



UNDP Insurance and Risk Finance Facility

Delivering Financial Resilience Through Takaful

Background and Rationale

Nations across the globe are confronted with an escalating confluence of climate-related and economic upheavals, with vulnerable communities at the forefront of these challenges. Floods and cyclones, drought and environmental degradation, food and energy prices, post-pandemic repercussions, conflict and insecurity, the world is facing a massive uptick in crisis. National and family budgets have been stretched beyond breaking point, exposing the fragile life and living conditions of millions of people, with projections for the future looking dire; A record \$51.5 billion appeal for humanitarian aid was announced by the UN for 2023 and for the first time in the 32 years that UNDP have been calculating it, [human development declined globally](#) in 2021 for two years in a row, with 6 out of 7 people in the world feeling insecure.

Meanwhile, the protection gap, the gap between what is insured and what is not in the face of disaster, remains stubbornly well above 90% in developing countries. Insurance penetration, measured as a percentage of total premiums collected to the country's Gross Domestic Product (GDP), is often in and around 1%, 7 times less than the global average. In some parts of the world, just three out of every 100th person has insurance of any kind, with consequences that are increasingly severe. The absence of financial protection exposes households to the vulnerabilities of medical emergencies in post-disaster scenarios, subjects small-scale farmers to the uncertainties of climate-induced crop failures, and leaves micro and small businesses susceptible to overwhelming losses caused by catastrophic events. At the sovereign level, heavily indebted countries are faced with increasingly large unfinanced recovery and reconstruction costs after every disaster. Development progress is in many cases entirely at threat and financially unprotected, with the financial risk of crisis sitting on the shoulder of every family, community, and business around the world.

UNDP's Commitment

Objective: Delivering financial resilience to 100 million people by 2030.

Methodology: Leveraging public-private partnerships to develop innovative Takaful solutions to build the financial resilience of vulnerable communities, through market-based products, national capacity building initiatives for Takaful solutions, and the integration into long-term development.

Structure: Implementing the objective through three pillars of work:

1. Developing the Enabling Environment
2. Developing innovative risk transfer solutions at scale
3. Accelerating systemic change through advocacy, research and advocacy

Partners: Governments, philanthropies and foundations, policymakers, regulators, Takaful and ReTakaful providers, and communities.

Takaful Alliance: One of the important ways UNDP is working towards this ambitious objective is through this initiative of forming a Global Takaful Alliance. [See more here](#)

This lack of financial protection in the face of rising risk is particularly high in many countries with sizeable Muslim populations, whether majority or minority. And many of these countries are on the frontline of increasing shock and threat. 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 high-risk nations such as India, Ethiopia, and Tanzania.

Recent examples of climate risks and loss events in countries with sizeable Muslim population include:

- **Extreme Heatwaves and Droughts:** Many of these countries, particularly in the Middle East and North Africa region, have experienced severe heatwaves. This often also results in droughts, especially those in arid and semi-arid regions, causing prolonged dry spells. Countries like Morocco, Algeria, Pakistan, and Somalia have experienced water scarcity and significant agricultural losses due to drought conditions.
- **Floods:** Heavy rainfall and flooding have impacted many of these countries. Pakistan, Bangladesh, Indonesia, and Sudan are among the countries that have faced devastating floods in the recent past, resulting in loss of lives, displacement of people, and massive damage to infrastructure.
- **Cyclones and Hurricanes:** Coastal regions in most of these countries have been susceptible to cyclones and hurricanes. For instance, Bangladesh, which has a significant Muslim population, is severely prone to cyclones, which often causes significant loss and damage to communities and agriculture.
- **Sea-Level Rise:** Some of these countries, particularly island nations and low-lying coastal areas, are at risk from rising sea levels due to climate change. Countries like the Maldives and Indonesia have experienced the impact of sea-level rise, with coastal erosion and rising threats to populations and ecosystems alike.
- **Desertification:** Countries in North Africa and the Middle East, such as Egypt, Algeria, and Jordan, face desertification challenges, leading to the degradation of arable land and threatening agricultural markets and food security.
- **Wildfires:** Forest fires have become a growing concern in several of these countries, like Turkey and Algeria, which have witnessed significant wildfires that have caused ecological damage and posed risks to livelihoods and human settlements.

The rationale for a massive scaling up of Takaful is therefore a simple one: in tens of thousands of Muslim communities around the world, financial resilience is pitifully low, leaving millions of families bearing on their shoulder the financial impact of rapidly rising risk and increasingly frequent and severe hazards and shocks.

