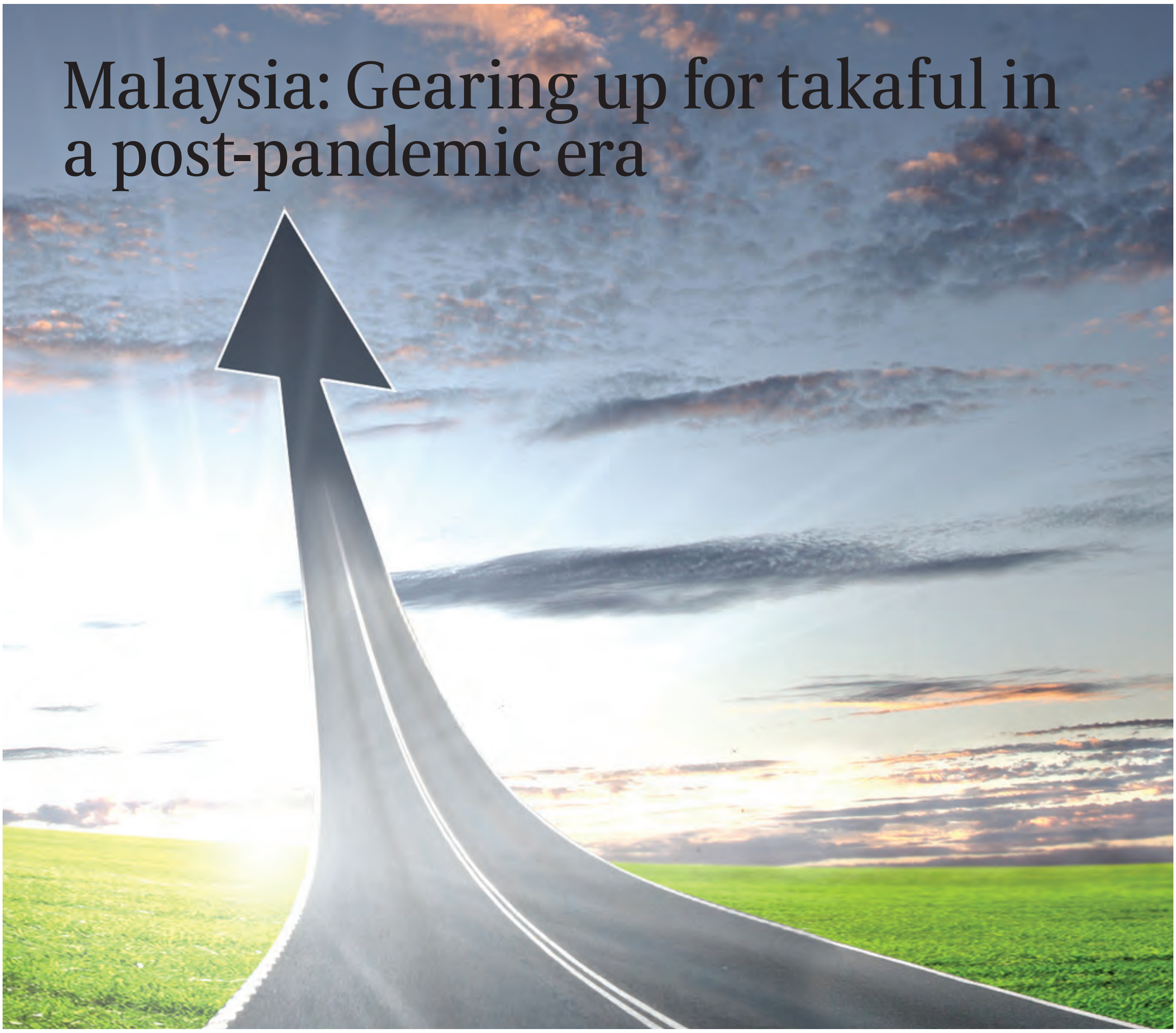
Malaysia: Gearing up for takaful in a post-pandemic era



Ms Ruslena Ramli of **RAM Ratings** outlines the opportunities for the takaful sector at a time when financial inclusion is more important than ever before.

