



**SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN**

**WHITE PAPER
SECP ROUNDTABLE**

تکافل

**UNLOCKING THE
GROWTH POTENTIAL**

**JOURNEY TO AN
INSURED PAKISTAN**

**August 13, 2024
Karachi, Pakistan**



DISCLAIMER

The views and opinions expressed in the Roundtable, organized by the Securities and Exchange Commission of Pakistan (SECP), are those of the speakers and participants and do not necessarily reflect the official policy or position of SECP. The content of this document is a compilation of views expressed, perspectives shared and examples quoted, meant for the elaboration of the topic and developing a better understanding of the participants.

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1. Agenda of the Roundtable



SECP ROUNDTABLE

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UNLOCKING THE GROWTH POTENTIAL

■ Date: 13 August 2024 | ■ Time: 9.00am to 01.30pm

■ Location: Ballroom C, Movenpick Hotel, Karachi

9:15 am - 9:30 am

Welcoming and registration

9:30 am - 9:40 am

Opening remarks by Chairman SECP (zoom)

9:40 am - 9:50 am

Address by HOD - IFD, SECP Overview on Islamic Financial Markets

9:50 am - 10:05 am

Key note address by Mufti Irshad
- Chairperson of SECP's Shariah Advisor Committee /
Shariah Advisory Board (Takaful)



10:05 am - 10:40 am

Hi-Tea & Networking

10:40 am - 11:10 am

Presentation on Takaful Sector by SECP

11:10 am - 01:00 pm

Floor Opening for Discussion

01:00 pm - 01:10 pm

Closing Remarks by Commissioner Insurance



01:10 pm - 01:40 pm

Lunch



2. Preamble

Securities and Exchange Commission of Pakistan (SECP) launched its “5-year Strategic Plan – Journey to an Insured Pakistan,” earlier this year aimed at achieving a vision of an inclusive, innovative, and robust insurance sector by 2028. The mission of this strategic plan is to advance and regulate the insurance sector by balancing policyholder protection with industry growth through regulatory excellence.

In order to achieve the targeted outcome and catalyze the growth of the takaful sector in Pakistan in line with the 5-year plan, in a collaborative manner, SECP convened a half – day consultative session/roundtable to take feedback from the stakeholders regarding bottlenecks, challenges, and strategies for potential growth and uplift of Pakistan’s Takaful sector.

3. Opening Remarks – Mr. Akif Saeed, Chairman, SECP

Mr. Akif Saeed, Chairman SECP, expressed his sincere appreciation to the executives of the insurance community for participating in the pivotal roundtable discussion on Takaful, being an essential element of SECP's vision for a more inclusive, innovative, and resilient insurance sector in Pakistan.

Referencing the 5-Year Strategic Plan for the insurance sector, unveiled by SECP in the first half of 2024, he noted that one of the core objectives is to bolster the availability and adoption of the Takaful sector. He emphasized that to realize this goal, SECP is dedicated to bridging the existing gaps by facilitating the registration of Takaful operators and aiding Takaful companies with re-takaful arrangements, aiming to increase Takaful contributions to over 30% of the total insurance market by 2028.

Mr. Saeed remarked that the current condition of the Takaful sector presents a challenging scenario, as its contribution to the total industry premium in 2023 was merely 12%, with minimal involvement from the public sector. He emphasized the pressing need for focused efforts to advance the Takaful sector's development, considering the existing statistics.

He pointed out that despite Takaful's alignment with Islamic values, the sector's modest contribution to the overall insurance industry is largely due to a lack of awareness about Takaful. He emphasized the necessity of focused efforts to raise awareness through Takaful campaigns, community engagement, and collaboration with leaders to promote it as a Shariah-compliant and ethical financial product. He further noted that joint initiatives in underserved areas, such as microinsurance and digital insurance, also have the potential to unlock significant opportunities for Takaful.

Mr. Saeed underlined the prevalent lack of awareness regarding the importance of insurance and the widespread perception of conventional insurance as non-Islamic among the masses in Pakistan. He emphasized that Takaful, as an Islamic insurance model, is crucial in addressing these gaps in insurance coverage.

