

## **Surplus v No Claim Bonus (NCB)**

**The concept of surplus is one of the salient features of Islamic Insurance (Takaful) which is based on the principles of Cooperative Insurance. Distribution of surplus is one of the basic characteristics that differentiate Islamic Insurance from Conventional Insurance. However, some of those who advocate Conventional Insurance argue that surplus distribution as practiced in Islamic Insurance is identical to the no claim bonus (NCB) as practiced in Conventional Insurance.**

**In my opinion this is not a solid argument as there are a number of major differences between surplus and the NCB. At the outset I would say the NCB as an underwriting technique is also practiced in Islamic Insurance and has nothing to do with surplus distribution.**

**In Islamic Insurance as practiced in Sudan, all the policyholders are entitled to have a share in the surplus realized at the end of the year irrespective of their claims experience whereas the NCB is only the right of the policyholders whose policies include a No Claim Bonus Clause and of course their policies are free from claims.**

**The percentage of the surplus to be distributed ( if any) is fixed at the end of the year according to the formula of calculating the surplus/ deficit while the percentage of the NCB is agreed and fixed in advance at the time of issuing the insurance policy.**

**Surplus is usually paid in cash and is not linked with the renewal of the insurance policy which is not the case with the NCB where the agreed percentage of the NCB on the expired policy is deducted from the renewal premium which means that the policyholder has to renew his policy with the same company so as to enjoy his right in the NCB.**

**Furthermore, a portion of the surplus realized each year can be retained to strengthen the financial position of the policyholders' fund and cater for**

any future contingencies. The retained surplus in some companies reached a point where it became equivalent to or bigger than the shareholders' capital. This serves a number of objectives basically;

a) As we know, in Islamic Insurance based on cooperative insurance principles, capital is just a legal requirement to incorporate the company. The accumulated retained surplus over the years can substitute the role of capital and serve solvency requirements and the issue of Risk Based Capital.

b) The share of the shareholders, as a Mudarib, in the returns of the investment of the retained surplus of the policyholders will serve as an incentive for new investors to invest in Islamic Insurance.

c) The accumulated retained surplus can be used as a first defense line if there is a deficit in the policyholders' fund and hence reduce any possibility to resort to the capital of the shareholders for Qard Hassan.

Will the NCB serve any of the above mentioned objectives? The answer is definitely No.

For illustration and to support this argument, the following table is reproduced from the financial statements of Qatar Islamic Insurance Company (QIIC) for the years 2009, 2010, 2011 and 2012.

(Started operation in 1995, QIIC is the first Islamic insurance company in Qatar and one of the most successful companies in the MENA region).

Currency: QR

Year	Surplus for the year	Distributable Surplus	Retained Surplus
2009	16,892,229	12,065,495	89,032,186
2010	28,846,660	11,436,264	106,442,582
2011	17,351,670	19,265,158	104,529,094
2012	16,013,776	14,972,710	109,140,160

N.B

\*Surplus for the year = Net U/W surplus + Net investment income.

\*\*Distributable Surplus = The amount of surplus to be distributed to the policyholders as decided by the Board of Directors and approved by the Sharia' Supervisory Board/ Policyholders' General Assembly.

\*\*\*Retained Surplus = Accumulated surplus balance at 31 December each year.

From the above table, I may conclude as follows;

- 1- Despite the fact that the surplus of the year may vary from year to year according to the claims experience and the prevailing investment conditions, the company by virtue of good management and transparency was successful in producing a surplus each year since its first year of operation in 1995.
- 2- The policyholders have enjoyed their right in having a share in the surplus realized each year and thus reduced their insurance bill and became more loyal to their company.
- 3- The shareholders on the other hand have enjoyed their right as a Mudarib to have a share in the returns of the investment of the accumulated retained surplus which by the end of 2012 reached around 73% of their paid up capital.

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