

## MALAYSIAN TAKAFUL INDUSTRY 1984-2004

In conjunction with the 20<sup>th</sup> anniversary of the takaful industry in Malaysia, this special article highlights the position of the industry after 20 years since its inception in Malaysia. It also presents an insight into the experience of Malaysia in developing a sound takaful industry as a viable alternative to conventional insurance.

*"Verily never will Allah change the condition of a people until they change it themselves"*

Al-Qur'an, Surah Ar-Ra'd, 13:11

**20 years**  
EXPERIENCE  
of Malaysian **Takaful** industry



# The Malaysian Takaful Industry - Brief Info

## What is Takaful?

Takaful is a Shariah-compliant insurance.

## The Birth of Takaful Industry in Malaysia

- The development of the takaful industry in Malaysia in the early 1980s was inspired by the prevailing needs of the Muslim public for a Shariah-compliant alternative to conventional insurance, as well as to complement the operation of the Islamic bank that was established in 1983.
- It was, to a large extent, triggered by the decree issued by the Malaysian National Fatwa Committee which ruled that life insurance in its present form is a void contract due to the presence of the elements of Gharar (uncertainty), Riba' (usury) and Maisir (gambling).
- A Special Task Force was established by the Government in 1982 to study the viability of the setting up of an Islamic insurance company.
- Following the recommendations of the Task Force, the Takaful Act was enacted in 1984 and the first takaful operator was incorporated in Malaysia in November 1984.

## Takaful Operation in Malaysia

- Participants contribute a sum of money into a common fund, which will be used to mutually assist the members against a defined loss or damage.
- A takaful operator is entrusted to manage the fund, who runs the operation commercially as a business venture for profit.
- Sources of income for the operator are from:-
  - profit from the investment of its shareholders' fund;
  - agency/wakalah fee;
  - share of investment profit of takaful funds; and/or
  - surplus of the takaful funds.

## Underlying Concepts

- **Takaful:-**
  - Derived from an Arabic word which means joint guarantee, whereby a group of participants agree to jointly guarantee among themselves against a defined loss.
- **Tabarru':-**
  - Tabarru' means donation, gift or contribution. Participant in a takaful scheme agrees to relinquish, as a donation, a certain proportion of the contribution into a takaful fund to assist other participants faced with difficulties;
  - It embraces the elements of shared responsibility, joint indemnity and mutual protection; and
  - It is the core of the takaful system that makes the uncertainty element allowable under the takaful contract.
- **Mudharabah/Wakalah:-**
  - The takaful operator is the administrator of the fund and manages the fund in trust on behalf of the participants, and the contract between the participants and the operator is governed under the contract of mudharabah (profit-sharing) or wakalah (agency);
  - Mudharabah gives the right to the contracting parties to share the profit, while liability for losses is borne by the participants; and
  - Under the wakalah model, the takaful operator earns a fee for services rendered while liability for losses is borne by the participants. The fee may be varied based on the performance of the takaful operator.

The Malaysian  
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- Brief Info

### Comparison between Insurance and Takaful

	Insurance	Takaful
<b>Contract</b>	<ul style="list-style-type: none"> <li>An exchange contract (sale and purchase) between insurer and insured.</li> </ul>	<ul style="list-style-type: none"> <li>A combination of tabarru' contract (donation) and agency or profit sharing contract.</li> </ul>
<b>Responsibility of policyholders/ participants</b>	<ul style="list-style-type: none"> <li>Policyholders pay premium to the insurer.</li> </ul>	<ul style="list-style-type: none"> <li>Participants make contributions to the scheme.</li> <li>Participants mutually guarantee each other under the scheme.</li> </ul>
<b>Liability of the insurer/operator</b>	<ul style="list-style-type: none"> <li>Insurer is liable to pay the insurance benefits as promised from its assets (insurance funds and shareholders' fund).</li> </ul>	<ul style="list-style-type: none"> <li>Takaful operator acts as the administrator of the scheme and pays the takaful benefits from the takaful funds.</li> <li>In the event of deficiency in the takaful funds, takaful operator will provide interest-free loan to rectify the deficiency.</li> </ul>
<b>Investment of fund</b>	<ul style="list-style-type: none"> <li>There is no restriction apart from those imposed for prudential reasons.</li> </ul>	<ul style="list-style-type: none"> <li>Assets of the takaful funds are invested in Shariah-compliant instruments.</li> </ul>

### Institutional Set up

- The takaful operator is allowed to conduct both general and family (life) takaful (composite business).

