

COUNTRY PROFILE – BAHRAIN

Room for growth for family takaful operators



Family takaful operators in Bahrain should focus on generating economies of scale to ensure effective delivery of their products and services, says **Mr Nader Al Mandeel** of **Medgulf Takaful**.

Hamad, Bahrain

While family takaful operators in Bahrain are overcoming many inherent challenges such as a lack of customer awareness, market maturity, dynamic regulation, and high operating and acquisition costs, as well a lack of skilled human resources, they are also aware that they cannot prosper in a market which has limited demographic size and scope.

Hub & spoke model for increased efficiency and scale

The most critical success factor for family takaful operators in Bahrain is territorial expansion, and the hub-and-spoke model may serve as the best operating framework where the hub can leverage the spokes to act as market facing units, thus providing a wide geographical outreach and generating the required economies of scale to ensure effective delivery of products and services.

The hub-and-spoke model will also offer an early-mover advantage to the entities in jurisdictions where there are no standalone family takaful operators.

Wider spectrum of family takaful products

The three main success factors for product delivery are: understanding the market needs, having the ability to launch new innovative products in a timely manner and providing effective tools of service to customers.

It is imperative for family takaful operators in Bahrain to use a platform with a robust product configuration framework which has an extensive range of functional parameters to enable changes, parameterisation and standardisation at fundamental levels and with the system agility to allow propositions that best suit the market and customers.

While the spectrum of family takaful products in Bahrain is mainly limited to term life, there is a huge

opportunity for the operators to offer innovative solutions ranging from simplified over-the-counter products to those with higher complexity catering to the needs of the untapped market (Figure 1).

Take for example the voluntary retirement scheme launched by the Bahraini government. Over 7,700 government employees have signed up for this scheme in the first phase of its launch, and a staggering 75% of these employees are under the age of 49, according to media reports. However, there are no bespoke family takaful solutions to meet the specific needs of this segment.

Nevertheless, the market has recently seen one or two innovative products which are unique in their offering with a very low cost, increased flexibility for the customer on withdrawals and/or surrenders, and varied investment options including fixed income structures. These innovations reflect the increasing market maturity for addressing the differentiated customer needs.

Technology-based service delivery model

It is important that family takaful operators align costs to the high growth areas and have a framework which allows continuous adaptation to the technological changes (Figure 2).

With a strong technological platform as the backbone and with scale of operations, the expense ratios will decrease considerably.

The architecture of systems, products and underlying framework should be flexible to adapt to regulatory changes and allow incorporation of changes, if any, quickly and smoothly.

To give more insight, the core system must adapt to the takaful frameworks in different jurisdictions and facilitate a seamless conduit of operations under the hub-and-spoke model. For instance, the system must be flexible enough to allow a switch in takaful model (wakala, mudharabah

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or hybrid model), or a demand to switch the fundamental funds, or change in accounting framework, or VAT.

Bancatakaful – The preferred distribution model for ULIPs

The bancatakaful model might be the only successful distribution channel for unit-linked propositions and if adopted in the right way, it will be a great enabler for the family takaful sector in Bahrain.

Although Figure 3 illustrates the four models which can be adopted by banks and family takaful operators, Bahrain is yet to see progression from the initial stages to the advanced stages and capitalise on the benefits that can be derived with a fully-integrated relationship where

bespoke advisory products can be offered leading to increased long-term relationships.

Supporting local economy

While it is commonplace for unit-linked products to have the underlying funds domiciled outside Bahrain, family takaful operators are yet to shift from the ‘copy and paste’ mindset and use assets or funds based in Bahrain.

Local takaful operators have access to the government’s sukuk fund and they can take advantage of the higher yields offered to provide their family takaful policyholders with a steady investment option and at the same time, support the local economy. 

Mr Nader Al Mandeel is the CEO of Medgulf Takaful.

Figure 1: Product diversity catering to a broad spectrum of needs under family takaful

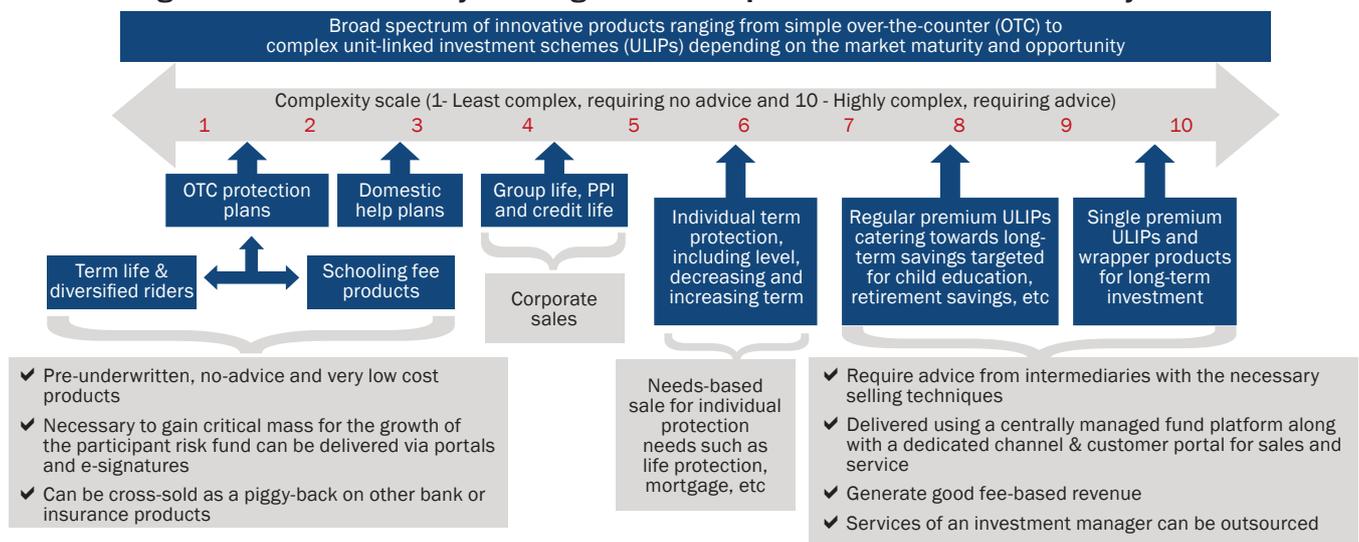


Figure 2: Technology as a backbone for service delivery

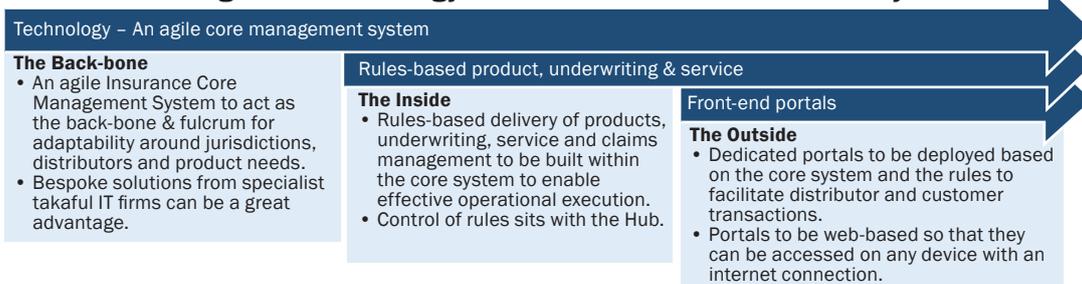


Figure 3: Bancatakaful distribution models and their evolution

