GENERAL RETAKAFUL MANUAL

Part 1: Technical foundations
Part 2: Manual for proportional treaty business
This publication deals with some fundamental questions concerning general retakaful and provides a typology of all possible retakaful solutions.

It then outlines the functional elements of the most commonly required retakaful treaties.

Finally, it introduces and analyses the respective elements of the standard wording of the Malaysian Takaful Association and by comparison the retakaful wording of Munich Re.

OUR VISION

We strive to combine Munich Re’s first-class financial strength and technical expertise with a profound understanding of Islamic economics and takaful techniques to bring the takaful industry to the next level of its development.

Mission Statement

“Munich Re is a pioneer in providing innovative retakaful business operations, but Shari’a compliance remains our first and foremost priority.”

Justice Khalil ur-Rehman Khan.
Head of Munich Re Shari’a Board
EDITORIAL

Just three to four years ago, the international retakaful landscape looked much different from today’s. Apart from a very few pioneers, there were no players and only limited capacities, leading to regular placements with conventional reinsurers on the basis of dharura. The takaful industry was still too marginal, lacking the need and weight to justify establishing standards.

With the number and range of players rapidly increasing along with capacity and service offers, the takaful operators got the choice, and different wordings appeared in the market. But the fact that many takaful operators still use conventional reinsurance was evident. It is generally held that the markets are uncertain how retakaful is different from conventional reinsurance, what kind of retakaful is closer to the idea of Shari’a compliance and of course, at the end of the day, how the different approaches work in detail. A particular reservation often expressed is how the concept of risk sharing translates into retakaful, given that it is meant to replace reinsurance, which is based on risk transfer. In order to create a climate of certainty and open the door to retakaful, Bank Negara Malaysia asked the Malaysian Takaful Association to draft a standard wording. The author had the honour of being a member of the respective committee and reference will be made to this standard wording in this manual, in particular in the annex.

This publication seeks to address any reservations about retakaful and to complement and explain the standard wording(s). Its core is a manual that simply and clearly outlines the elements of these wordings, their peculiarities and mechanisms. The addressees are practitioners and reinsurance brokers, i.e. those who have to design, sign and apply retakaful treaties. And the idea is to remove any uncertainty for them regarding how retakaful works and what repercussions it has on their business figures, thus facilitating the switch from conventional reinsurance to retakaful. A second intention of this publication is to help solve the theoretical conundrum of risk sharing/risk transfer and of the resulting issue of modelling. The aim is not to take a stance, since the decision regarding which system is preferable is up to the Shari’a scholars. It is about deducing and defining the necessary terms to exclude irritations and misunderstandings. And resulting from this, the possible types of retakaful (and to some extent of takaful) are defined. Originally written by the present author as a contribution to the Munich Re retakaful publication Advanced Principles and Practices (edited by Mr. Frenz), Part 1 is now used in this user-orientated independent publication which focuses on general retakaful. This first issue of the manual will only deal with one type of retakaful which is meant to replace conventional treaty reinsurance and, more specifically, risk transfer business. Later issues will deal, in sha allah, with non-proportional, facultative and alternative risk sharing techniques.

The concept is that the manual can be used independently, but justifications and explanations can be taken from the technical write-up. The third part of the publication, the appendix, then builds a bridge to the standard wording, comparing the Shari’a-relevant formulations of the MTA standard wording and Munich Re retakaful wording.

Munich, March 2011

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EXECUTIVE SUMMARY

Theoretical basis (Part 1)

1. It is shown in the theoretical part that the qard hasan promise is in principle a breach of the system of risk sharing among the participants. When the qard hasan amounts are substantial, frequently occurring, and when the participants are to be expected to leave the fund when it is in deficit (and thus no surpluses to be expected for them), then we have to call it risk transfer.

2. All these conditions are given in the (general) retakaful markets, and therefore there is a sort of retakaful involving risk transfer. It is the sort normally demanded in the markets to replace conventional reinsurance.

3. A typology of eight sorts of retakaful is deduced by defining risk sharing, pooling and tangible calculation, which are the main features of Islamic reinsurance. All of those sorts of retakaful will be dealt with in a series of manuals, but this first part is dedicated to proportional risk transfer treaties.

4. Participation in investment results is an important differentiating feature of Islamic reinsurance. The advice offered by the AAOIFI to the retakaful operators to seek their profits in investment only appears to be somewhat difficult to reconcile with such participation. In addition, the necessary Islamic asset classes are not yet fully available. Therefore, fully fledged investment mechanisms for retakaful are to be worked out in a second stage, and a quick fix is suggested for the time being.

5. The retakaful equivalent of reinsurance commission needs to be re-thought in terms of function, amount, terminology and the way it is distributed (if at all) between shareholders’ and participants’ funds. In the current market, it works like conventional reinsurance commission in the retakaful treaties and should be referred to as such.

Manual (Part 2)

1. We suggest a set of five elements that have to be observed to make basic wordings and slips retakaful-compliant are identified and briefly explained. Practitioners and brokers can adjust clauses and slips and, as long as certain elements are maintained, one can be confident that the result is Shari’a-compliant. These elements are: preamble/model, pricing elements, legislation, blacklist of prohibited clauses, and haram risk screening.

2. Under the non-pooling risk transfer treaty (the most commonly requested type), pricing parameters and calculation methods are very comparable with conventional ones, although the actual values for these parameters will often be different. The pricing elements on this basis are mapped with corresponding conventional pricing parameters.

Comparison of wordings and slips (Appendix to Part 2)

1. The Shari’a-relevant elements of the MTA standard wording and of Munich Re’s retakaful wording are placed side by side to enable the market to use these modules for compliant wordings.
1 SOLVING THE CONUNDRUM OF POOLING AND RISK SHARING

Above all, there are two features that distinguish takaful companies from conventional and other Islamic companies: the existence of a Shari’a board and the separation of the two funds, the participants’ and shareholders’ funds. Separation of funds is a consequence of Shari’a requirements and is meant to express and guarantee that two main functions take place within the community of participants: carrying risk (risk sharing) and transforming risk through minimising relative volatility costs (pooling).

From the earliest times on, however, the flowcharts show a connecting line between the two funds, representing the qard hasan. These lines are usually depicted as dotted, tiny and pointed at both ends, expressing the implicit assumption that those injections from the shareholders’ fund are rare in occurrence, negligible in relative amount, and quickly and completely repaid by surpluses from following periods. This would not affect the theoretical construction of risk sharing.

Figure 1: Pooling, modelling and risk sharing dependent on participants’ behaviour
These assumptions cannot be taken as generally given, in particular not in portfolios of high volatility, e.g. with commercial and industrial risks and in young, small funds: conditions, which prevail in general business more than in family and health. And these assumptions are even more rarely given in retakaful, because if volatility is low and the risk can be kept in the participants’ fund, why the need for retakaful cover anyway? Demand for retakaful, like reinsurance, is to a large extent demand for risk transfer, something takaful was exactly invented to avoid. And this is the basic dilemma of retakaful and at the same time the main reason why the model debate has not progressed for some time.

In the following, we will deal with the technical and actuarial consequences for risk sharing and pooling if the said assumptions are not given, i.e.:

- If the business is volatile, i.e. low-frequency and high-severity claims business.
- If the funds lack actual critical mass (which in turn implies high relative volatility).
- If the qard hasan cannot be expected to be repaid in full and in practice there is no enforceable obligation upon the participants.

These three points correspond to three major technical areas: transfer of risk, pooling of risks and modelling of risks. And these complexes are interlinked by one factor that defines them to a large extent: participants’ behaviour.

1.1 An analysis of participants’ behaviour

Takaful is built on solidarity and cooperative principles. This risk-sharing approach is based on the assumptions that participants remain in the participants’ fund even if it is in deficit (i.e. qard hasan is outstanding) and no surplus redistribution is to be expected for some time. They may even stay in the fund if the rates have to be increased in order to ensure the fund’s sustainability in the long run, i.e. the ability to cover all losses plus costs (i.e. the operator’s wakala fee). The participants have reasons to act in solidarity, in what we may call the rationale of a “Homo Islamicus”. As a consequence, a long-term surplus can be distributed in appropriate patterns to participants and contingency reserves or qard hasan is not a vital element (see Figure 2).

A second pattern of behaviour is based on the maximisation of individual benefit as in conventional insurance, resulting in opportunistic behaviour with little regard for solidarity. Under this pretext, good risks join the pool in expectation of favourable rates and surplus redistribution and will consequently leave it once it is in deficit, or at the latest when the rates need to be increased. This leads to further deterioration of the pool, both in size and quality until it is finally closed, probably by the (re)takaful operator, who suffers qard hasan injections year after year without a chance to recover it, as shown in Figure 3.

The two patterns represent the prisoner’s dilemma known from games theory. The cooperative pattern could produce the higher overall benefit and even a win-win situation on the level of each individual, but requires coordination or (instead of coordination) blind trust among the individuals, plus the preparedness to suffer individual disadvantages under certain
The income curve for the operator would thus (in a one-period view) fall once the claims ratio reaches the amount of 100% less wakala fee, because a part of the wakala fee is needed to finance the qard hasan.

One interesting observation in this respect, in particular for retakaful: assuming a realistic wakala fee of 20%, the interval of claims ratios where an operator working on a pure wakala basis is better off than under a surplus-sharing model, lies between 60% and 90%, which are typically realistic scenarios for general business in many markets (see Figure 4).