	1985	1990	1995	2000	2004
Number of takaful operators	1	1	2	2	4
Number of branches	-	31	42	124	133
Number of agents	-	-	1,210	4,567	16,316

### Key Indicators<sup>1</sup>

	1986 <sup>2</sup>	1990	1995	2000	2004
Contribution income	1.6	28.4	94.9	522.7	1,123.1
Family	0.6	8.4	37.0	373.0	794.4
General	1.0	20.0	57.9	149.7	328.7
Market share of insurance industry (%)	...	0.8	1.0	3.8	5.1
Assets	1.4	38.2	183.3	1,872.9	5,028.7
Family	0.6	15.5	94.2	1,542.4	4,305.1
General	0.8	22.7	89.1	330.5	723.5
Market share of insurance industry (%)	...	0.4	0.7	3.7	5.6
Market penetration <sup>3</sup>	...	0.1	0.3	2.5	5.1

<sup>1</sup> In RM million

<sup>2</sup> The first financial year-end is 1986

<sup>3</sup> Number of takaful certificates in force divided by total population

... Negligible

## Malaysian Takaful Industry after Two Decades

The Malaysian takaful industry has experienced rapid growth and transformation since its inception 20 years ago. It has grown from an industry comprising of a single player with limited basic products to become a viable industry that has been integrated into the mainstream financial system. This was achieved through the concerted efforts of Bank Negara Malaysia and the takaful operators in developing a dynamic, resilient and efficient takaful industry.

### Changes in Malaysian Takaful Industry 1984-2004

	1984	2004
<b>Operators</b>	<ul style="list-style-type: none"> <li>Sole composite operator with RM10 million capital that sets the foundation for the industry.</li> </ul>	<ul style="list-style-type: none"> <li>Four composite operators with minimum capital of RM100 million each, which enhances competition.</li> </ul>
<b>Investors/ shareholders</b>	<ul style="list-style-type: none"> <li>An Islamic bank and state religious councils and foundations.</li> </ul>	<ul style="list-style-type: none"> <li>Broad range of investors comprising private investors, banking groups, insurers and a reinsurer, with one takaful operator listed in Bursa Malaysia.</li> </ul>
<b>Government/ regulator</b>	<ul style="list-style-type: none"> <li>Setting the foundation for the introduction of takaful by providing basic regulation.</li> </ul>	<ul style="list-style-type: none"> <li>Providing enabling environment for the development of the industry and setting strategic direction in the medium and long-term.</li> </ul>
<b>Products</b>	<ul style="list-style-type: none"> <li>Limited products mainly confined to motor, fire and mortgage takaful.</li> <li>General products dominated the market with 63% share (in terms of contributions).</li> </ul>	<ul style="list-style-type: none"> <li>Broad range of product mix with sophisticated features.</li> <li>Family products dominated the market with 71% share (in terms of contributions).</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>Mainly Muslims.</li> </ul>	<ul style="list-style-type: none"> <li>Muslims and non-Muslims with different expectations, preferences and demands.</li> </ul>
<b>Distribution channels</b>	<ul style="list-style-type: none"> <li>Branches and marketing officers.</li> </ul>	<ul style="list-style-type: none"> <li>Branches, marketing officers, agency force, bancatakaful, brokers, internet and strategic alliances.</li> </ul>
<b>Investment avenues</b>	<ul style="list-style-type: none"> <li>Confined to Islamic deposits and Government Islamic securities.</li> </ul>	<ul style="list-style-type: none"> <li>Wider range of investment instruments issued by the Government and the private sector.</li> </ul>

## Malaysian Takaful Industry after Two Decades

In developing the takaful industry in Malaysia, Bank Negara Malaysia has adopted a gradual approach which can be divided into three phases:

- **Phase I (1984-1992)** started with the enactment of a dedicated regulatory law, i.e. the Takaful Act 1984 and the establishment of the first takaful operator in 1984. The primary focus during this period was the establishment of the basic infrastructure for the industry. This Act which is still in use is enacted to govern the conduct of takaful business and requires the registration of takaful operators. It also provides for the establishment of Shariah Committees to ensure that the business operations of a takaful operator are in compliance with Shariah principles at all times.
- **Phase II (1993-2000)** marked the introduction of competition with the entry of another takaful operator. This period also saw greater cooperation among takaful operators in the region including the formation of the ASEAN Takaful Group in 1995 and the establishment of ASEAN Retakaful International (L) Ltd. in 1997. This has facilitated retakaful (reinsurance) arrangements among takaful operators in Malaysia and in the region, namely Brunei, Indonesia and Singapore.
- **Phase III (2001-2010)** began with the introduction of the Financial Sector Masterplan (FSMP) in 2001 which, among other objectives, is to enhance the capacity of the takaful operators and strengthen the legal, Shariah and regulatory framework. The section of the FSMP which relates to Islamic banking and takaful is a roadmap towards realising the aspiration of Malaysia becoming an international centre for Islamic finance. This period has so far witnessed an increased pace of development and competition with the licensing of three new operators. To further promote the development of the takaful industry, the Malaysian Takaful Association (MTA), an association for takaful operators, was established in 2002. The MTA aspires to improve industry self-regulation through uniformity in market practices and in promoting a higher level of cooperation among the players in developing the industry.

