Malaysian Takaful Dynamics

Central Compendium 2015
Malaysia’s three decades of takaful evolution has been characterised by the steady growth of market participants, including players, agents, consumers and dedicated infrastructure capacity building. From an initial asset base of just RM$1.4 million in 1986, the asset base of Malaysia’s takaful industry has grown manifold to a staggering estimate of RM$23 billion in 2014.

MTA, as the industry’s central representative body, recognise that Malaysia’s takaful industry is yet to reach its optimal market participation level. And to foster the industry’s growth into 2020 and beyond, we will continue our commitment and focused efforts to get Malaysian takaful to lead the global takaful industry’s best practices.

We are also encouraged by Bank Negara Malaysia’s support in creating a stable and conducive environment for takaful to flourish with a resilient and robust regulatory infrastructure – including the development of the Takaful Operational Framework, Risk-based Capital for takaful and the new Islamic Financial Services Act 2013. In addition, the recently issued concept paper on Internal Capital Adequacy Assessment Process (ICAAP) for takaful operators requires active management of capital adequacy. These wide-ranging reforms will support the long-term sustainable growth of the industry with focus on enhancing governance, operating flexibility for players, technologically efficient delivery channels and sound market practices for takaful operators.

In taking Malaysia’s takaful to greater prominence, MTA will continue to organise strategic events, which encourage the sharing and exchange of knowledge including, Global Islamic Finance Forum, The Takaful Rendezvous and the like.

It gives us great pleasure to launch this Central Compendium on Malaysian takaful which marks MTA’s knowledge collaboration with EY in developing a one-stop reference publication. This Central Compendium aims to enhance industry awareness and learnings in building a strong and sustainable takaful industry.

Our sincere and grateful thanks to everyone who has contributed and shaped Malaysia’s takaful industry to be a strong and competitive industry today.

Moving forward, we hope that the years ahead will see greater collaborations between players and relevant institutions to steer the takaful industry to new heights!
Malaysia is fast gaining international recognition as an Islamic finance centre for product innovation and operational best practices.

Malaysia’s takaful market has been on a dynamic growth track, achieving double-digit growth momentum of about 19% and supported by a strong asset base of nearly RM$23 billion today. With Malaysia's lead on family takaful, there is good potential for it to expand its market reach in the region.

As an emerging industry, the takaful industry has wide scope to raise its industry performance standards to be on par with the conventional insurance industry and to accelerate the development of innovative products.

The takaful industry must also strive to deliver a positive and engaging customer experience, tapping on the latest digital platforms to access a broad base of technologically savvy customers.

In the longer term, the sustainability of Malaysia’s takaful industry will demand the adoption of best practices and rapid adaption to ICT-led catalysts/disrupters to address customer needs.

Our collaboration with MTA to develop this Central Compendium is a step towards building greater awareness of takaful’s ethical product values and industry strength.

We in EY look forward to continuing to play a key role in the development and growth of the takaful industry.

Dato’ Abdul Rauf Rashid
Country Managing Partner, Malaysia, EY
Overall, global insurance premiums command an estimated US$4.8 trillion in 2014. Life insurance premiums currently comprise over half or 56% (US$2.7 trillion) of the global insurance market. Non-life or general insurance premiums is estimated at US$2.1 trillion which is two-fifths or 44% of the global insurance market.

Global life insurance premiums grew at 4.8% over 2013 to 2014, signaling a positive turnaround post the growth contraction in life premiums over 2012 to 2013. On average, over the five years to 2014, the global life segment recorded lack luster premiums growth of just 1.3% CAGR. Growth for the global non-life segment was stronger at 3.9% CAGR. Growth for both the life and non-life segments was driven by buoyant growth in Asia's emerging markets. Over the last five years, 2010 to 2014, stellar growth was recorded in:

- China: the non-life segment grew 20.6% CAGR; and
- ASEAN: both the life and non-life segment grew an estimated 11.6% and 11.2% CAGR respectively.
Malaysian Takaful Association

Vision

- Sustainably profitable and growing takaful industry in Malaysia.
- An industry that can be trusted and recognised as contributing to society and the economy.
- An economic and public policy climate conducive to a flourishing industry.
- A trade body recognised as providing active leadership and an authoritative collective voice for the takaful industry.

Mission

To provide leadership on issues bearing on the industry’s collective strength and image and to shape and influence decisions made by the government, regulators and other public authorities, locally and internationally, to benefit the industry as a whole.

Objectives

- Promote and represent the interests of members and also the foundation of a sound takaful structure with cooperation.
- Represent the Malaysian takaful industry to government, regulators and policy makers in driving effective public policy and regulation, locally and internationally.
- Institute strategic alliances and cooperation with other similar associations both locally and internationally.
- Advocate high standards of services within the industry and provide useful information to the public about takaful.
- Promote the benefits of takaful to the government, regulators, policymakers and the public.
- Collect, collate and publish statistics and any other relevant information relating to takaful to members.
Key milestones of Malaysia’s takaful industry

- **1982**: Special Task Force established to explore viability of setting up an Islamic insurance company.
- **1984**: Takaful Act 1984 was gazetted.
- **1988**: BNM commences the supervision of the insurance and takaful industry.
- **1995**: Set-up of ASEAN Takaful Group.
- **1997**: Incorporation of ASEAN Retakaful International (L) Ltd. in the International Offshore Financial Centre, Labuan.
- **1998**: STMB and Takaful Nasional (now known as Etiqa Takaful) jointly developed a Code of Ethics for the industry.
- **1999**: Appointment of members – National Syariah Advisory Council for Islamic Banking and Takaful.
- **2000**: Establishment of IBFIM.
- **2001**: BNM launch of the Financial Sector Masterplan.
- **2008**: MNI-Takaful changed its name to Takaful Nasional Sdn. Bhd.

Source:
• Malaysian Takaful Dynamics, Special Preview edition, 2014, EY
2003
Takaful Ikhlas Bhd. commenced operations.

2004
Approval in principal granted to Commerce Asset Holdings Bhd. to conduct takaful business.

2005
Start of operational takaful licences - Sun Life Malaysia Takaful, HSBC Amanah Takaful, MAA Takaful, Hong Leong MSIG Takaful, Prudential BSN Takaful

2006
Establishment of Malaysian International Financial Centre

2008
Establishment of four Retakaful operators: ACR Retakaful Bhd, MNRB Retakaful Bhd, Munich Re Retakaful Bhd, Swiss Re Retakaful Bhd.

2009
Inter-Takaful Operator Agreement (ITA) was officially signed.
Establishment of AIA International Takaful Bhd.

2010
IFSB-8 issued on takaful governance and IFSB-10 issued on Sharia’ governance principles.
Announcement of four new family takaful licences
Establishment of Great Eastern Takaful Bhd.

2011
AIA AFG Takaful, ING PUBLIC Takaful Ehsan and AmMetLife Takaful began operations.
IFRS convergence in Malaysia, PIDM Act 2011

2012
Merger of AIA AFG Takaful Bhd and ING PUBLIC Takaful Ehsan Bhd (to be known as AIA PUBLIC Takaful Bhd.)

2013
Enforcement of Takaful Operational Framework and the revised Shariah Governance Framework

2014
IFSB-11 issued on solvency for takaful.
The new Islamic Financial Services Act 2013

2015
Internal Capital Adequacy Assessment Process (ICAAP) for takaful operators

2020
Vision

Introduction
• Industry size and growth trends
• Market highlights
• Business risks radar
• Regulatory framework
Global insurance

Buoyant premiums growth in most of Asia’s emerging markets

Overall, global insurance premiums command an estimated US$4.8 trillion in 2014. Life insurance premiums currently comprise over half or 56% (US$2.7 trillion) of the global insurance market. Non-life or general insurance premiums is estimated at US$2.1 trillion which is two-fifths or 44% of the global insurance market.