In conclusion, Mr. Saeed observed that SECP acknowledges the significance of industry insights and assistance, emphasizing the necessity for a unified effort from all stakeholders to fully harness the potential of Pakistan's insurance sector. He affirmed that SECP consistently prioritizes stakeholder engagement and collaboration as crucial elements in achieving its overarching objectives, and underscored the importance of leveraging collective strengths and cooperation to tackle the challenges faced by the takaful sector.

4. Presentation by SECP – Overview of Islamic Financial Markets

Mr. Tariq Naseem, Additional Director and Head of the Islamic Finance Department, SECP

During the opening presentation of the event, Mr. Tariq Naseem, Additional Director and Head of the Islamic Finance Department at SECP, provided an overview of the recent advancements and developments in the Islamic financial services sector, which falls under the jurisdiction of SECP.

In the first part of the presentation, Mr. Naseem addressed the regulatory responsibilities of SECP, including the oversight of capital markets, Modarbas, the Corporate Registry, the insurance sector, and non-bank financial companies (NBFCs), as well as the specific Islamic financial services under its purview. He elaborated that SECP's broad mandate, encompassing multiple administered legislations and varying levels of maturity within the regulated industries, renders it a distinctive regulator.

Expanding on SECP's mandate, he clarified that SECP's authority is primarily derived from the Constitution of Pakistan, the provisions of the Enforcement of Shariah Act 1991, and the SECP Act 1997, which stipulate the development of Shariah-compliant financial products and services.

Discussing the Federal Shariat Court (FSC) judgment dated April 22, 2022, Mr. Tariq conveyed that while the ruling primarily pertains to the banking sector, it is widely interpreted that its implications also extend to the non-banking sector. He clarified the key points of the judgment, highlighting that it emphasizes the prohibition of Riba as a cornerstone of the Islamic economic system, acknowledges the distinctions between conventional and Islamic banking, facilitates interest-free loans, and mandates Federal and Provincial governments to undertake necessary legislative measures.

In the latter part of the presentation, Mr. Tariq highlighted the advancements and progress within the regulated sectors related to Islamic Finance. He began by presenting a current overview of these sectors, noting that Shariah-compliant securities account for 66% of the total market capitalization, with 48% and 63% of assets under management by asset management companies and pension funds, respectively. Additionally, there are approximately 150 Shariah advisors and significant developments in the certification of Shariah-compliant securities, indicating that the Islamic finance industry is poised to reach maturity within a few years.

Regarding the recent reforms in the Islamic Financial Sector, he briefed the audience on four key areas of reform. These areas included: Enhancement of Institutional Capacity, which involved the establishment of a Shariah Advisory Committee and the formation of an Apex Committee to implement the FSC Judgment; Regulatory Enablement, which encompassed the development of the Shariah Governance Regulations 2023 and Guidelines for Offering Islamic Financial Services 2023; Advocacy and Capacity Building, which focused on engaging with professionals and experts to train resources; and Market Development, which involved the issuance of the Islamic Finance Diagnostic Review.

Mr. Tariq conveyed that these initiatives led to the emergence of a new generation of Islamic financial institutions, significant growth in Shariah-compliant securities, and advancements towards the transformation of regulated sectors.

Emphasizing SECP's main focus areas, he reported that SECP is dedicated to accelerating the growth of Islamic finance within regulated sectors, enhancing standardization across the Islamic financial industry, improving the operational quality of Islamic financial institutions, and fortifying the legal and regulatory framework for Islamic finance.

Concluding his presentation, Mr. Tariq emphasized the necessity for a dedicated legal and regulatory framework and the alignment of all subsidiary laws concerning Islamic financial services, including Takaful. He assured participants of the Islamic Finance Department's commitment to capacity building for industry stakeholders and its readiness to collaborate closely to advance Islamic finance markets and the Takaful sector.