### Regulation and Regulator

- Takaful business is regulated under a specific Act, i.e. Takaful Act 1984 to ensure that the business is run prudently without compromising the interest of the participants and the industry.
- Director General of Takaful (concurrently, the Governor of Bank Negara Malaysia):-
  - **Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz**  
Since May 2000
  - **Tan Sri Dato' Seri Ali Abul Hassan bin Sulaiman**  
September 1998 - April 2000
  - **Tan Sri Dato' Ahmad bin Mohd Don**  
May 1994 - August 1998
  - **Tan Sri Dato' Jaffar bin Hussein**  
1988 - May 1994
  - Prior to 1988, the takaful industry was under the purview of the Ministry of Finance.

## Malaysian Takaful Industry after Two Decades

### Chronology of Events of the Malaysian Takaful Industry

#### Phase I

**Oct. 1982** - Setting up of Special Task Force to explore the viability of setting up an Islamic insurance company.

**Nov. 1984** - Incorporation of Syarikat Takaful Malaysia Sdn. Berhad (STMB).

**Dec. 1984** - Takaful Act 1984 gazetted.

**Aug. 1985** - STMB commenced operations.

**May 1988** - Bank Negara Malaysia entrusted with the regulatory and supervisory role over the insurance and takaful industries.

#### Phase II

**Oct. 1993** - MNI-Takaful Sdn. Berhad commenced operations.

**Oct. 1995** - Setting up of ASEAN Takaful Group.

**May 1997** - Appointment of members of the National Shariah Advisory Council for Islamic Banking and Takaful.

**May 1997** - Incorporation of ASEAN Retakaful International (L) Ltd. in the International Offshore Financial Centre, Labuan.

**Nov. 1998** - MNI-Takaful changed its name to Takaful Nasional Sdn. Berhad.

#### Phase III

**Feb. 2001** - Establishment of Islamic Banking and Finance Institute Malaysia.

**Mar. 2001** - Launching of the Financial Sector Masterplan.

**July 2002** - Mayban Takaful Berhad commenced operations.

**Nov. 2002** - Establishment of the Malaysian Takaful Association.

**July 2003** - Takaful Ikhlas Sdn. Berhad commenced operations.

**Nov. 2004** - Approval in principal granted to Commerce Asset-Holding Berhad to conduct takaful business.

Commercially-driven takaful operation adopted in Malaysia has contributed significantly to the success of the industry. This approach emphasises on providing reasonable returns to the participants, takaful operator and its shareholders. It differs from the cooperative takaful concept adopted by some jurisdictions where the takaful scheme is operated purely for social purposes.

In addition, the Government's role and its continued support in developing the takaful industry has been the critical factor for encouraging growth of the Malaysian takaful industry. The Government has been able to provide a conducive enabling environment and set clear directions for the development of the industry.

### Takaful from the Perspective of Its Stakeholders

<b>Commercially-driven takaful (Takaful Tijari)</b>	<b>CONSUMERS</b>	Fulfil the demand for a number of protection and savings products at comparable cost to the conventional insurance products.
	<b>OPERATORS</b>	Able to utilise their skills and knowledge to manage and administer the takaful scheme with competitive remuneration package.
	<b>GOVERNMENT</b>	Establish takaful as an alternative to conventional insurance within the comprehensive Islamic financial system.
	<b>INVESTORS/ SHAREHOLDERS</b>	Provide reasonable returns on their investment comparable to conventional insurers.

# Key Features of Malaysian Takaful Industry 2005

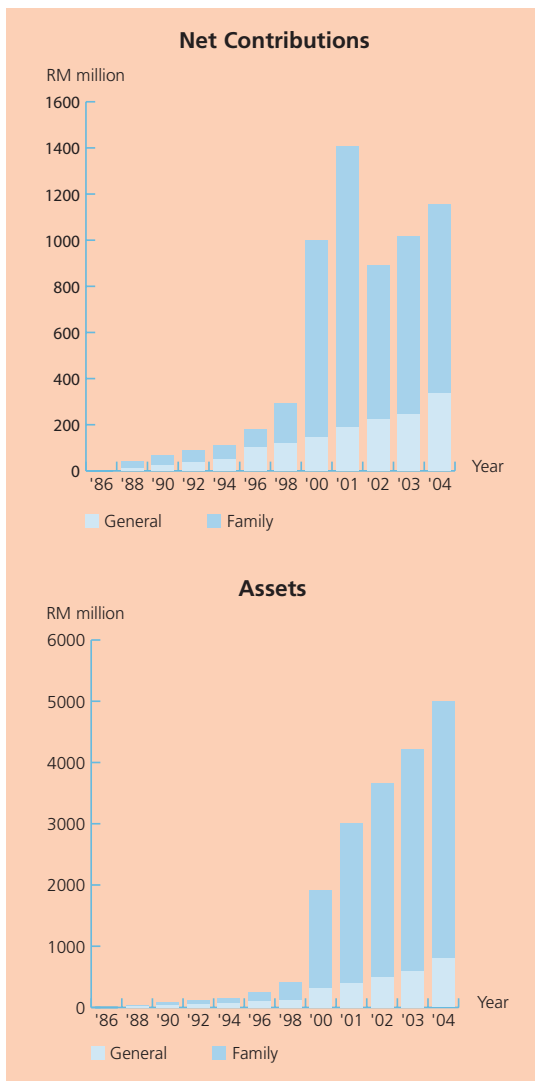
- Constant double digit growth yearly.
- Not adversely affected by financial crisis.
- Emerged among top domestic players.