One countermeasure accepted by AAOIFI standards is to retain surpluses in the reserves, which is in fact reducing the probability of an injection, in particular in mature funds. But even then, there is a real chance of qard hasan that cannot be fully recuperated, thus posing a downside risk to the takaful operator.

If these amounts are significant, the only possibility to stop the shareholders’ fund from bleeding out is to build up contingency capital within before this happens. In a mudharaba or modified wakala system, this can happen via allocation of underwriting surpluses from the takaful fund to the SHF. In a pure wakala system, the only way to build up the shareholders’ fund is the wakala fee, and this implies that the irrecoverable qard hasan needs to be priced in – in advance using expected values. This in turn requires risk-modelling techniques that generate expected figures for the irrecoverable qard hasan (“irrecoverable” as per best estimate). This is a shift from the initial approach which we may call “tangible calculation”. In a tangible calculation, the qard is paid as it occurs, be it low or high, while in the modelled approach qard is prepaid as it is expected. Surely, the tangible approach represents more closely the hand-to-hand (yad bi-yad) rule of the well-known riba-hadith while the modelling approach appears less transparent. But the advantage of the tangible approach in transparency is dearly bought by limiting the application to complex and long-term risks and portfolios. The task is to use the advantages of modelling and make sure that the

### 1.2 Irrecoverable qard hasan, reserving and risk modelling

Assuming opportunistic behaviour of the participants, the takaful operator has to expect to be (and avoid being) left with an outstanding and irrecoverable qard hasan. According to takaful theory, the (re)takaful operators have two tasks: administration of the pool and provision of the qard hasan, if necessary. There is consensus that they can factor their expenses for the administration and profit margin into the wakala fees, but if they are losing money due to the second task – provision of qard hasan – they might go bankrupt sooner or later. This is an imminent risk in particular for a retakaful operator with highly volatile business (especially non-proportional), where the qard hasan promise is economically the most important service provided.
necessary transparency is observed. This is the task of the Shari’a boards. And this seems viable since expected values can be compared and adjusted to real outcomes in a regular manner.

The below figure illustrates the dilemma the industry is facing:

According to takaful theory, the qard hasan is only a supplemental feature to finance temporary, minor cash flow gaps and is expected to be fully recovered (thus small arrows in both directions). But for volatile business the qard hasan becomes a crucial feature, and the operator is unlikely to fully recuperate the loan (thus the big red arrow is now pointing from SHF to PRA). The obvious solution is to properly price the qard hasan requirement into the takaful contribution. This method provides the required robustness that cures the problems of the opportunistic behaviour outlined above. Contribution levels do not depend on short-term volatility, and the downward spiral with initial deficits as described above in 1.1 will not occur. Moreover, the problem of how to get young and immature funds started can be solved that way. If using real, unmodelled figures, the first participants in the fund would have to carry the burden of building up sufficient reserves, not allowing surplus redistribution for many years (see Figure 6). This makes the fund unattractive and further impedes the growth into critical mass. Since there is a sort of trade-off between reserves and in-built irrecoverable qard hasan, prospective pricing can allow reducing the reserves and thus giving out surplus right from the start.

If the qard amounts are priced in advance, it seems fair to treat them as a hiba rather than a loan, which would reflect the economic reality.1

1 As suggested by Azman Ismail in MIR, February 2010.

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Figure 5: Drain due to irrecoverable qard hasan requires replenishment through wakala fee

Participants

\[ \text{Contribution} \quad \uparrow \quad \text{Takaful fund} \]

\[ \downarrow \quad \text{Wakala fee} \]

\[ \downarrow \quad \text{Shareholders’ fund} \]

\[ \downarrow \quad \text{Underwriting profit} \]

Underwriting surplus/deficit

\[ \quad \leftrightarrow \quad \text{Qard} \]

\[ \text{Takaful theory: Qard as supplemental feature to finance minor, temporary cash flow shortfalls} \]

\[ \quad \leftrightarrow \quad \text{Real world: Qard as a crucial and major feature to fund underwriting deficits for volatile classes} \]

\[ \quad \leftrightarrow \quad \text{Solution: Proper pricing of volatility component} \]

\[ \text{Shareholders’ fund} \]

\[ \downarrow \quad \text{Wakala fee} \]

\[ \downarrow \quad \text{Wakala fee} \]
1.3 Modelling expected qard hasan repayments

The other side of this approach has to be stressed: it marks a paradigm shift away from tangible, direct calculation of real figures to a modelled as-if basis, and the crucial question is whether this has to be seen as excessive gharar in Shari'a terms, or rather what rules are the Shari'a scholars going to set for defining what is excessive gharar in risk modelling. This discussion still needs to be initiated.

So far, this crucial technical question seems not to have surfaced to the full extent, probably because many operators still take on surplus by following mudharaba or ju'ala models rather than modelling wakala fees and/or they cede their volatility out to mudharaba-based retakaful or, still to a large extent, to conventional reinsurance. A clear technical answer to the risk-transfer conundrum, ideally sealed by ijma', is thus crucial to a broader conversion rate to retakaful and the extension of the halal supply chain.

2 POOLING

Pooling is not necessarily identical to risk sharing or to carrying each others’ losses. It is in essence about transforming the risks by combining them in one pool or, if more favourable, into different sub-pools, using the law of large numbers, homogenisation and diversification effects to minimise the risk-mitigation costs per unit of risk (or say: per participant). It requires skills and knowledge in risk assessment and prospective underwriting to do so, but it does not necessarily require the application of risk modelling. It is especially needed in general business with its much higher diversity (as compared to family) regarding lines of business, run-off periods, frequency, severity and possible risk correlations.

Let us start with a simple example:

A takaful operator as wakeel is paid for managing the pool. In the simplest theoretical form, namely an undifferentiated pooling and real-figure (tangible) calculation, there is not much to it. He places the participants in one fund without any pre-structuring and calculates the result at year-end, distributing surplus or injecting qard hasan. It is not only easier for the operator to pool indiscriminately, he also has financial advantages: the lower the number of sub-pools, the lower the chance for him to pay out surplus on one fund while injecting qard hasan into the other. But the participants, in particular good risks, have a potential disadvantage.

Assuming an operator has acquired a large risk, say, a commercial building, in addition to a moderately large number of retail risks such as residential fire. If the results were to be combined, one loss in the large risk would spoil the surpluses of the retail customers for years, probably causing their fund to collapse. Combining the two in tangible calculation is not advisable, and there are even shari'a reasons to build sub-funds for them, in particular maintaining justice and risk selection (Figure 7).

This may lead to the situation where the takaful operator pays qard hasan into one sub-fund and at the same time surplus out of the other. In the short term, this may look less efficient and the operator will have to price this in, but otherwise the portfolio would not survive at all. And there are diversification effects that outweigh this disadvantage, as follows.

There may be two comparable retail portfolios exposed to earthquake risk, but in different, geologically uncorrelated countries. The operator should combine those two for the sake of diversification wins and for a quicker build-up of critical mass and appropriate reserves.
The participants’ opportunistic behaviour will discourage pooling the two portfolios on a tangible calculation basis. If an earthquake occurs in area A at an early stage of building up the reserves, the participants in area B may not fully appreciate that they are enjoying a stochastic advantage of being pooled, while their surplus is gone. If risk modelling is applied, a certain reserve or modelled qard hasan would have to be retained from both portfolios for future earthquakes. The claims-free portfolio would get its surplus after having deducted this reserve. And the pooling effect would imply that this pre-calculated reserve is lower for both sides than it would be without pooling.

The principle behind it can be put like this: ethical and economic reasons require that participants pay for each others’ misfortune, not for poor risk selection. In the long run, every participant/participants’ fund is to pay for its expected claims ratio, while costs for volatility reserves are minimised by the large number. It does not necessarily imply cross-subsidisation.

An important conclusion of these considerations is: whether based on tangible calculation or not, the communication between the pooled portfolios would work via qard hasan. That is via the shareholders’ fund and not solely within the participants’ fund. Qard hasan (to the extent it is drawn) connects the two funds and together they fulfil the functions that take place within the portfolio of a conventional insurer. It appears that to the extent the participants behave like consumers (i.e. opportunistically), the takaful system converges towards the conventional in term of cash flows. The most important question arising out of this conclusion is how, if at all, the takaful companies can keep themselves different from the conventional in practice.

For the following typology, the term “pooling” will be used in the narrower sense of “direct pooling”, meaning setting off one participant’s surplus against another participant’s losses and thus paying each other’s losses.

### 3 A TENTATIVE TAKAFUL TYPOLOGY AND ITS RESULTS

Three dimensions that have been defined above determine the typology of takaful business, independently of the model applied:

- **Tangible calculation versus modelled pricing:** Ex-post real figures versus prospective estimations, annually adjusted.
- **Pooling versus individual calculation:** Figures or reserves of sub-pools are directly set off against each other or not.
- **Risk sharing versus risk transfer:** Risk sharing means that the fund cannot be dissolved or left by the participants as long as it is in deficit. Risk transfer: participant is free to leave the fund any time.