5. Key Note Address

Dr. Mufti Irshad Ahmed Aijaz, Chairman of the Shariah Advisory Committee, SECP

As a key note speaker, Dr. Mufti Irshad Ahmed Aijaz, Chairman of the Shariah Advisory Committee at SECP, noted that although the current growth of the takaful sector in Pakistan is not commensurate with other Islamic finance sectors, such as the banking industry and Asset Management Companies, the expansion of the takaful sector has now become essential due to the parallel advancements in the Islamic finance ecosystem.

While addressing the global context, Dr. Aijaz highlighted that among the various international models of takaful, Pakistan enjoys the distinct privilege of not only introducing the waqf model of takaful but also operating it successfully. He noted that Saudi Arabia, despite having implemented a cooperative model, is also striving to transition towards takaful by aligning its current model.

He emphasized that despite the fact that current takaful products find roots in conventional models, considerable potential for the takaful sector exists to expand into untapped areas such as agricultural insurance and microinsurance, with substantial demand. He also noted the absence of takaful products offered by state-backed entities, which creates barriers to accessing protection products for individuals in remote areas, despite significant demand.

Underscoring the potential for takaful in Pakistan, Dr. Aijaz remarked that in a country with a low literacy rate, where people are reluctant to open bank accounts or engage in capital market transactions, there is significant opportunity for takaful, given its status as a highly regulated sector. He emphasized the need for innovative strategies to enhance awareness and outreach by targeting untapped sectors, including engaging influencers such as mosque imams, who have direct contact with the masses, and students of religious schools, where large groups can be integrated under the existing framework through public sponsorship.

Addressing the need for improved disclosure requirements, he stressed the importance of establishing a delicate balance between leveraging the banking network to sell takaful products in remote areas and tackling of the issues related to mis-selling due to high upfront charges.

Dr. Aijaz also highlighted the challenges of takaful industry in accessing the retakaful market due to macroeconomic factors, the recent efforts by SECP through the issuance of a draft circular regarding the availability of the reinsurance market for takaful products, subject to compliance with specific conditions and the concerns raised by the industry in this context.

He also apprised the participants of the recent development of formulation of working group for takaful by AAOIFI's governance and ethics board, where the working group would submit recommendations on the parameterization of takaful specific areas to cater practical issues including the implementation of essential controls, policy making, surplus treatment, charging of commission etc.

In conclusion, Dr. Aijaz emphasized the immense potential of takaful and expressed hope that all companies would introduce innovative products, focus on onboarding of untapped market segments, and develop creative strategies such as engaging with influencers. These efforts, he noted, would have a multiplying effect on takaful penetration and enhance companies' risk appetite by offering products that meet the broader needs of society.

6. Address by Dr. Aishath Muneeza, Chairperson of the Maldives Centre for Islamic Finance

Recorded message

Conveying observations from the jurisdiction of Maldives, where substantial advancements in the Takaful sector have been noted, and offering reflections on the measures implemented to enhance its adoption, Dr. Aishath Muneeza, Chairperson of the Maldives Centre for Islamic Finance, highlighted that according to the Islamic Finance Development Indicator Report 2022, the Maldives' Takaful sector was ranked 5th globally in terms of total assets in 2021.

Dr. Muneeza reported that the Takaful operator in the country experienced significant asset growth of 42.30% in 2023. She highlighted that with the introduction of a diverse range of products in the market, including those related to Hajj and Umrah, promoting financial security during pilgrimage through Takaful, the operator also exhibited a strong market presence by maintaining high claim payments and surplus distribution to non-claimant participants, underscoring a firm commitment to deliver value and comprehensive coverage.

Underscoring the role of takaful sector player in the development of the sector, She informed that the Takaful industry in the Maldives launched several initiatives to boost the adoption of Takaful by introducing microtakaful products, expanding customer access to eco-friendly and affordable coverage, travel insurance, a digital insurance package for travelers, and crop Takaful aimed at safeguarding farmers' livelihoods. She further highlighted that the industry's embrace of digital transformation resulted in a 30%-40% increase in online policy sales since 2021, significantly enhancing its reach to customers in remote atolls and to the younger generation, who prefer digital services.