### Key Points

### Viable, Progressive, Resilient

The takaful industry in Malaysia has consistently registered strong growth in the last 20 years. It has proven to be resilient in the face of intense competition from the more advanced insurance industry. The industry has recorded average annual growth rates of 57.9% and 44% in assets and net contributions respectively since 1986. The takaful industry has now reached a market penetration of 5.1%, a manifestation of growing awareness of the public on the benefits of the takaful scheme. In two decades, the strength of the takaful industry in terms of total assets of the takaful funds, has increased from RM1.4 million at the outset to RM5 billion as at end-2004. The takaful industry has proven its resilience during the period of the Asian financial crisis, maintaining a strong average annual growth rate of 61.9% in terms of assets from the year 1997 to 2000. The total net contributions for both general and family takaful businesses has also increased significantly over the same period to RM1.1 billion at end-2004. Family takaful business, which caters to the financial planning needs of the population in ensuring their long-term financial security, has expanded with its share constituting 70.7% of total net contributions as compared with only 37.5% in 1986. The favourable economic condition and expanding disposable income augur well for the family takaful business.

The current four takaful operators have achieved sustainable growth comparable with the domestic insurers. The industry has proven its viability in achieving an average return on equity of 22.1% between 2000 to 2004. Indeed, one takaful operator has emerged to be within the top five domestic players in terms of the size of the life and family fund assets in the insurance sector<sup>1</sup>.



<sup>1</sup> Comprises of 9 insurers and 4 takaful operators

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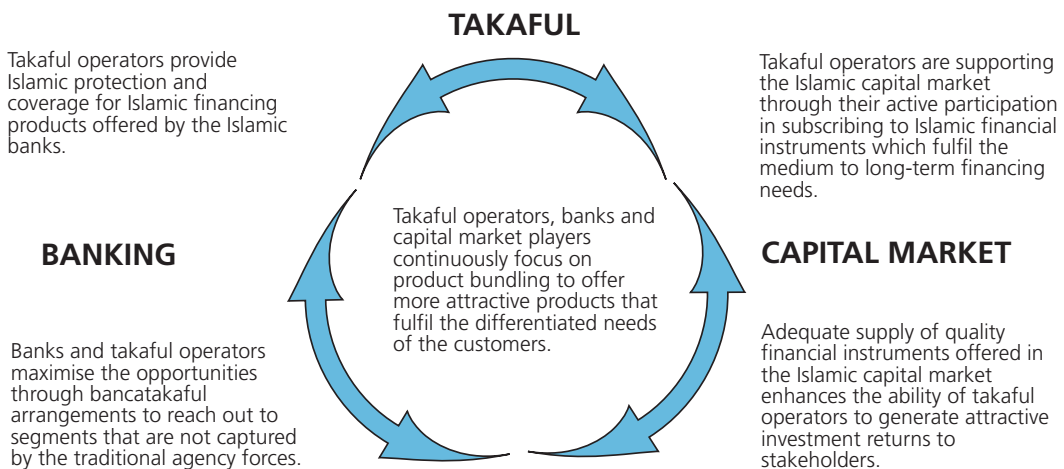
**Integral Component of Islamic Financial System**

In developing the Islamic financial system, Malaysia has taken a comprehensive approach by placing equal emphasis on all core components of the overall Islamic financial system, namely the Islamic banking, the takaful and the Islamic money and capital markets. The development of the core components in a structured manner creates synergy, thus providing a conducive environment for the Islamic financial system to be an efficient mobiliser of resources and provider of financing for productive economic activity. This enables the takaful operators to keep pace with their conventional counterparts in terms of providing competitive Shariah approved products. The comprehensive structure also enhances the resilience and robustness of the Islamic financial system to withstand financial shocks and contributes to increase the overall stability of the Malaysian Islamic financial system.

**Key Points**

- Takaful is a core component of a comprehensive Islamic financial system.
- Strong linkages among the core components create synergy and provide a conducive environment for the Islamic financial system.

