

ISLAMIC INSURANCE IN SUDAN ***(1979-2017)***

***38 YEARS OF SUSTAINABLE GROWTH,
RESILIENCE AND SUCCESS***

Lecture Delivered By
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To
The Islamic Insurance Class of
MIFP Students at INCEIF
18th September 2017

INTRODUCTION

- ❖ It is almost four decades by now since the establishment of the first ever Islamic insurance company in Sudan and the world.
- ❖ The company was established by Faisal Islamic Bank – Sudan, the first Islamic bank in Sudan in 1978 and started its operation on 1st January 1979 with the main objective of providing sharia' compliant insurance to the bank and its clients.
- ❖ The success of the company since its early beginnings paved the way for the establishment of Islamic insurance companies and encouraged others , both locally and abroad, to follow.

- ❖ Four other Islamic insurance companies were established in Sudan, three of them by Islamic banks, which indicates the vital role played by Islamic banking in the development and promotion of Islamic insurance.
- ❖ Since 1992 all the conventional insurance and reinsurance companies in Sudan (eight insurance and one reinsurance company) were converted to sharia' compliant insurance and reinsurance companies as mandated by the Ministerial Decree of the Minister of Finance No 219/1992.
- ❖ For 38 years since its inception, Islamic insurance has proved itself as a successful and sustainable sharia' compliant alternative to conventional insurance.

MARKET PLAYERS 2012-2015

Type	2012	2013	2014	2015
Reinsurance companies	1	1	1	1
Reinsurance windows	1	1	1	1
Insurance companies	13	13	13	13
Agents	148	175	164	168
Producers	1,232	656	447	998
Surveyors and loss adjusters	63	80	95	215
Brokers	7	10	8	13
Third Party Administrators	0	2	4	6

Source: Insurance Supervisory Authority - Sudan

Name of Company	Year of Establishment	Remarks
1.General Insurance Co.	1961	Converted to an Islamic Insurance Company in 1992.
2.Blue Nile Insurance Co.	1965	Converted to an Islamic Insurance Company in 1992.
3.Sudanese Insurance & Re Co.	1967	Converted to an Islamic Insurance Company in 1992.
4.United Insurance Co.	1968	Converted to an Islamic Insurance Company in 1992.
5.National Reinsurance Co.	1973	Converted to an Islamic Reinsurance Company in 1992.
6.Islamic Insurance Co.	1978	Started operations in 1979 as the first Islamic Insurance Company in the world.
7.EL Nelein Insurance Co.	1980	Converted to an Islamic Insurance Company in 1992.
8.Middle East Insurance Co.	1981	Converted to an Islamic Insurance Company in 1992.
9.Shiekan Insurance & Re Co.	1983	Started full operations as an Islamic Insurance Company during the 4 th quarter of 1990.
10.Juba Insurance Co.	1984	Converted to an Islamic Insurance Company in 1992.
11.EL Baraka Insurance Co.	1985	Started operations as an Islamic Insurance Company.
12.Savanna Insurance Co.	1989	Converted to an Islamic Insurance Company in 1992.
13.Taawuniya Insurance Co.	1989	Started operations as an Islamic Insurance Company.
14.EL Salama Insurance Co.	1992	Started operations as an Islamic Insurance Company.
15. P.T.A - Sudan.	2002	Started operations as an Islamic Reinsurance window of Zep Re

LEGAL, REGULATORY FRAMEWORK AND GOVERNANCE

- ❖ As per the Sudanese legal regime, formation and registration of companies is governed by Companies Act 1925 which remained in force till recently replaced by Companies Act 2015.
- ❖ As per Faisal Islamic Bank's Sharia' Supervisory Board's fatwa to establish a sharia' compliant insurance company based on the principles of cooperative insurance, the following principles are dictated so as to meet the requirements of the law which does not provide for the establishment of cooperative insurance companies:

- Formation of Sharia' Supervisory Board (SSB) to govern and guide the practice.
- Segregation of funds of the shareholders and policyholders by setting up a distinct and separate account for each.
- Investment of funds in sharia' compliant instruments.
- Surplus to be distributed to the policyholders as decided by the Board of Directors and approved by the SSB and recommended by the Policyholders General Assembly.