The UNDP ambition is to work with partners to build a wall of financial protection against rising risk.

	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

Takaful - A Solution to the Absence of Financial Resilience

Numerous countries with sizable Muslim populations often encounter an additional hurdle due to insurance being perceived as conflicting with religious and socio-cultural norms. Traditional insurance models clash with the religious principles of Muslim communities due to perceived elements such as ‘Riba’ (interest), ‘Gharar’ (uncertainty), and ‘Maisir’ (gambling) in insurance products or claims, which contravene shariah practices. Consequently, many Muslim households and businesses remain outside the insurance sphere.

As climate change amplifies global hazards, Takaful holds substantial potential to provide shariah-compliant risk protection where it is most crucially required. 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. 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.

In this context, Takaful offers an Islamic alternative to insurance. 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. Key features that resonate with Islamic beliefs encompass:

- Establishment of community risk pools as opposed to individual insurance policies;

- Surplus sharing rather than insured payouts and shareholder profits;
- Joint ownership structures accompanied by shared responsibility; and
- Shariah-compliant investments and the avoidance of prohibited activities.

The range of options for the development of Takaful solutions is almost limitless, with both insurance market and sovereign possibilities across all aspects of live and living, with solutions including:

- Protecting of sovereign and public infrastructure and assets;
- Health risk coverage against medical emergencies for low-income households in post-disaster situations;
- Households and family asset protection from various hazards, such as flooding, earthquake and fire;
- Crop and livestock risk protection for small-scale farmers, furnishing resilience against climate-induced perils like droughts and floods; and
- Business loss protection for micro and small enterprises confronting disasters.

Some of the specialized Takaful products, distributed through innovative channels (such as Islamic microfinance institutions and agricultural service providers) and paired with elevated financial literacy, are of paramount importance in countries grappling with escalating vulnerabilities and substantial Muslim populations. And there are foundations to build upon, such as the increasing awareness of Islamic financial services, the slow but steady alignment of Takaful into traditional insurance regulatory frameworks, the potential for digitally delivered insurance, and the obvious need to rapidly build financial resilience, that communities and countries see with each and every shock.

Takaful, an often-overlooked cornerstone of financial resilience, holds immense potential that must be harnessed on a larger scale. While the growth of shariah-compliant assets is expected to soar, reaching a global total of US\$5 trillion by 2025, the Takaful sector lags within the expansive realm of Islamic finance, currently representing only 2% of the overall assets. And even while the global Takaful market is poised to grow, with a projected total market volume of \$97 billion by 2030, some single insurance companies write that value in premium every year. Takaful remains a vastly underutilized tool for financial resilience.

UNDP's Takaful Engagement

UNDP's work in Takaful is driven by the aspiration to capitalize on the significant untapped potential of this avenue for financial resilience and address this most urgent requirement: the susceptibility of developing nations with substantial Muslim populations and marginalized communities to escalating risk, and the hazard and shock that ensue. Given the mounting challenges faced by these countries and their fragile populations, who often lack financial preparedness, enhancing the availability of shariah-compliant risk protection through Takaful can effectively bolster the resilience of households, farmers, business and countries. UNDP's work in this space will therefore look to confront mounting risks, diminish crises, and stimulate growth within underserved segments. This work is structured along three pillars:



1. **Developing the Enabling Environment:** By constructing supportive regulatory frameworks and fostering stakeholder competence, a fertile ground will be cultivated for the flourishing of inclusive Takaful solutions and sustainable business models. The following are some detailed undertakings within this sphere:
 - Executing diagnostic analyses to uncover regulatory and competency impediments hindering Takaful adoption;
 - Formulating frameworks that facilitate Takaful integration into national policies and planning while enhancing stakeholders' capacity;
 - Extending technical guidance to develop legal frameworks, guidelines, and reporting standards that facilitate Takaful market growth;
 - Augmenting the proficiency of Takaful overseers through training focused on regulatory supervision and analysis;
 - Integrating Takaful into national strategies encompassing development, public financial management, climate adaptation, and financial inclusion.
2. **Developing Innovative Risk Transfer Solutions:** Collaborations with the Takaful industry will give rise to customized Takaful products catering

to the necessities of underserved groups, thereby propelling the adoption of solutions at the sovereign and mass-market levels. The subsequent activities will contribute to this endeavor:

- Build the capacity of Takaful providers to develop and distribute increasingly relevant financial resilience solutions.
- Nurturing tailor-made, budget-friendly solutions to fulfill risk protection requisites of vulnerable Muslim populations;
- Identifying gaps in risk protection for crucial demographics, including farmers, women, and micro-enterprises;
- Devising customized Takaful products targeting health, crop, livestock, and business coverage;
- Enhancing Takaful accessibility through partnerships with distribution networks;
- Executing campaigns to enhance financial literacy and strategies to kindle consumer awareness and demand.