**Interdependency of Market Players**



**Shariah Governance**

Bank Negara Malaysia has continuously enhanced the Shariah framework to be in line with developments in the takaful industry. This is crucial in ensuring uniformity of Shariah interpretations in efforts to strengthen the regulatory framework of the Islamic finance industry. The strong Shariah framework enhances consumer confidence and gives greater flexibility for takaful operators to be

**Key Points**

- Effective Shariah framework ensures uniformity and harmonisation of Shariah rulings.
- Shariah serves as an enabler for innovation and creativity.

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innovative within the boundary of Shariah. The structure of the existing two-tier Shariah framework is as follows:

- **The National Shariah Advisory Council in Bank Negara Malaysia**

The National Shariah Advisory Council [now known as the Shariah Advisory Council for Islamic Banking and Takaful (SAC)] was established in Bank Negara Malaysia in May 1997 with the objective of determining the Shariah rulings on Islamic banking, finance and takaful transactions conducted by financial institutions under the purview of the Bank. It has the authority to harmonise any differences of Shariah interpretation for matters within its jurisdiction. The Central Bank of Malaysia Act 1958 and the Takaful Act 1984 were amended in 2003 to reinforce the role of the SAC and provide legal recognition as the authoritative body on Shariah matters relating to Islamic banking and finance. In addition, the status of the SAC has been elevated as the reference point for the court and arbitrator in any dispute that involves Shariah issues on cases involving Islamic banking and finance.

- **Shariah Committees**

A takaful operator is required by law to establish a Shariah Committee as part of its internal governance in order to ensure compliance with the Shariah. Bank Negara Malaysia has issued the Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions to further strengthen the Shariah governance of Islamic financial institutions. The Guidelines were issued to enhance uniformity of Shariah decisions by streamlining the functions and duties of Shariah Committees in the industry with that of the SAC. The Guidelines also set the competency level for each member of the Shariah Committees in an effort to enlarge the pool of Shariah personnel competent in Islamic banking and takaful.

- Flexible models adopted with parameters drawn on Shariah principles and prudential requirements.
- Legal framework provides adequate support.

Key Points

### Flexible Frameworks

Takaful operators have the flexibility of operating their takaful business under different takaful operational models. The operational models adopted by the takaful operators are:

- **Mudharabah (Profit-sharing) Model**

Two operators adopt the mudharabah (profit-sharing) model in their business operations, with several variations in terms of treatment of management expenses, product design and the distribution channels. Under the mudharabah contract, the takaful operator acts as a *mudharib* (entrepreneur) and the participants as *rabbul mal* (capital providers). The contract specifies how the surplus from the takaful operations is to be shared between the takaful operator and the participants. Under this type of contract, losses are borne by the participants as the capital provider. However, to protect the interest of the participants, the takaful operators are required to observe prudential rules including provision of interest-free loan by the operators to the takaful risk funds in the event that there is deficiency in the takaful risk funds.

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• **Wakalah (Agency) Model**

The other two operators apply the wakalah model in their business operations. The wakalah concept is essentially an agent-principal relationship, where the takaful operator acts as an agent on behalf of the participants and earns a fee for services rendered. The fee can be a fixed amount or based on an agreed ratio of investment profit or surplus of the takaful funds.

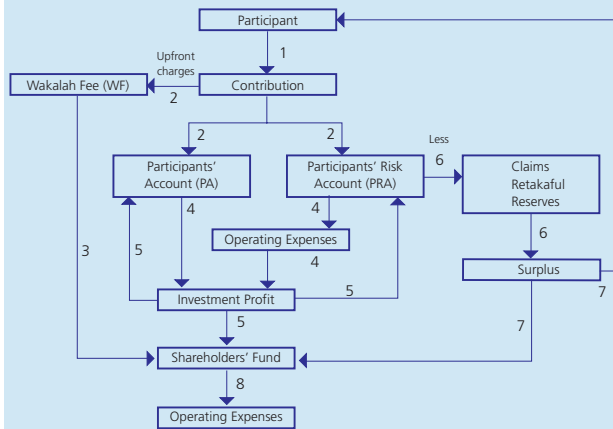
In carrying out the takaful business under both operational models, takaful operators are required to comply with the Shariah principles and prudential requirements. The takaful operators are also subject to various guidelines and circulars in the following areas:

• **Ensure adequate protection of the takaful funds**

Guidelines and circulars have been issued to safeguard the takaful funds so as to ensure that the funds are not depleted through improper usage and unsound investments.

- *Guidelines on Operating Costs of Family Takaful Business* – impose limits to control acquisition costs, improve operational efficiency of takaful operators and provide better value for contribution to participants.
- *Guidelines on Claims Settlements Practices* - specify the minimum standards for prompt and fair payment of claims as well as ensure that payment of claims is made on a timely manner.

