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The title I have been given – “Laying the foundations for growth” – is a fascinating one, signalling as it does that these foundations are not yet in place, that there is still basic work to be done if Takaful is to succeed. Let us examine this proposition.

Takaful was for some time the poor relation of the modern Islamic finance movement. The initial focus of that movement was largely Islamic banking. It was followed by the Islamic securities market, which is still the main focus for many of those jurisdictions coming new to Islamic finance.

Although truly reliable figures are hard to come by, the Ernst & Young report launched at this conference last year estimated total Takaful premiums in 2006 at $2 billion, with a 20% a year annual growth rate. But global insurance premiums in the same year were estimated at $3.7 trillion. I had to prepare this speech before seeing this year’s report, but it is clear that, even if Takaful can maintain its stellar growth rate, it will have a long way to go before it accounts for even 1% of global insurance premiums. The next session will be interesting from that perspective!

Of course there are countries and sectors where Takaful occupies a far more prominent position, and I certainly do not want to belittle either the extraordinary growth rates that have been achieved, or the potential market, especially if insurance penetrations in the main Muslim countries were to rise to the levels of Europe or the US. But it is clear that we are dealing with an industry with a lot of growing still to do.

That growth will inevitably be impacted by the financial crisis. Although the Muslim countries, and the Islamic finance sector generally, have felt less direct impact from sub-prime and the excesses of the credit markets, they cannot be entirely immune to a world recession which will mean less money available for saving through family Takaful, and fewer major projects which may be insured through general Takaful. But in the case of the Takaful industry in particular, it is appropriate to look to the longer term, and how growth may be secured for the future.

It is also appropriate to note how far we have come, not simply in financial terms but in terms of the foundations of the industry. When the DFSA was first becoming engaged with Takaful, some 6 years ago, there was wide debate about its structures, the Shari'a basis, and the contracts that should govern the relationships between contributors and shareholders. Although these debates have not entirely ceased, there is now substantial convergence on the model of one or more Takaful funds embedded within a shareholder company, on Wakala as the preferred contract to govern management of the underwriting activities, and Mudaraba to govern the investment activities. I certainly do not want to suggest that there are no other possibilities, only to observe that this *de* *facto* convergence by the industry has laid an important part of the foundations for regulators and standards-setters.

Those bodies have also come a long way. Some of my colleagues can remember the first seminar on the regulation of Takaful, in Jordan in 2005, and the Joint Working Group of the IAIS and IFSB to which it led. At that stage, even understanding the issues was difficult. Now we have an IFSB standard on governance in Takaful almost ready for adoption, and work well advanced on a solvency standard.

Again, just a few years ago one of the big issues seemed to be the shortage of Retakaful capacity. Now we are much more likely to hear complaints from Retakaful operators that their capacity is not being used.

So what is left to do? I have to address this question as a regulator. There are of course things that Takaful firms and their managers need to do in developing their business models, their distribution networks, the skills of their staff. There are perhaps things that governments need to do in opening markets so as to allow firms to realise economies of scale. I am sure that others will address these better than I could do.

From the market point of view, one important foundation element concerns investment opportunities. All studies of the investment profiles of Takaful firms show that they have higher proportions of equities and higher proportions with banks – often related banks – than their conventional counterparts. The missing component is, of course, bonds, reflecting the relative scarcity of

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sukuk and the lack of liquidity in sukuk markets. This is now one of the key problems for the Islamic finance industry. The fundamental need is, I suggest, to find tradable instruments of a wide range of durations, offering stable returns and commensurate levels of risk. I state the problem in this form because, while sukuk have so far imitated the conventional bond markets as closely as they can, in substance if not in form, it may be that this is not the only way to go.

In the area of standards development, I believe we are making good progress. But international standards are effective only if they are implemented nationally, and then applied by effective regulators. Here I am less confident. Even in the conventional world, insurance regulation has tended to lag that of other financial services, and it is easy to look around the world and find regulators, and regulatory regimes, that are by any modern standards inadequate. It is hard to see how those regimes will cope with the newer challenge of Takaful. Indeed, even among those countries with relatively advanced regimes and significant Muslim populations – like my own – I see few that are even thinking seriously about Takaful. There are some honourable exceptions, but I still fear that five years hence we shall still have only a very few jurisdictions that have seriously addressed the issues of regulating Takaful. The DIFC will of course be one of them. We have a modern insurance regime, we have thought very hard about Takaful, and we are heavily involved in standards development. But how many others will there be?

There is also one fundamental challenge, for both the industry and its regulators. This is to retain the distinctiveness of Takaful, within a commercially viable model. As I have been learning about Islamic finance, I have encountered quite a lot of scepticism, even from people in the region, that it is nothing more than conventional finance with some added smoke and mirrors. I am not sure this is fair, but if it comes to be true, if Islamic finance becomes economically identical with conventional finance, then I believe in the long run it is doomed. The Muslim community will see through the smoke and mirrors and, having seen through them, will no longer pay the additional costs that they imply. So it is important that Takaful retains its distinctive character, which rests on two things. One is a Shari'a compliant investment programme. The other is mutuality, which is essential to overcome the objections that scholars saw to conventional insurance, and it is this element that is hard to maintain within a modern commercial structure. But if the industry forgets what makes it different, or if we regulators try to force Takaful too tightly into a conventional mould, we shall have done it a disservice. Then the foundations for growth will not last.

I wish you a very successful conference.