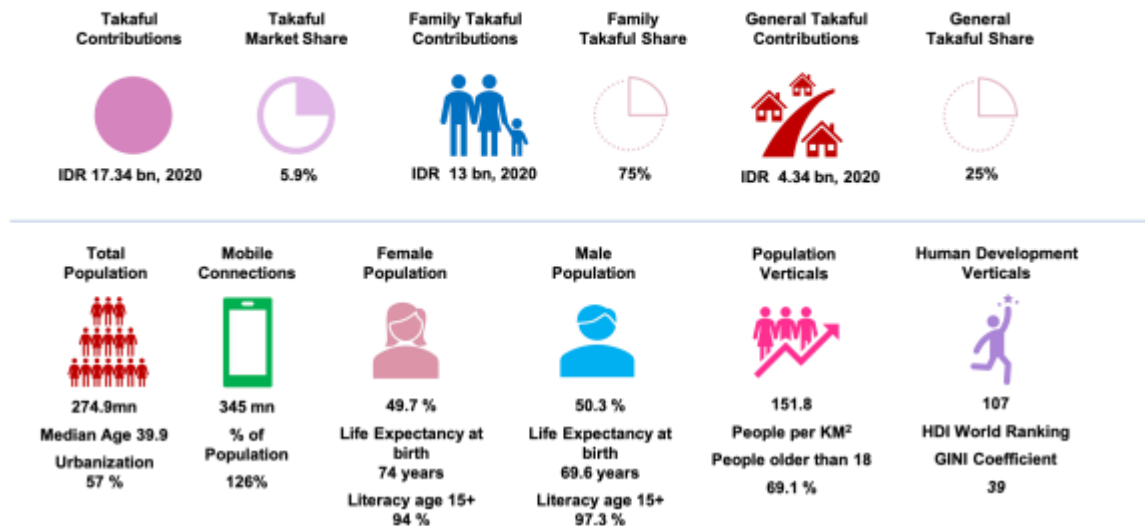
The BNM views that the existing regulations would remain facilitative for *takāful* and insurance companies to withstand and navigate through the post-pandemic environment. *Takāful* and insurance companies are expected to diversify their offerings going forward, to better suit the needs of various customer segments, especially vulnerable groups such as low-income earners, as well as to widen the access to *takāful* and insurance offerings through diversified modes of distribution, particularly digital channels.

4.1.14 SOUTH-EAST ASIA: *TAKĀFUL* MARKETS

INDONESIA

GINI Coefficient
INCOME DISTRIBUTION
0 = absolute equality
100 = absolute inequality

2019 | Source: WORLD OF TAKAFUL, www.iPortal.live | Compiled by Hanahn Khan | hskhan@massesglobal.org

