

UNDP Insurance and Risk Finance Facility

The Global Takaful Alliance - Concept Note

Background and Introduction

Nations across the globe are confronted with an increasing set of hazards and shocks, driven by our changing climate, but also biodiversity collapse, the recent pandemic, increase conflict and rising insecurity. The impacts and losses from these events are seen particularly pronounced in developing countries, where people and governments have fewer resources and capacity to manage their risks. The protection gap from disasters (the difference between losses insured or not) in most developing countries is often well above 90%, and in numerous developing countries, insurance remains remarkably low, with merely 7% of individuals on average being covered by any form.

The lack of insurance uptake exposes households to the vulnerabilities of medical emergencies in post-disaster scenarios, subjects small-scale farmers to the uncertainties of climate-induced crop failures, leaves SMEs susceptible to overwhelming losses caused by catastrophic events, and already heavily-indebted countries needed to finance recovery and reconstruction with little available funding.

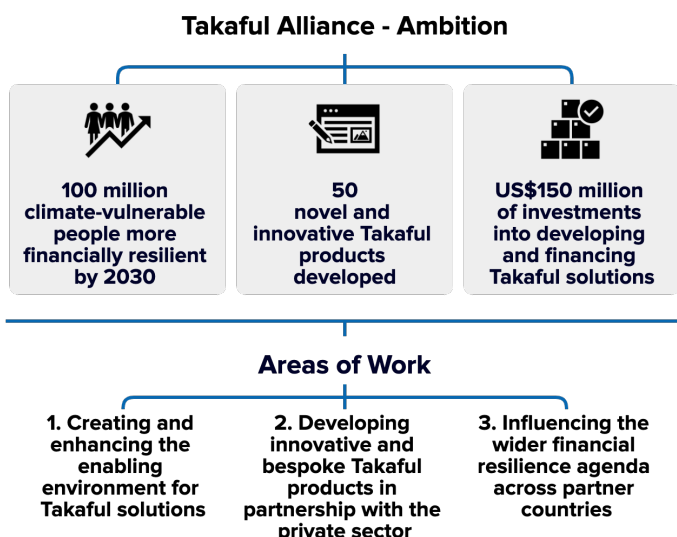
	Total Population (million)	Total Muslim Population (million)	Insurance Penetration (% of GDP)
Indonesia	273	238 (87%)	0.5
Pakistan	225	216 (96%)	0.3
Nigeria	211	106 (50%)	0.2
Bangladesh	166	149 (90%)	0.1
Egypt	104	94 (90%)	0.3
Iran	84	83 (99%)	1.0
Turkey	84	82 (98%)	1.3
Sudan	44	42 (96%)	0.5
Algeria	43	42 (99%)	0.6
Morocco	37	37 (99%)	2.1

Figure 1: The top 10 countries with muslim majority population compared to their non-life insurance penetration, 2021. Non-life data from Swiss Re

This often leads to the reversal of developmental progress and the perpetuation of cycles of poverty, vulnerability and future heavy impact of crisis.

In these countries and communities, the financial burden of risk rests often entirely with every family, community, business and country. However, while there is a insufficient financial protection in most developing countries, there is a significant disparity in use of insurance protection in countries with a Muslim-majority population.

Many marginalized Muslim communities face challenges in using conventional insurance, which is not considered Shariah-compliant. According to the Ecological Threat Report of 2022, among the 27 countries most acutely threatened by climate change, 13 have Muslim-majority populations, encompassing over one billion individuals. Additionally, more than quarter of a billion Muslims reside as significant minority groups in countries facing high probability of climate risks such as India, Ethiopia, and Tanzania. A lack of financial literacy, the under-developed insurance capacities and markets, coupled with a belief that traditional insurance is not Shariah-compliant all continue to greatly constrain the growth of financial resilience in many of these countries.



In order to build financial resilience for vulnerable communities everywhere, it is necessary to build shariah-compliant risk transfer solutions, to help countries to prepare financially for the escalating intensity and frequency of climate and other shocks. A significant investment in all types of risk transfer is needed, from countries, to businesses to individuals, to help them put more financing into post-crisis recovery, reconstruction and rebuilding.