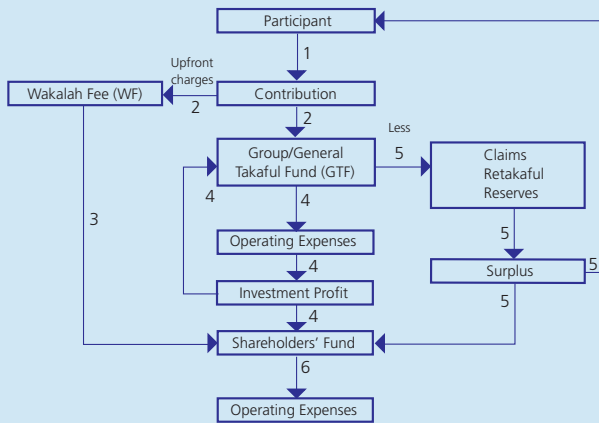
**Diagram 1: Operational Flow of Long-term Products**



1. Participant pays contribution under the scheme.
2. Depending on the model adopted by the takaful operator, the contribution will be divided into:
  - Wakalah Fee (applicable for wakalah model);
  - Participants' Account; and
  - Participants' Risk Account, also known as Participants' Special Account.
 The allocation between WF, PA and PRA is based on the pre-agreed ratio as specified in the contract.
3. WF that consists of commission and management expenses will be paid to shareholders.
4. The PA fund and excess in PRA after deducting operating expenses will be invested in assets mainly as follows:
  - Government Islamic instruments;
  - Islamic private debt securities and equities;
  - Fixed assets; and
  - Cash and investment accounts.
5. Investment profits, if any, will be distributed between the takaful operator and the fund (participant) in the form of profit-sharing or performance fee based on the pre-agreed ratio between takaful operator and participant. The amount in PA will be accumulated and paid to participant upon death, surrender or maturity.
6. The amount in PRA will be used to pay claims, retakaful and reserves.
7. Surplus in PRA at the end of the year (after deducting claims, retakaful and reserves) will be distributed to the takaful operator and the participants. The distribution of surplus will be based on the pre-agreed ratio as stipulated in the contract.
8. Shareholders will use the WF and investment profit (for mudharabah model) to pay for operating expenses.

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**Diagram 2 : Operational Flow of Short-term Products**



1. Participant pays contribution.
2. Contribution will be divided into:
  - Wakalah Fee (applicable for wakalah model); and
  - Group/General Takaful Fund.
 The allocation between WF and GTF is based on the pre-agreed ratio between participant and takaful operator as specified in the contract and depending on the type of products.
3. WF that consists of commission and management expenses will be paid to shareholders' fund.
4. Excess in GTF [after deducting operating expenses (applicable for mudharabah model)] will be invested and investment income will be ploughed back to the fund. Takaful operator will receive an agreed portion of the investment income as performance fee.
5. Surplus at the end of the year (after deducting claims, retakaful and reserves) will be distributed to the takaful operator and participants based on the pre-agreed ratio as stipulated in the contract.
6. Shareholders will use the WF and investment profit (for mudharabah model) to pay for operating expenses.

- *Takaful (Prescribed Financial Institution, Loan and Investments) Regulations 2003* - specify the investment avenues of the assets of takaful funds so as to ensure a balance between profit maximisation and prudent management of takaful funds.

- **Strengthen corporate governance and risk management practices**  
To ensure the effectiveness of overall management, takaful operators are required to observe *Guidelines on Directorship for Takaful Operators*, which govern the appointment of directors and chief executives and the setting up of board committees, including risk management committee. In addition, takaful operators are also required to observe prudential limits and conditions imposed on the outsourcing of the management of takaful funds so as to ensure that the funds are properly managed within the accepted risk management framework.

- **Enhance disclosure and transparency**  
Takaful operators in Malaysia are also subject to circulars and guidelines to ensure proper disclosure and enhance transparency to various stakeholders. By providing relevant information in a timely manner, all stakeholders can effectively play their role in ensuring prudent management of the takaful operation.

- *Guidelines on Prohibitions Against Unfair Practices in Takaful Business* - promote sound business practices

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and fair treatment to consumers by ensuring equitable contractual terms and conditions. There is also a specific restriction against misrepresentation on takaful plans.

- *Guidelines on Financial Statement for Takaful Operators* - enhance disclosure and transparency in financial statements. The Guidelines also assist various stakeholders in evaluating and assessing the financial position and performance of the takaful operators.
- *Takaful Operators Statistical System* – enhances the quality and timeliness of financial reporting by takaful operators by enabling the operators to submit their monthly and annual data to Bank Negara Malaysia via an online web-based system. It facilitates comprehensive reporting on the financial performance of the takaful operators and enables the Bank to analyse the financial data and detect any deterioration in the financial condition of a takaful operator.

### Dynamic Consumer-centric Industry

Extensive efforts have been undertaken by takaful operators in understanding the needs of different customer segments, building better customer relationship and addressing the preferences of specific customer segments. Wider range of products such as annuities, investment-linked and medical and health products are now available to meet the needs of the customers. These efforts are undertaken with the recognition that customer acceptance is key to the success of this industry.