Global life insurance premiums grew at 4.3% over 2013 to 2014, signaling a positive turnaround post the growth contraction in life premiums over 2012 to 2013. On average, over the five years to 2014, the global life segment recorded lack luster premiums growth of just 1.3% CAGR.

Growth for the global non-life segment was stronger at 3.9% CAGR.

Growth for both the life and non-life segments was driven by buoyant growth in Asia’s emerging markets. Over the last five years, 2010 to 2014, stellar growth was recorded in:

- China: the non-life segment grew 20.6% CAGR; and
- ASEAN: both the life and non-life segment grew an estimated 11.6% and 11.2% CAGR respectively.

Emerging markets advances global insurance growth, life and non-life

<table>
<thead>
<tr>
<th>CAGR (%)</th>
<th>Life</th>
<th>Non-life</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>World</td>
<td>1.3</td>
<td>3.9</td>
</tr>
<tr>
<td>Advanced markets¹</td>
<td>0.8</td>
<td>2.8</td>
</tr>
<tr>
<td>Emerging markets²</td>
<td>4.3</td>
<td>9.6</td>
</tr>
<tr>
<td>ASEAN³</td>
<td>11.6</td>
<td>11.2</td>
</tr>
<tr>
<td>China⁴</td>
<td>5.5</td>
<td>20.6</td>
</tr>
<tr>
<td>India</td>
<td>-5.0</td>
<td>8.4</td>
</tr>
</tbody>
</table>

Notes:
₁Advanced markets include North America, Western Europe, Israel, Oceania, Japan, Korea, Hong Kong, Singapore, and Taiwan.
₂Emerging markets include Mainland China, India, ASEAN 5 countries (Indonesia, Thailand, Malaysia, Philippines and Vietnam), emerging and developing Europe, Latin America, The Caribbean, Middle East, North Africa, Afghanistan, Pakistan, Sub-Saharan Africa and South Africa.
₃ASEAN includes Singapore, Malaysia, Thailand, Indonesia, Philippines and Vietnam.
₄China refers to Mainland China.

Sources:
• World insurance 2011, sigma No 3/2012, Swiss Re;
• World insurance 2012, sigma No 3/2013, Swiss Re;
• World insurance in 2013, sigma No 3/2014, Swiss Re;
• Global insurance review 2014 and outlook 2015/16, Swiss Re;
• EY analysis

Total premiums: US$416.9 billion
Notwithstanding the global economic slowdown, the positive growth momentum for Asian emerging markets is expected to continue, albeit slower, reflecting reasonably strong underlying demand for insurance products.

**Chart 2: Real growth of direct premiums written in major life markets and regions, 2012-2016f**

<table>
<thead>
<tr>
<th>Year</th>
<th>Advanced markets</th>
<th>Emerging markets</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2.1</td>
<td>5.5</td>
<td>2.6</td>
</tr>
<tr>
<td>2013</td>
<td>-1.5</td>
<td>4.5</td>
<td>-0.5</td>
</tr>
<tr>
<td>2014e</td>
<td>3.9</td>
<td>9.1</td>
<td>4.8</td>
</tr>
<tr>
<td>2015f</td>
<td>3.0</td>
<td>10.4</td>
<td>4.3</td>
</tr>
<tr>
<td>2016f</td>
<td>2.8</td>
<td>10.7</td>
<td>4.2</td>
</tr>
</tbody>
</table>

**Chart 3: Real growth of direct premiums written in non-life markets and regions, 2012-2016f**

<table>
<thead>
<tr>
<th>Year</th>
<th>Advanced markets</th>
<th>Emerging markets</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1.8</td>
<td>8.5</td>
<td>3.0</td>
</tr>
<tr>
<td>2013</td>
<td>1.9</td>
<td>8.2</td>
<td>3.1</td>
</tr>
<tr>
<td>2014e</td>
<td>1.7</td>
<td>5.5</td>
<td>2.5</td>
</tr>
<tr>
<td>2015f</td>
<td>1.4</td>
<td>8.1</td>
<td>2.8</td>
</tr>
<tr>
<td>2016f</td>
<td>1.6</td>
<td>8.7</td>
<td>3.2</td>
</tr>
</tbody>
</table>

**Note:**
Real growth % refers to inflation-adjusted premium growth rates in local currency.

**Sources:**
- World insurance 2011, sigma No 3/2012, Swiss Re;
- World insurance 2012, sigma No 3/2012, Swiss Re;
- World insurance in 2013, sigma No 3/2014, Swiss Re;
- World insurance review 2014 and outlook 2015/16, Swiss Re;
- EY analysis
Global takaful

GCC and ASEAN Muslim countries drive global takaful industry

An emerging and niche segment of the broader global insurance industry, global takaful or Islamic insurance market, is estimated at US$14.7 billion in 2014.

Saudi Arabia cooperatives account for half (55%) of the share of global gross takaful contributions. ASEAN countries, namely Malaysia and Indonesia, account for nearly one-third (27%) of total gross takaful contributions, followed by other Gulf Cooperation Council (GCC) countries at 10%.

The global takaful industry is expected to grow by 10.8% CAGR into the next 3 years to reach near US$20 billion by 2017. Overall, the industry's growth momentum will be driven by the socio-economic demographics of key Islamic finance markets, including Saudi Arabia, Malaysia and the UAE. Emerging markets for Islamic finance include Indonesia and Turkey.

Profitability of takaful operators in other GCC countries continues to be undermined by intense competition. Some operators are looking at alternative customer segments and some are even exploring merger options. Industry players observe the lack of uniform regulations which can allow them to operate across different takaful models as a growth impediment.

Malaysia's total net contributions of family takaful reached RM$4.8 billion (US$1.3 billion) with steady growth from regular contribution products.

Notes:
Conversion rate US$/RM$ = 3.67 (Bank Negara Malaysia as of 01/06/2015).
1GCC countries include Bahrain, Kuwait, Qatar and UAE.
Source:
• World Islamic Insurance Directory 2015, Middle East Insurance Review;
• EY analysis
Saudi Arabia and Malaysia lead in their regional markets

In the GCC region, gross takaful contributions is estimated to reach around US$9.7 billion in 2014. Within the Gulf region, Saudi Arabia accounts for the majority of the total gross contributions at 84%, followed by UAE, which accounts for 9%. The rest of the Gulf countries account for just 7% of gross takaful contributions.

In the ASEAN region, gross takaful contributions is estimated to reach around US$3.9 billion in 2014. Within ASEAN, Malaysia has nearly three-quarters share (76%) of total gross takaful contributions. Indonesia's share is stable at 19%.

Note:
1 Others include Brunei and Thailand.

Sources:
• World Islamic Insurance Directory 2015, Middle East Insurance Review;
• EY analysis
Malaysia’s insurance

Growing middle-class signals scope for market expansion

Overall, the market penetration rate\(^1\) of Malaysia’s insurance industry is 5.2% of GDP. Life insurance is ahead at 3.3% of GDP in comparison to non-life/general insurance at 1.8% of GDP.

With Malaysia’s relatively young and growing middle-class population, there is good scope for market expansion for both the life/family and non-life/general takaful segments of the insurance industry.