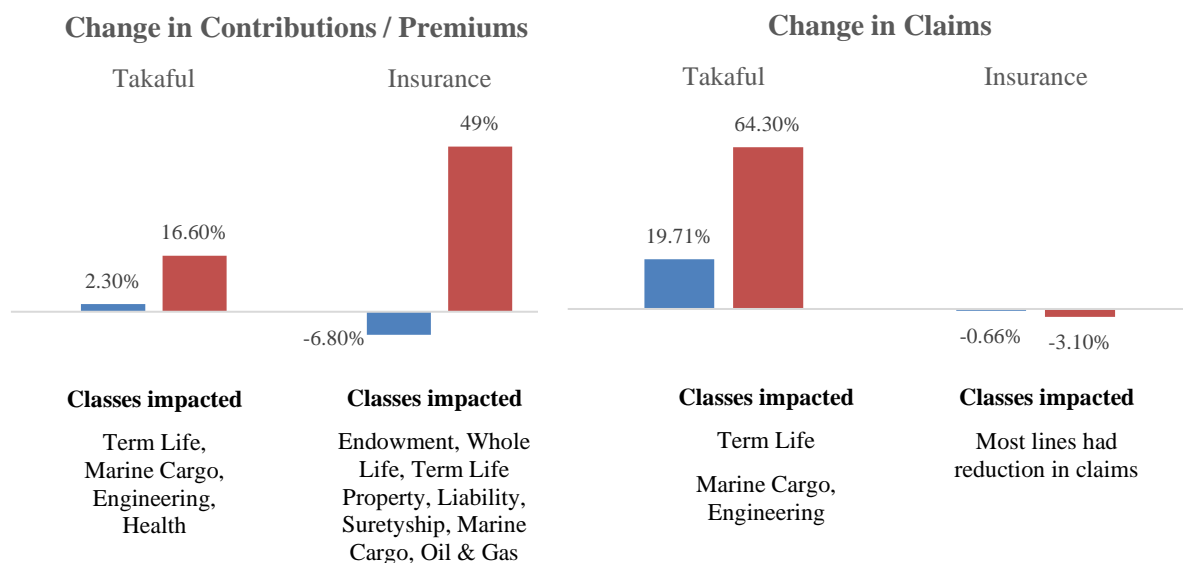


Indonesia has 13 *takāful* providers, 47 *takāful* windows and four *retakāful* providers. The total gross written premiums were Indonesian Rupiah (IDR) 293.29 billion in 2020, of which IDR 17.34 billion (almost 6%) was *takāful* contributions. The total insured population for health insurance was 3.3%, including 0.1% covered by *takāful*.

The insurance and *takāful* businesses were impacted differently, both in the early stages of COVID-19 in 2020 and then by changing trends in 2021. The overall impact on new business and claims for insurance and *takāful* is summarised below.

Indonesia: Insurance vs *Takāful*

■ Q12020 ■ Q12021



Social distancing policy during the COVID-19 pandemic situation accelerated digital transformation in the insurance and *takāful* sectors. This is happening in the main customer-focused service areas, such as selling, underwriting, and claims reporting and settlement. Most insurance and *takāful* providers also have enhanced IT in other operational areas, which facilitates the working-from-home approach.

The developments taking place in the telehealth/telemedicine areas are encouraging several insurance providers to collaborate with telehealth providers to deliver insurance and *takāful* health-care benefits. *Takāful* operators, on the other hand, are still in the process of exploring whether to cooperate with telehealth/telemedicine providers.

There were no instances where *takāful* or insurance providers were forced to sell assets at a low value. Some providers experienced decreasing solvency levels, but they were still able to maintain an adequate liquidity position. This was supported by the relatively fast recovery of Indonesian capital markets, thereby minimising the impact of the COVID-19 pandemic on the asset values of *takāful* and insurance providers.

Otoritas Jasa Keuangan (OJK), Indonesia's financial services authority, issued a countercyclical COVID-19 policy applicable until April 2022 for both conventional insurance and *takāful* companies, allowing for:

- delayed submission to OJK of periodic reports
- online videoconferencing for fit-and-proper testing of key persons
- relaxation of asset valuation regulation, allowing the use of purchase price instead of market price for specific asset classes, such as sovereign and corporate bonds
- extension of the maturity period for premiums receivable for risk-based capital calculations.

OJK also issued a circular in March 2020 advising insurance and *takāful* companies to take measures against the potential impact of COVID-19 on their business and operations. Such measures included the following:

- OJK did not issue specific regulatory guidelines for a disaster recovery plan but advised companies to implement their business continuity plans to ensure that appropriate measures are taken in these plans against the COVID-19 pandemic.
- Relaxation of policies to sell investment-linked insurance products through videoconferencing without having face-to-face meetings with prospective consumers.
- In keeping with the government's social distancing policies, the industry is allowed to have a maximum of 50% of employees working in the office.