3. Accelerating Systemic Change Through Advocacy, Research and Evidence: A blend of research, advocacy, and engagement will kindle awareness about Takaful's benefits and catalyze shifts toward equitable climate resilience. The ensuing activities are designed to bring about these transformations:

- Publishing research founded on evidence and case studies that underscore Takaful's potential to foster development and climate justice;
- Championing the cause for integrated policies and public financial allocations that invigorate Takaful markets;
- Cultivating alliances spanning private industry, communities, and civil society organizations to broaden support for Takaful;
- Executing campaigns that raise consumer awareness and media efforts that disseminate knowledge about Takaful.

This comprehensive approach will surmount obstacles on both the supply and demand fronts. By cultivating an enabling atmosphere, rendering Takaful solutions attainable, and influencing public perceptions and policies, the Alliance is primed to unlock the potency of Takaful and the broader principles of Islamic finance. This, in turn, will empower nations and communities to confront climate risks and realize sustainable development objectives.

Why UNDP

Insurance and risk finance are increasingly a priority for many nations adapting to recurring climate and other shocks, and minimizing economic and livelihood losses. Delivering on such ambition requires extensive trust, expertise, sovereign relationships management and convening efforts to create a platform where capacity, expertise, lessons learned, resources, innovations and existing efforts are leveraged and shared to develop and deploy the right solutions for the right contexts, while ensuring that the work is integrated into long-term development policies. This is the work of UNDP, translating global action into country delivery.

- **Trusted Actor and Convenor Across All Countries:** UNDP works as trusted partner and country-level convenor to more than 170 developing countries, in fragile states, Least Developed Countries, Small Island Development States and the fastest growing of middle-income countries. Working at senior levels across government and civil society, UNDP brings together empowered national actors from across communities to deliver on shared objectives.
- **A Focus on Governance and Ministries:** The development of long-term sustainable insurance markets is dependent on the right country-specific legislation, regulation, and institutional capacity. Developing such governance is a central aspect of all UNDP's work at the country level. UNDP teams work directly at leadership and senior technical levels in key ministries relevant to Takaful development, such as finance, environment, planning, agriculture and disaster management.
- **Training and capacity building for the financial services industry and governments:** UNDP's IRFF delivers training of core aspects of insurance and related work across its portfolio, building the capacity of UNDP Country Offices, government ministries and agencies, as well as local insurance companies. This training covers insurance, sovereign risk financing, integrating insurance into development, insuring natural capital, and insurance and investment.
- **Integration into Development and Climate Action:** UNDP's IRFF supports countries to integrate risk financing and insurance into decision-making through public-financing management, Integrated National Financing Frameworks (INFF), Nationally Determined Contributions, and National Adaptation Plans.

- **Needs-Based Approach to Disaster Risk Finance and Insurance:** UNDP, through the IRFF, undertakes a comprehensive diagnostic assessment of every country it begins to work. The diagnostic is a detailed examination of the current environment for insurance and risk finance, across both supply and demand elements, as well as the underlying risk and development dynamics in the country – it helps ensure that ensuing work is needs-based.
- **A Track Record for Leveraging Public-Private Partnerships Towards a Shared Goal:** UNDP has a strong track record in bringing stakeholders from public and private insurance sectors together to support countries' development objectives. The Tripartite Agreement, a unique public-private partnership, brings 17 of the largest companies in the world together with UNDP to tackle both immediate climate risk and long-term risk financing, and will build the financial resilience of a minimum of 64 million people.
- **Central Role in the Insurance and Development Community:** UNDP has played a central role in the creation of the insurance/development community and has a unique set of partnerships. UNDP co-founded and co-chairs the Insurance Development Forum (IDF) . UNDP is an original member of the InsuResilience Global Partnership and a founding member of the Ocean Risk and Resilience Action Alliance (ORRAA), and sits on its governance council, and has programmatic partnerships with the MicroInsurance Network and ICMIF. The Sustainable Insurance Forum (SIF), that brings together the world's insurance regulators, is also managed by UNDP.



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Resilient nations.



**Together,
we can achieve more**