With new regulatory changes, Malaysia’s insurance industry anticipates industry consolidation, including mergers and acquisitions among local and foreign insurers. In addition, for the non-life/general insurance and takaful segment, the proposed removal of set tariffs in motor and fire insurance in 2016 are expected to intensify market competition and further drive industry rationalisation.

Malaysia’s life/family takaful accounts for the bulk or 69% of the RM$48.8 billion total insurance industry premiums. Set out below are the market shares\(^4\) of the key players of the life and general segments:

**Life/family takaful segment**

The life segment is dominated by three key players namely:

- Great Eastern (25% share);
- AIA (25%); and
- Prudential (18%).

For family takaful, the top players are:

- Etiqa (39% share); and
- Syarikat Takaful Malaysia Berhad (22%).

Other key players include Takaful Ikhlas (9%) and Prudential BSN Takaful (9%).

**General/general takaful segment**

In contrast, the general/non-life insurance segment is relatively fragmented. The combined market share of the top five insurers is 47%. The specific market share breakdown as follows:

- AM General (13%);
- Allianz General (12%);
- MSIC (8%);
- Etiqa (8%); and
- AXA (6%).

The key players for general takaful include:

- Etiqa Takaful (47% share);
- Syarikat Takaful Malaysia Berhad (19%);
- MAA (14%); and
- Takaful Ikhlas (12%).

Notes:

\(^1\) Penetration rate is measured as the ratio of premium underwritten in particular year to the GDP.

\(^2\) Life includes conventional life and family takaful.

\(^3\) Non-life includes general and general takaful.

\(^4\) Market share (%) of companies are derived from gross premiums, contributions and revenue of respective companies.

Sources:

- The Future of World Religions Population Growth Projections 2015, Pew Research;
- Statistical Yearbook (General Insurance & Takaful) 2013 & 2014, ISM;
- Annual Takaful Report 2012, Bank Negara Malaysia;
- Monthly Statistical Bulletin 2015, Bank Negara Malaysia;
- Key indicators for Asia and the Pacific, 2010, Asian Development Bank;
- World population prospects, 2012, United Nations;
- EY analysis
Malaysia’s takaful

Family takaful drives the Malaysian market

In Malaysia, takaful\(^1\) insurance products command a niche market estimated at RM$6.3 billion. Over the last five years (2009-2014), the takaful insurance segment saw encouraging growth of net contributions of 12.4% CAGR, is much higher than conventional\(^2\) insurance at 7.81%.

<table>
<thead>
<tr>
<th>Year</th>
<th>Conventional Net Premiums (RM$b)</th>
<th>Takaful Net Contributions (RM$b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>32.8</td>
<td>3.5</td>
</tr>
<tr>
<td>2010</td>
<td>36.4</td>
<td>4.4</td>
</tr>
<tr>
<td>2011</td>
<td>38.6</td>
<td>4.9</td>
</tr>
<tr>
<td>2012</td>
<td>42.7</td>
<td>5.9</td>
</tr>
<tr>
<td>2013</td>
<td>45.6</td>
<td>6.2</td>
</tr>
<tr>
<td>2014e</td>
<td>48.8</td>
<td>6.3</td>
</tr>
</tbody>
</table>

Notes:
\(^1\) Takaful includes family takaful and general takaful business.
\(^2\) Conventional includes life and general insurance business.

Sources:
- Statistical Yearbook (General Insurance & Takaful) 2013 & 2014, ISM
- Financial Stability and Payment Systems Report 2014, Bank Negara Malaysia
Emerging Merger and Acquisition (M&A) interest in Malaysia & Indonesia

Over the past 3 years, there has been strong international interest to acquire stakes in Malaysia’s and Indonesia’s insurance players. These acquisitions include both conventional and takaful companies.

A key takaful deal in Malaysia was MetLife Inc. (US) acquisition of 50% of both AmLife Insurance Bhd and AmFamily Takaful Bhd.

Table 2: M&As in the insurance and takaful industry, Malaysia and Indonesia

<table>
<thead>
<tr>
<th>Year</th>
<th>Target Company/Country</th>
<th>Acquirer/Country</th>
<th>Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>20% stake in Asuransi Jiwa.Sequis Life PT (Indonesia)</td>
<td>Nippon Life Insurance Company (Japan)</td>
<td>428</td>
</tr>
<tr>
<td>2014</td>
<td>40% stake in PT BNI Life Insurance (Indonesia)</td>
<td>Sumitomo Life Insurance Company (Japan)</td>
<td>360</td>
</tr>
<tr>
<td>2013</td>
<td>40% stake in PT Panin Dai-ichi Life (Indonesia)</td>
<td>The Dai-ichi Life Insurance Company Limited (Japan)</td>
<td>338</td>
</tr>
<tr>
<td>2014</td>
<td>50% AmLife Insurance Berhad &amp; 50% AmFamily Takaful Berhad (Malaysia)</td>
<td>MetLife Inc (US)</td>
<td>248</td>
</tr>
<tr>
<td>2014</td>
<td>MCIS Insurance Berhad (Malaysia)</td>
<td>Sanlam Emerging Markets (Pty) Limited (South Africa)</td>
<td>119</td>
</tr>
<tr>
<td>2014</td>
<td>Uni Asia General Insurance Berhad (Malaysia)</td>
<td>Liberty UK and Europe Holdings Limited (UK)</td>
<td>113</td>
</tr>
<tr>
<td>2015</td>
<td>Multi-Purpose Insurans Bhd (Malaysia)</td>
<td>Generali Asia N.V. (Netherlands)</td>
<td>102</td>
</tr>
<tr>
<td>2013</td>
<td>20% Ansursansi Bina Data Arta PT Tbk (Indonesia)</td>
<td>Mapfre SA (Spain)</td>
<td>45</td>
</tr>
</tbody>
</table>

In negotiations:
- Zurich Insurance Company Ltd (Switzerland) to acquire a majority 75% stake in MAA Takaful Bhd (Malaysia).
- Bank Rakyat Indonesia (BRI) plans to acquire 1 of the 3 life insurance companies in Indonesia.

Note:
M&A deals from 01/01/2012 to 07/07/2015; financial services; insurance related.

Sources:
- Mergermarket;
- Zurich Insurance to acquire 75% stake in MAA Takaful, 18 June 2015; InsuranceAsia News;
- BRI in negotiations to take over local life insurance firm, 7 April 2015; InsuranceAsia News
GCC and surrounds

More M&A activities expected in UAE

With tougher new regulations on risk capital requirements and intense market competition, industry consolidation is expected. Industry observers comment that a number of takaful operators in the UAE are considering the possibility of mergers and acquisitions in the sector.

Expectations of mergers in the region were raised when Bahrain Kuwait Insurance Company (BKIC) raised its stake in rival, Takaful International to 40.9 per cent. BKIC acquired 10.8% stake (18.8 million shares) in Takaful International for US$5 million in April 2015.

Turkey encouraging growth of participation banks

By the end of 2015, the Turkish Government plans to establish three state-owned Islamic banks as subsidiaries of the current state-run conventional banks. The three state-owned banks namely Ziraat Bank, Halkbank and Vakifbank—will each have an Islamic, interest-free bank.