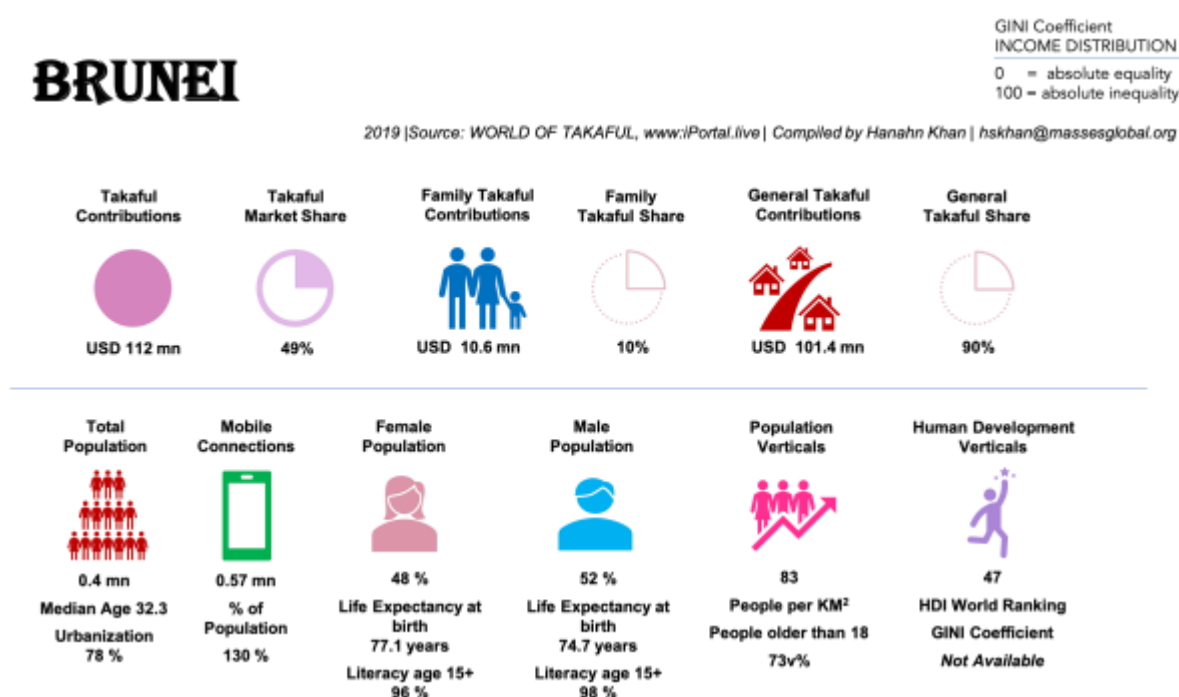
OJK and the industry association have also been considering ensuring that all such measures are conducted in accordance with best practices of prudential and market conduct policies.

Overall, the policy response has been effective in managing the impact of the COVID-19 pandemic on business operations of conventional insurance and *takāful* companies and these did not significantly impact the effectiveness of OJK's supervision. For instance, the relaxation policy to sell investment-linked insurance products allowed insurance/*takāful* companies to maintain the sale of this particular product despite the requirement for social distancing.

Based on an evaluation of the industry players, with companies adapting the operational measures to manage the pandemic situation, a full work-from-home requirement is not likely to be the best option post-pandemic, and insurance and *takāful* companies may maintain such a policy only for certain functions by considering its effectiveness for those particular functions.

OJK will continue to monitor the impact of the COVID-19 pandemic on the operational and financial performance of *takāful* and insurance companies. The post-pandemic regulation will be decided after the evolving situation is considered. Some industry players have requested that non-face-to-face selling of investment-linked products be allowed after the pandemic. OJK will consider such feedback in devising post-pandemic policies that are in the best interests of consumers and the industry.

4.1.15 SOUTH-EAST ASIA: *TAKĀFUL* MARKETS



The insurance/*takāful* industry in Brunei has managed the COVID-19 pandemic through the strict application of measures such as physical distancing and reduced face-to-face interactions since mid-March 2020, when the first case was detected in the country. Such measures have seen the industry remain resilient, with no significant impact on the health insurance/*takāful* business, amid a reduction in the number of local case transmissions. However, travel insurance/*takāful* and foreign workers' insurance guarantees have been impacted, and the volatility of the financial markets, especially in the first half of 2020, affected the investment income of the life insurance business.

One *takāful* operator added an automatic extension of 50% coverage of participants' medical inpatient treatment for existing and new customers of its medical *takāful* policies who were diagnosed with COVID-19 while abroad.

Brunei Darussalam Central Bank (BDCB), the insurance regulator, issued circulars calling for the development of recovery plans to cover all aspects of the impact of the COVID-19 pandemic. The government provided facilities such as rental payment relief, pension funds, wage subsidies, capacity-building initiatives and mobilisation of social funds to support certain sectors of the economy.