### Table 1: The eight possible takaful types in respect of risk transfer/sharing, pooling and modelling

<table>
<thead>
<tr>
<th>Risk sharing</th>
<th>Risk transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tangible</strong></td>
<td><strong>Tangible</strong></td>
</tr>
<tr>
<td>Type 1 (Classic)</td>
<td>Type 5 Classic family</td>
</tr>
<tr>
<td><strong>Modelled</strong></td>
<td><strong>Modelled</strong></td>
</tr>
<tr>
<td>Type 2</td>
<td>Type 6 5 with wakala</td>
</tr>
<tr>
<td><strong>Pooled</strong></td>
<td><strong>Individual</strong></td>
</tr>
<tr>
<td>Type 3 (Tangible financial deal)</td>
<td>Type 4 (Structured financial deal)</td>
</tr>
<tr>
<td><strong>Type 7 Mudharaba/ju'ala</strong></td>
<td>Type 8 Calculated wakala</td>
</tr>
</tbody>
</table>

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*Figure 7: The art of pool management via homogenisation and diversification*
PART 1  Technical foundations of general takaful and retakaful

To combine pooling with tangible calculation, as another example, requires a complicated system of sub-funds and earmarked reserves that will be used for paying claims of certain clients only and will only be released to them and at certain, predefined times (see Figure 8).

4.1 Risk transfer and modelling

Tangible calculation is preferable where possible from a Shari’a point of view to avoid unnecessary gharar. But modelling becomes necessary in most kinds of risk-transfer business (to enable feasible pooling and individual predictability of treaty results). It is in particular a prerequisite for business with low-frequency and high-severity claims, where reserves play an important role. This is at the same time high-volatility business. Therefore, family takaful is an exception where tangible calculation can work, although mortality tables already provide a fine modelling basis. Retakaful, with its affinity to risk transfer, should largely be modelled.

4.2 Where risk sharing flourishes

Following experience and the principle of insufficient reason, one should assume that participants in takaful pools behave more or less in a rational and “average” way for most mainstream products, creating risk transfer situations.

Risk sharing can only be assumed in three cases:

- When affinity groups are turned into takaful pools. These are groups that have not been formed for the purpose of taking out takaful cover (e.g. associations, regional and social conglomerations like village populations and tribes) and will thus not

A: Risk-sharing types

Type 1: Tangible - pooled: Classic theoretical (ideal) variant of takaful
Type 2: Modelled - pooled: Same as 1, with one-year predictability of pooling contribution (= via reserve)
Type 3: Tangible - individual: Financial deal (individual pool, risk sharing between periods of one client, not of different clients)
Type 4: Modelled - individual: Same as Type 3, but structured by prospective pricing

B: Risk-transfer types

Type 5: Tangible - pooled: See surplus redistribution in family retakaful approach. Mudharaba/ju’ala is an appropriate retakaful model for this.
Type 6: Modelled - pooled: Same as 5, also possible with wakala (modelled fee)
Type 7: Tangible - individual: Classic mudharaba deals
Type 8: Modelled - individual: Same as Type 7, with calculated wakala

4 MARKETS AND NICHES FOR THE DIFFERENT TAKAFUL TYPES

The basic assertion remains that it is not the (re)takaful model that defines the type of takaful applied. It is the situation, most prominently the behavioural pattern of the takaful buyers, which defines the type of takaful and the type of takaful in turn requires risk-commensurate models. We have seen that the application of wakala on risk transfer business is possible, but to do so on a sustainable basis requires modelling and this is impossible on a tangible basis. And one must not forget that it remains risk-transfer business after all, whether wakala is applied or not.
exit the group just because this cover does not turn out to be directly beneficial to an individual. Such groups nearly always show a degree of social transparency and thus often also have some sense of solidarity. In the prisoner’s dilemma well known from game theory, the coordinating principle would be “blind trust”.

- If they have a discernable common interest and/or a person or institution that is in charge of coordination between the participants. This could be the case with companies with common ownership, i.e. holdings, where one master policy can be taken out by the holding.

- All kinds of social insurance or public (public-private) schemes, usually involving sovereign guarantee for repayment of the qard hasan. In that respect, takaful is the ideal tool for Islamic states and international organisations for setting up funds and mitigating risks that would need to ultimately be borne among them, like natural catastrophes, climate change or infrastructural development.

It appears that these genuinely appropriate and ethically desirable applications of the takaful idea are by far not exhaustively developed yet and can be a great source of sustainable growth for the industry.

4.3 Shari’a compliance in application of the takaful types

Type 1 takaful is obviously the adaptation of the takaful idea, manifesting the functional principles and social advantages (e.g. in micro-schemes) of mutual guarantee through the moral virtues of solidarity and keeping the risk in the participants’ fund. Since there is a promise to cover all losses out of the takaful fund, the surpluses and reserves also belong solely and finally to the fund. The participants know exactly how much they will pay for their cover in the long run: the actual losses plus a wakala fee.

Type 2 uses the same advantages, perhaps in a slightly less virtuous manner (since it is effected through central coordination) but technically even more efficient (i.e. modelled) and on a larger scale, in case of natural catastrophes or social insurance covers even on a large scale.

Types 3 and 4, although the (re)takaful operator does not carry insurance risks, lack any solidarity quality and are already known as financial deals from conventional insurance. In addition, being financing tools, the individual deals have to be checked by the Shari’a boards with regard to possible hidden riba, in particular Type 4. Type 3 on the other hand, where payments are more triggered by insurance risks, may be prone to maisir. The way out in both cases, appears to be through a clear definition of the wakala fee.

The types belonging to the risk transfer group (Types 5–8) are by that very fact technically close to conventional insurance, just that Types 5 and 6, representing family and personal lines business, are by the nature of the risks more related to the initial target group and idea, while Types 7 and 8, thinking for example of industrial and offshore risks, represent at first glance the sections of the insurance industry least apt to being used in takaful. In this section, Type 7 (mudharaba) is in one respect even more in line (and better for the participant) than the wakala-based Type 8, the former showing at least a tangible calculation of a result which is modelled in the latter case.

No adaptation of takaful models is able to change this reality, only the participants could change that if they would agree to a worldwide pooling of large risks (assuming in addition the critical mass to be given). But this would bring us back to a different behaviour, requiring a “Homo Islamicus”.

The two specific features of takaful are still in place to differentiate such business from conventional, namely: the Shari’a board and the separation of funds.

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Table 2: Preferable areas of applications for the eight takaful types

<table>
<thead>
<tr>
<th>Risk sharing</th>
<th>Modelled</th>
<th>Risk transfer</th>
<th>Modelled</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pooled</strong></td>
<td>Type 1: Retail affinity groups</td>
<td>Type 2: Holdings and public schemes</td>
<td>Type 5: Classic retail (family) takaful</td>
</tr>
<tr>
<td><strong>Individual</strong></td>
<td>Type 3: Financial retakaful</td>
<td>Type 4: Structured financial retakaful</td>
<td>Type 7: Mudharaba/ju’ala, general business</td>
</tr>
</tbody>
</table>

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- **Retail affinity groups**: Holdings and public schemes, usually involving sovereign guarantee for repayment of the qard hasan.
- **Social insurance or public (public-private) schemes**: Usually involving sovereign guarantee for repayment of the qard hasan.
- **Type 1 takaful**: Obviously the adaptation of the takaful idea, manifesting the functional principles and social advantages (e.g. in micro-schemes) of mutual guarantee through the moral virtues of solidarity.
- **Type 2 takaful**: Uses the same advantages, perhaps in a slightly less virtuous manner (since it is effected through central coordination).
- **Type 3 and 4 takafuls**: Although the (re)takaful operator does not carry insurance risks, lack any solidarity quality.
- **Type 5 and 6 takafuls**: Representing family and personal lines business.
- **Type 7 and 8 takafuls**: Representing industrial and offshore risks.
The former is still important, guaranteeing, for example, halal risk screening and the absence of riba in operations and investment. But what remains of the latter feature if the two funds are connected, virtually united, by a substantial, crucial qard hasan stream, which is reducing the risk-sharing idea to the point of negligibility? Let us use have a look at an example.

4.4 Maintaining the separation of funds in high volatility business

Let us assume a takaful operator may accept a share in a large risk like offshore energy or space and, for capacity reasons, it has to cede most of the risk to retakaful. The price calculated is based on a return period of 50 years. For him, it is also the only risk of that kind, and there is no pool for it in place because there are not enough risks of the kind in the market.

Contrary to the situation of proportional retakaful, we deal here with a risk contribution which does not include any provision for surplus redistribution. And the frequency of claims is so low that a surplus redistribution cannot be expected either. In the conventional case, the full premium would go to the insurer/reinsurer and would virtually be pooled within their shareholders’ fund. Is there any chance to do it differently in (re)takaful without setting up a separate pool?

In the easiest case, the risk contribution thus consists of a contribution for expected claims (in this case, 2% of the sum insured, discounted by a possible yield) and a fee to cover the expenses and margin. The former goes to the retakaful participants’ fund, the latter – representing the wakala fee – to the shareholders’ fund. The contribution going to the participants’ fund is formally a reserve, which is in full accordance with AAOIFI standards. And as this reserve was calculated to mirror the expected claims, the anticipated value of this reserve in the long run is exactly zero. Some risks may suffer early claims and expire before they have paid these claims back, some may expire before any claims happen. To balance this out, these reserves have to stay in the participants’ fund and cannot be paid out as a surplus.

What if reserves for large risks remain in the fund even if all those risks have expired without claims and the strategy of the operator is not to accept any more new risks? Will it then be redistributed to participants, and to whom?