❖ The insurance market is regulated and supervised by the Insurance Supervisory Authority (ISA), under the direct authority of the Minister of Finance, as per the Insurance Control Act 2001 and the Insurance and Takaful Act 2003 which defines the scope, subject and parties of insurance under takaful contracts. (*The term **Takaful** is used in Sudan to refer to **life insurance***).

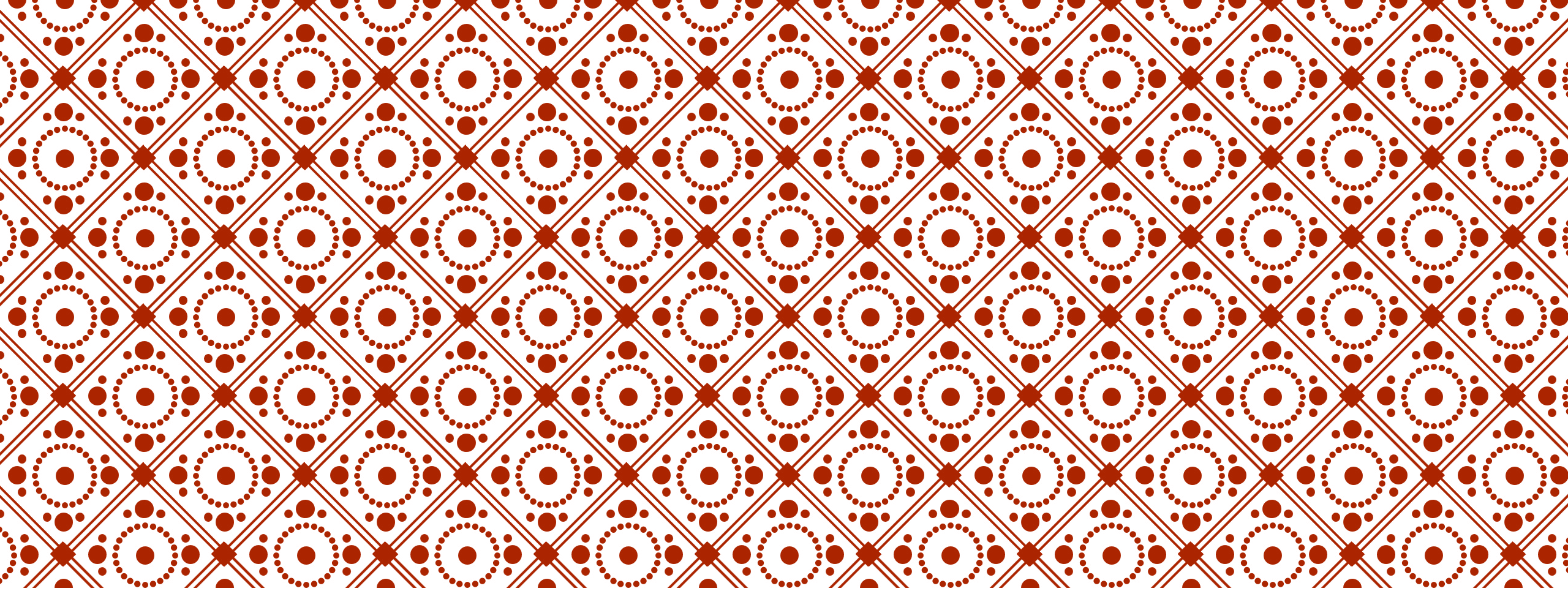
❖ A new insurance law already approved by the Cabinet and passed to the Parliament for enactment is expected to be enforced in October of this year with the following main features:

- Opening the market for foreign operators.
- No licence for composite companies.
- More stipulations to enhance governance.

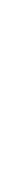
- ❖ The High Sharia' Supervisory Board (HSSB) of the ISA is the supreme sharia' body to harmonize and supervise the SSBs of the different insurance companies and monitor their operations to ensure sharia' compliance.
- ❖ The fatwas and decisions of the HSSB are mandatory and overrule any fatwas issued by any of the insurance companies' SSBs.