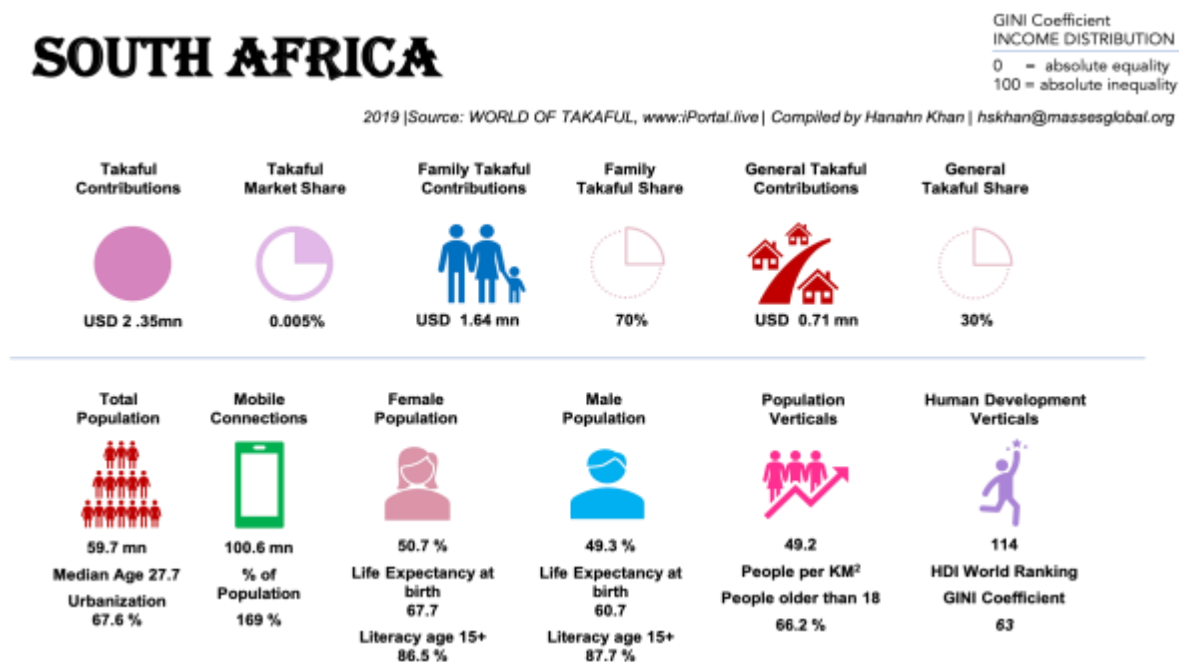
The regulator required insurance and *takāful* providers to develop stress testing of the COVID-19 scenario and to embed COVID-19 measures in their financial business plans in terms of overall financial position, premiums, claims, underwriting results and solvency margin. This enhanced regulatory exercise has helped the regulator to assess the resilience of the industry and market trends during the COVID-19 pandemic.

There is also a greater focus on enhancing the risk management framework, including technology and digitalisation.

The market saw enhancement of the use of digital channels to avoid any physical interaction, through:

- introduction of online payment and enhanced use of *takāful* mobile apps
- premiums paid on an instalment basis through credit cards
- online communication with customers and through call centres, depending on the pandemic stage (i.e. yellow, orange, red).

4.1.15 Africa: *Takāful* Markets



South Africa's insurance sector was already dealing with economic recession pre-COVID and the impact of the pandemic has led to a further drop in new business. There is one *takāful* provider in South Africa, Bryte Insurance – a *takāful* window. The insurance industry generally is confronted by a need to continue to review and evolve its risk management strategies and solutions if it is to remain relevant.

The industry, alongside many others, was impacted by changes necessitated by the COVID-19 pandemic, such as working-from-home requirements or a hybrid of home-office working arrangements. This resulted in the industry spending more on technology infrastructure to enable business continuity, with several security risks needing mitigation strategies.