Against the backdrop of an economy and environment that has seen remarkable changes and challenges within a short span of time, the unique market challenges have unveiled a silver lining against market adversities. The repercussions of COVID-19 and the rise of Islamic FinTech are breathing new life into the opportunities takaful can bring in progressing the country's Islamic finance landscape.

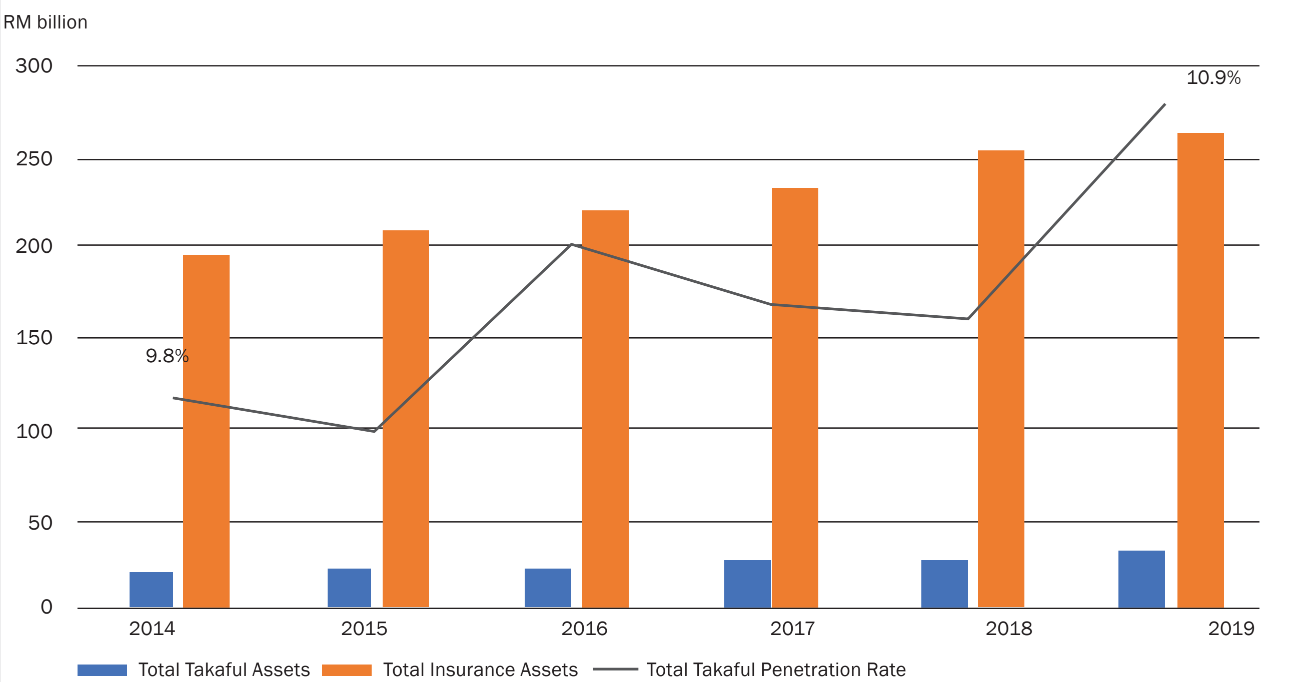
In 2019, total combined takaful assets grew by 8% to MYR31.4bn ($7.6bn), against MYR29.3bn in the prior year, reflecting a penetration rate of 10.9% vis-à-vis total insurance assets of MYR270.3bn. This was in line with the growth in assets for family and general takaful, which increased to MYR27.6bn in 2019 from MYR25.6bn in 2018 and MYR4.24bn from MYR3.76bn, respectively, according to the Malaysian Takaful Association (MTA) 2019 annual report.