Building Financial Resilience against Climate Risks through Takaful

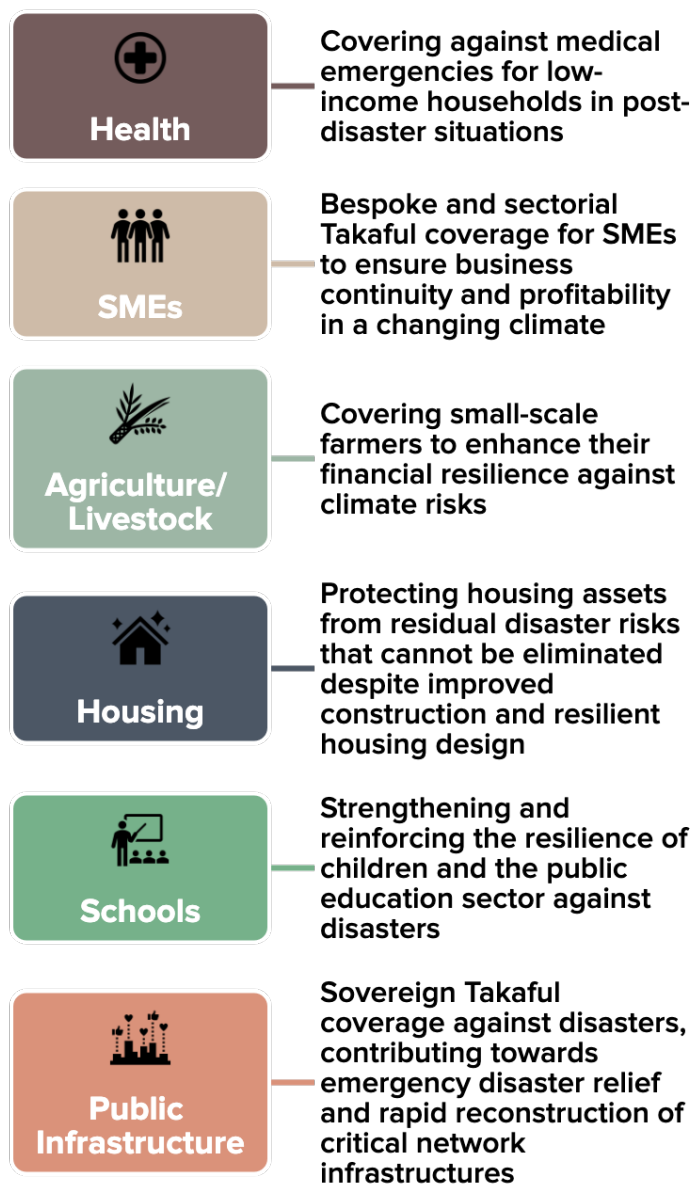
Takaful is a shariah-compliant alternative to insurance that can foster financial resilience within at-risks populations. To date, Takaful has been often-overlooked and under-utilized but holds immense potential that must be harnessed on a larger scale. And even while the global Takaful market is poised to grow, with a projected total market volume of \$97 billion by 2030, it remains small compared to some of the prominent conventional global insurance companies who underwrite that value in premium every year just on standalone basis.

Takaful holds substantial potential to provide shariah-compliant risk protection where it is most crucially required in the face of amplifying global hazards due to climate change. It can play a pivotal role in diminishing public losses and shielding the risks to livelihoods, health, agricultural yield, and livestock belonging to households, farmers, and small enterprises that confront shocks without the refuge of conventional risk protection or financial safety nets. Rooted in principles of mutual assistance and risk sharing, Takaful is aligned with Islamic principles and caters to the religious beliefs and socio-cultural norms of populations that have limited access to conventional insurance due to religious constraints.

Takaful can reinforce resilience by diffusing risks and unlocking economic protection through the expansion of access to inclusive risk transfer tools aligned with Islamic values for millions of at-risk individuals. With low insurance penetration and the incongruence of traditional insurance with cultural values rendering numerous Muslim communities susceptible to uninsured risks, the strategic utilization of Takaful solutions can broaden the scope of inclusive risk protection to underserved groups. Targeted nurturing of the Takaful sector can extend comprehensive climate risk protection to vulnerable Muslim populations typically underserved by conventional insurance models. Takaful holds the capacity to provide shariah-compliant risk protection capable of bridging this gap by aligning with religious tenets. Tailored risk solutions for Muslim communities are indispensable for establishing equitable and resilient development in the face of mounting climate hazards.

