

Making takaful fit for the new world



(L-R): Mr Mohd Zabidi Md Nor, Mr Ahmad Rizlan Azman, Mr Jon Guy, Ms Na Jia and Mr Adam Brzozowski.

The Takaful Rendezvous focused on getting takaful operators to better engage the Gen-Y segment including using technology to better understand and serve the needs of customers.

By Ridwan Abbas



Up to 40% of SMEs in Malaysia are interested in buying takaful cover for their insurance needs, according to a survey by Bank Negara Malaysia.

Mr Zabidi Md Nor, Director, Islamic Banking & Takaful Department at Bank Negara Malaysia, said takaful operators in the country needed to be more innovative to capture further business opportunities – given that 41% of new takaful business contributions in the country were concentrated on mortgage-related products.

Speaking at the recent Takaful Rendezvous 2016 in Kuala Lumpur, Mr Zabidi suggested the potential of an increased role for takaful operators in the country's SME sector.

“Our survey results indicate good business potential with 40% of SMEs in Malaysia expressing interest in purchasing takaful cover.

“The SME market is therefore an attractive business segment for takaful operators to tap into, given that SMEs are on track to contribute 42% to our GDP,” he said.

Health and retirement segments

Mr Zabidi also cited the healthcare and retirement segments as areas where takaful can potentially make a bigger impact.

In order to better equip the industry to grow in new areas of business, he said takaful operators needed to have the ability to continually reinvent itself in the face of

Highlights

- SME, health & retirement among segments cited by Malaysian regulator where takaful can make a bigger impact; and
- Help customers better understand the value of insurance to curb high lapse rates in Asia.

“stiff competition as a result of disruptive innovation”.

He thus cited three key areas to facilitate this.

Leadership, culture and value creation

Firstly, he cited the need to nurture visionary leaders within the takaful space.

“The experience of successful companies, either at home or abroad has always been associated with anticipatory and visionary leaders...who have the vision, perseverance, and courage to take bold actions. Nurturing such leadership is definitely crucial for the takaful industry if it were to survive and thrive in the age of disruptive innovation.”

Secondly, he mentioned the need to create an enabling environment within organisations for innovation to flourish.

“Open communication and open-mindedness is critical...opening up channels

where expression of ideas is greatly welcomed will empower individuals to continuously challenge themselves in making their own discoveries,” he said.

And thirdly, he highlighted the importance of creating value for customers by continually improving customer convenience and experience. In this regard, technology is an enabler to better improve customer experience, he said.

Regulations

Takaful regulations, especially those in Malaysia, was a much debated subject with a panel discussion dedicated to the topic.

Mr Zainudin Ishak, CEO of Malaysian Re commented on the slew of regulations introduced in the last few years as having an unintended effect of limiting the capacity of takaful operators to innovate, citing how huge amount of resources have been diverted towards compliance.

He said takaful operators are faced with an “infrastructure bottleneck” as they seek to put in place the necessary means to comply with regulations.

Over the last six years, Bank Negara has introduced several regulations from the introduction of risk-based capital, the Islamic Financial Services Act, The LIFE Framework for family takaful players, the requirement to split up composite licenses by 2018, and detariffication for motor and fire business.

While acknowledging the positive impact of these regulations in the long-term, Mr Zainudin however suggested for a more phased approach when introducing regulations for the largely nascent takaful sector which would allow for more “breathing space” for takaful operators.

Looking at things from another perspective, Mr Zainal Kassim, Senior Partner, Actuarial Partners said that if takaful operators operated in a similar manner to conventional insurers and are in direct competition to them, then it makes sense that the majority of regulations that apply to insurance would apply to takaful.



Mr Zainudin Ishak



Mr Zainal Kassim

In that regard, takaful operators may have to consider doing away with surplus sharing in order to compete on a more equal footing as their conventional counterparts, he said.

Know your customer

One of the more important discussions at the conference centred on the changing customer preferences and really knowing your customer.

Ms Na Jia, Head of SCOR Global Distribution Solutions, ReMark Asia Pacific, touched on how technology has changed the way consumers behave – citing how wearable devices can alter customer behaviour.

She also warned against looking at distribution channels in silos, as they are coming together fast through greater online connectivity.

Ms Na Jia also touched on the importance of helping customers better understand the value of insurance, given the fact that lapse rates in Asia were on the rise.

In a recent survey done by ReMark, she added that customers in the region ranked “brand trust” and “customer service” as being much more important than product and pricing.

Drivers of change in insurance

Technology and consumer trends was a salient topic at the event, and Mr Adam Brzozowski, Executive Director at EY, talked about how technology has spawned the emergence of peer-to-peer insurance – which is not too dissimilar to takaful – as well as the increased popularity of usage-based insurance, where premium is determined by individual behaviour, rather than the behaviour of a group of people sharing similar characteristics.

He also cited the importance of mobile phones which will move e-commerce towards m-commerce. He noted how nearly half of Asian consumers have adopted mobile commerce, posing significant opportunities for Malaysian insurers.

Mr Brzozowski added that based on smartphone penetration, internet and social media usage, Malaysia exhibited “very strong potential for digital distribution channels to succeed.”

Analytics

The use of analytics is of course an important tool for insurers today, but market players should utilise it before

a customer is acquired and not just in the post-mortem sales, noted Mr Naushad Khan, Global Practice Head – Insurance Analytics at GrayMatter Software Services.

He said a customer acquisition model can be built by understanding customer’s buying behaviour, pattern, lifestyle, preference etc. Such a model is trained on historical data and tested on new data, and the model would be reviewed periodically and calibrated again to improve prediction.

Mr Khan noted how analytics can be useful for an array of functions including pricing, customer retention, fraud detection, up-selling of products, sales forecast and social media lead generation, among others.

Malaysia prepares for detariffication

One of the major changes facing the Malaysian market is the introduction of detariffication for both motor and fire business – done in a phased approach from next year onwards.

While the current environment is one of fixed rates and regulated policy loadings and excesses, the detariffed environment will be one where pricing will be based on competition, risk based factors, loss ratio, controlled management expenses and profit.

And profitability will be depend on a company’s ability to price risks, accurately and to control expenses, said Mr Srinivasan Ramabadran, Senior VP – Insurance Products & Services, KG Information Systems.

In order to adapt to the new environment, digital transformation is key to a successful detariff rollout strategy, he said.

What is needed is a standalone pricing engine solution which is a one-stop-shop for premium computation related changes; and frameworks to build different “risk-based” pricing models, he added.

The two-day conference organised by *Asia Insurance Review* was sponsored by ReMark, EY and KG Information Systems.▲



Mr Naushad Khan



Mr Srinivasan Ramabadran