Highlighting the regulator's role in this journey, she informed that the Maldives Monetary Authority, as the regulatory body for Takaful, played a crucial role in advancing the Takaful industry through various regulatory measures. This included the issuance of the Insurance Industry Regulations 2004, which provided the essential framework for Takaful operations in the country, and ensured Shariah compliance by monitoring activities and issuing related circulars, including the recent release of the Shariah governance framework.

Talking about the challenges being faced by the takaful sector of Maldives, she stressed on the need of a concentrated effort from all stakeholders, to realize the full potential of takaful through strong coordination among government, regulatory authorities, industry players, and educational institutions, to create a supportive environment; and formulation of specific legislation, to expand Shariah compliant investment opportunities, raise public awareness, establish local re-insurance solutions, and invest in education and training.

In conclusion, Dr. Muneeza, reflecting on the growth of the Takaful industry in the Maldives, highlighted several key lessons that could guide the future of Takaful in Pakistan. These included the development of a bespoke regulatory framework for Takaful, the expansion of Shariah-compliant investments to ensure sustainable growth, increased access to diverse Shariah-compliant investment opportunities, enhancement of public awareness and education, adoption of digital transformation, and the establishment of local Islamic reinsurance solutions.

7. Presentation by SECP – Takaful Sector in Pakistan

Mr. Jibran Paracha, Additional Joint Director, SECP

Mr. Jibran Paracha, Additional Joint Director, SECP, provided a comprehensive presentation on the takaful sector by thoroughly exploring the causes of the sector's stagnation, connecting the growth of the takaful sector with SECP's 5-year strategic plan, discussing recent initiatives focused on takaful, identifying potential opportunities, and highlighting the challenges hindering the sector's growth.

At the beginning of his presentation, Mr. Paracha informed the participants that takaful is a major focus area in the 5-year strategic plan, which aims for takaful to attain a 30% share of the total industry by 2028. To reach this goal, he mentioned that SECP has formulated an operational strategy centered on the growth of the takaful sector

Presenting an overview of the takaful sector to the participants, he emphasized that the sector's market share has largely remained stationary, hovering around 10% to 12%, in contrast to the Banking Sector and Non-Banking Financial Sector, which currently stand at 23% and 35% respectively. This disparity called for a deeper investigation into the underlying causes.

Analyzing the family takaful sector across public and private sector premiums, Mr. Paracha observed that while the takaful sector contributed 35% of the total private sector premium in 2023, the contribution from public sector insurers was less than 1%. Due to the significant size of these insurers, this disproportionately affected the overall family takaful share in the total industry premium.

Additional detailed analysis indicated that in first-year premiums, contributions were primarily driven by the private sector, where takaful accounted for 45% of the total first-year premium, compared to only 3% in the public sector. A similar examination of regular and single premiums highlighted the minimal ongoing contribution of public sector in takaful in respect of the overall market share.

Regarding the general takaful segment, Mr. Paracha emphasized the rising trend in contributions from the takaful sector. However, he noted that 90% of these contributions were concentrated among just 13 players, indicating the underutilization of takaful as a viable alternative to conventional insurance.

Emphasizing SECP's recent initiatives focused on the takaful sector, Mr. Paracha outlined the measures taken to boost takaful, including drafting amendments to the Takaful Rules, 2012, to accommodate general takaful reinsurance arrangements, proposing an alternative disclosure approach to support window takaful operations with significant takaful activity, timely consultations for policy decision regarding the accounting of takaful business under IFRS-17, as well as other initiatives impacting the sector, such as streamlining the submission process for life insurance products, issuing revised simplified illustration requirements for life insurers, and providing exemptions from rating requirements for foreign reinsurers.

Discussing the growth potential for takaful, Mr. Paracha emphasized the importance of adhering to a focused agenda while maintaining alignment with overarching principles. He noted that the State Bank of Pakistan's 2028 vision for the transition to Islamic banking presents a significant opportunity for the expansion of the takaful sector. He also highlighted opportunities for takaful in areas such as public property insurance, the offering of standardized takaful products, and the conversion of mandatory insurances, social insurance schemes, personal lines of non-life insurance, and regular premium life insurance products in the ambit of takaful.