❖ **Corporate governance is of high importance in the insurance industry so as to provide full protection for the Policyholders who are given more rights through the following governance organs:**

- General Assembly.
- Policyholders' General Assembly.
- The High Sharia' Supervisory Board.
- Board of Directors (Policyholders are represented by at least two members elected by the Policyholders' General Assembly).
- Board Committees (Audit, Risk Management, Investment, HR and CSR).
- External Auditor.
- Independent Internal Audit Department (Directly reporting to the Board Audit Committee).
- Corporate Social Responsibility.



POLICYHOLDERS' GENERAL ASSEMBLY











OPERATIONAL FRAMEWORK

Business Model

- ❖ Hybrid model based on cooperative insurance principles. Contributions are paid by way of ***Tabarru***.
- ❖ Capital is a legal requirement to incorporate the company and stands not to gain or lose from insurance operations.
- ❖ Shareholders are not entitled to any share in the underwriting surplus
- ❖ Management expenses are fully borne by policyholders but if the company charges Wakalah fee, management expenses are fully borne by the company.

- ❖ Shareholders as a mudarib are entitled to a percentage in the returns of the investments of the Policyholders' funds.
- ❖ Deficit in the Policyholders' fund to be covered from the general reserve set out from the surplus. In case of inadequacy or non-existence of this reserve, deficit to be covered from the Shareholders' fund by way of Qard Hassan (free of interest loan).

Segregation of Funds

- ❖ Two distinct separate accounts (Shareholders' Account, and Policyholders' Account).
- ❖ Separate and segregated reporting of transactions and balances:
 - Shareholders: All risks and rewards relating to capital.
 - Policyholders: All risks and rewards arising from insurance operations

Reinsurance (Retakaful)

❖ In the early beginnings of the industry and in view of necessity, Faisal Islamic Bank's SSB permitted dealing with conventional reinsurers subject to the following:

1. Giving utmost priority to the establishment of sharia' compliant reinsurance companies.
2. Not to accept reinsurance ceding commission from conventional reinsurers.
3. No interest rate on reinsurers' reserves held by the company.
4. Retain as much as possible of contributions.

❖ Growing number of fully fledged Retakaful Operators and opening of Retakaful Windows by leading international and regional reinsurers, Reinsurance is no longer a major issue.

Surplus

- ❖ All Policyholders are entitled to have a share in the surplus realized at the end of each year.
- ❖ Shareholders are not allowed to have a share in the surplus. However, as Mudarib, they are entitled for a share in the investment returns of the accumulated retained surplus (Percentage to be decided by the Board of Directors and approved by the Sharia' Supervisory Board and recommended by the Policyholders' General Assembly).

❖ The portion to be retained from the annual surplus is decided by the Board of Directors and approved by the Policyholders' General Assembly.

❖ Accumulated retained surplus over the years can substitute the role of capital, serve solvency requirements and be a first defense line in case of deficit in the Policyholders' Fund.

Investment

- ❖ As per the SSB's Fatwa, the shareholders can invest the insurance funds available for investment on behalf of the Policyholders as a Mudarib in return of a percentage of the profits generated to be fixed by the Board of Directors and approved by the SSB.
- ❖ Separate and an independent investment unit to be formed and expenses borne by the shareholders.

- ❖ Investment can also be managed by the company with a lower percentage of the returns to the shareholders.
- ❖ All investments must be sharia' compliant and as per investment governing laws.
- ❖ As per the Insurance Supervisory Authority regulations, investment in real estate should not exceed 50% and 40% for bank deposits, sukuk and government certificates and 10% for equities and others.

