

Retakaful (Islamic reinsurance) industry marches on

**By Mohd Herwan Sukri
Mohammad Hussin**

Central Bank of Malaysia (Bank Negara Malaysia) has recently awarded licences to two companies, MNRB Holdings Berhad and Munich Re to establish the first Retakaful companies in Malaysia under the Malaysian Takaful Act, 1984, to conduct both general and family Retakaful businesses in the domestic Takaful industry. Munich Re is the world's second largest reinsurer with global presence in more than 60 countries whilst MNRB Holdings Berhad (controlled by PNB, the largest fund manager in Malaysia) is the holding company of Malaysian Reinsurance Berhad, a national reinsurance company conducting reinsurance business.

Retakaful is one of the risk management tools used by Takaful operators to transfer part of the risk under the Takaful fund to another Takaful operator or Retakaful operator. Under Retakaful, the Takaful (Islamic Insurance) operator pays an agreed premium from the Takaful fund to the Retakaful operator, and in return, the Retakaful operator will provide security for the risk insured. In other words, Retakaful is actually a 'Takaful for Takaful operators'.

Retakaful is defined by the Malaysian Takaful Act, 1984 as an arrangement consistent with sound Takaful principles for Retakaful of liabilities in respect of risks incurred or to be incurred by the Takaful operator in the course of his carrying on Takaful business.

The Shariah principles applying to Takaful apply to Retakaful operations as well. The difference, if any, is that in the Retakaful operations, the participants are Takaful operators instead of individual participants.

Retakaful is not only a relatively new phenomenon in Malaysian but also in the Muslim world with only few Retakaful companies worldwide. Currently the most prominent Retakaful company in the region is Labuan-based ASEAN Retakaful International (L) Ltd, an offshore subsidiary of Syarikat Takaful Malaysia Berhad, licensed under Offshore Insurance Act 1990, which was incorporated in 1997. The other Retakaful company in the region is Tokio Marine Nichido Retakaful Pte Ltd, a Singaporean Retakaful company set up by Millea Asia Pte Ltd, a subsidiary of Japan-based Millea Holdings Inc. Tokio Marine Nichido Retakaful Pte Ltd started its operations on 22 November 2005.

Besides the two Retakaful companies in South East Asia mentioned above, the other Retakaful company in the world is Al Fajer Retakaful Insurance Company KSCC, the first Retakaful

company in Kuwait, which was launched in July this year and Takaful Re Ltd, the first Retakaful company licensed by Dubai Financial Services Authority (DFSA) to operate from the Dubai International Financial Centre (DIFC). Most recently, global reinsurance agent, Hannover Re, has been granted a licence to establish a Retakaful company in Bahrain. The Retakaful is named Hannover Re Takaful.

Due to the dearth in the number of players providing Retakaful operations, Takaful operators in Malaysia rely heavily on reinsurance. Compared to Retakaful, there are six reinsurance companies in Malaysia which provide reinsurance business. Among the reinsurance companies in Malaysia are Hannover Rueckversicherungs AG, Malaysian Life Reinsurance Group Berhad, Malaysian Reinsurance Berhad, Munchener Ruckversicherungs-Gesellschaft, Swiss Reinsurance Company and Toa Reinsurance Company Ltd.

The step taken by the Central Bank of Malaysia in awarding the Retakaful licenses is highly commendable and consistent with the desire of the Government of Malaysia to see a more robust development in the takaful industry and by extension the retakaful industry. Very recently, Allianz General Insurance Malaysia Bhd has also expressed its interest to form a strategic tie-up with a local takaful operator to venture into the Retakaful business in Malaysia.

The Bank Negara's Master Plan for Financial Sector released in 2001 conceived steps to further advance the growth of the Takaful operations in Malaysia. Among those steps include facilitating Retakaful among Takaful operator in line with Syariah principles.

It is hopeful that this step will spur the growth of Retakaful business in Malaysia. Lawyers in the areas of Islamic banking and Takaful will also face fresh challenges in this new development.

Azmi & Associates

14th Floor, Menara Keck Seng
203, Jalan Bukit Bintang
55100 Kuala Lumpur
Malaysia

Tel: (603) 2118 5000

Direct: (603) 2118 5061

Fax: (603) 2118 5111

Email: herwan@azmilaw.com

www.azmilaw.com