In closing, Mr. Paracha emphasized that while challenges such as the limited availability of retakaful capacity, low public awareness, and a preference for conventional insurance pose obstacles to the growth of takaful, SECP remains fully committed to addressing these issues. He also informed the audience of the upcoming actions identified by SECP, including the publication of a takaful diagnostic study, the facilitation of new takaful licenses and product approvals, and discussions with market players who have yet to consider takaful as a viable alternative.

8. Concluding Remarks – Mr. Aamir Khan, Commissioner Insurance, SECP

In his concluding remarks, Mr. Aamir Khan, Commissioner Insurance, SECP, highlighted the promising growth trajectory of the international Takaful market in contrast to the current state of Takaful in the country and underscored the significant growth potential that the Takaful sector presents.

Commenting on the Federal Shariah Court's judgment, he noted that the ruling has facilitated all stakeholders in recognizing the necessity of the impending changes, and emphasized that its implementation would require concerted efforts from the industry, considering the inherent opportunities and potential impact it could create.

Addressing the challenges faced by the industry, Mr. Khan stated that SECP fully recognizes and concurs with the industry's concerns, particularly regarding the lack of enforcement of mandatory insurances and unfavorable tax policies as major obstacles. He also emphasized the importance of focusing on the development of local expertise and the management of large and emerging risks. He attributed the narrower margins for Takaful operators compared to conventional ones to the mere focus on converting existing products into Takaful products, which leads to cannibalization, rather than genuinely addressing customer needs to create meaningful differentiation.

Advising on the future direction for the Takaful sector, Mr. Khan underscored the importance of skill development, knowledge sharing, and collaboration as vital to the sector's growth. He also stressed on the importance of close coordination and joint efforts by all stakeholders, advocating for collective ownership of key issues to effectively influence decision-makers at both the Federal and Provincial levels

Discussing the role of public sector insurers in the expansion of the Takaful sector, Mr. Khan noted that although public sector insurers are dealing with legacy challenges, the situation now seemed to stabilize. He emphasized the public sector insurers to fully capitalize the current conditions, as even a moderate inclination by such insurers towards Takaful could yield significant results.

He further informed the audience that SECP has recently published several research reports and concept papers, transparently presenting the regulatory perspective to facilitate better decision-making, which demonstrates the regulator's commitment. He encouraged industry representatives to review these reports and take proactive steps on the issues identified, as such research work would strengthen the sector's ability to influence policymakers in view of the documented agreement of the regulator on the proposed reforms.

Mr. Khan also encouraged Takaful sector participants to take advantage of the regulatory sandbox platform by testing innovative ideas within a flexible regulatory environment. This could then serve as a foundation for necessary regulatory adjustments, ultimately contributing to market development.

Updating the participants on recent stakeholder consultations for sector development, he mentioned that SECP is in advanced discussions with the Asian Development Bank regarding the approval of an insurance sector development program, which could significantly boost the promotion of Takaful. He also noted that SECP is actively engaging with the Federal Government to advocate for proposed reforms in the insurance sector, addressing areas crucial for the growth, stability, and sustainability of the sector.

In conclusion, Mr. Khan emphasized on close coordination of the regulator and industry to serve as the starting point for takaful sector growth. He urged industry participants to implement ambitious plans, including the digitalization of operations, collaboration, and skill development. He assured the industry of SECP's unwavering support for any reasonable and rational initiatives that benefit the sector as a whole.

9. Key Takeaways from Round Table Discussion

Importance of Takaful for Pakistan

Takaful holds significant importance in Pakistan's financial ecosystem as it offers a Shariah-compliant instrument, aligning with the country's predominant Islamic values. This makes Takaful a culturally and religiously acceptable option for risk management, addressing the needs of those who might avoid conventional insurance due to religious considerations. By expanding Takaful in the context of Federal Shariah Court's decision, overall insurance coverage can be enhanced to foster a more inclusive and ethical financial environment.