Comparatively, takaful has been growing faster than the conventional insurance industry albeit the smaller base effect, charting an average growth rate of 9% versus conventional insurance's 6% growth rate. Within the family takaful segment, the top three operators by total assets comprised Etiqa Family (June 2019: MYR13.81bn), Syarikat Takaful (June 2019: MYR7.09bn) and Takaful Ikhlas (June 2019: MYR4.08bn). Similarly, for the general takaful market, Etiqa General leads with total assets of MYR3.64bn at end-June 2019, followed by Syarikat Takaful MYR1.55bn and Zurich General MYR1.07bn.

New business contributions growing

In line with the government's initiatives for affordable takaful/insurance, the

Figure 1: Growth of takaful assets against conventional insurance assets and penetration rate



Source: Malaysian Takaful Association Annual Report 2019

Table 1: Top three family takaful operators by total assets and net contribution

Operators	Jun 2019 Total assets (MYR bn)	Operators	Jun 2019 Net contributions (MYR bn)
Etiqa Family	13.81	Syarikat Takaful	0.91
Syarikat Takaful	7.09	Prudential BSN	0.87
Takaful Ikhlas	4.08	Etiqa Family	0.85

Source: Takaful Insight 2020, RAM Ratings, April 2020

Table 2: Top three general takaful operators by total assets and net contribution

Operators	Jun 2019 Total assets (MYR bn)	Operators	Jun 2019 Net contributions (MYR bn)
Etiqa General	3.64	Etiqa General	646.47
Syarikat Takaful	1.55	Zurich General	246.70
Zurich General	1.07	Syarikat Takaful	232.06

Source: Takaful Insight 2020, RAM Ratings, April 2020

MySalam scheme was introduced in January 2019. This resulted in new business (NB) contributions in family takaful rising to 25% in 2019. MySalam is a national family protection scheme for the bottom 40% (B40) income group which was recently expanded in 2020 to include the middle-income segment (M40). Exclusion of the scheme would still have seen NB contributions rising 16% y-o-y, on the back of credit-related takaful products such as mortgage reducing term takaful as several large banks continue to pursue their 'Islamic First' agenda that prioritises the expansion of Islamic financing over conventional loans.

Overall, despite the expectations of a slower business performance in 2020, takaful operators' strong capitalisation levels are believed to be supportive to withstand a protracted low interest rate environment and if the negative duration gap between assets and liabilities widens.

However, the economic impact of the health crisis, while severe, is viewed as temporary and gradual recovery is expected by year-end. Solidarity measures took precedence in April 2020 which saw the Life Insurance Association of Malaysia, Persatuan Insurans Am Malaysia and the MTA pledging a total of MYR8m to establish a special relief fund to support the Ministry of Health's efforts to conduct more COVID-19 tests for Malaysians.

Closing the protection gap

To date, challenges remain. Lack of awareness and low penetration rate (ie, roughly half of the Malaysian population have yet to obtain protection) continue to beleaguer the takaful industry's full progression. Concerted efforts by regulators and market players are ongoing to address the takaful inclusion gap via digitalisation and technology adoption.

According to Bank Negara Malaysia (BNM), almost 90% of Malaysians are internet users, and more than half of these users conduct banking and financial activities. Hence, significant inroads in providing new solutions going forward has become a key strategy to enhance takaful's value proposition. For example, 14 leading insurers and takaful operators have partnered with Grab to offer usage-based motor insurance for its ride-hailing drivers, starting August 2019.

To move the industry forward, BNM has outlined three

Takaful Feature

dimensions that offer significant opportunities for the transformative role of takaful:

1. Takaful as a key enabler for the Muslim economy

The global halal market is expected to reach $9.7tn by 2025, while global Islamic finance assets have already surpassed the projected $2tn mark. This turning point presents significant opportunities for the takaful industry to provide protection and risk management solutions. While the number of global takaful operators has risen to 306, the global takaful industry still accounts for less than 1% of the global insurance market.

Hence, digital connectivity to a growing Muslim population with growth rates expecting to outpace the non-Muslim population will facilitate faster dissemination of product awareness, reduce costs, and gain greater economies of scale on the deployment of takaful solutions.