Key Points

- Consumer acceptance is key to success.
- All players undertake integrated approach to maintain public confidence.

Objective

Approach and Detailed Actions

**Ensure Relevance**

**Expand product portfolio based on customer preferences**

- Annuity - allows participant to enjoy a fixed income after retirement.
- Investment-linked - combines takaful protection with investment in a unitised underlying portfolio of assets.
- Medical and health - covers the cost of private medical treatment, such as the cost of hospitalisation and healthcare, if participant is diagnosed with certain illnesses or met with an accident.
- Waqaf - enables participant to save regularly with the objective of accumulating a fund which may be left as donation under the waqaf system.

**Increase market visibility through vigorous consumer awareness campaign**

- Islamic Banking & Takaful Week and Islamic Banking & Takaful Expo are nationwide campaigns to promote and increase the visibility of Islamic banking and takaful through publication of articles, media events, exclusive forums and exhibition booths.
- Bank Negara Malaysia's 10-Year Consumer Education Programme, known as "InsuranceInfo" includes the publication of a series of booklets on takaful which provide relevant information to consumers about takaful products, their costs and benefits, processes and documentation involved in the takaful cycle as well as the rights and responsibilities of the various parties to a takaful contract.

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Objective	Approach and Detailed Actions
<b>Facilitate Access</b>	<p><b>Better usage of own infrastructure</b></p> <ul style="list-style-type: none"> <li>• More than 130 branches in strategic areas which cover both urban and rural areas.</li> <li>• Over 16,000 agents and marketing executives with higher qualification to market the takaful products.</li> <li>• Facilitate customers to renew takaful contract online in a timely manner.</li> </ul> <p><b>Increase synergy by using group infrastructure</b></p> <ul style="list-style-type: none"> <li>• Bancatakaful with banks within the group.</li> </ul> <p><b>Improve efficiency by capitalising strategic alliance</b></p> <ul style="list-style-type: none"> <li>• Bancatakaful with local and foreign banks.</li> <li>• Alternative distribution channel through entities with expanded reach countrywide, such as Pos Malaysia Berhad (Malaysian Postal Services) and Lembaga Tabung Haji (Pilgrims Fund Board).</li> </ul>
<b>Enhance Protection</b>	<p><b>Establish structured dispute resolution framework</b></p> <ul style="list-style-type: none"> <li>• Operator's dedicated complaint unit for first level complaint resolution.</li> <li>• Bank Negara Malaysia LINK<sup>2</sup> for second level complaint resolution.</li> <li>• Financial Mediation Bureau to provide speedy and cost effective mediation to address consumer complaints on claims up to: <ul style="list-style-type: none"> <li>• RM200,000 (motor and fire takaful)</li> <li>• RM5,000 (third party property damage)</li> <li>• RM100,000 (others)</li> </ul> </li> <li>• Dedicated division in the High Court to adjudicate all Islamic banking and finance matters.</li> </ul> <p><b>Market conduct guidelines/directives</b></p> <ul style="list-style-type: none"> <li>• Guidelines on prohibition against unfair practices in takaful business.</li> <li>• Guidelines on proper advice practices for takaful operators and agents of family takaful business.</li> <li>• Minimum standard on product disclosure and transparency in marketing medical and health takaful plans.</li> </ul>

Bank Negara Malaysia also emphasises on efforts to improve the consumer protection framework. The regulatory framework to govern market practices by financial service providers has been strengthened such as by improving minimum disclosure requirements on contributions, benefits, exclusions and limitations imposed on takaful products. To assist consumers in the event of dispute with takaful operators, Bank Negara Malaysia recently launched the Financial Mediation Bureau as an integrated dispute resolution body for banking and insurance-related matters.

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<sup>2</sup> Laman Informasi Nasihat dan Khidmat

## Key Features of Malaysian Takaful Industry 2005

### Catalyst for Global Takaful Development

On the global front, Malaysian takaful operators have undertaken additional efforts to promote and support the global takaful development. The encouraging success domestically and wider acceptability of the takaful operational models have facilitated the opening of overseas ventures by Malaysian takaful operators through equity and management participation, as well as the sharing of technical knowledge and expertise.

In line with the spirit of international cooperation, Malaysia has signed a Memorandum of Understanding (MoU) with the Islamic Development Bank to promote intra-Organisation of Islamic Conference (OIC) investment including takaful and retakaful development. Under the MoU, Malaysia has agreed to spearhead the initiative of promoting the establishment of takaful companies and the development of takaful and retakaful industry among OIC member countries. Malaysia has also taken the initiative in assisting the Developing-8 (D-8) group of countries in the establishment of takaful companies in member countries. Towards this end, Malaysia has been conducting a number of seminars and workshops on takaful as part of the efforts to share her experience and expertise to member countries. To enhance global takaful infrastructure, ASEAN Retakaful International (L) Ltd. has been identified as one of the vehicles to enhance retakaful arrangements among takaful operators in member countries.