McKinsey's expects gross written premiums (GWP) across all insurance classes in South Africa to fall by 15% over the next two years and only to return to pre-COVID-19 levels in 2024. Life insurance will be the hardest hit, with a potential contraction in GWP of 18%. Motor insurance is expected to fare relatively better, with GWP volumes falling by around 8%.

As more business operations migrate to online models, the threat of cybercrime is heightened, creating a greater need for cyber security. The South African Banking Risk Information Centre (SABRIC) has shown that South Africans lose in excess of Rand (R) 2.2 billion to internet fraud and phishing attacks annually. Although there are products available in this space, there remains an opportunity to further emphasise the

role of insurance in the cyber-risk and security space.

The South African Insurance Association (SAIA) created the Pandemic and Other Uninsurable Risks Think Tank in late 2020. The think-tank includes representatives from the SAIA, the Financial Intermediaries Association (FIA), the Financial Sector Conduct Authority (FSCA), the Prudential Authority (PA) and the Institute of Risk Management of South Africa (IRMSA). A subgroup was created to provide a framework for a Pandemic Business Interruption solution for small businesses that is in line with what other jurisdictions are doing.

The think-tank was a collaborative approach in managing systemic risks related to COVID-19, especially those that are either not insurable or that are in jeopardy of becoming uninsurable. It addressed the need to manage the potential reputational damage to the non-life insurance industry with regards to what stakeholders, citizens and the government might perceive as a solution that can be transferred to the insurance industry, and the unsustainability or impossibility of such solutions being transferred to the industry without financial support from the government.

The SAIA board provided guidance in terms of developing a holistic systemic risk approach that included the pandemic framework and which could be presented to the National Treasury.

SECTION 5: CONCLUSIONS

5.1 Concluding Remarks

The world is still in the grip of the COVID-19 pandemic. However, thankfully, humans are both resilient and ingenious in finding solutions that will support continued economic activity and enable individuals to manage and overcome the challenges of the pandemic.

Every systemic crisis is also a window of opportunity to learn new ways to face, manage and overcome the risks and challenges that unfold. The actions taken by the insurance regulatory bodies and the insurance and *takāful* providers at this time will have long-lasting implications for the industry. The COVID-19 pandemic underlines the importance of making financial protection available to individuals and businesses, and the ways in which each insurance and *takāful* provider has taken action potentially affects their reputation and trustworthiness in the eyes of the customer. It is of fundamental importance for the *takāful* industry to have a watertight countercyclical strategy in place that balances sound risk management practices with the need to treat customers fairly.

According to the International Monetary Fund, global prospects remain highly uncertain more than 18 months into the pandemic. New virus mutations and the heavy human toll remain serious concerns, even as growing vaccine coverage has seen increasing numbers of recoveries and a reduction in the number of deaths. The extent of economic recovery, however, differs across countries and sectors, reflecting variations in the degree of pandemic-induced disruption and the extent of policy support. The outlook depends on finding a safe passage through the ongoing battles between the virus and vaccines towards economic policies that can be effective under conditions of high uncertainty and prevent or minimise lasting damage.

The *takāful* and insurance industry has done reasonably well in managing the impact of COVID-19 in terms of keeping their solvency ratios and capital adequacy levels secure, despite reduced business and increased claims in various classes of business as highlighted in the findings of this survey. However, there are certain areas where the pandemic has highlighted big gaps in *takāful* – and, for that matter, in insurance. For instance, there is inadequate coverage for pandemic business-continuity risks with meaningful limits, cyber-security coverage of businesses due to increasing digitalisation, and life protection/family *takāful* in several markets that the COVID-driven health crisis has revealed to be inadequate.

Economic growth and development in most markets has been dampened due to COVID-19, but it has also highlighted the importance of and the increasing demand for reinsurance (*source*: Fitch Ratings: Asian Reinsurance Market, 18 August 2021). The rapid transformation during the pandemic has fuelled the demand for adequate insurance protection for emerging risks such as cyber-attacks. The health crisis has also

re-emphasised the need for family *takāful*. This has given rise to the potential for accelerating reinsurance growth and has encouraged reinsurers to manage comprehensive risk assessment to determine policy coverage, rates and premiums.