The answer is no, for stochastic reasons. If there is a rule to return possible surpluses even though they have not been priced in before, the expected value of these reserves is no longer zero, but negative. Simply because positive final balances in the reserves are made impossible by the surplus redistribution, but negative final balances are still possible. The expected value of a parameter which can only take negative values or zero is negative.

The reserve thus stays in the fund and helps it attain or maintain critical mass. The modelling of expected claims leads to a sort of virtual pooling over time, since an actual pool could not be created.

In the case of the retakaful fund being wound up, the reserve should be redistributed to the retakaful operator, and again for stochastic reasons. The retakaful operator has to inject an irrecoverable qard hasan should the final value deviate from the average expected zero in a negative direction, so he should be able to apply a possible positive deviation to arrive at a total of zero. If he he not entitled to calculate this way, his only way to go into this kind of business on a profitable basis is to increase his wakala fee, the portion going directly to his shareholders’ fund. By increasing the wakala fee, the reserve would be reduced accordingly and the probability of an irrecoverable qard hasan would increase. This irrecoverable qard hasan can in turn be covered from the wakala fee. In the extreme case, the contribution would consist of 100% wakala fee only and go to the shareholders’ fund like a conventional risk premium. In other words, if we deal with risk contributions, the trade-off between reserves in the participants’ fund and modelled qard hasan in the wakala fee, as explained above, pushes the system to its limits.

The only way to avoid such an extreme result is to allow the retakaful operator to take a positive final balance at the very end of its existence, because it is stochastically only a zero. If neither solution is found appropriate to takaful, the only remaining solution is to stay out of high-volatility and risk-transfer business altogether and leave only the niche of retail business to the takaful operators.

This kind of thinking is the result of using the modelled approach and needs to be challenged in Shari’a terms, of course, and practitioners need to ask for the guidance of scholars in that situation. But it deals with the situation least appropriate to the takaful idea in an open and technically sound way and leaves at least the separation of funds as a basic feature of takaful in place, thus opening ways to maintain a high degree of transparency. Transparency is crucial to uphold the intentions of the Shari’a in a situation where tangible
calculation as a safeguard against riba and gharar is no longer feasible. And above all, the second important feature of takaful operators, the Shari’a board, is still in place and can check the approaches used.

4.5 Conclusion

The types of situations in the reality faced by takaful operators have been deducted and analysed, and it was shown there is not one single model that fits all situations perfectly. There are also risk-transfer requirements especially in general and in retakaful business that do not fit the ideal of takaful as much as does the solidarity community of “Homo Islamicus” depicted above as Type 1. The situation is not unlike that of Islamic banks. But it was also shown that there are huge areas for application of the clear wakala system and the guidance provided by the Shari’a-based model leads a very promising way. And also for the situations of risk transfer, although it cannot be changed into risk sharing by simply applying another model, there are still many possibilities to adhere to scholarly guidance and make a difference to the service proposition of conventional insurance.

5 INVESTMENT INCOME AND LOSSES

The earliest approaches which are still reflected in the AAOIFI retakaful standards advise the retakaful operators to seek their profit solely in investments. This advice can lead to a volume-seeking underwriting policy which fosters unhealthy portfolio structures in good times. In times of crises, these takaful funds will be pulverised between falling values and returns on the investments, softening insurance prices and increasing claims, due for example to moral risk. In the cycle-prone retakaful market, this situation can be expected to occur once or twice per decade. While we see there is need for discussion on this rarely touched-upon issue within the industry, we stick to the principle that in retakaful (risk-transfer types) the risk business has to produce a reasonable return to the shareholders on its own merits. In addition, a prudent and long-term profitable investment (and risk-selection) strategy will only be implemented if the operators are not solely dependent on investment profits.

A second important technical complex is related to the investment-based accrual of reserves on long-tail and low-frequency business. If there is no investment return credited to the participant in advance in the form of a discounted reserve and hence discounted contribution, pricing will be impracticable. This implies a need on the part of the operators for long-term stable, relatively low-risk asset classes, the returns of which largely go to the participants rather than to the retakaful operators. In addition, the investment income will not be distributed via a mudharaba share (in tangible calculation), but via an up-front discount on the contribution. So, recipient, time and method of calculation of the investment return run contrary to the retakaful standard.

The third complex to be borne in mind is the lack of a broad range of Shari’a-compliant asset classes in the financial market which renders a sound asset-liability match a difficult task, especially in long-tail business and Western currencies. The prohibition of fixed returns in Islamic finance adds to the difficulties in defining reasonable discount rates on the reserves.

The retakaful industry should play an important and deliberate role in creating more asset classes by raising respective structured demands. Once this market is established, the principle of profit and loss sharing and a possible higher productivity of Islamic markets may give the (re)takaful industry a competitive edge over the conventional industry. The respective mechanisms still need to be worked out. One can imagine a split system. One part would be the short-tail business, where investment income is added to the surplus distribution, possibly with different investments strategies (from conservative to aggressive) that can be chosen by the individual participant. The long-term business would work on a discounting basis, similar to family retakaful.

But under all scenarios, the main principle on the asset side has to be: safety first, and avoid dependence from cash flow underwriting.

6 NET RETAKAFUL CONTRIBUTION (“REINSURANCE COMMISSION”)

6.1 Importance of the “commission” issue

Afro-Asian non-life insurers, conventional and Islamic alike, in general cede huge parts of their portfolio. With a cession ratio of 80% and a reinsurance commission of 25%, a company generates a gross income of 20% of the total GWP from reinsurance commission, just the same amount as the premium income from the retained portfolio. Without doubt the business model in the region is largely dependent on the reinsurance commission, and it is remarkable that the takaful literature, as far as we saw, rarely deals with this central issue.

The practice of retakaful treaties applied so far shows no financial difference compared to conventional reinsurance when it comes to the “commission”, at least on the retakaful side. Nevertheless, given the importance of this income stream, the widespread reluctance to switch to retakaful may be due to uncertainty regarding how this item is viewed by Shari’a scholars and how it should be distributed between the shareholders’ and participants’ funds of the takaful operator.

2 I myself owe the first hint on this open issue to Enc. Azli Munani, secretary general of the Malaysian Takaful Association.
Therefore, this topic will be dealt with in more depth in another Munich Re paper (as with the investment issue), and we encourage the industry to seek technical discussion with the scholars and Shari’a decisions to find firm ground. For the purpose of this manual, the following technical outline will be sufficient.

### 6.2 Technical background of reinsurance commission

The economic leeway for reinsurers/retakaful operators to grant commission on assumed business is created by three effects, all in one way or the other originating from economy of scales:

**Acquisition costs**

Primary takaful operators incur a main part of their expenses by generating business in the mass market, these expenses consisting of commissions/brokerages, agency salaries, maintenance of a branch network, etc. Reinsurers work in a market of a few hundred possible clients at best and they can do so with relatively lean marketing teams. It is necessary and fair that they refund to their client companies the costs, namely the commission, the direct companies incurred when generating the business they ceded afterwards.

**Administration costs**

Reinsurers are a sort of wholesale institution. As such, they incur lower costs per unit (i.e. per premium/contribution) in the administration processes than the direct companies and they pass these advantages on to their clients to support the primary business via the reinsurance commission. On the other hand, the global reinsurance players maintain research departments, namely for natural catastrophes, biosciences, actuarial research and emerging risks, which drive the technical soundness and innovative dynamic of the whole industry. It is thus increasing practice that service reinsurers and panel leaders pay lower commission than mere capacity providers that share the same reinsurance panels. This is a matter of appropriate pricing and also makes this service affordable for the companies.

**Diversification gains**

A part of the leeway can come from advantages in the risk business reinsurers enjoy through the law of large numbers (lower standard deviations) and regional diversification. There is no definite way to gauge this effect. There is no doubt it exists, but the impact is estimated in the reinsurer’s risk model (and every reinsurer has a different one) and also depends on its acceptance and reflections in the regulator’s risk capital requirement.

**Nature and designation of the commission**

Against this technical background, reinsurance commission is not only a commission in the sense of a payment for facilitating the conclusion of a business, but an important – if not the most important – way of sharing gains from economy of scales (pooling) which facilitate business in the first place. The effects mainly impact the costs/administration side, meaning the commission (at least the refund of direct commissions) had to go to the shareholders’ fund of the takaful operator, from where the costs were paid. In exchange, the takaful operator should not take the wakala fee (and surplus parts, if applicable) for the ceded business, which also makes sense in that the ceded parts are not fully administered by the takaful operator and the wakala fee is by intention an administration fee.

In reality, the approach is probably often simpler: the takaful operator takes a wakala fee for the gross portfolio out of the retained participants’ fund and the latter is then replenished by the reinsurance “commission”. Let us explain the two approaches by means of an example:

Obviously, if the wakala fee and the reinsurance commission are the same amount, it makes no difference in the end which option is applied. But if the reinsurance commission is higher than the wakala fee (as it usually is), the simplified option leads to a loss for the takaful operator.

Also, with higher cession ratios as those shown here, the retained participants’ fund may already hit the bottom after deduction of the wakala fee (for 100% of gross). After replenishment via the reinsurance commission, the participants’ fund will no longer consist of tabarru’ but of a costs refund from the reinsurer, which is probably not the original intention.
We suggest for discussion within the takaful industry and – above all others – among scholars, a change in the transfer pattern.

The following is a ceteris paribus calculation that shows the amounts that end up with the shareholders under current practice, the new approach and under conventional reinsurance, always based on the same figures taken from the concrete annual report of a GCC takaful operator and applying an assumed loss ratio of 80% (the latter is not related to the real loss ratio experienced by the specimen company). The original cession ratio of this operator was 28%. The second calculation assumes a scenario with a cession ratio of 51%.

