

Growth of Family Takaful business post pandemic in Pakistan and beyond

While the COVID-19 pandemic has challenged everyone around the world and in Pakistan, one would think that Family Takaful would be the last priority any individual would give to invest or avail when consumers' disposal incomes worldwide have been shrinking. Another perspective since 2007 with the introduction of Family Takaful in Pakistan, is that the general public's purchasing preference and mindset have been similar to the conventional alternate individual life insurance product offering, whereby Pakistanis have felt that buying such products for family financial protection is not a priority. The consumer behavior has traditionally been Allah Tawakkal (I leave my trust only to God), rather than planning for one's own self and accepting Takaful (community-pooling system) as a good Shariah compliant alternative to insurance. MUHAMMAD WAQAS DURRANI analyzes.



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Pakistan is a country with a population of over 200 million, of which, over 100 million are registered adults. Yet the country only has fewer than 40 million bank accounts and less than 10 million individual life insurance coverage. The latter represents 0.9% of gross premiums of Pakistan's GDP, compared with the regional average of 2.2% and the global average of 6.6%. The industry assets continue to grow at an average of 12% annually, primarily through investment income from overall fund management instead of core new customer business income growth.

New customer market penetration remains stagnated at 0.6% annually for decades. All this information is taken from the State Bank of Pakistan Financial Stability Review report 2019 and Securities Exchange Commission of Pakistan (SECP) Annual Report 2019.

In Pakistan, Family Takaful is a business comprising a handful of leading players such as Pak-Qatar Family Takaful, Jubilee Takaful Window, EFU Hemaya Takaful Window, Dawood Family Takaful, Adamjee Takaful Window and 26 Takaful window operators.

Overall, there are seven life insurance companies, two Family Takaful companies and 29 Takaful window operators in Pakistan. The life insurance industry as a whole is led by the government-owned entity State Life of Pakistan, EFU Life Insurance, Jubilee Life Insurance, Pak-Qatar Family Takaful and others.

Individual Family Takaful coverage is fewer than 1 million members so

far. However, 2020 witnessed an unprecedented growth in Family Takaful which had not been seen in decades. Despite the economic slowdown due to the COVID-19 pandemic, serious lockdowns of over three months, a surge in unemployment, and an overwhelming strain to the healthcare infrastructure, the individual Family Takaful industry posted over 40% of new business contribution growth, which was less than 8% based on the cumulative average growth rate (CAGR) of the past nine years (2011 to 2019). Renewals from existing Takaful members (customers) that had stagnated have also improved.

The above may very well indicate the surge in attaining individual Family Takaful (alternative to individual life insurance) coverage due to the pandemic, where sudden sickness and death have altered the consumer behavior from Allah Tawakkal to prudent Family Takaful coverage. One would hope that this is not a one-off year and this growth continues in the coming years.

The increase was also facilitated by Pakistan's public reliance on technology through smart phones and other devices due to the long periods of lockdown. The Family Takaful industry facilitated by the regulators, had for years invested in innovative apps and customer touchpoints that would enable a quick, secure, convenient and cost-effective means of subscribing to Takaful memberships online. The turnaround time, although still not perfect, was efficient enough to ensure smooth coverage for the individuals interested.

For years, the Family Takaful industry in Pakistan has been investing in technology, but consumers remained hesitant toward tech savviness and trusted the brick-and-mortar setup near his or her neighborhood. After all, when it comes to discussing life savings, investments and financial

protection, customers of the financial industry would prefer to physically walk into the nearest Takaful branch office and enjoy a cup of coffee with their financial advisor and/or manager. That is why Takaful companies have invested heavily in a large network of thousands of branches spread over 100 cities across Pakistan.

This individual physical care and consumer preference did not change for decades until the pandemic. Due to the lockdown and strict social distancing, the only way an existing customer or a new customer could avail Takaful protection was through electronic means. The very large individual Takaful branch distribution teams (salesforce) of Takaful companies through their mobile apps and online e-commerce platforms had to use WhatsApp and other social media tools to penetrate existing or new Takaful prospects while working from home. SECP as the regulator for Takaful companies has also helped with new regulations on introducing the sandbox initiative and COVID-19 relief measures.

In addition, based on such growing popularity and attractive business growth many Muslim investors are seeking for advice in establishing Takaful companies in various countries like the Netherlands, Turkey and Kazakhstan.

2020 proved that Pakistani consumer preferences can easily change if one embraces the inevitable. The sudden surge may be understandable with the correlation to the pandemic, but overall, the ability to capture the Takaful market by the Takaful distribution teams nationwide primarily through electronic touchpoints indicates a promising future for the industry as a whole as well as the overall endeavor by Islamic finance practitioners in creating a Riba-free economy by providing Islamic banking, finance and Takaful to everyone. ☺