COVID-19 has resulted in significant business interruption losses with the closure of manufacturing plants, restaurants, retail establishments and other places of business. A vast majority of these losses became a huge financial burden. This has led to public–private debates and initiatives in several developed markets, where special groups and think-tanks have been working to develop solutions that can help reduce the gap in business interruption protection for pandemic-induced risks. The following are some of the possibilities under consideration.

1. Collaboration among the ITOs, reinsurers and *retakāful* providers on specific underwriting approaches and the pricing of products in order to meet the need for pandemic-related asset management frameworks, including long-term investment-related products such as pensions, to account for changes in pandemic risks.
2. The policies and guidelines issued by the RSAs were aimed at providing relief to operators, enabling them to navigate successfully through the pandemic-induced challenges. They included appropriate flexibility and relaxation of certain regulatory requirements, such as the renewal licensing requirements of operators, brokers and other ancillary service providers, including loss adjusters and surveyors, to ensure ease of doing business. Specific grace periods were helpful for those whose licences were expiring during the lockdown period, to enable them to continue with their business.

5.2 Summary of Survey Findings: RSAs

1. The monitoring by RSAs of market, underwriting and liquidity risks based on available financial and supervisory information as a result of COVID-19 and relevant past stress-test results.
2. Implementation of existing countercyclical supervisory tools.
3. Adjustments to regulatory or supervisory requirements in response to the health emergency, including flexibility in the implementation of investment limits or accounting standards.
4. A close monitoring by RSAs of the implementation of business continuity plans, with some providing specific guidance while taking steps to relax the regulatory and supervisory submission requirements.
5. RSAs advising ITOs to limit capital distributions in order to preserve financial capacity.

5.3 Summary of Survey Findings: ITOs

1. ITOs, RSAs and industry associations adopting a collaborative approach in providing guidance to policyholders and participants on the importance of developing business continuity plans for maintaining essential functions, with a focus on digital service delivery.
2. The applicability of various forms of coverage to COVID-19 related losses.
3. Providing financial support to policyholders and participants in terms of premium payment deferrals and refunds.
4. Adapting coverage terms and conditions in order to account for changes in behaviour, such as working-from-home requirements, and addressing various types of administrative challenges resulting from confinement measures.
5. Voluntarily providing additional coverage benefits (or compensation) to existing policyholders and participants, or to specific types of workers such as health-care workers or businesses (hospitality sector, SMEs).

5.4 Mini-Survey Findings and Recommendations

The main survey showed that *takaful* companies were generally less customer-centric than conventional insurance companies. Nearly 60% of *takaful* companies showed customer centricity in personal lines, against 80% of insurance companies; and 40% of *takaful* companies were customer-centric in the SME segment, against 55% of insurance companies.

5.4.1 Mini-Survey Findings

A mini-survey conducted to seek the views of various key industry experts on possible reasons for this difference offered some interesting insights, as summarised below.

1. The lower customer centricity in *takaful* than in conventional insurance is likely to be underpinned by digitalisation, or the lack thereof, such as access to leading-edge technology, mobile applications, telematics, etc.
2. New and emerging customers are tech-savvy and are attracted to companies which offer modern tech applications that make it easier to access personal lines and the SME segments. There are more conventional insurers in this space than *takaful* providers.
3. *Takaful* companies are generally young, compared to the more established insurance companies; therefore, *takaful* companies have higher management expenses (new set-up costs) and lack economies of scale, as business volumes have yet to grow to a critical mass. Conventional insurers, on the other hand, generally have a more secure and sustainable financial base. With better profits and stronger solvency thresholds, conventional insurers have been able to invest more in customer-service oriented technology and to spend more on corporate positioning and corporate social responsibility (CSR) activities.