The results of the comparative calculation read in short: the alternative calculation under the new approach strengthens the income of the shareholders compared to the current practice, but not to the extent that it reaches the income of the shareholders under a conventional structure. And with higher cession ratios, the effects becomes stronger accordingly.

The improvement in shareholders’ income or margin in the new approach is of course at the expense of the participants’ fund. But it is justified by the logic of the system. And since the wakala fee to be paid is much lower in the new approach, the unusual but possible situation that a participants’ fund is already empty after transfer of the wakala fee and that claims are effectively paid from the retakaful commission does not occur that easily.

Table 3:
Redirecting wakala fee and “commission” streams and its effects on shareholders’ income

<table>
<thead>
<tr>
<th>Cession ratio, 28%</th>
</tr>
</thead>
<tbody>
<tr>
<td>GWC: 5,877,398</td>
</tr>
<tr>
<td>Retakaful contribution: 1,622,068</td>
</tr>
<tr>
<td>Retained contribution: 4,255,330</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Status quo</th>
<th>New approach</th>
<th>Conventional</th>
</tr>
</thead>
<tbody>
<tr>
<td>To SHF</td>
<td>RI commission (26%)</td>
<td>413,769</td>
</tr>
<tr>
<td></td>
<td>Plus wakala fee (18%)</td>
<td>1,040,299</td>
</tr>
<tr>
<td></td>
<td>Minus qard hasan</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Minus costs and margin</td>
<td>-1,040,299</td>
</tr>
<tr>
<td>Final amount to shareholders</td>
<td>-</td>
<td>126,664</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cession ratio, 51%</th>
</tr>
</thead>
<tbody>
<tr>
<td>GWC: 5,877,398</td>
</tr>
<tr>
<td>Retakaful contribution: 3,000,000</td>
</tr>
<tr>
<td>Retained contribution: 2,877,398</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Status quo</th>
<th>New approach</th>
<th>Conventional</th>
</tr>
</thead>
<tbody>
<tr>
<td>To SHF</td>
<td>RI commission (26%)</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Plus wakala fee (18%)</td>
<td>1,040,299</td>
</tr>
<tr>
<td></td>
<td>Minus qard hasan</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Minus costs and margin</td>
<td>-1,040,299</td>
</tr>
<tr>
<td>Final amount to shareholders</td>
<td>-</td>
<td>234,263</td>
</tr>
</tbody>
</table>

For conventional business, a profit commission to the takaful operator of 30% after reinsurance expenses of 7% is applied. It is further assumed that the wakala fee expresses the expense and minimum profit margin of the takaful operator. Qard hasan does not appear in this example.
1 INTRODUCTION

1.1 The usual demand for retakaful

Retakaful works under different conditions from much of direct business, mainly because the contracting parties are few, all insurance professionals, profit-seeking and often direct competitors. This is not the ideal environment to make the idea of risk sharing in solidarity flourish. And in fact, the retakaful treaties required in the market are normally meant to replace conventional reinsurance and are therefore of the risk-transfer type (Types 5–8). We will deal with this type in the following. Cases of alternative risk transfer or risk sharing as mentioned above are still not part of the standard repertoire of the retakaful industry. They are more manual work than “off the peg”.

Categorisation under risk transfer implies that repayment of the qard hasan arising from this business cannot be enforced – at least not beyond the effect of a conventional loss-carry-forward clause. We support recommendations to also formally acknowledge this fact by considering such deficits as hiba in Shari’a terms. But there are still options to have the treaties pooled or individual, modelled or tangible.

A stringent pooling and tangible approach (for proportional treaties) was represented in the draft standard wording of MTA, which thus belongs to Type 5. There is only one (general) retakaful fund which is organised per underwriting year and surpluses are distributed annually, as they occur. The approach is relatively simple, clear and close to the initial idea, though still transferring risk. Apart from smaller problems, like the synchronisation of different financial years, there are two main issues with this approach:

1. Operators entering into such a treaty relationship have to accept that the surplus they receive – or don’t receive – does not depend on the results and the

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3 The impact of the view that it is not the takaful operators who are pooled in a retakaful fund, but rather the participants’ funds they administer is here neglected for the time being.

4 see Azman Ismail, MiR, February 2010.
reserving policy of the business they have ceded alone, but also on the results (claims and claims reserves) of the other participants in the fund. They may not get any surplus even in a fully claims-free year.

2. Secondly, the participants accept that surplus may not be distributed to those participants who “earned” it. Surplus they have earned may be retained in a claims reserve and be released to other participants when they themselves have already left the fund. Obviously, this can be particularly important for long-tail business.

The possible antiselection involved in such a system may be manageable under the condition that the surplus redistribution will be structured according to the individual surpluses of each participant and qard hasan will be repaid to the community by the future surpluses of the participant who caused it. This would ensure the realisation of the principle that in the long run everyone pays his own claims (plus wakala fee) and that the volatility is borne by the community.

1.2 Operational requirements for risk transfer treaties

But even under this condition, the deficits arising from some accounts could consume all or part of the surpluses of a particular year. In other words, the results of a particular retakaful treaty depend on the results of other takaful operators in the same pool. A responsible retakaful executive would have to make his decision on retakaful coverage under a rather complicated set of assumptions, even in a rather homogeneous business such as family. For international and general business, the outcome of such a treaty in the short term would be completely opaque and subject to speculation.

For a retakaful standard to be accepted in the market, the following conditions need to be fulfilled:

For reasons of expenses and operational efficiency, it has to follow the established processes of the conventional market wherever Shari’a compliance does not require otherwise.

Following the majority of the scholars, it should be on a wakala basis, but bearing in mind that it is still a risk-transfer treaty, whatever model is applied. The treaty must be predictable, i.e. its outcome depending on the loss ratio of the underlying portfolio only.

Having accepted that usual retakaful (Type 7 or 8 in the above typology) does not fully reflect the ideal of risk sharing, one has to stress the elements which still set these treaties apart from conventional reinsurance, namely the investment and the screening of haram risks.

Rather than a single treaty wording, the standard should consist of necessary elements and of an (exhaustive) list of elements that cannot be incorporated without affecting Shari’a compliance (Figure 1). Stakeholders should have peace of mind that treaties and slips within that range are Shari’a compliant.

The standard has to be implemented in a process of workshops involving scholars, actuaries and practitioners. The aim is a standard as it works in the conventional industry. Not everyone has to use exactly the same wording, but everyone knows what to understand when he sees a retakaful wording.

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**Figure 1:** Indispensable and sufficient modules of retakaful documents

<table>
<thead>
<tr>
<th>Preamble</th>
<th>- Definition of basis and model</th>
</tr>
</thead>
</table>
| Pricing elements | - Map wakala with conventional PC statement  
- Define qard as hiba (i.e. forfeited)  
- Clarify use of the reserve  
- Investment fee per total fund |
| Legislation | - Shari’a base and arbitration |
| All interest-bearing articles | - Penalty interest, etc. |
| Haram screening | - Principles (thresholds for incidental haram contents)  
- Follow the fortunes clause |
2 ELEMENTS OF THE RETAKAFUL STANDARDS

2.1 Preamble

Subject to advice from the scholars, we believe the preamble needs to reflect the following elements:

- Commitment to Shari’a principles
- Tabarru’ as a principle
- Mentioning the model (contract type) for risk business and investment
- Rights and obligations of the parties
- Definition of type and functionality of the treaty and scope of the retakaful fund

The scope of the fund underlying the treaty does not define the LoB, regions and underwriting periods, as it does in conventional business. This article has, above all, to define whether the underlying portfolio is just the one of the contracting takaful operators or whether it is to be pooled with the funds of other operators, and if so, which ones. In the latter case, definitions of fund, reserves and qard, as well as accounting and administration, need to be kept in line with the defined sub-pools until total run-off of all business ceded into that fund. And, as discussed above, the predictability of the treaty on its own merits is no longer given.

In a nutshell
We deal in the following only with retakaful funds that are defined for the portfolio of the contracting operator.

2.2 Pricing and financial terms

2.2.1 Net retakaful contribution: A terminology problem?

As outlined above, reinsurance commission is not a commission in the sense of a remuneration for facilitating new business, but a refund of acquisition costs and a sharing in scalar gains in administration expenses. The general practice in retakaful – and the advice of the AAOIFI retakaful standards – to avoid the word “commission” is therefore understandable, although this practice originated from other considerations. But the current practice is irritating in several respects. The treaties applied so far speak of “net retakaful contribution” or “gross net retakaful contribution”, whereas the actual “commission” paid is to be understood as 100% of GWC minus net retakaful contribution.

This practice can be continued, if so required, but it has the following practical flaws:

1. Irritation can arise where (conventional) markets already use the term “gross net premium” in other circumstances (i.e. for non-proportional treaties).

2. The negative formulation “GWC minus net retakaful contribution” is somewhat cumbersome in particular in written texts.

We therefore suggest looking for a positive term to replace what is called “commission” in conventional reinsurance. “Direct cost refund” is a suggestion. The simplest solution would be to speak of retakaful commission, but bearing in mind the above understanding.