MARKET PERFORMANCE

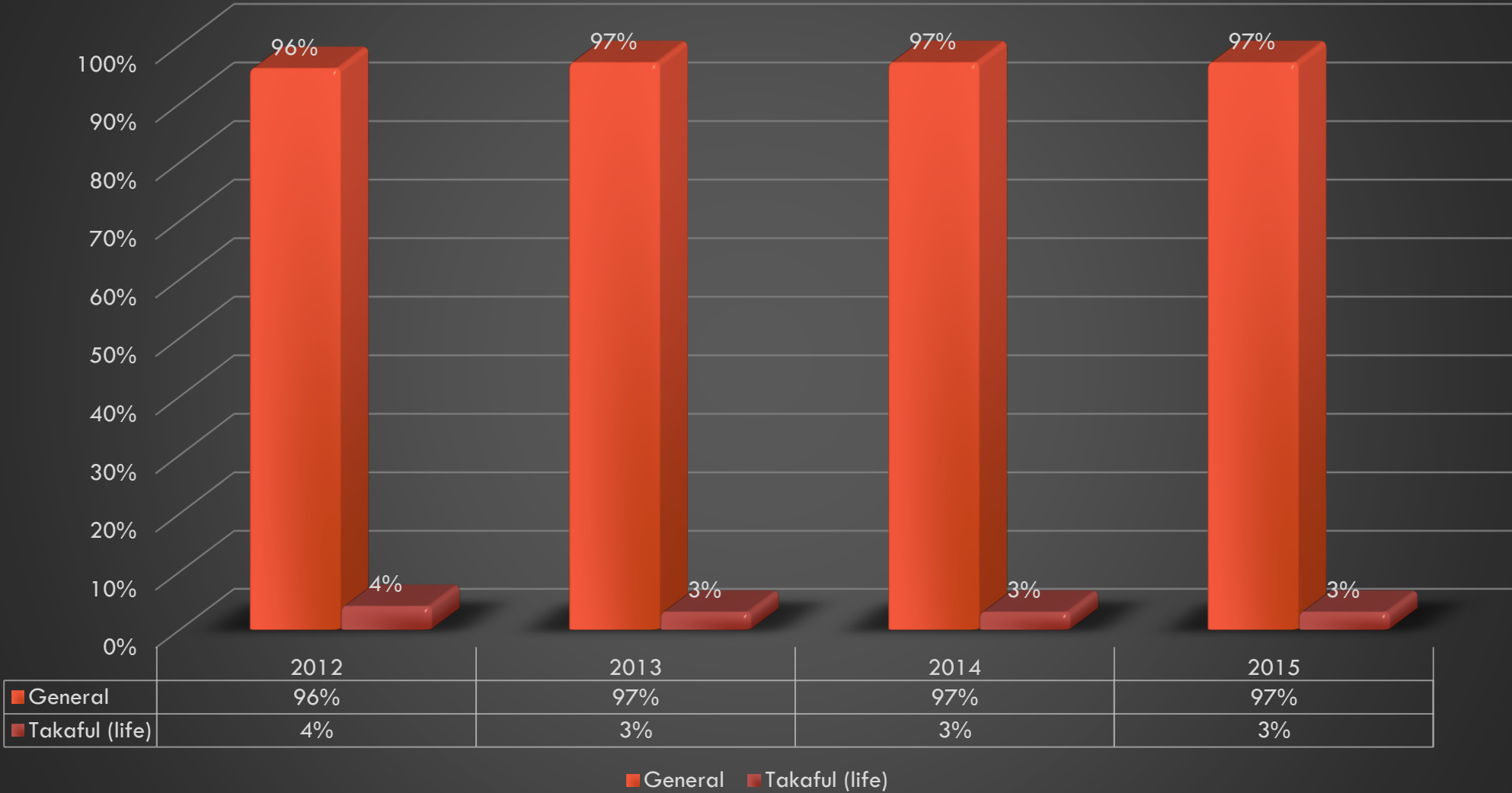
❖ Direct Gross Contributions 2012 – 2015

The Sudanese insurance market total gross contributions for the years 2012-2015 indicate a consistent double digit growth rate as in the table below. *(It should be noted that Takaful (life) gross contributions range between 3-4% of the total gross contributions).*