#### Key Points

- Malaysian takaful operators are the catalyst in global takaful development.
- Malaysia spearheads the development of takaful and retakaful in D-8 and OIC countries.

### Efforts to Support Global Takaful Development

Country	Type of participation
<b>Indonesia</b>	<ul style="list-style-type: none"> <li>• Equity</li> <li>• Management</li> <li>• Information sharing</li> <li>• Technical assistance</li> </ul>
<b>Singapore</b>	<ul style="list-style-type: none"> <li>• Information sharing</li> <li>• Technical assistance</li> </ul>
<b>Brunei</b>	<ul style="list-style-type: none"> <li>• Information sharing</li> <li>• Technical assistance</li> </ul>
<b>Saudi Arabia</b>	<ul style="list-style-type: none"> <li>• Equity</li> <li>• Management</li> <li>• Information sharing</li> <li>• Technical assistance</li> </ul>
<b>Sri Lanka</b>	<ul style="list-style-type: none"> <li>• Equity</li> <li>• Management</li> <li>• Information sharing</li> <li>• Technical assistance</li> </ul>
<b>Pakistan</b>	<ul style="list-style-type: none"> <li>• Information sharing</li> <li>• Technical assistance</li> </ul>
<b>Tartarstan</b>	<ul style="list-style-type: none"> <li>• Information sharing</li> </ul>
<b>Malawi</b>	<ul style="list-style-type: none"> <li>• Information sharing</li> </ul>
<b>South Africa</b>	<ul style="list-style-type: none"> <li>• Information sharing</li> </ul>

## Future Outlook

The growth of the takaful business in the forthcoming years remains promising. This is supported by the increase in public awareness on takaful products coupled with more efficient and diversified distribution channels that will provide greater access to a larger segment of the population. The takaful sector has emerged as an important component of the financial system and has successfully integrated with the other components of the Islamic financial system. The conducive environment through the provision of a sound legal, regulatory and Shariah framework will continue to facilitate the industry in sustaining its rapid growth. Product innovation and excellent customer service will remain as key enablers for future growth of the industry. At the international front, the Government's vision of expanding takaful globally provides the impetus for Malaysian takaful operators to increase their global presence. Enhanced capacity and the availability of resources, particularly human capital, are essential in expediting the pace of progress in these efforts. For the regulator, the challenge lies in providing a conducive environment for greater product innovation while at the same time, ensuring that the risk mitigation mechanism is in place.

The endeavor to create a resilient and sound takaful industry within the sphere of a dynamic Islamic financial system, although a challenging task, has been a worthwhile experience. The efficient Islamic financial sector that culminates from this effort will contribute towards the overall economic growth and prosperity of the nation.

## List of Malaysian Takaful Operators

<b>Syarikat Takaful Malaysia Berhad</b>	
<b>Date of incorporation</b> <b>Major shareholders</b> <b>Contact information</b>	29 November 1984 BIMB Holding Berhad Tingkat 2, Blok Annex Menara Tun Razak Jalan Raja Laut 50350 Kuala Lumpur Malaysia Tel: +603 2693 3211 Fax: +603 2693 7076 Website: <a href="http://www.takaful-malaysia.com.my">www.takaful-malaysia.com.my</a>
<b>Takaful Nasional Sdn. Berhad</b>	
<b>Date of incorporation</b> <b>Major shareholders</b> <b>Contact information</b>	20 September 1993 Malaysian National Insurance Berhad Aras 14, Bangunan Dato' Zainal 23, Jalan Melaka 50100 Kuala Lumpur Malaysia Tel: +603 2612 5000 Fax: +603 2698 1010 Website: <a href="http://www.takafulnasional.com.my">www.takafulnasional.com.my</a>
<b>Mayban Takaful Berhad</b>	
<b>Date of incorporation</b> <b>Major shareholders</b> <b>Contact information</b>	22 October 2001 Malayan Banking Berhad Aras 15, Menara MaybanLife Dataran Maybank No. 1, Jalan Maarof 59000 Kuala Lumpur Malaysia Tel: +603 2297 3999 Fax: +603 2283 2277 Website: <a href="http://www.maybank2u.com.my">www.maybank2u.com.my</a>
<b>Takaful Ikhlas Sdn. Berhad</b>	
<b>Date of incorporation</b> <b>Major shareholders</b> <b>Contact information</b>	21 April 2003 Malaysian National Reinsurance Berhad Tingkat 9, Bangunan Malaysian Re No. 17, Lorong Dungun Damansara Heights Beg Berkunci 11094 50990 Kuala Lumpur Malaysia Tel: +603 2084 1000 Fax: +603 2093 1192 Website: <a href="http://www.takaful-ikhlas.com.my">www.takaful-ikhlas.com.my</a>