4. *Takaful* lags behind conventional insurers because of the tension between being like a “mutual”, on the one hand, and the drive to maximise return on capital for shareholders, on the other. If this tension did not exist (as in a pure mutual), then perhaps there would be more customer centricity among *takaful* providers than among conventional players.
5. *Takaful* has several different operational models, the most widely adopted being the *wakala* model. With the existing tension between being a mutual and being profit-driven for shareholders, the *wakala* fee gets skewed and becomes an arbitrary number to be manipulated.
6. The profit-driven “*tejarī*” focus makes it difficult for *takaful* companies to reach a financial state where surplus can be consistently distributed to policyholders (the participants). Distribution of surplus remains more a marketing ploy than a core philosophy. A demonstrable alignment between shareholders’ and policyholders’ interests is missing.
7. More *takaful* companies have capital constraints, which restricts capex allocation on the technology front. Conventional companies generally have more shareholder equity to spend on customer dynamics.
8. A dynamic product innovation is often affected or delayed due to Sharī’ah compliance requirements. For instance, one *takaful* company was not permitted to add COVID-19 coverage to its existing long-term policies and to pay claims using the same risk fund. The add-on was only possible if a consent was obtained from every existing policyholder. The easier option was to pay claims from the shareholders’ fund. This course of action was costly, impacting the financials, and made it difficult for the company to immediately respond to the situation.
9. *Takaful* companies generally have more capacity constraints than conventional companies, mainly due to their being relatively young compared to conventional ones.
10. *Takaful* companies have capacity constraints, and they struggle to get out of it. This makes them gravitate towards lower-risk scenarios, such as being less willing to enter new markets, offer new products or take on larger risks. Another factor that exacerbates the situation is the lack of skilled technicians in the industry.
11. Most *takaful* companies would have a limited risk appetite due to their limited capital and because of the uncertainty of the business environment, being a young industry. Such companies generally have lower risk retention and higher ceding of risk.

5.4.2 Mini-Survey Recommendations

The conundrum of “mutual structure for policyholders” versus “shareholder profit maximisation” needs to be addressed by the industry and policymakers.

Conventional insurance companies, who own everything (premiums, reserves and profits/losses), are more streamlined in their strategies and capital deployment for customer centricity and serviceability, leading to more profitable

outcomes for shareholders. *Takaful* companies have to cope with two systems: being mutual (premiums, reserves and surplus are owned by policyholders, but not losses in practical terms), with the friction that this creates for delivering *tejari* competitive returns to shareholders.

The *wakala* fee is supposed to be calculated scientifically, taking into account expense allowances, contingencies, cost of capital, and margins for surplus to policyholders. This ought to be within limits that allow for adjustment for competitive pricing and pricing adequacy. But is this the case? There needs to be close monitoring and supervision of this core aspect of the *wakala* model.

Would the *mudaraba* model be a more dynamic one, and better serve the pure purpose of a mutual set-up within the *tejari* existence of a *takaful* provider? This structure would, of course, be the ideal structure for a *microtakaful* platform within a microfinance institution serving the needs of financially challenged segments of society.

Takaful companies need to pay greater attention to their strategic mission, vision and core values, which are naturally imbued in *maqasid al-Shari'ah* and are perfectly aligned with the much talked-about environmental, social and governance (ESG) criteria, the United Nations' Sustainable Development Goals (SDGs), CSR, and green economic fundamentals related to the net-zero and Conference of the Parties (COP) climate initiatives. This is where the *takaful* unique selling proposition (USP) turns into action. *Takaful* companies need to ensure that their staff's actions and customer connectivity reflect these core values, adding to the brand equity unique to *takaful*.

Takaful companies ought to have a customer satisfaction index, know the baseline, and introduce programs to scale up customer touchpoints. Adopting tools such as Kapling's balanced scorecard²⁰ and the European Quality for Business Excellence model,²¹ and linking these to a performance reward system, would create a culture that is needed but lacking in many *takaful* companies. When *takaful* operators move towards excellence (*al falah*), financial performance should improve.

5.5 Policy Recommendations

The COVID pandemic crisis has created extraordinary challenges. Even though the stronger industry players have largely come out of it unscathed, some *takaful* providers have had a number of issues, such as writing new business at inadequate pricing levels, weak financials and rising claims. The low response to this study's survey questionnaire could reflect this predicament, as the responses were mostly from the stronger players. Various industry sources and insights have indicated the difficulties being faced, and the adverse impact of these may emerge during 2022 if timely remedial action is not taken. Customer connectivity had its challenges due to working-from-home policies, as smaller players were not strong in their connectivity and lacked the digital approach and processes to maintain their service levels at higher expense ratios, unlike the stronger players.