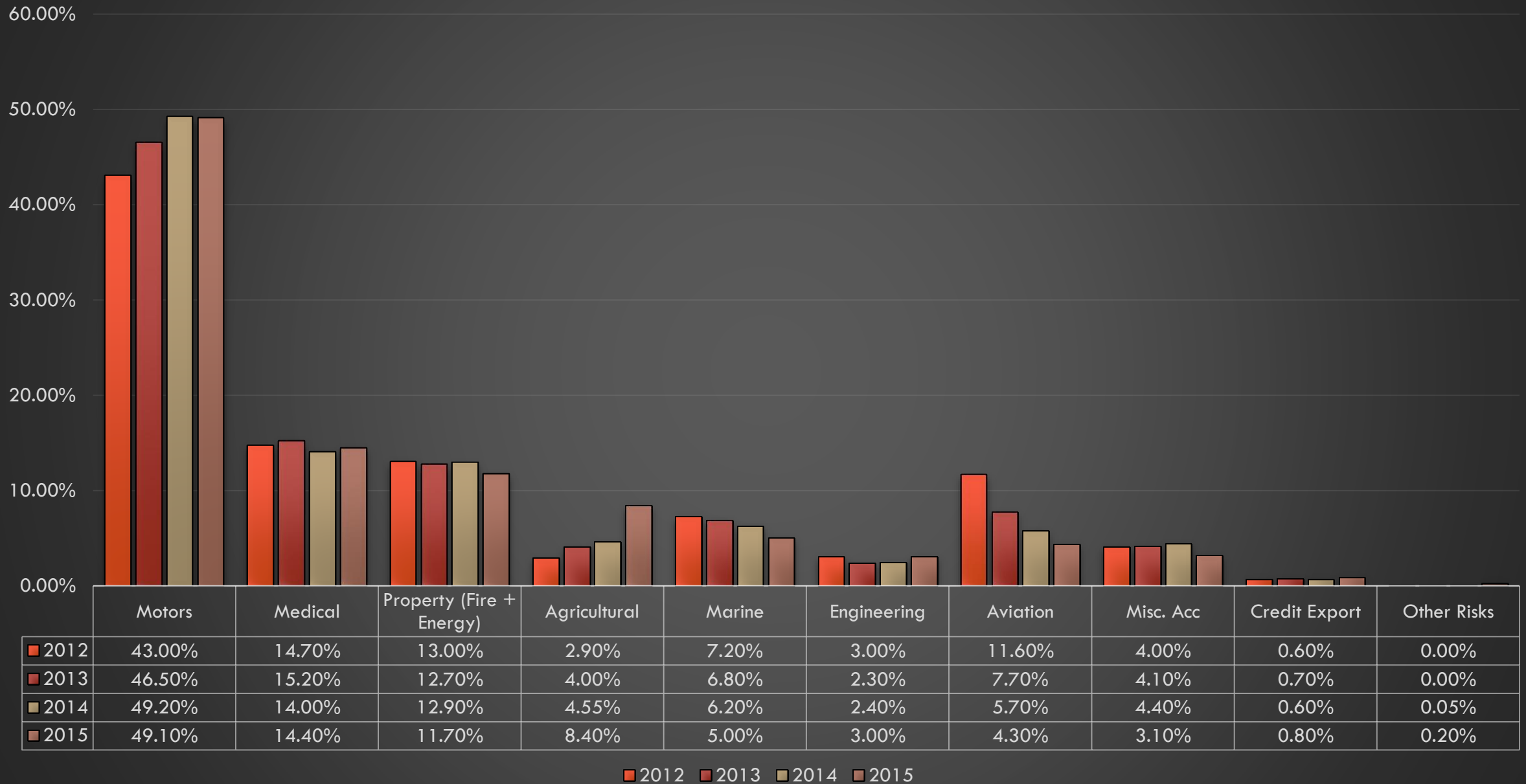
Type	2012	%	2013	%	2014	%	2015	%
General	1,212.0	96	1,583.1	97	1,773.8	97	2,965.3	97
Takaful (life)	51.1	4	54.6	3	56.7	3	60.7	3
Total	1,263.1	100	1,637.7	100	1,830.5	100	2,126.0	100
Growth rate	-		29.66%		11.77%		16.14%	