Strategic collaborations capitalizing on Takaful's growth trajectory can scale risk protection where it is most needed. This may encompass bundled solutions for sovereign-level risk transfer, the crop and livestock sectors, and linking Takaful offerings with Sukuk, Islamic credit, and microfinance services. Investment in product development, distribution infrastructure, and an enabling policy environment stands as imperative to realizing Takaful's potential for just and sustainable development. It can also do what good risk transfer does everywhere, strip away risk and uncertainty from family, society and the state, massively reduce uneven humanitarian response, and incentive investment of all kinds. It can also do what good risk transfer does everywhere, strip away risk and uncertainty from family, society and the state, massively reduce uneven humanitarian response, and incentive investment of all kinds.

Enhancing accessibility to appropriate Takaful products can heighten financial inclusion by delivering affordable and Shariah-compliant protection, including:



The Takaful Alliance

To address this resilience potential, the Takaful Alliance is bringing actors from different spheres, public and private, national and regional, industry, development and research, into a shared structure for developing and delivering an ambitious programme of work over the forthcoming years. The proposed structure brings has at its core a management secretariat responsible for overall management of the programme of work, technical assistance to countries, and research and evidence delivery. Takaful and Retakaful companies will work to develop innovative and tailored Takaful solutions for at-risk populations and countries, while governments in partner countries work with the Alliance's members to enable the best possible conditions for the growth of Takaful as a solution to financial vulnerability, with donors and philanthropies financing the work.

Progress Made to Date

- **Financial Commitments:** A three-institution team of UNDP (The regional bureau for the Arab States and the Insurance and Risk Finance Facility), Kuwait Finance House (KFH), and AGFUND have agreed to co-lead developments in the first stage, as more partners are brought on and resources received. Seed-financing commitments is secured from both AGFUND and KFH.
- **Broader Engagement:** The idea of the Alliance has been discussed with more than 35 institutions, public and private, regional global and national, and the substantial engagement to date suggests there is significant support for the idea of a large-scale initiative to use Takaful to build financial resilience.
- **Global advocacy:** A [COP28 side-event](#) and two roundtables, organized by UNDP, Kuwait Finance house and AGFUND in Kuwait and in Riyadh, respectively hosted by KFH and AGFUND, have welcomed hundreds of people into introductory discussions on the needs, rationale and potential to scale Takaful to deliver financial resilience, while discussing the visionary concept of establishing a global Alliance.
- **Research and Evidence:** Together with the IsDB and IsDB Institute, the UNDP's IRFF is enhancing the awareness and potential of Takaful, to combat rising risks and build the financial resilience of communities and countries. A [first high-level advocacy report was launched](#) at COP28 at a high-level event and a recommendation guide for how countries can develop long-term sustained

Takaful markets is in development. The IRFF will also be developing a diagnostic report on the complex state of emergencies and crises affecting the Arab region, assessing the readiness of countries to implement insurance and risk finance solutions, with a special focus on Takaful.

Way Forward

UNDP is committed to the development and implementation of the Alliance, with the initiative already being anchored in the UNDP's Regional Bureau for the Arab States to leverage existing regional initiatives, partnerships, strategies and vision. UNDP deeply appreciates the invaluable support and seed-financing of both the Kuwait Finance House (KFH) and Arab Gulf Programme for Development (AGFUND) to help advance the Alliance's ambition.

To operationalize the work, the next steps will be to raise resources for the central management and development of the Alliance's governance framework, managing meeting coordination with governments and stakeholders, communication, and outreach activities, convening additional technical and financial resources, and creating an initial project country and project pipeline for developing Takaful solutions in response to climate risks in target countries.

To facilitate this, the IRFF has initiated an external assessment of the proposed Alliance's structure and governance through a request for proposal. Interested collaborators will have the opportunity to examine and provide input on the final proposition.

Working closely with interested stakeholders and based on the external assessment, UNDP will also craft an official document for prospective Alliance members to endorse, defining the roles and responsibilities of its members. This document will comprehensively outline the implications of becoming part of the Global Takaful Alliance, either through technical support or financial contributions, clarifying the associated responsibilities and expectations of different types of membership.

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