Awareness and Financial Literacy

Increasing awareness about Takaful is crucial for its growth and market penetration. To achieve this, financial literacy should start at the school level, introducing students to the principles and benefits of Takaful early on. This will help build a future generation that understands and values Shariah-compliant financial products. Additionally, targeted awareness campaigns involving community leaders and religious scholars can further demystify Takaful, foster trust, and encourage wider adoption.

Participation by the Public sector in Takaful

The share of the private sector in takaful is already around 30%, which is higher than in similar jurisdictions like Malaysia and Indonesia. However, the participation by the public sector in Takaful is minimal, reducing the overall share of Takaful. It is encouraging that the public sector entities have initiated the internal processes of entering the Takaful sector. NICL has appointed a Shariah advisory board and is internally preparing to launch a Takaful product within the next year. Similarly, SLIC is also working on initiating window Takaful operations and developing Takaful products.

Differentiation Between Corporate and Retail Insurance

There is a need to distinguish between corporate and retail lines of business within the insurance industry and regulatory framework. The dynamics and insurance requirements for these segments differ significantly, such as the coverage needed for a plant versus third-party motor insurance. A more retail-centric strategy could help increase insurance penetration, potentially through the formation of pools for different lines of retail insurance, similar to existing co-insurance arrangements.

Flexibility in placing re-takaful with conventional reinsurers

Regarding the issue of flexibility in placing re-takaful with conventional reinsurers and the recent initiative by SECP of proposing the draft amendments to the Takaful Rules, 2012, to accommodate general takaful reinsurance arrangements, it is necessary that the industry first reconsider its requirements and proposals internally and then come up with revised suggestions in consultation with the companies' Shariah advisors.

Governance and Surplus Allocation in Takaful

There is a significant disparity between Participant Takaful Funds (PTF) and Operator's Profit Funds (OPF), where PTF generally performs better than OPF, raising concerns about whether OPF profits are equitably distributed. Addressing the disparity between the performance of PTF and OPF requires prudent fund management and fair surplus allocation. Companies should self-regulate themselves and shall ensure transparency and equitable distribution of profits to maintain stakeholder trust.

Conversion of Compulsory Insurances to Takaful

Conversion of the mandatory insurance schemes, such as motor third-party liability, crop and livestock insurance and Universal health insurance scheme into Takaful can provide significant boost to the takaful sector. Converting mandatory insurance schemes—such as motor third-party liability, crop and livestock insurance, and universal health insurance—into Takaful models can provide a substantial boost to the Takaful sector. This transition would expand Takaful's reach and appeal, reinforcing its role as a viable, Shariah-compliant solution. The scale achieved through these compulsory schemes will establish a strong foundation to Takaful sector for further expansion into other lines of business, enhancing the sector's overall growth and market penetration.

Other Challenges in the Takaful Sector

The Takaful sector faces several challenges, including comparisons with conventional insurance, replication of conventional products, and complex exclusions in policies. To build trust and increase market share, there is a need for specialized Takaful products, simplified regulations for small-ticket products, and reduced exclusions.

Need for Standardized and Innovative Products

Developing standardized insurance products is key to simplifying the market and improving customer understanding. Standardization ensures consistency and transparency, which can enhance trust and facilitate comparison among products. At the same time, fostering innovation is crucial for meeting diverse customer needs and staying competitive. Innovative insurance solutions can address emerging risks and provide tailored coverage, making insurance more relevant and accessible.

Digital Distribution Enhancement

Embracing digital distribution channels is vital for modernizing the insurance industry and expanding its reach. Digital platforms can streamline the purchasing process, improve customer experience, and reduce operational costs. By leveraging technology, insurance companies can enhance their service delivery, increase accessibility, and engage with a wider audience, ultimately driving growth and efficiency in the sector.

Simplifying Regulatory and Compliance Requirements

Streamlining AML/KYC requirements, especially for small-ticket insurance products, is pivotal for enhancing accessibility and boosting uptake among a broader segment of the population. By reducing the complexity of these processes, insurance companies can make it easier for individuals to engage with and benefit from insurance offerings. However, this simplification must be matched by an equally robust and straightforward claims processing system. and reducing policy exclusions are also necessary to improve customer satisfaction and trust.



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