Currency: Milion SDG

Direct Gross Contributions 2012 - 2015



Direct Gross Contributions Class wise 2012 – 2015



MARKET PERFORMANCE

❖ Reinsurance contributions 2015

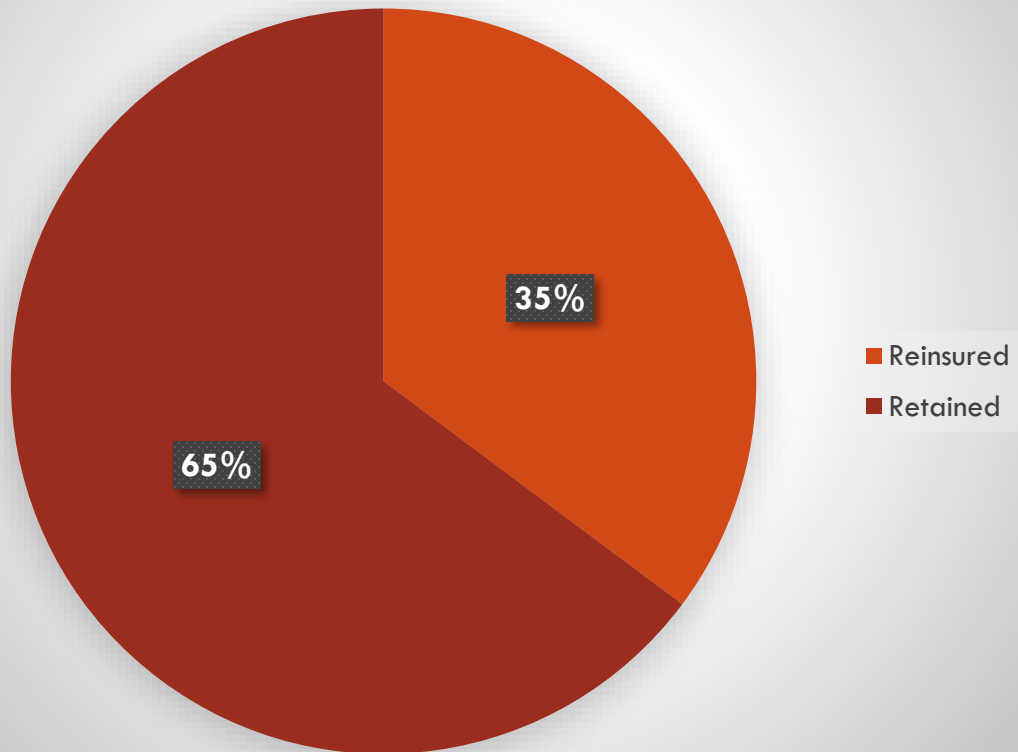
The below table shows the amount of reinsurance contributions ceded locally and abroad for the year 2015:

-Currency: Million SDG

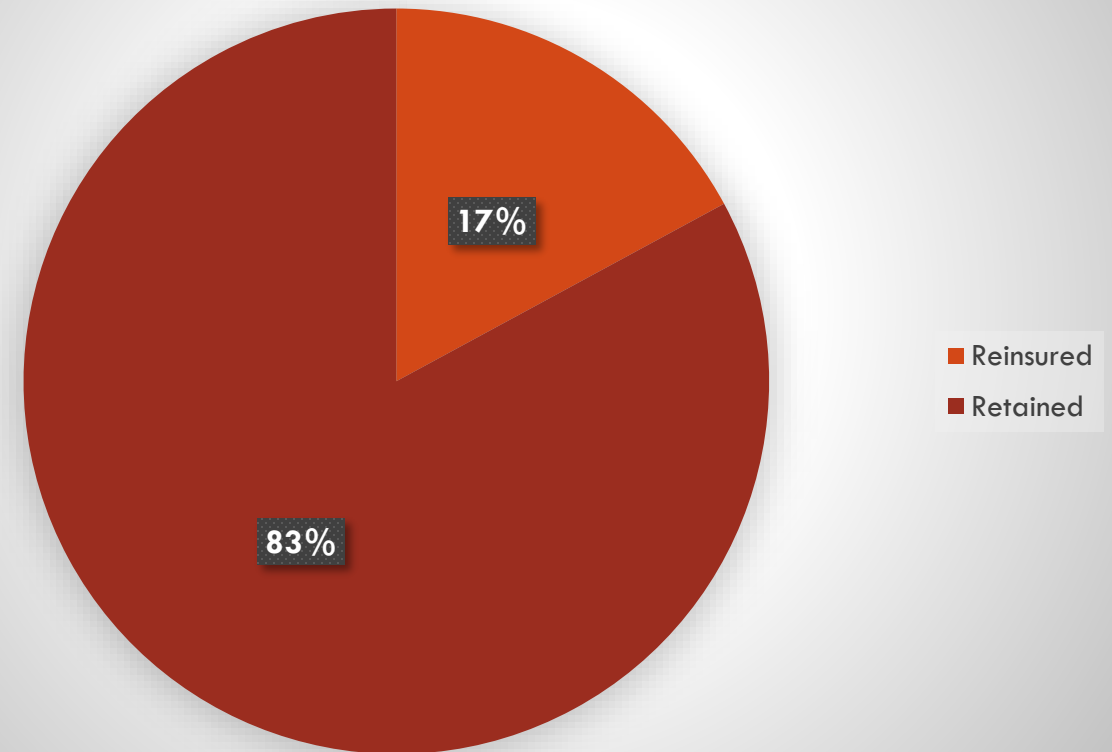
Type	Direct Contributions	Reinsured Locally	Reinsured Abroad	Total	Reinsured %	Retained %
General	2065.3	149.5	577	726.5	35.2	64.8
Takaful (life)	60.7	2.1	8.3	10.4	17.1	82.9
Total	2,126	151.6	585.3	736.9	34.3	65.7

MARKET PERFORMANCE

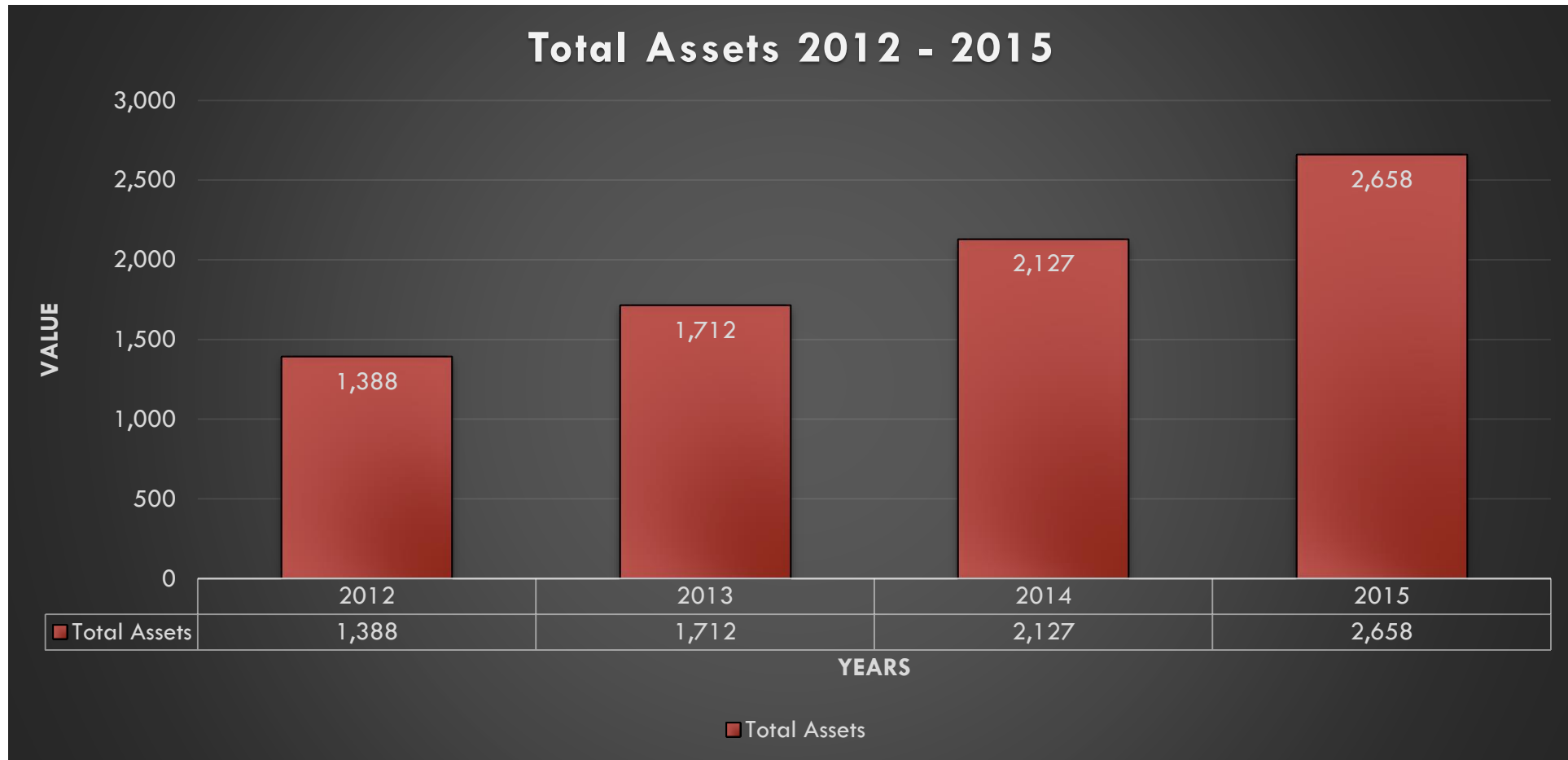
**General Direct Contributions
Reinsured vs Retained 2015**