The continuity of services, operations and business in a crisis situation is where the IFSB may consider formulating industry standards that may benefit *takāful* operators, especially those still in the elementary stages of reaching a secure and sustainable financial position. In this context, the *takāful* industry may benefit from guidance on crisis management in areas such as combining the relevant parts of existing standards on business continuity, risk and financial management, with lessons learnt from the COVID-19 pandemic to create new areas and paradigms for operational and servicing efficiencies in the future. The *takāful* industry is in dire need of such an overhaul.

There are a number of areas where *takaful* providers would benefit from industry guidance. Furthermore, *takaful* lags behind conventional insurance in providing protection related to the need to find innovative ways to protect the planet and society from the challenges of climate change and other imperatives.

It is therefore recommended to address these issues and provide guidance and standards to *takaful* providers in two main areas: conduct of business, and green *takaful* certification.

5.5.1 Conduct of Business

1. **Business continuity:** Continuously reassess business continuity plans, revising and enhancing them on a daily basis as needed, and incorporate new factors that have emerged during the crisis in order to stay on course.
2. **Pragmatic approach:** Ensure that any necessary equipment, tools, working practices, access rights and technology are made available to the staff, and enable flexible offsite working, with minimum contact amid business and community disruptions.
3. **Human factors:** Keep approvals and processes moving with clear lines of communication and support. Keep in check stress levels that may rise due to demanding customers, volatile markets, and other challenges caused by remote working in the absence of a supportive infrastructure and the familiar working environment of the “office”.
4. **New paradigms of digitalisation:** Engage in digitally assisted distribution and sales capabilities with customers, and service their needs, adjusting to the new norms that are invaluable in times of crisis. This requires product simplification and prioritisation of the development of direct digital channels. Directing customers to self-service channels and automated processing of straightforward claims has proven to be very effective for those companies that already have this capability.
5. **Access to funds:** During a crisis such as the current pandemic, markets have very volatile investment values. This has the potential to challenge the solvency

levels and hedging programmes of *takāful* providers. Continuous stress testing and careful monitoring are needed. It is not liquidity that is an issue for *takāful* providers, but the movement of funds within the group, and this could be a challenge when remaining strictly within the Sharī'ah-compliant investment universe.

6. **Investment policies:** In the low/negative interest rate realm, investment policies and strategies need to have a clear approach for dealing with a low to negative interest rate environment that impacts Sharī'ah-compliant short-term returns for the family *takāful* and long-tail casualty lines of business.
7. **Gaining trust:** It is during times such as the current pandemic that public-private partnerships are most needed in order to find rapid and effective solutions. It should be considered a necessity for the *takāful* industry to provide its expertise to help governments restore stability and funnel support to impacted businesses. In this way, the industry would be actively engaged in getting economies back on their feet and building the trust that comes with responsive and timely actions.

5.5.2 Green Takaful Certification¹⁶

The challenges of this pandemic, and the speed with which climate change and environmental and social degradation is taking place, highlights the gaps that exist between the current compliance approach of institutions offering Islamic finance and *takāful* solutions on the one hand, and the purpose and true essence of *maqasid al-Sharī'ah* on the other. The underlying ethical principles are not being “felt” enough in practical ways that are good for society, the economy and the environment. The industry’s focus is (and has been) more on screening out the bad and not enough on inclusion of the good.

There is already a great deal of good work in place to empower the global insurance industry in supporting the ESG and SDG imperatives for businesses, people and economies. While there are instances of Sharī'ah-compliant microfinance and *microtakāful* initiatives having taken place, this is far from being a mainstream approach of the *takāful* industry; Islamic financial institutions at both the macro and micro levels therefore need to coordinate both with each other and with public-private initiatives.

There is a glaring gap due to no industry standards on awareness, promotion and functioning of green *takāful*. The IFSB may like to consider setting up a clear process of certification for *takāful* providers to comply with a stated criterion covering the ESG, SDGs and *maqasid al-Sharī'ah* related to green verticals. Such an approach would ensure greater awareness among the customers of the real USP of Islamic financial institutions, and *takāful* providers can lead the way in supporting and protecting the green economy at both the macro and micro levels.

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