Table 3: M&As in the insurance and takaful industry, GCC and Turkey

<table>
<thead>
<tr>
<th>Year</th>
<th>Target Company/Country</th>
<th>Acquirer/Country</th>
<th>Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>Yapi Kredi Sigorta (Turkey)</td>
<td>Allianz SE (Germany)</td>
<td>1,034</td>
</tr>
<tr>
<td>2013</td>
<td>Acibadem Saglik ve Hayat Sigorta A.S. (Turkey)</td>
<td>Avicennia Capital Sdn. Bhd. (Malaysia)</td>
<td>252</td>
</tr>
<tr>
<td>2013</td>
<td>Mediterranean and Gulf Insurance and Reinsurance (Bahrain)</td>
<td>ORIX Corporation (Japan)</td>
<td>225</td>
</tr>
<tr>
<td>2014</td>
<td>Aviva Sigorta A.S. (Turkey)</td>
<td>Kibele B.V. (UK)</td>
<td>186</td>
</tr>
<tr>
<td>2012</td>
<td>Finans Emeklilik ve Hayat A.S. (Turkey)</td>
<td>Cigna Corporation (US)</td>
<td>104</td>
</tr>
<tr>
<td>2013</td>
<td>41% Oman National Investment Corporation SOAG (Oman)</td>
<td>Oman Investment Fund</td>
<td>58</td>
</tr>
<tr>
<td>2012</td>
<td>60% National Takaful Company (Watania) PJSC (UAE)</td>
<td>Al Maldina Insurance Company SAOG &amp; MB UAE Investments (UAE)</td>
<td>31</td>
</tr>
<tr>
<td>2015</td>
<td>Takaful International (UAE)</td>
<td>Bahrain Kuwait Insurance Company (Bahrain)</td>
<td>5</td>
</tr>
</tbody>
</table>

Sources:
- Mergermarket;
- Bahrain’s largest insurer ups stake in Takaful International, 9 April 2015, InsuranceAsia News
**Business risks radar**

**Addressing new and evolving business risks**

The top three business risks for Malaysian-based takaful operators include:
- Evolving regulations;
- Addressing competition; and
- Business transformation.

The ever-changing regulatory environment in Malaysia with the implementation of the Financial Services Act 2013 and Islamic Financial Services Act 2013; the enforcement of Risk-based Capital for Takaful (RBCT) and other regulations; and the need for operators to comply with them accordingly were cited as the top business risks.

In addressing the new challenges and opportunities catalysed by technological challenges, Malaysian takaful operators are also reviewing their business models and are working out their business transformation strategies.

### Table 4: Business risks – overall ranking, 2014

<table>
<thead>
<tr>
<th>Business risk</th>
<th>Ranking 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evolving regulations</td>
<td>1</td>
</tr>
<tr>
<td>Competition</td>
<td>2</td>
</tr>
<tr>
<td>Business transformation</td>
<td>3</td>
</tr>
<tr>
<td>Inability to achieve underwriting profit</td>
<td>4</td>
</tr>
<tr>
<td>Global economic weakness</td>
<td>5</td>
</tr>
<tr>
<td>Lack of financial flexibility</td>
<td>6</td>
</tr>
<tr>
<td>Ineffective enterprise risk management</td>
<td>7</td>
</tr>
<tr>
<td>High-risk investment portfolios</td>
<td>8</td>
</tr>
<tr>
<td>Misaligned cost base</td>
<td>9</td>
</tr>
<tr>
<td>Rated retakaful shortage</td>
<td>10 &amp; 11</td>
</tr>
<tr>
<td>Political risks and implications</td>
<td></td>
</tr>
<tr>
<td>Hostile M&amp;A activity</td>
<td>12</td>
</tr>
</tbody>
</table>

### Chart 13: Top six takaful business risks in Malaysia

- Financial
  - Inability to achieve underwriting profit
  - Lack of financial flexibility
- Compliance
  - Evolving regulations
  - Global economic weakness
- Strategic
  - Competition
- Operational
  - Business transformation

Source: Malaysian Takaful Dynamics, Special Preview edition, 2014, EY
Major reforms and initiatives

Over the last five years, Malaysia has initiated a number of reforms in the financial services sector, including the insurance and takaful segments. Among the major initiatives and reforms introduced by Malaysia’s regulators include:

- Financial Sector Blueprint, 2011-2020;
- Financial Services Act (FSA) 2013 and the Islamic Financial Services Act (IFSA) 2013;
- Risk-based Capital Takaful Framework, 2014; and

In addition, the introduction of BR1M\(^1\) takaful plan in 2014 is aimed to improve the protection cover for the lower income segment of the Malaysian market.

Highlights of key reforms

- The Financial Sector Blueprint (FSB) sets nine areas for Malaysia’s financial sector to improve, including strengthening regional and international financial integration and driving the internationalisation of Islamic finance.

- The main objectives of the FSA and the IFSA Acts are to introduce a more risk-focused and integrated approach to the regulation and supervision of financial institutions to safeguard the sector’s financial stability. This includes the strengthening of consumer protection in financial products and services.

- The Life Insurance and Family Takaful (LIFE) framework covers a wide range of areas including operating flexibility, product disclosures, delivery channels and market practices.

- The Risk-based Capital Takaful (RBCT) framework sets the capital requirements for takaful operators based on their size and degree of risks undertaken.

Further details of Malaysia’s specific reforms are summarised in the following pages.

Note:
\(^{1}\) Malaysia People’s Aid

Source:
- Financial Sector Blueprint 2011-2020, Bank Negara Malaysia
Among the key initiatives of Malaysia's Financial Sector Blueprint (FSB) is to strengthen Malaysia’s financial sector linkages and support intra-regional integration to efficiently intermediate Asia’s surplus funds towards the vast investment opportunities in the region.

With the strong upside potential anticipated from greater internationalisation, the FSB identified Islamic finance as a key growth driver for Malaysia-based financial institutions.

**Chart 15: Size of Malaysia’s financial system**

*Proxied by loans outstanding, equity market capitalisation and bonds outstanding
Source: Capital Market Masterplan 2 and Bank Negara Malaysia

<table>
<thead>
<tr>
<th>Financial Sector Blueprint</th>
<th>FSB: Takaful</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Effective intermediation for a high value-added and high income economy</td>
<td>1. Effective intermediation for a high value-added and high-income economy</td>
</tr>
<tr>
<td>2. Developing deep and dynamic financial markets</td>
<td>2. Financial inclusion for greater shared prosperity</td>
</tr>
<tr>
<td>3. Financial inclusion for greater shared prosperity</td>
<td>3. Internationalisation of Islamic Finance</td>
</tr>
<tr>
<td>4. Strengthening regional and international financial integration</td>
<td>4. The regulatory and supervisory regime</td>
</tr>
<tr>
<td>5. Internationalisation of Islamic finance</td>
<td>5. Raising the standards of governance and risk management</td>
</tr>
<tr>
<td>6. Regulatory and supervisory regime safeguard the stability of the financial system</td>
<td></td>
</tr>
<tr>
<td>7. Electronic payments for greater economic efficiency</td>
<td></td>
</tr>
<tr>
<td>8. Empowering consumers</td>
<td></td>
</tr>
<tr>
<td>9. Talent development to support a more dynamic financial sector</td>
<td></td>
</tr>
</tbody>
</table>
Takaful and capacity building

For the insurance and takaful sector, Malaysia’s Financial Sector Blueprint has recommended five areas of improvements, including:

1. **Effective intermediation for a high value-added and high-income economy**

   **Recommendation 2.1**

   2.1.5 Promote a conducive environment for financial institutions to develop more products and enhance services for businesses to better manage business risks.

   - Facilitate greater injection of foreign expertise in the insurance and takaful broking and loss adjusting industries to better support insurance and takaful business.