**Takaful (life) Direct Contributions
Reinsured vs Retained 2015**



MARKET PERFORMANCE



Currency: Milion SDG

❖ Investment 2012-2015

Type	2012	2013	2014	2015
Real Estate	27.3%	27.9%	29%	43.1%
Bank Deposits	21.9%	25.8%	25.1%	23.8%
Equities	21.6%	21.8%	18.4%	16.9%
Sukuk	17.4%	15.7%	25.6%	13%
Bonds	3.2%	1.5%	1.4%	2.8%
Others	8.6%	7.3%	0.5%	0.4%
Total Value in Million SDG	301.6	421.5	495.8	677.1

Investment 2012-2015

50.00%

45.00%

40.00%

35.00%

30.00%

25.00%

20.00%

15.00%

10.00%

5.00%

0.00%

	2012	2013	2014	2015
Real Estate	27.30%	27.90%	29%	43.10%
Bank Deposits	21.90%	25.80%	25.10%	23.80%
Equities	21.60%	21.80%	18.40%	16.90%
Sukuk	17.40%	15.70%	25.60%	13%
Bonds	3.20%	1.50%	1.40%	2.80%
Others	8.60%	7.30%	0.50%	0.40%

Real Estate Bank Deposits Equities Sukuk Bonds Others

CHALLENGES

- ❖ Qualified and well trained personnel within the Sudanese insurance market is still a challenge despite the increase in the number of institutes and educational centers offering certificates and training courses in Islamic insurance. More is needed to elevate the standard of professionalism in Islamic insurance.
- ❖ Financial independence and attractive working conditions within the Insurance Supervisory Authority constitutes an obstacle that hinders the ISA to enact the Insurance Law and Regulations.

FUTURE

- ❖ Despite the prevailing unstable economic conditions resulting from the unilateral sanctions imposed by the USA and the cessation of the oil rich South Sudan, the Islamic insurance in Sudan continued to grow with a double digit growth rate since its inception in 1979.
- ❖ In view of its huge wealth of diversified natural resources, Sudan is promising to achieve a robust and high economic growth which will in turn lead to a high insurance penetration rate - currently less than 0.5%.
- ❖ Being the cradle and founder of Islamic insurance, Sudan has a great potential to play an important and leading role in the Islamic insurance industry worldwide.



THANK YOU

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