In a nutshell
The calculation and function of this item is no different from conventional reinsurance commission. Just the terminology may need to be re-thought. Technical issues appear when it comes to distributing the “commission” between shareholders’ and participants’ funds, but this is not a problem of the retakaful treaty.
2.2.2 Wakala fee and surplus redistribution statement

The economic function of the wakala fee has been discussed above. It works as a percentage of the contribution, generally like the reinsurance expenses in a profit commission statement of conventional treaties. Therefore, the application of wakala fee in the treaty is connected to the surplus redistribution statement.

We can differentiate between two cases:

a) If no reserve or a refundable reserve is being withheld:

- The wakala fee is the retakaful operator’s only inflow of income from risk business.

- In conventional proportional treaties, there are two income streams: the reinsurance expenses mentioned in the profit commission statement and the part of the profits left with the reinsurer. In this case, the wakala fee functions like the reinsurance expenses in the profit commission statement, since it is a percentage of the premium. The wakala fee percentage is considerably higher than that of the expenses in a conventional PC statement, because it has to cover, as a rule of thumb, the expenses and the expected value of the surpluses earned from a comparable conventional treaty.

b) If a non-refundable reserve is being withheld:

- The reserve limits the downside risk of the retakaful operator and is thus a surrogate for surplus, ju’ala, etc. going to the retakaful operator.

- The wakala fee can thus be reduced. In the extreme case, if the majority of the surplus goes into the reserve, from the point of view of the participant, figures can come close to a conventional pricing.

- Nevertheless, the reserve should be held as small as possible and smaller than the surplus under a conventional treaty (to avoid a positive expected value and to strengthen the mutuality effect).

In a nutshell

The calculation and function of the wakala fee is like that of reinsurance expenses in a conventional PC statement. A refundable CSR is a (deferred) part of the surplus to the takaful operator. A non-refundable CSR works like a part of the surplus going to the retakaful operator.

2.2.3 Qard hasan

Following 2.1, above qard hasan, as all parameters, applies to the treaty in question only. And as we admittedly are in the risk-transfer business, qard hasan will be waived, like a hiba, if not recoverable from future surpluses of the same treaty.

In a nutshell

For the kind of treaties we deal with here, qard hasan has the same function and effect as a loss-carry-forward clause in a conventional treaty.

2.2.4 Reserve (claims stabilisation reserve, contingency reserve)

The reserve is the part of the treaty surplus withheld from (direct) redistribution to the participants. It is different from a claims reserve, IBNR, etc., because it does not pertain to concrete claims or periods and it is accumulated over several years. It is, in a word, meant to generally smooth the volatility. Thus it also limits the downside risk of the retakaful operator. As outlined above under “Technical foundations”, it has a trade-off connection to the wakala fee. In general, there are two options for the reserve:

Individual, refundable reserve

This reserve is applied to one treaty or one client only and is for smoothing the results of this client over time. It has to be refunded at the end of the treaty relationship and is thus in IFRS terms a provision for premium refund. It is a very important element in real risk-sharing funds (Types 1–4). It can also be used in risk transfer, but there are number of reasons against it:

- If applied to a client portfolio, its administration and accounting becomes rather complicated and expensive.

- Its balancing effect and thus its reducing impact on the wakala fee is limited and virtually impossible to be calculated for each individual treaty (due to lack of large numbers and per-client risk modelling).

- Regulators and IFRS view such general contingency reserves with suspicion and may regard them as a form of self insurance and thus a breach of the insurance principle.

- It is not applicable to non-proportional treaties, meaning one would need another kind of reserve for these. Maintaining two types of reserves further complicates administration and accounting.

- There is no solidarity element in it, since all reserves are earmarked for the same client, as a deferred surplus redistribution.
2.2.5 Investible fund

The mechanism of investible fund or sub-funds and its reflection in the retakaful treaty results is still underdeveloped. From this and from what was said under 1.5, we conclude for the retakaful treaty standard (for the time being):

- Receiving shares of investment profits on ceded contributions is a special treat to takaful operators usually not enjoyed on conventional reinsurance. It should not be part of the takaful operator’s calculations or speculations on the treaty results but rather be regarded as a windfall profit.

- On the other hand, the takaful operators should not fear a reduction of the surpluses due to underperformance of the Islamic financial markets.

- Therefore, the retakaful operators should enjoy virtually all the investment surpluses up to a certain ratio and only above this share investment profits with its clients. On the other hand, retakaful operators have to buffer the treaty results of takaful operators from short-term fluctuations on the investment side.

- The investible funds need to be structured according to the principles of asset-liability matching.

- Even if the Shari’a boards view investment surpluses as due to the participants, it should remain in the fund as a sort of fluctuation reserve and not be distributed.

In a nutshell

For the functioning of the pricing, the reserve is like the replacement of the surplus which goes to the reinsurer in a conventional treaty.
As a matter of course, these decisions need to be approved by the Shari’a boards of the retakaful operators at the end of each financial year. Going forward, such decisions may be a field for involving participants in the decision-making.

The income of the takaful operator has to be mentioned under incoming fund in the surplus redistribution statement. By right, mark-to-market adjustments would in turn be calculated under “outgoing funds”, since they reduce the surplus to be redistributed. A mechanism would need to be defined indicating how such losses are charged to the treaties.

In addition, the question whether the exclusion of mark-to-market losses by the retakaful operator is tantamount to a guarantee needs to be dealt with.

The retakaful operator’s investment fee (wakala or mudharib share) has to be mentioned as well.

To make this workable, a mechanism has to be worked out that combines ALM rules for takaful operators with profit-and-loss-sharing mechanisms. In addition, the Islamic financial markets need to generate the necessary asset classes. In the intermediate period, the following might apply:

In a nutshell
Provided scholars view this to be Shari’a compliant, takaful operators should for the time being undertake not to expect investment profits while retakaful operators undertake not to charge investment losses in the profit commission statement.

2.3 Legislation and arbitration
Of course, the legislation should be based on Shari’a and the arbitration on takaful knowledge as far as possible. Where secular legislation (most notably English law) is necessary, the possibility of a choice of Shari’a law should be explored. See Munich Re’s retakaful Shari’a board advice:

“Two things emerge from English case law:

(i) Under English Law, the proper law of a contract must be the law of a country, so English courts would disregard a choice of law clause which stipulates Shariah law or non-national law as the proper law of the contract and apply English law rules unless the provisions of non-national law were incorporated into the contract as contractual terms for the purpose of aiding the interpretation of specific aspects of the contract. So there must be sufficient certainty and clarity as to the provisions which are to be incorporated. The doctrine of incorporation can sensibly operate where parties have by the terms of the contract specifically identified specific “black letter” provisions of foreign law or an international code or set of rules apt to be incorporated as terms of relevant contract, such as particular Articles of French Code or the Hague Rules. The general reference to principles of Shariah in this case afford no reference to, or identification of, those aspects of Shariah law which are intended to be incorporated into the contract. The alleged basic rules are neither referred to nor identified (these were the observations in Shamib Bank’s case). It was further observed in the Shamil Bank’s case that the general reference in the Financing Agreements to Shariah law was, therefore, incapable of incorporating Shariah law into the contracts. It appears that incorporation may have been successful if the parties have stipulated specific “black letter” provisions of Shariah law.

(ii) The other aspect is the approach of the English courts towards the principles of Shariah. Para. 55 of the judgment in Shamil Bank’s case is important, in this respect. “So far as the principles of Shariah are concerned, it was the evidence of both the experts that there are indeed areas of considerable controversy and difficulty arising not only from the need to translate to proposition of modern law texts which centuries ago were set out as religious and moral codes, but because of the existence of a variety of schools of thought with which the court may have to concern itself in any given case before reaching a conclusion on the principle or rule in dispute.”

Table 1: Functional comparison of parameters of conventional treaties and wakala treaties with risk transfer

<table>
<thead>
<tr>
<th>Income/loss of</th>
<th>Conventional pricing</th>
<th>Retakaful-wakala pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Takaful operator</td>
<td>Reinsurance commission x%</td>
<td>GWC-Net retakaful contribution</td>
</tr>
<tr>
<td></td>
<td>Profit commission</td>
<td>GWC</td>
</tr>
<tr>
<td></td>
<td>Redistribution period</td>
<td>Alternative terminology: direct cost refund x%</td>
</tr>
<tr>
<td>Retakaful operator</td>
<td>Reinsurance expenses per PC statement</td>
<td>Surplus redistribution</td>
</tr>
<tr>
<td></td>
<td>Surplus share of profit</td>
<td>Redistribution period</td>
</tr>
<tr>
<td></td>
<td>Surplus share of profit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Loss carried forward</td>
<td>Wakala fee</td>
</tr>
<tr>
<td>Both</td>
<td></td>
<td>Nothing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non-refundable reserve (balance at the time of winding up)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Qard hasan</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investment profit/loss (to be buffered in both directions)</td>
</tr>
</tbody>
</table>
In view of these observations, a definite mention of set of rules appears to be necessary to make principles of Shariah applicable. This can be provided by making specific mention of the Shariah Standards of AAOFI and Accounting & Auditing Standards of Islamic Financial Institutions of AAOFI in the Jurisdiction Clause.

The other way out is to omit the Jurisdiction Clause and in its place the Arbitration Clause ... may be incorporated. In both these situations, the reference to Shariah Standards and the Accounting Standards of AAOFI should be made as otherwise in each case the argument with regard to Shariah principles and existence of different views of variety of schools of thought will be introduced to confuse the issues and the Members of Arbitral Tribunal or the judges who are otherwise uninitiated in this field of Shariah law.