   2.1.9 Enhance the capacity and capability of the insurance and takaful industry to provide higher value-added medical and health insurance.

   - Encourage insurers and takaful operators to offer higher-end insurance products to complement the national health financing scheme.

   2.1.10 Introduce greater operational flexibility for financial institutions subject to appropriate safeguards.

   - Encourage insurers and takaful operators to enhance offering of insurance products through alternative delivery channels.

2. **Financial inclusion for greater shared prosperity**

   **Recommendation 2.3**

   2.3.2 Expand the range of products and services that will meet the distinct financial needs of all citizens, including the underserved.

   - Facilitate the insurance/takaful industry to develop affordable microinsurance/microtakaful products for protection against unexpected adverse events.

3. **Internationalisation of Islamic finance**

   **Recommendation 3.2**

   3.2.1 Increase the diversity of players in the domestic Islamic financial industry to support a wider range of financial products and services that serves the best interest of Malaysia.

   - Issue new takaful licences to institutions with specialised expertise.

   3.2.7 Position Malaysia including Labuan IBFC as an international retakaful centre.

   - Encourage international players to establish retakaful operations in Malaysia and brokers with international linkages to serve the takaful sector.

   - Encourage greater involvement of takaful brokers to broaden the range of takaful product offerings and outreach by extending MIFC incentives.

   - Promote the use of takaful as a risk management tool in Islamic financial transactions.

4. **The regulatory and supervisory regime**

   **Recommendation 4.1**

   4.1.4 Strengthen the institutional structure of financial institutions to provide adequate safeguard against contagion risk and excessive leverage.

   - Require life and general businesses of insurers, and family and general businesses of takaful operators to be carried out under separate entities.

5. **Raising the standards of governance and risk management**

   **Recommendation 4.2**

   4.2.2 Raise the standards of risk management and internal control functions across the financial sector.

   - Require insurers and takaful operators to be served by independent and dedicated heads of risk.

Source:
- Financial Sector Blueprint 2011-2020, Bank Negara Malaysia
Financial Services Act 2013 and Islamic Financial Services Act 2013

The amendments to the Financial Services Act (FSA) 2013 and the Islamic Financial Services Act (IFSA) 2013 are aimed at strengthening the legal foundation to support the growth of Malaysia's banking, including Islamic finance sector.

A major industry reform is the separation of insurers into two legal entities, life/family and general businesses or divestment of one of their businesses. As of 30 June 2015, all composite insurance and takaful operators have submitted their licence plans to Bank Negara Malaysia (BNM).

The impact of the two Acts on insurers, including takaful operators are summarised below.

Chart 16: Conversion to single insurance/takaful business

<table>
<thead>
<tr>
<th>Pre-FSA/IFSA</th>
<th>Post-FSA/IFSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composite insurer</td>
<td>Life (family takaful) General</td>
</tr>
</tbody>
</table>

5 areas Impact of FSA/IFSA

1. Financial holding company restructuring
   - If impacted companies do not want to become financial holding companies under the Act(s), they may pare down their stakes in respective FIs to below 50%

2. Corporate restructuring: Insurers
   - Separation into two legal entities or divestment of one of the business

3. Audit compliance
   - Impacted companies to allocate more resources to improve any weaknesses in internal controls

4. Individual shareholding limit
   - Impacted individuals may need to pare down their stakes to 10% or below

5. Talent recruitment
   - BNM approval for appointment of chairman, director and chief executive officer; a senior officer can only be appointed if the person fulfils the requirements stated in the Act(s) and as specified by BNM

5 takeaways Impact to composite insurers, takaful operators

1. Requirement
   - Insurance and takaful companies holding composite licences shall not carry on both life insurance/family takaful business and general insurance/general takaful business

2. Who will be impacted?
   - Licensed insurer/takaful operator lawfully carrying on both life insurance/family takaful business and general insurance/general takaful business

3. Who will be exempted?
   - Licensed professional reinsurer and retakaful operator

4. Timeline
   - 5 years from the date of implementation of the Act(s) or longer as specified by the Minister of Finance, on the recommendation of BNM

5. Non-compliance penalty
   - Imprisonment of 8 years or less, a fine of RM25 million or less, or both

Source:
* Take 5: Financial Services Act 2013 and Islamic Financial Services Act 2013, EY
Malaysia’s Risk-based Capital Takaful Framework (RBCT) aims to create a strong risk management framework. It sets BNM’s expectations for takaful operator’s maintenance of capital adequacy level to commensurate with the risk profile of its operations. The RBCT framework was issued on 30 October 2012 and effected from 1 January 2014.

BNM’s concept paper for Internal Capital Adequacy Assessment Process (ICAAP) was issued on 28 August 2015. ICAAP specifies elements that licensed takaful operators must put in place for active management of capital adequacy. The ICAAP concept paper is yet to be finalised.

**Chart 17: RBCT - 5 aspects and its impact**

<table>
<thead>
<tr>
<th>5 aspects of RBCT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. New computations of the capital adequacy position</td>
</tr>
<tr>
<td>2. Supervisory Target Capital Level</td>
</tr>
<tr>
<td>3. Target Capital Level to reflect risk profile and risk management</td>
</tr>
<tr>
<td>4. Prudential limits for investment and counterparty limits</td>
</tr>
<tr>
<td>5. BNM actions for breach of guidelines</td>
</tr>
</tbody>
</table>

**Industry consolidation**
- Operators need to achieve minimum paid-up capital requirement

**Higher operating costs**
- Operators need to enhance internal controls

**Chart 18: ICAAP - 3 features and 6 general requirements**

<table>
<thead>
<tr>
<th>3 features of ICAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Individual target capital level (ITCL)</td>
</tr>
<tr>
<td>Takaful operators are required to conduct appropriate stress and scenario test to determine ITCL</td>
</tr>
<tr>
<td>2. Capital Management Plan</td>
</tr>
<tr>
<td>A capital management plan that takes into account takaful operators’ strategic business direction and changing business environment</td>
</tr>
<tr>
<td>3. Monitoring process</td>
</tr>
<tr>
<td>A monitoring process to ensure maintenance of an appropriate level of capital at all times</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>6 general requirements of ICAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Board and senior management oversight</td>
</tr>
<tr>
<td>2. Comprehensive risk assessment</td>
</tr>
<tr>
<td>3. Individual target capital level</td>
</tr>
<tr>
<td>4. Stress testing</td>
</tr>
<tr>
<td>5. Sound capital management</td>
</tr>
<tr>
<td>6. Monitoring, reporting and review of ICAAP</td>
</tr>
</tbody>
</table>

Sources:
- Financial Sector Blueprint 2011-2020, Bank Negara Malaysia;
- Internal Capital Adequacy Assessment Process for takaful operators, 2015, Bank Negara Malaysia;
- EY analysis
Life Insurance & Family Takaful Framework

The concept paper for this Life Insurance and Family Takaful framework (LIFE) was issued to provide the framework in supporting the long-term sustainable growth and development of the life insurance and family takaful industry. The framework took account of the current state of readiness of the industry, the level of market development and consumer literacy, and sets out the future vision of the industry. The framework’s initiatives are to support and spur a higher level of insurance and takaful penetration of 75%, in line with Malaysia’s transition to become a high-income economy. LIFE has a two-phased approach to place the necessary safeguards and to achieve several key performance indicators (KPIs) to provide greater value proposition to consumers before introducing further flexibility.

