Gearing up for a shake up?

Takaful operators in the UAE are facing some difficult times, but are fine-tuning their strategies or looking for niche areas in order to grow profitably.

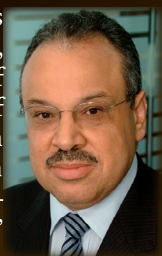
By **Wong Mei-Hwen**

Although the UAE takaful market has been facing tough times with the market getting more crowded, players remain hopeful that better times are in store.

Bullish on family takaful

Given the high ratio of expatriates and poor take-up rates among locals, success for family takaful operators does not come easy.

"Family takaful in the Middle East has yet to develop," said Mr Chakib Abouzaid, CEO of Takaful Re. "The financial crisis of 2008 affected demand, yet the number of players has continued to increase. But even if we were disappointed by the low growth of family takaful in the recent years, we consider this business promising for the future."



Mr Chakib Abouzaid

Other companies are similarly optimistic. Among them is Abu Dhabi National Takaful (ADNT), which offers various family takaful products. It is growing in this segment steadily and widening its product range in this line of business, said CEO Osama Abdeen. In the first half of 2011, ADNT's gross contributions jumped 45% to AED98.9 million and net profit rose 23% to AED9.6 million.

Mr Osama Abdeen

Mr Noel D'Mello, General Manager, Family Takaful, SALAMA, feels that the market is "accepting family takaful products at an increasing pace and the exponential growth SALAMA has witnessed since it started family takaful in 2008 is testimony to this fact. Family takaful is a complex business and one has to understand the needs of the market well in order to succeed."

Mr Noel D'Mello

Success factors for family

For family takaful to succeed, one cannot rely only on the "Shariah compliant" differentiating factor, said Mr D'Mello. "SALAMA Family Takaful's focus from the start was to have products that can compete with the conventional multinational players both in product flexibility and price. In addition to this, a high level of service both to the distributors and the client is essential."

Another key to success is having the knowledge and capabilities to create new products to meet the changing market needs. "Since inception, we have constantly created new products and made amendments to existing products for our distributors. Today, we have the largest range of family takaful products in the Middle East that caters to most needs of a customer, be it retirement or child education savings, level term or decreasing term protection for mortgages, whole-of-life protection plans or personal accident plans, just to name a few," he said.

He added that SALAMA Family Takaful products are bought by non-Muslims too, a clear indication that the products have merit on their own. "Gone are the days when a Muslim had to buy a family takaful product at a higher price or inferior product offering – as a Muslim, you shouldn't have to pay a price for your belief, and that is what we strive to deliver."

SALAMA recorded net profit after tax of AED62.2 million in the first half of 2011, a 70% increase y-o-y. Gross written contributions grew 43% to AED1.5 billion.

Prudent approach needed in general

On the general side, keen rate competition has already affected companies like Aman, which saw contributions fall 18% year-on-year to AED226.3 million in the first half of 2011. Apart from the proliferation of operators, Managing Director & CEO Hussein Al Meeza attributed the drop to the central bank's instructions on auto finance, which affected car sales.

Mr Hussein Al Meeza

"It is dangerous for companies to slash rates," he added. "It is like gambling and will impact them in the future."

In such an environment, it pays to have a prudent and cautious approach, said Mr Rafiq Halani, General Manager of General & Health Takaful, SALAMA. "We are not pressed to do things that would yield negative results," he said. In line with this policy, the company has so far managed to maintain a "very balanced" portfolio, he added.

Mr Rafiq Halani

ADNT has a diversified portfolio with motor accounting for less than 20% of the total portfolio, as at end of the second quarter of 2011. It is now focusing on bancassurance products, as well specialty lines such as professional indemnity, directors' and officers' liability and casualty, said Mr Abdeen.

One company which is going for the conservative approach is family and medical specialist Takaful Emarat. "We suffered heavy losses in the past due to aggressive underwriting," noted General Manager Ghassan Marrouche. "We have since changed our policy. We will no longer go for 'kamikaze' underwriting, but focus on profitability."


Mr Ghassan Marrouche

Since Mr Marrouche joined Takaful Emarat earlier this year, it has changed its focus from group offerings to individual products. In May, it launched three new savings plans, covering education, general savings and wealth management; and is hopeful that sales will boost contributions to AED65 million in 2011, up from AED11 million in 2010.

One of its latest offerings is Second Medical Opinion, which provides clients with a second opinion from another doctor or surgeon from the related field to confirm the diagnoses and treatment plan of a primary physician. The arrangement is facilitated by Takaful Emarat's founding partner, UNIQA Group Austria, and is provided free of charge to customers.

Ready for consolidation?

With no less than eight takaful operators in the UAE alone, many of them relatively new, there is a potential for takeovers. Conventional player Arab Orient Insurance Co is on the lookout for a good buy, having approached a couple of companies without reaching any agreement on price, said Senior Managing Director Omer Elamin.


Mr Omer Elamin

"Many takaful companies in the UAE have not been able to obtain a good market share. The number of takaful players has increased in the last three to nine years, yet the business has not been growing," he observed.


Mr Abdul Muttalib Al Jaidi

"By the end of next year, some takaful operators will need to recapitalise, and that is when they will be looking for a good deal."

Other conventional players feel that the costs of investing in takaful outweigh the benefits. "Takaful is more of a fashion statement than a solid business proposition," said Mr Abdul Muttalib Al Jaidi, former CEO of Oman Insurance Co. "The opportunities do not justify investing in such a business."

Ripe for change

Players have welcomed the law, passed in 2010, to provide more transparency and oversight to the UAE's takaful market. "It will bring more consistency to the takaful market, said Mr Abdeen.

In addition, "takaful companies need to focus more on training and meeting customer needs. There should also be a more collective approach to bring consistency to takaful solutions."

Mr Halani feels that the regulator should also do more to help the takaful market. "Not that they should refrain from issuing more licences, but they should take active measures to safeguard the interest of companies."

Mr Marrouche believes that, while the regulator should step in to prevent rates from going too low, companies should also come together to share loss experiences. "A lot of clients jump from one provider to another. Companies can collaborate to curb this practice."

Going regional

While some companies have expressed interest in the past to expand beyond the UAE, that interest has been somewhat dampened by the political unrest in the region. Aman, for example, has put on hold plans to set up in North Africa.

For newer entrants like Takaful Emarat, it is more important to consolidate locally for the time being. "We are taking our time this year and most of next year to ensure that our base is solid enough, before expanding to the rest of the GCC and the Middle East," said Mr Marrouche.

Bright future

In spite of the challenging times, some operators still see a bright future in family takaful. "We have barely started to scratch the surface, and there are tremendous opportunities to cash in on. Companies who succeed are those who constantly adapt by keeping their ears to the ground and providing exemplary service. Simple lip service will not suffice, and one has to walk the talk in order to get distributors to believe in your company and products," said Mr D'Mello.

ADNT has increased its net and treaty capacity, enabling the company to achieve growth in the region of 40%. "This is significant, considering the market conditions. The growth achieved is in more favourable segments and lines of business which will result in growth in profitability," said Mr Abdeen.

"In 2010, we achieved 29% return on capital and 20% return on equity. In 2011, we are on the track to improve further on our targeted KPIs in terms of profitability and growth."

SALAMA General & Health Takaful is geared up to serve the market "when things go back to normal," added Mr Halani. "We have consolidated and developed capacities and are capable of handling huge volumes of business." M