In cases where such provisions are not acceptable by either party or by the underlying legislation, for example due to fear of the courts being uncertain how to apply Sharia principles, provisions have to be made that the underlying legislation (e.g. law of England and Wales) prevails in cases of conflict with Sharia principles. Such clauses should be endorsed by the respective Sharia boards.

2.4 Prohibited and problematic articles and clauses

There are a number of clauses that are prone to be at least questionable. For operational reasons, it is desirable to find consensus of the scholars on the admissibility of a list of clauses such as:

- All interest-bearing clauses
- Ex gratia (unless the operators transfer the decision on ex gratia explicitly to the retakaful operator)
- Indexation in its normal forms should not problematic (decision by Munich Re’s Sharia board). But this has to be endorsed by a broader scholarly community
- Clauses containing time lags or currency shifts

Interest-bearing clauses are obsolete for obvious reasons. In financial institutions/BBB business, this is applicable under haram risk screening below.

The remaining relevant point is penalty interest. This can be paid, but has to go to charity.

Since ex-gratia payments are made on account of the participants in treaties of the pooling type, they have explicitly included the right of decision on this under the wakala.

In per-treaty funds, this is not necessary, since the treaty result is not affected by ex gratia granted on other treaties and the ex gratia is thus eventually made from the shareholders’ fund.

2.5 Haram risk screening

The basic approach, which is reflected in the MTA standard wording, should be that the retakaful operators do not accept portfolios of conventional insurers and thus the risk screening on the direct side is simply followed (follow the fortunes). Where retakaful operators follow a more lenient strategy, it is up to their Sharia boards to allow this. As long as we have per client per treaty funds of Type 8, (i.e. no pooling treaties), the other operators should not need to be bothered, since their treaties are not “contaminated” in the course of the pooling.

Risk classes which are haram or dubious are well known and dealt with by the Sharia boards often. In general these relate to:

- Known haram risks related to pork, alcohol, bars, etc.
- Conventional financial institutions
- Risk classes involving guarantee and bonds (guidelines should be discussed and approved at the next SAB meeting)
- Transactions involving capital transactions and time lags, which can be prone to riba

An important question is how high a portion of such haram risks within halal risks (e.g. bars in a hotel) can be tolerated. In order to clarify the issue and avoid competitive pressure towards haram lenience, the Malaysian industry and the regulator’s Sharia advisory council drafted industry standards and thresholds. The introduction of such standards via occupancy lists at international level would be desirable and could very much support the underwriting processes.

3 OUTLOOK ON NON-PROPORTIONAL AND ON RISK-SHARING TREATIES

We refer in this respect to the remarks made above in the “Technical foundations”. The following releases will deal with these issues. Here it suffices to repeat that, having accepted the existence of risk-transferring types of retakaful, the way is paved for developing more examples of risk-sharing funds and make those flourish.
## APPENDIX
### ANALYTICAL MAPPING
#### OF MTA AND MUNICH RE
##### WORDINGS

<table>
<thead>
<tr>
<th>Element</th>
<th>Contents</th>
<th>MTA wording</th>
<th>Munich Re wording</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Preamble/retakaful clause</td>
<td>- Commitment to Sharia principles</td>
<td><strong>Preamble</strong></td>
<td><strong>1.2 Definition of terms and duties under</strong></td>
</tr>
<tr>
<td></td>
<td>- Tabarru’</td>
<td></td>
<td><strong>Shari’a-compliant retakaful Arrangement</strong></td>
</tr>
<tr>
<td></td>
<td>- Mentioning of the model (contract type), for risk business and investment</td>
<td></td>
<td><strong>1.2.1 According to the proper rules and the terms of</strong></td>
</tr>
<tr>
<td></td>
<td>- Rights and obligations of the parties</td>
<td></td>
<td><strong>Shari’a principles as defined by the Islamic scholars,</strong></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td><strong>the retakaful operator takes over the duties</strong></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td><strong>a) to act as Wakeel for the takaful operator(s) in</strong></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td><strong>managing the General retakaful Fund, including</strong></td>
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<td></td>
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<td></td>
<td><strong>claims handling, accounting, asset management in a</strong></td>
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<td></td>
<td><strong>Shari’a-compliant manner</strong></td>
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<td></td>
<td><strong>– if applicable – acquisition of additional</strong></td>
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<td><strong>takaful Funds. The retakaful operator is entitled to</strong></td>
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<td></td>
<td></td>
<td><strong>hand over part of its duties to third parties</strong></td>
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<td></td>
<td><strong>against remunerations which it has to</strong></td>
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<td></td>
<td><strong>pay out of the fees it receives on</strong></td>
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<td></td>
<td><strong>basis of this agreement.</strong></td>
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<td></td>
<td><strong>b) To act as Wakeel or Mudharib in</strong></td>
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<td></td>
<td><strong>investing the funds pertaining to the</strong></td>
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<td></td>
<td><strong>General retakaful Fund in a Shari’a-compliant</strong></td>
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<td></td>
<td></td>
<td></td>
<td><strong>manner.</strong></td>
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<td><strong>c) To provide Qard (interest-free loans) to the</strong></td>
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<td></td>
<td><strong>General retakaful Fund in case of deficits</strong></td>
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<td></td>
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<td></td>
<td><strong>occurring in it.</strong></td>
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<td></td>
<td><strong>d) To maintain a Shari’a-board to supervise</strong></td>
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<td></td>
<td><strong>Sharia-compliance of its products and operations.</strong></td>
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<td><strong>For executing these functions, the retakaful</strong></td>
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<td></td>
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<td></td>
<td><strong>operator will receive respective fees as</strong></td>
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<td><strong>stipulated below and (if so stipulated) a share in</strong></td>
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<td><strong>surplus redistribution as risk selection incentive.</strong></td>
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<td></td>
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<td><strong>(obligation to payment, tabarru’, see 4.2)</strong></td>
<td></td>
</tr>
</tbody>
</table>

(see also retakaful clause)
PART 2  Appendix – Analytical mapping of MTA and MR wordings