### Phase 1: Partial liberalisation for better preparedness pending further liberalisation

<table>
<thead>
<tr>
<th>Partial removal of operating limits</th>
<th>Diversification of distribution channels</th>
<th>Strengthening market conduct practices to enhance customer protection</th>
</tr>
</thead>
</table>
| ▶ Operating cost limits of investment-linked products in the form of commissions, management expenses and agency related expenses will be removed immediately  
  ▶ To preserve policyholder’s value, a certain percentage of the premium/contribution payable must be allocated to the policyholder’s/participant’s unit fund before any deduction of charges  
  ▶ Commission limits for pure protection products (pure term, medical and health insurance/takaful, and critical illnesses) to be removed, subject to insurers and takaful operators offering those products via direct channels | ▶ Bancassurance/Bancatakaful commission limits will be aligned with corporate agents  
  ▶ Incentivizing growth of financial advisers through:  
    ▶ Reduction in paid-up capital from RM$100,000 to RM$50,000  
    ▶ Expansion of list of qualifications to become financial advisers  
    ▶ Requirement for insurers and takaful operators to offer entire range of products for financial advisers to sell | ▶ Intermediaries, remuneration based on a balanced scorecard  
  ▶ Enhanced disclosure standards for greater consumer empowerment and awareness  
  ▶ Introduce product aggregator to assist product comparison  
  ▶ Introduce online insurance/takaful account to promote awareness of policy status  
  ▶ Removal of agency financing scheme limits |

### Key KPIs to be achieved

- Premium/contribution level of products liberalized to commensurate with benefits to policyholders/participants
- Commission-free pure protection products sold via direct channels to be cheaper than sold by intermediaries
- Availability of pure protection products via direct channels
- Market share of regular premiums for non-agent channels to be 30% (current = 14%) with higher persistency
- Banca penetration target of 10% of banking population (current = 5%)
- Scorecard for intermediaries’ rating
- Number of full-time agents to be 50%

### Phase 2: Full/managed liberalisation subject to achievement of KPIs and BNM’s assessment

**Continuous consumer education efforts**

Sources:
- EY analysis

Malaysian Takaful Dynamics 2015
Other regulatory updates

**Indonesia**

In July 2014, Indonesia’s Financial Services Authority (OJK) revised the Islamic banking rules involving asset quality and capital adequacy. In October 2014, a law (Insurance Law 2014) was introduced requiring conventional insurers to spin off their takaful windows to become full-fledged players. This new legislation requires both insurance and reinsurance firms to separate shari’a insurance into single entities as well as establishment of an agency to protect insurance policies. The new regulation (Insurance Law 2014) provides insurers up to 10 years to comply.

In November 2014, OJK introduced 20 new rules covering areas which include governance, risks (credit, market, liquidity & operations), minimum capital requirement and microfinance. These new rules were effected on 1 January 2015. In addition to regulatory reforms, various 5-year roadmaps to strengthen the capital, banking, syariah and non-banking sectors were introduced by the Indonesia’s Financial Services Authority.

**Selected GCC**

**Saudi’s cooperative insurers to adopt new standards**
The Saudi Arabian Monetary Agency (SAMA) has instructed cooperative insurers to base their reserves on comprehensive actuarial studies. Actuaries were requested to adopt proper standards when assigning provisions and setting prices. This one-off impact was reflected in the operators’ balance sheets. It is pertinent to note that the move by SAMA was an enforcement of regulations issued in 2004, and observers see this as a test of resilience, particularly for small-sized insurers.

**UAE intensifies corporate governance measures**
In UAE, takaful regulation was introduced in 2010, which among others, prohibits conventional insurers from offering takaful products via Islamic windows. Further, significant corporate governance requirements now apply to takaful operators, including specific requirements in relation to ensuring Sharia’ compliance of their operations. Given the government’s desire to execute its vision of an Islamic economy over the next three years, the enforcement of these regulations may help develop a more resilient takaful industry.

**Oman drafts takaful regulation**
Oman is a new entrant to the Islamic finance sector post the lifting of decades-long restrictions on the sector in 2011. Oman has moved quickly to develop regulations for takaful. The draft insurance law only permits the formation of fully fledged Islamic insurers, distinct from the provision made for Islamic banking windows. Draft regulations also state that takaful operators must be publicly listed and have a minimum capital of OMR10 million (US$26 million). To ease the difficulty of identifying suitable investable assets for takaful operators, Oman’s Muscat Securities Market has launched a Sharia’-compliant index for investors seeking Islamic equities.

**Bahrain focuses on solvency position**
The Central Bank of Bahrain (CBB) is in the process of drafting a new and enhanced framework for the takaful and retakaful sectors. It is aimed to strengthening the solvency position of the firms, enhancing operational efficiency of the business and safeguarding the interest of all stakeholders. The development is likely to boost its Islamic finance sector.

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**Indonesia’s roadmaps**


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**Sources:**
- OJK Regulation Regarding Assessment on Level of Bank Soundness for Sharia Commercial Banks and Sharia Business Units, Indonesia Financial Services Authority (OJK);
- Indonesia’s Parliament passes New Insurance Law, October 2014, Norton Rose Fulbright;
- OJK targets deeper financial market with new rules, 21 November 2014, Jakarta Post;
- OJK issues Six Banking Policies, Indonesia Financial Services Authority (OJK);
- OJK Issues Regulations on Microfinance Institutions, Indonesia Financial Services Authority (OJK);
- OJK Regulation Regarding Assessment on Level of Bank Soundness for Sharia Commercial Banks and Sharia Business Units, Indonesia Financial Services Authority (OJK);
- Indonesia’s Parliament passes New Insurance Law, October 2014, Norton Rose Fulbright;
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- OJK Issues Regulations on Microfinance Institutions, Indonesia Financial Services Authority (OJK);
- OJK Regulation Regarding Assessment on Level of Bank Soundness for Sharia Commercial Banks and Sharia Business Units, Indonesia Financial Services Authority (OJK);
Performance

• Industry dynamics
• Financial dynamics
• Customer dynamics
• Talent dynamics
Overall insurance industry

Socio-economic growth trends drive insurance and takaful demand

Despite global economic challenges, Malaysia’s relatively strong and steady economic growth has supported the growth of its insurance and takaful sector in the last five years.

Malaysia’s low insurance penetration rate of 5.2% of GDP in 2014 and its young demographics presents significant market growth opportunities for its insurance and takaful sector.

Chart 19: Malaysia's insurance, takaful and GDP growth

Sources:
- Economic Outlook Database April 2015, International Monetary Fund;
- EY analysis
Family takaful’s market penetration rate is still below market potential

Currently, the market penetration rate of Malaysia’s family takaful sector is just 14.5% in comparison to the life insurance’s market penetration rate of 41.2%.

Overall, the insurance penetration rate is 55.7% and the industry aspires to a target life/family takaful insurance penetration rate to be 75% by 2020.

As Malaysia advances her economic development, the insurance and takaful sector can step-up its efforts to reach out to untapped and/or underserved market segments.

Chart 20: Life insurance market penetration rate

Note:
1 Market penetration rate equals the total number of life insurance policies/ family takaful certificates divided by the total Malaysian population.

Sources:
• Life Insurance and Family Takaful Framework (LIFE) Concept Paper 2014, Bank Negara Malaysia;
• Monthly Statistical Bulletin, May 2015, Bank Negara Malaysia;
• World Economic Outlook Database, April 2015, International Monetary Fund;
• EY analysis
Conventional insurance registered strong and steady growth

Malaysia’s conventional insurance fund assets and net premiums grew 8.5% and 7.8% CAGR respectively in the last five years.

