TAKAFUL

Improving takaful with preventative claims due diligence

Takaful performance in the GCC has been affected by rising claims and costs. Chedid Re's Mr Wasim Alwani believes that fraudulent activities can be prevented with more emphasis on preventative, rather than reactive, due diligence in claims investigation.

By Sarah Si

Profits related to takaful in the GCC have come under "a great deal of pressure from shifting market dynamics on both the supply and demand sides" over the past year, according to Chedid Re UAE divisional director – Indian subcontinent Wasim Alwani speaking to *Middle East Insurance Review.*

"These shifts have equally impacted the broader Islamic finance sector and require more agile and foresighted strategies to future-proof the takaful landscape," he said.

He also said that in the wake of the COVID-19 pandemic, "The frequency and severity of claims has substantially affected the bottom line of takaful companies". This is in alignment with a 2022 forecast by S&P Global, which predicted that medical claims would affect earnings in 2023.

Addressing rising claims

According to Mr Alwani, a "multifaceted approach focused on greater efficiency and proactive management is essential to address rising claims and costs". He also believes that risk management and underwriting philosophies should be rethought.

"By implementing more rigorous risk assessment protocols, [takaful operators] can substantially decrease the likelihood of excessive claims," he said. He also feels that this strategy is an important one, as it "places precision and foresight at the crux of policy underwriting".

He also feels that greater emphasis should be placed on preventive, rather than reactive, due diligence, starting with claims investigation.

"A robust investigation system will not only deter fraudulent activities but also ensure legitimate claims are processed more efficiently. It helps safeguard the [operator's] financial standing and curb risk exposure," he said.

Promoting a proactive culture of loss control and prevention can also address rising claims, Mr Alwani said. This can be done by "offering policyholders tangible ways to mitigate potential losses and reduce the frequency of claims".

Effective pricing strategies are also integral for claims and cost control, particularly in vulnerable segments like motor and health, he said. In this case, "pricing models must be dynamic, reflecting the real risk and ensuring sustainability".

Other factors affecting profitability

The takaful industry has been grappling with low penetration and a limited premium pool.

"With fewer takaful companies operating in the market today relative to conventional counterparts, there is a smaller base to spread risk. This, coupled with a reluctance to reinstate premium rates that were reduced during the pandemic on certain segments, has further strained profitability margins," Mr Alwani said.

There is also growing competition among takaful operators. To capture market share and "land quick wins", he believes that many operators have resorted to cutting premium rates and providing value-added services.

"These measures, while necessary in some short-term scenarios, can lead to a race to the bottom and jeopardise long-term business sustainability. It is a delicate balance to maintain competitiveness without compromising financial health," he said.

The regulatory environment also plays a role in profitability, he feels, as a restrictive, complex, or ambiguous landscape could impose constraints on pricing strategies and profit margins.

"Stricter regulations might lead to increased compliance costs, which can erode the bottom line if not managed efficiently," he said.

Moreover, the takaful industry has been "experiencing diminishing reinsurance support from the global market".

"This reduction limits the capacity to spread risk and can lead to a more conservative approach to underwriting and risk acceptance, potentially stunting growth," he said.

Sustainable underwriting

According to Mr Alwani, sustainable underwriting would hinge on "integrating advanced data analytics and customer-centric approaches".

"Data-driven underwriting, leveraging AI and analytics, enables us to refine risk assessment and pricing models, predicting outcomes more accurately and tailoring policies to specific risk profiles," he said.

Risk segmentation would also help operators understand "nuanced risk profiles exhibited by different customer segments" and tailor products and services more accurately, he believes.

After that, continuous monitoring and assessment of new policy performance would ensure prompt responses to changing risk landscapes and keep product portfolios competitive and profitable. This would allow "more targeted and data-informed diversification" of the product range, Mr Alwani said.

It would also "spread risk across sectors to stabilise income stream and curtail the impact of market volatility".

ESG

ESG risks and its complexities should be evaluated thoroughly, Mr Alwani said, as "a core aspect of sustainability, profitability and market viability". This holistic view, he said, would help to mitigate risks before it materialises into financial losses.

By accounting for ESG factors, he said, risk can also be priced more accurately.

Improving performance

According to S&P Global in 2022, takaful operators in the GCC suffered from intense competition.

Mr Alwani said, "Product differentiation and customisation is integral in providing added value, particularly with the deluge of data at our disposal today. Run-of-the-mill products and services are not enough in an increasingly competitive landscape."

Unique and tailored products "that cater to specific behavioural and attitudinal customer segments" would also allow takaful operators to meet and anticipate needs, he believes.

"Exceptional customer service" also cannot be overlooked, he said.

"Investing in training for customer service teams empowers them to not only provide outstanding support, but also grow brand equity and ensure customer retention.

"This means placing equal emphasis on streamlining and improving the entire customer experience, from the initial policy inquiry to claims management stages," he said.

A digital-first approach, where initiatives are aligned with customer expectations and operational efficiency, is crucial, Mr Alwani said.

What about strategies to improve takaful performance?

Chedid Re plans to "actively participate in shaping a stronger regulatory environment", Mr Alwani said, as the industry should be "supported by clear and comprehensive frameworks and principles that advocate for both the growth of market players and customer protection".

Raising awareness and promoting "the merits, viability and benefits of takaful" should also be prioritised to ensure service quality assurance and improvement to retain customer loyalty, he said.

Lastly, Mr Alwani believes that strategic alliances and partnerships with financial institutions could "unlock more holistic and compelling product propositions for customers". M