Element | Contents | MTA wording (blue: Munich Re comments) | Munich Re wording
--- | --- | --- | ---
2. Definition of type and functionality of the treaty | Definition of - Scope of retakaful Fund - Qard hasan - Reserve and - Investible fund | 9.3 retakaful Fund relating to this Agreement shall take into account the following items:
- Gross Net retakaful Contribution as per Article 9.1 (decision on direct pooling required, one or more operators?)
9.3 retakaful Fund relating to this Agreement shall take into account the following items:
  a) ....
  d) Loss Portfolio or Reserve for Outstanding Losses, brought forward from the preceding year, if applicable
9.13 In the case of OUTGO exceeding INCOME and/or there is a deficit in the retakaful Fund, the retakaful Participant shall allow the retakaful operator to provide Qardh Hasan or benevolent loan to settle for any outstanding balances and/or liabilities which are related to this Agreement.
9.14 The deficit in the Net retakaful Surplus account shall be carried forward to the ensuing year(s) and the retakaful Participant shall also allow the retakaful operator to recover the Qardh Hasan or benevolent loan provided in the previous year(s) from the retakaful Fund until the Qard Hasan or benevolent loan is fully recovered before the next Net retakaful Surplus can be distributed to the retakaful Participant.
   Clarify (both wordings), that loss of other funds is not affecting the surplus
9.5. The Investible Funds shall mean that portion of the retakaful Fund which is outstanding at any point of time.
1.2.2 The General retakaful Fund is a pool set up for the underwriting year underlying this contract, containing Contributions donated by the participating takaful operator (singular) out of which claims and surpluses – if any – for the underwriting year underlying this contract are paid. The participation takes effect on the commencement date as agreed in the Schedule specified in this treaty.
5.3 Claims Stabilisation Reserve (CSR)
A Claims Stabilisation Reserve is donated out of regular surpluses of the existing General retakaful Funds of the Company for the purpose of covering future deficits in any Fund managed by the retakaful operator. The Company acknowledges that it has no right on this reserves and takes note that the retakaful operator can transfer any positive balance remaining at the end of all its General retakaful activities into its shareholder fund.
The surpluses assigned to this Claims Stabilisation Reserve are being invested and the investment surpluses, after deducting investment costs and fees, being held within the CSR.
The part of the surplus assigned to the CSR is revised at each treaty period according to actuarial principles, taking into account, among other elements, the stage of maturity of the funds currently maintained and of the CSR, the volatility of the business to be ceded in the following periods and economy of scales.
5.5 Claims and Qard (interest-free) Loans
The retakaful operator shall remit to the Company the Fund’s share of any loss payment due by the Company to the extent that and as soon as the original loss becomes due for payment. The claims are paid out of the General retakaful fund until its exhaustion. Claim payments in excess of these will be made from the retakaful operator’s shareholders’ equity as a Qard (injection) and will be carried forward in a special debit account during the redistribution period and purged by incoming contributions as outlined under item 5.4 of this Agreement.
<table>
<thead>
<tr>
<th>Element</th>
<th>Contents</th>
<th>MTA wording</th>
<th>Munich Re wording</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Pricing and financials</td>
<td><strong>3.1 “Commission”</strong>&lt;br&gt;Net Contribution = 100% – &quot;commission&quot;&lt;br&gt;The Gross Net retakaful Contribution to be ceded into the retakaful Fund by the retakaful Participant shall be derived from the Original takaful Contribution relating to this Agreement less any cancellations, returns of contributions, original discounts, direct brokerages or fees and that the percentage of Gross Net retakaful Contribution shall as specified in the Risk Details.</td>
<td><strong>9.1</strong>&lt;br&gt;The Gross Net retakaful Contribution to be ceded into the retakaful Fund by the retakaful Participant shall be derived from the Original takaful Contribution relating to this Agreement less any cancellations, returns of contributions, original discounts, direct brokerages or fees and that the percentage of Gross Net retakaful Contribution shall as specified in the Risk Details.</td>
<td>Qard amounts remaining at the end of the redistribution period will be recovered out of the Claims Stabilisation Reserve. Amounts remaining after exhaustion of the CSR shall be carried forward until extinction.&lt;br&gt;(Clarification of nature of the qard and possible Hiba/Loss carried forward clause can be used)&lt;br&gt;5.4. ...&lt;br&gt;Investment Income on the funds pertaining to the underlying underwriting year.</td>
</tr>
<tr>
<td>3.2. Wakala fee</td>
<td>Percentage of the contribution. The retakaful operator’s only income source from the risk business.&lt;br&gt;Technically identical to the RI expense as per PC statement, but higher than that, provided for expected surpluses.</td>
<td><strong>9.2</strong>&lt;br&gt;The retakaful Participant shall allow for the Wakalah Fee to which the retakaful operator shall be entitled to be deducted from the Gross Net retakaful Contribution at the percentage as specified in the Risk Details.</td>
<td><strong>5.2</strong>&lt;br&gt;Wakala Management Fee&lt;br&gt;The following Percentages of retakaful Contribution will be taken by the retakaful operator as a Wakala Management Fee. This Fee is deducted up front from the retakaful Contribution before the retakaful Contribution is transferred to the General retakaful Fund. It is meant to cover the retakaful operator’s costs and irrecoverable qard hasan.</td>
</tr>
<tr>
<td>3.3. Investment income</td>
<td>Specifies the fee payable to the retakaful operator for transacting the investment.&lt;br&gt;To avoid cash flow underwriting, the retakaful operator should not economically depend on this, but on the wakala fee. Profits above a certain threshold shall be considered windfall.</td>
<td><strong>9.4</strong>&lt;br&gt;i. All investment returns of the retakaful Fund shall be credited into the retakaful Fund managed by the retakaful operator;&lt;br&gt;ii. The retakaful Participant shall allow for Wakalah Fee on Investible Funds that the retakaful operator is entitled to under the wakalah arrangement at the percentage as specified in the Risk Details, if applicable or&lt;br&gt;iii. The retakaful Participant shall allow for retakaful operator’s Share of Investment Profit in the...</td>
<td>1.2.1&lt;br&gt;b) To act as Wakeel or Mudharib in investing the funds pertaining to the General retakaful Fund in a Shari’ah-compliant manner.&lt;br&gt;......&lt;br&gt;To execute these functions, the retakaful operator will receive respective fees as stipulated below.&lt;br&gt;The system of incorporating investment results shall be refined going forward on an industry level</td>
</tr>
<tr>
<td>Element</td>
<td>Contents</td>
<td>MTA wording (blue: Munich Re comments)</td>
<td>Munich Re wording</td>
</tr>
<tr>
<td>---------</td>
<td>----------</td>
<td>----------------------------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>3.4. Surplus redistribution statement</td>
<td>Has to comprise:</td>
<td>- Formula for surplus distribution if more than one operator is in the fund.</td>
<td></td>
</tr>
</tbody>
</table>

Portion and use of reserve which is not to be distributed  
Loss carried forward |

| 4. Legislation and arbitration (MTA formulation worded with reference to the KLRCA’s arbitration clause.) | Shall mention Shari’a and where applicable leave the possibility to apply Shari’a within other jurisdictions (notably in Common Law) | ARTICLE 10 CHOICE OF LAW AND JURISDICTION CLAUSE |

10.1 Subject to Article 11, herein, this Agreement (including arbitration tribunals) shall be governed by and is construed according to the laws of the country as specified in the Risk Details under CHOICE OF LAW AND JURISDICTION. |

ARTICLE 11 ARBITRATION CLAUSE |

11.1 All disputes arising out of this Agreement or concerning its interpretations or validity (whether arising before or after its termination) which is based on Shariah principles shall be settled by arbitration in accordance with the Rules for Arbitration of Kuala Lumpur Regional Centre for Arbitration (Islamic Banking and Financial Services), which may also be referred to as KLRCA Rules for Islamic Banking and Financial Services Arbitration. |

(a) The appointing authority shall be the Kuala Lumpur Regional Centre for Arbitration;  
(b) The number of arbitrators shall be.................(one or three); |

In Arbitration clause:  
"A definite mention of a set of rules appears to be necessary to make the principles of Shari’a applicable. This can be provided by making specific mention of the Shari’a Standards of AAOFI and Accounting & Auditing Standards of Islamic Financial Institutions of AAOFI in the Jurisdiction Clause.”  
(Justice Khalil ur Rehman Khan, Munich Re’s Shari’a board)  

5.4 Surplus sharing  
A surplus or deficit may arise in the General retakaful Fund depending on the contributions collected, claims incurred and on the investment performance of the assets in which the General retakaful Fund has been invested during the redistribution period under consideration. The surplus or deficit is the difference of the incoming fund and the outgo, calculated as follows  

Loss carried forward to be explicitly clarified |

Clarification on reserve and direct pooling yet to be added |
<table>
<thead>
<tr>
<th>Element</th>
<th>Contents</th>
<th>MTA wording</th>
<th>Munich Re wording</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Prohibited articles and clauses</td>
<td>Namely interest-bearing articles (penalty interest). List needs to be approved by Shari’a boards. Ex gratia decision needs to be deferred to the RTO.</td>
<td>(c) The place of arbitration shall be ......................(town or country): (d) The language(s) to be used in the arbitration proceedings shall be ..........; or The law applicable to this Agreement shall be that of .................</td>
<td>Tentative Munich Re guideline: • Known haram risks related to pork, alcohol, bars, etc. • Conventional financial institutions • Risk classes involving guarantees and bonds (guideline should be discussed and approved at the next SAB meeting) • Transactions involving capital transactions and time lags, which can be prone to riba.</td>
</tr>
<tr>
<td>6. Haram risk screening</td>
<td>Options: 1. “Follow the fortunes” if all clients are takaful operators 2. Own guidelines by default</td>
<td>2.2 The retakaful Participant shall ensure that all risks ceded hereunder are not in any way prohibited under the Shariah principles and, should there be any doubts, shall consult their Shariah Committee/Council Members for approval prior to cession into this Agreement.</td>
<td>Alternative suggestion: negative list of Bank Negara’s Shariah Advisory Council</td>
</tr>
</tbody>
</table>
TAKEAWAYS

In the introductory technical part, the eight possible types of retakaful are discussed. Part 2 of the manual deals with the type that is to replace conventional proportional reinsurance. It is planned to make this the start of a publication series on all retakaful types.

The manual is designed to help retakaful departments and brokers facilitate the creation and understanding of distinct, Shari’a-compliant retakaful solutions, pricings and documents. It is organised in five modules to take maximum account of the flexible processes used in these organisations.

We welcome any feedback to this manual from practitioners and Shari’a scholars in order to enhance and approve this and thus remove obstacles to the spread of retakaful.

A mapping of pricing parameters and sample wordings is included that can be directly applied to the modular approach.

CONTACT

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Fax: +49 89 3891-72424
lstiftl@munichre.com

GLOSSARY

<table>
<thead>
<tr>
<th>Arabic term</th>
<th>Short description</th>
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<tbody>
<tr>
<td>Dharura</td>
<td>Necessity, justification for permitting what is forbidden</td>
</tr>
<tr>
<td>Gharar</td>
<td>Uncertainty, insufficiently defined contract</td>
</tr>
<tr>
<td>Halal</td>
<td>Permissible</td>
</tr>
<tr>
<td>Haram</td>
<td>Forbidden</td>
</tr>
<tr>
<td>Hiba</td>
<td>Gift</td>
</tr>
<tr>
<td>Ijma‘</td>
<td>Consensus of the scholars, a source of legislation</td>
</tr>
<tr>
<td>Ju‘ala</td>
<td>Performance fee</td>
</tr>
<tr>
<td>Maisir</td>
<td>Gambling</td>
</tr>
<tr>
<td>Mudharib</td>
<td>Managing party of a mudharaba contract</td>
</tr>
<tr>
<td>Mudharaba</td>
<td>Profit-sharing contract</td>
</tr>
<tr>
<td>Qard hasan</td>
<td>Benevolent loan (interest-free loan)</td>
</tr>
<tr>
<td>Riba</td>
<td>Interest; unjustified profit in general</td>
</tr>
<tr>
<td>Tabarru‘</td>
<td>Donation. Basis of contribution payment in takaful</td>
</tr>
<tr>
<td>Wakala</td>
<td>Agency contract</td>
</tr>
<tr>
<td>Wakeel</td>
<td>Manager or agent in a wakala contract</td>
</tr>
</tbody>
</table>

LITERATURE

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Qard al-Hassan in takaful from a fiqh muwazanat perspective.  
Middle East Insurance Review, February 2010, pp. 64 f

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Shari’a Standard on Retakaful (Arabic version)

Malaysian Takaful Association:  
Retakaful Proportional Contractual Wording (unpublished draft)