Net premiums of life and general insurance grew at similar pace of an estimated 7.7% and 7.9% respectively.

Sources:
• Financial Stability and Payment Systems Report 2013 & 2014, Bank Negara Malaysia;
• Monthly Statistical Bulletin, May 2015, Bank Negara Malaysia;
• EY analysis
Takaful on steady growth track

Malaysia’s takaful segment fund assets and net contributions have almost doubled in the last five years. Fund assets almost doubled from RM$12 billion in 2009 to RM$23 billion in 2014. During the same period, net contributions increased 1.8 times from RM$3.5 billion in 2009 to RM$6.3 billion in 2014.

Net contributions from general takaful grew 14% CAGR while family takaful grew 11.9% CAGR.

**Chart 24: Takaful - fund assets and net contributions**

<table>
<thead>
<tr>
<th>Year</th>
<th>Fund Assets</th>
<th>Net Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>RM$12bn</td>
<td>RM$3.5bn</td>
</tr>
<tr>
<td>2010</td>
<td>RM$15bn</td>
<td>RM$4.4bn</td>
</tr>
<tr>
<td>2011</td>
<td>RM$17bn</td>
<td>RM$4.8bn</td>
</tr>
<tr>
<td>2012</td>
<td>RM$19bn</td>
<td>RM$5.9bn</td>
</tr>
<tr>
<td>2013</td>
<td>RM$21bn</td>
<td>RM$6.2bn</td>
</tr>
<tr>
<td>2014</td>
<td>RM$23bn</td>
<td>RM$6.3bn</td>
</tr>
</tbody>
</table>

**Chart 25: Fund assets - family and general takaful**

- Family: CAGR 13.2% from RM$11bn in 2009 to RM$20bn in 2014
- General: CAGR 10.4% from RM$1.9bn in 2009 to RM$3.1bn in 2014

**Chart 26: Net contributions - family and general takaful**

- Family: CAGR 11.9% from RM$2.7bn in 2009 to RM$4.8bn in 2014
- General: CAGR 14.0% from RM$0.8bn in 2009 to RM$1.5bn in 2014

Sources:
- EY analysis
Fund assets

Growth of takaful's fund assets surpassed conventional insurance

The size of conventional insurance’s fund asset is 10 times that of the takaful sector. However, in terms of the growth rate of fund assets, both family takaful and general takaful surpassed life and general insurance growth by nearly 1.5 times in the last five years.

Chart 27: Fund assets – life insurance and family takaful

Chart 28: Fund assets – general insurance and general takaful

Sources:
• Financial Stability and Payment Systems Report 2013 & 2014, Bank Negara Malaysia;
• Monthly Statistical Bulletin, May 2015, Bank Negara Malaysia;
• EY analysis
Policies in force:
life and family takaful

Demand for Investment-linked policies is increasing

Over the last 5 years, Investment-linked life insurance and family takaful policies in force grew 12.2% and 24.1% CAGR respectively.

During this period, Individual Ordinary Family takaful policies achieved healthy growth of 8.6% CAGR whilst a decline of 2.4% is noted in the Individual Ordinary Life policies.

The growth of Group Ordinary Family takaful policies (19.1% CAGR) is doubled that of Group Ordinary Life policies (8.3% CAGR). In contrast, growth of annuity policies is dismal with just 2% for life policies and a decline of 3.3% for family takaful policies.

Table 5: Life insurance policies and family takaful certificates in force, 2009 – 2014

<table>
<thead>
<tr>
<th></th>
<th>Life insurance</th>
<th>Family takaful</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of policies in force ('000)</td>
<td>CAGR (%)</td>
</tr>
<tr>
<td>Individual ordinary</td>
<td>9,536, 8,445 (-2.4)</td>
<td>2,129, 3,209 (8.6)</td>
</tr>
<tr>
<td>Investment-linked</td>
<td>2,175, 3,862 (12.2)</td>
<td>284, 835 (24.1)</td>
</tr>
<tr>
<td>Group ordinary</td>
<td>18, 26 (8.3)</td>
<td>132, 317 (19.1)</td>
</tr>
<tr>
<td>Annuity</td>
<td>110, 122 (2.0)</td>
<td>34, 29 (-3.3)</td>
</tr>
</tbody>
</table>

Sources:
• Financial Stability and Payment Systems Report 2013 & 2014, Bank Negara Malaysia;
• Monthly Statistical Bulletin, May 2015, Bank Negara Malaysia;
• EY analysis
General insurance product mix

Motor insurance remains the core segment

Motor insurance accounts for nearly half (46%) of general insurance policies.

Over the last five years, the general insurance industry grew 7.4% CAGR. Among its products, strong growth was recorded in motor insurance (8.4% CAGR) and there is emerging interest in medical and health (11.4% CAGR).

<table>
<thead>
<tr>
<th>Table 6: General insurance - product trends</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross written contributions (RM$m)</strong></td>
</tr>
<tr>
<td>Motor</td>
</tr>
<tr>
<td>Fire</td>
</tr>
<tr>
<td>Personal accident</td>
</tr>
<tr>
<td>Marine, aviation and transit</td>
</tr>
<tr>
<td>Medical and health</td>
</tr>
<tr>
<td>Miscellaneous¹</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chart 29: General insurance portfolio mix</th>
</tr>
</thead>
</table>

Note:
¹ Miscellaneous includes bonds, contractor’s all risks & engineering, liabilities, workmen’s compensation and employer’s liability and offshore oil-related.

Source:
• Statistical Bulletin Market Performance (General Insurance & General Takaful) 2015, ISM
Motor business dominates

The motor business accounts for 60% of general takaful product mix.

Over the five years to 2014, general takaful products that grew double-digit in terms of gross written contributions include:
- Motor (23.1% CAGR);
- Fire (16.1% CAGR); and
- Personal accident (16.5% CAGR).

Like general insurance products, there is emerging interest in the medical and health segment (14.6% CAGR).

By 2016, the removal of statutory tariffs on motor and fire insurance may intensify competition and result in premium adjustments.

Table 7: General takaful - product trends

<table>
<thead>
<tr>
<th>Gross written contributions (RM$m)</th>
<th>2009</th>
<th>2014</th>
<th>CAGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor</td>
<td>457</td>
<td>1,294</td>
<td>23.1</td>
</tr>
<tr>
<td>Fire</td>
<td>204</td>
<td>431</td>
<td>16.1</td>
</tr>
<tr>
<td>Personal accident</td>
<td>102</td>
<td>219</td>
<td>16.5</td>
</tr>
<tr>
<td>Marine, aviation and transit</td>
<td>45</td>
<td>52</td>
<td>2.9</td>
</tr>
<tr>
<td>Medical and health</td>
<td>3</td>
<td>6</td>
<td>14.6</td>
</tr>
<tr>
<td>Miscellaneous¹</td>
<td>118</td>
<td>168</td>
<td>7.3</td>
</tr>
</tbody>
</table>

Chart 30: General takaful portfolio mix

Gross written contributions: RM$2.2b (2014)  
CAGR 18.5% (2009 – 2014)

Note:
¹ Miscellaneous includes bonds, contractor's all risks & engineering, liabilities, workmen's compensation and employer's liability and offshore oil-related.

Source:
- Statistical Bulletin Market Performance (General Insurance & General Takaful) 2015, ISM
Introduction

Set out below are financial results from EY’s industry survey which provide some indicators of Malaysian takaful operator performance.

