TAKAFUL

Takaful associations collaborate to grow expertise

L-R: Mr Pooba Mahalingam, Dr Mohamed Rafick Khan and Mr Amitabh Singh

Takaful operators in Malaysia and Indonesia have recorded stable growth over the past year. However, they face challenges getting the right talent and expertise to scale their operations. Speakers at the Takaful Rendezvous 2023 shared their insights on how to grow the industry.

By Nadhir Mokhtar

Malaysia's takaful industry has been promoting values-based intermediation to spur innovation and support the development of takaful. While the takaful market in Malaysia has experienced growth in the past year, operators face challenges to innovate and scale their business.

"The size of the takaful industry has expanded nearly three times from where it was a decade ago. The growth is propelled by the growing public awareness of takaful products and a supportive Islamic finance ecosystem.

Mr Suhaimi Ali

"It is also facing critical challenges in attaining expertise to scale and find the right business model. These challenges have become roadblocks for the industry to be on a better footing to resolve the social protection landscape and facilitate an orderly transition to a green economy," said Bank Negara Malaysia assistant governor Suhaimi Ali speaking at the Takaful Rendezvous.

He said there are more than 330 takaful operators in 47 countries worldwide. Global takaful assets are estimated to be worth $73bn, almost double compared to 2015.

"Attaining greater market maturity is still a long process as the current takaful share is a modest 1% relative to the global insurance market," he said.

Focusing on values

He said takaful operators should introduce values-based products to meet the socio-economic needs of the country.

"An important outcome that we hope to see is greater availability and accessibility of takaful products that serve protection needs of the society," he said.

Mr Ali also spoke about how takaful operators should remember the importance of abiding by the objectives of shariah.

"The integration of shariah principles and values-based intermediation in managing takaful funds is not only expected but crucial for the industry advancements," he said.

However, requirements imposed by the regulator can be challenging for takaful operators to follow.

"Following Islamic financial principles is easy but it has been regulated in such a way that it has become very descriptive. As a result, there's an added cost to takaful companies because they must have a separate line of governance on Islamic finance principles," said industry consultant and former Munich Re CEO Mohamed Rafick Khan.

He said takaful companies must be allowed to use different models and not be restricted to the existing wakalah model.

"We need to find a structure that supports the companies' products operationally and is efficient from a tax and capital perspective ... Many are struggling because of technical and structural issues to achieve a cost-efficient operation. The regulator (faces challenges) in finding a way forward in unwinding past insurance processes," he said.

Digital sandboxes

Mr Ali said takaful operators should make use of digital technology and the environment provided through Bank Negara's regulatory sandbox. Through such initiatives, the regulator said it is keen to facilitate innovative business models by new entrants as well as incumbents.

"More countries are working on the necessary regulations to enable the capital offerings and growing contribution of the sector," he said. Takaful players in Malaysia need expertise and capabilities that provide the capacity to support the growth and expansion of the takaful industry in other markets.

Collaboration across borders

Takaful associations in Malaysia and Indonesia are collaborating to share knowledge, conduct joint training programmes, exchange data intelligence and provide consultations on matters related to Islamic finance and takaful.

An agreement was inked by the Malaysian Takaful Association (MTA) and Secretariat of Asosiasi Asuransi Syariah Indonesia (AASI) on 27 September to begin these initiatives. The event was held during the Takaful Rendezvous.

MTA CEO Radzuan Mohamed said the agreement aims to facilitate knowledge exchange and transfer of technical expertise and establish relationships with international takaful and shariah insurance businesses. There will also be a focus on Islamic finance in research and improving scientific relations with academic institutions through joint journals, conferences and workshops.


L-R: Messrs Radzuan Mohamed and Marcel Omar Pap, Prof Dr Younes Soualhi and Mr Mohd Asri Omar

"Another significant area of this MoU will also include introducing and promoting value-based intermediation in takaful internationally," he said.

AASI chairman Rudy Kamdani said the agreement is a step forward in refining the potential of takaful and Islamic finance not just within ASEAN but globally.


Mr Rudy Kamdani

"We believe that this collaboration would benefit both associations, as we all know Malaysia has been at the forefront of the development of takaful and is known to be a hub for Islamic finance best practices and knowledge. Hence, this can create more opportunities between both parties," said Mr Kamdani.

Takaful in other markets


Mr Neelmani Bhardwaj

The event also invited speakers from other countries to share their experience and insights on takaful. Speaking at panel discussion about lessons learnt across markets, Takaful Oman Insurance CEO Neelmani Bhardwaj said that the COVID-19 pandemic helped raise the awareness of takaful in Oman.

He said growth of takaful in the country was slow prior to the pandemic and was driven primarily by the growth of the banking sector.

"I think COVID-19 accelerated (the growth of takaful). People who were just buying compulsory insurance products like motor or loan related insurance for mortgage portfolios started moving towards buying family takaful and health insurance products. I think that was the time when we started investing in digital solutions," he said.

While the first hurdle of awareness has been overcome, he said the next step would be to convince potential customers that their products are compliant to shariah.

"Education (about takaful) is still limited. Muslims are still not fully convinced (on shariah compliance) but I think the acceptance is much higher and the catalyst for that was the post COVID-19 era," he said.

He said the Capital Market Authority of Oman has kept pace with regulations and has the advantage of looking at examples of neighbouring markets in the GCC with more experience in takaful.

"They have brought in better and stricter regulations. We found some of them very onerous but we find that it's conducive and they're open for dialogue. They are open to giving us time to implement some of the elements of solvency. For example, in Oman, we have fund-based solvency and they are willing to listen to what our challenges are in maintaining financial solvency. I think that that gives a good impetus.

"Recent IPOs are attracting shariah investments, and those open opportunities for takaful companies to enter the P&C lines, where the net margins are going to be very low but at least they're going to help us tap into international markets for retakaful. The retakaful markets will start looking at Oman a little more," he said.

The Takaful Rendezvous 2023 was held from 26 to 27 September in Kuala Lumpur, Malaysia, organised by *Asia Insurance Review*.