2. Takaful as a solution of choice for Malaysians

Grounded based on the values of mutual assistance and solidarity, the takaful industry has the advantage to position prominently its business model. Unlike conventional insurance, which is premised on the buying-and-selling of risks at a premium, takaful advocates risk-sharing mechanisms and greater consumer participation with possible rewards in the event of no claims; this can be appealing to many customers.

The underlying mutuality principle allows for exploration of innovative business models that can constructively disrupt the existing risk-transfer modality. Coupled with the application of value-based intermediation solutions, it is a step forward in gaining greater traction to distinguish takaful's business offering. The stewardship that the takaful industry can offer an innovative impactful financial protection solutions and develop framework of business practices that are solidly grounded in fairness and sustainable principles will facilitate future business prospects.

3. Takaful as a game-changer in empowering financial resilience

The government's Shared Prosperity Vision 2030 advocates a balanced and inclusive growth where the takaful industry is well-placed to infuse social finance contributions. The B40 and now some M40 have limited disposable income to acquire protection, let alone support the increasing living costs.

Objectively, the issue of affordability requires long-term solutions at the national scale to broaden measures to grow people's incomes. In the interim, social finance can be used as a vehicle to bridge this gap. According to BNM, the integration of social finance instrument in takaful solutions in a more structured and scalable manner can have transformative impact in making financial protection more affordable for society.

Waqf, sadaqah and zakat are examples of social finance instruments which can be embedded in the design structure of takaful products. Mainstreaming the integration of social finance can unlock commercially viable financial protection to be extended to those who are most vulnerable in our society. This is definitely a unique value-added feature that can drive innovation in the area of inclusive protection.

Different models and practices

On the international front, according to the ICD-REFINITIV Islamic Finance Development Report 2019, assets held by the global takaful sector totalled $46bn in 2018, unchanged from the year before. By market share, Saudi Arabia has the largest takaful market, with total assets of $15bn (market share: 32.6%), followed by Iran with $13bn (28%) and Malaysia with $9bn (19%). General takaful (primarily health and motor insurance) forms a large slice of the pie (in GCC and MENA region). Nevertheless, in Southeast Asia (particularly Malaysia, Indonesia and Brunei), family takaful provides a significant portion of the takaful industry.

Comparing Malaysia to the GCC markets, the former has a captive population, a well-developed Islamic banking and finance ecosystem, supportive healthcare system and a sound pension industry which feed into a developed family takaful and life insurance industry. Tax rebates provide further stimulus to procure life insurance, contributions to pension retirement schemes, children education policies, etc.

On the other hand, the GCC region has a substantial expatriate community which does not have the benefit of a pension scheme. Hence, unsurprisingly family takaful is comparatively small while general takaful is mainly driven by health and car insurance due to mandatory regulation. It is worth noting that an expatriate is unable to renew his residency permit without getting health and car insurance. This sheds some light to the contrasting model between the GCC and Malaysia.

Technology a catalyst for growth

Most industry observers are in agreement that the digital age will be the catalyst to fuel takaful's future landscape. That said, the emergence of InsurTech has made headways as a means to increase cost efficiency, expediate product distribution, enhance new business generation and product innovation.

In August 2019, a number of GCC takaful operators jointly started to develop an integrated blockchain platform in cooperation with InsurTech startups. This platform is designed to streamline transactions between takaful and conventional insurance companies and allow them to settle outstanding claims and payments among each other digitally. The technology aims at allowing insurers to manage and reduce costs as claim response times are slashed from days to minutes, and the overhead costs required to handle claims by 30%.

Likewise, Islamic FinTech will streamline takaful's digital footprint by providing better connectivity, development of competitive and diverse range of takaful products, customised pricing and bridge the last mile to uninsured customers. The stark reality post COVID-19 has compounded the impact of the digital age beyond just our daily lives but a holistic view to every aspect of savings, finance, as well as protection schemes.

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