Average return on equity

On average, nearly half (44%) of respondents indicate an average return on equity (ROE) of about 8.1%.

Average premium growth

Almost half (47%) of respondents indicate that their average annual premium growth is about 11.2%.

Average commission ratio

One-third (33%) of the respondents state that the average commission ratio is about 17%; more than a quarter (28%) indicate an average commission ratio of between 20% and 25%.

Average profit margin

The average profit margin is about 10.7%.

Notes:
Online survey period was from 28 May to 8 July 2014. Total survey respondents was 21. The mean result is derived from cumulative frequency.

Source:
- Global Takaful Insights 2014, EY
Financial results of Malaysia’s takaful operators (continued...)

The average reinsurance ratio is 29.2%.

Nearly three-fifths (58%) of respondents indicate an average expense ratio of less than 20%.

Nearly half (47%) of the respondents indicated that their average claims ratio is between 40% to 60%; of which 23.5% have a ratio between 40% to 50% and 23.5%, between 50%-60%.

More than two-fifths (42%) of respondents indicate their average combined operating ratio to be between 80% to 90%.
The average investment yield is about 4.8%.

For more than two-fifths (42%) of respondents, the average holdings for cash and bonds is more than 20%. More than two-fifths (42%) also hold less than 10% of equities in their portfolio, reflecting their low risk appetite.

Notes:
Online survey period was from 28 May to 8 July 2014. Total survey respondents was 21.
The mean result is derived from cumulative frequency.

Source:
- Global Takaful Insights 2014, EY
Quick Insights - Malaysia’s Takaful Industry

Top 5 reasons to consider takaful

1. Attractive package, 41%
2. Islamic, 29%
3. Good returns, 19%
4. Invest and save, 15%
5. Efficient claim processes, 12%

“My friend bought takaful and she was telling me about the things it can do if something were to happen to her, so I decided to do the same.”

“I already have a medical plan at work for myself, but it doesn’t cover my family, so I got one from takaful specially for my family.”

“I didn’t intend to buy, but the agent was good. He explained everything and wasn’t pushy, so that helped me decide.”

“I heard that takaful car insurance gives rebates when you renew it, so that was what made me choose it.”

“I thought that insurance in general is expensive, but I found out there are takaful plans for those with a more limited budget.”

“I was in hospital and had to pay the cost myself. Someone told me about takaful, so I decided to buy in case it happens again.”

Main takaful customers are aged

30–50 years old

Events that trigger takaful participation

Sources:
• The Story of the Gap: Charting Takaful Growth in Malaysia, June 2014, Actuarial Partners;
• Environment Scan on Takaful Awareness of Malaysian Youth, September 2014, Metrix Research
## Customer dynamics

### Most popular takaful products

- **59%** Personal accident
- **38%** Motor
- **49%** Medical and health
- **32%** Savings account
- **29%** Child education
- **26%** Critical illnesses

### Overall source of awareness

- **45%** TV/radio
- **36%** Friends/relatives
- **32%** Newspapers/magazines
- **30%** Outdoor advertising
- **25%** Agents
- **17%** Pamphlets, brochures, other printed materials
- **11%** Roadshows
- **7%** Social media
- **7%** Websites and online portals

### Gap findings

<table>
<thead>
<tr>
<th>Gap Findings</th>
<th>RM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average gap per working person</td>
<td>200,000</td>
</tr>
<tr>
<td>Average sum assured for takaful policy</td>
<td>50,000</td>
</tr>
<tr>
<td>Age group with largest aggregate gap</td>
<td>Below 30 years old and/or those earning less than RM1,000 a month</td>
</tr>
</tbody>
</table>

Takaful customers are satisfied with services provided.
Market segmentation by life cycle

As people transitioned through different phases in their life cycle, products are developed in accordance with their required protection needs.

Chart 41: Malaysia - life cycle and the protection gap

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Life Cycle Segment</th>
<th>Required Protection</th>
<th>Product Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-21</td>
<td>Childhood &amp; school-going years</td>
<td>Medical and hospitalisation</td>
<td>No gap</td>
</tr>
<tr>
<td>22-25</td>
<td>First job</td>
<td>Medical and hospitalisation</td>
<td>Income protection, Deferred annuity</td>
</tr>
<tr>
<td>26-60</td>
<td>Married with children</td>
<td>Medical and hospitalisation, Critical illness</td>
<td>Income protection, Deferred annuity</td>
</tr>
<tr>
<td>&gt;60</td>
<td>Retirement</td>
<td>Medical and hospitalisation, Critical illness</td>
<td>Annuity payout, Long term care, Reverse mortgage</td>
</tr>
</tbody>
</table>

Chart 42: Underserved insurance/takaful market segments

- Below age 30: Lack of urgency with priority on lifestyle
- Above age 50: Limitations due to maximum age of entry and underwriting requirements
- Lower income: Lack of disposable income after meeting daily living needs
- East Malaysia: Challenges in product distribution

Notes:
1 MRTT is mortgage reducing term takaful policies.
2 Relate to retirement products and are excluded from the scope of the study.

Source:
- The Story of Gap: Charting Takaful Growth in Malaysia, June 2014, Actuarial Partners
Takaful awareness

Takaful is widely associated as Islamic insurance.

The level of awareness is relatively low in terms of how takaful works. Most perceive takaful to be similar to conventional insurance, albeit with some differences.

Chart 43: General opinions on takaful

<table>
<thead>
<tr>
<th>Perception of takaful</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Most of them perceive it as Islamic insurance. However, most admit to having little knowledge of how it works; only a few has some basic knowledge.</td>
</tr>
<tr>
<td>2 Some believe that takaful offers the same types of products as those in conventional business as well as similar coverage and benefits.</td>
</tr>
<tr>
<td>3 General takaful: more for self or personal coverage, i.e., life insurance, motor and personal accident. Family takaful: extends the coverage beyond self to include the family, i.e., medical for family, home and education. We note that most of them have inaccurate awareness about takaful.</td>
</tr>
<tr>
<td>4 Most admit to not really knowing the main differences between takaful and conventional insurance. Islamic theme was rarely mentioned by respondents.</td>
</tr>
</tbody>
</table>

Note: 
1 Others includes investment, saving and charity fund.

Source: 
• Environmental Scan on Takaful Awareness of Malaysian Youth, Metrix Research, September 2014
Preferred distribution channels

In general, banks are the preferred channel for all age segments, followed closely by direct purchase from takaful companies and takaful agents.

Interesting to note that customers aged 30-39 preferred meeting agents before making their purchase. The need for personal face-to-face contact and relationship building reflect the importance of establishing trust.

With the introduction of bancassurance, it is envisaged that bank’s access to takaful products will be enhanced.

Chart 44: Preferred distribution channels

<table>
<thead>
<tr>
<th>Channel</th>
<th>18-24</th>
<th>25-29</th>
<th>30-39</th>
<th>40-45</th>
</tr>
</thead>
<tbody>
<tr>
<td>From the banks</td>
<td>34</td>
<td>27</td>
<td>28</td>
<td>34</td>
</tr>
<tr>
<td>Direct from takaful companies</td>
<td>31</td>
<td>27</td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>From takaful agents</td>
<td>23</td>
<td>9</td>
<td>13</td>
<td>20</td>
</tr>
<tr>
<td>Through online portals</td>
<td>11</td>
<td>7</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Do not need</td>
<td>7</td>
<td>8</td>
<td>4</td>
<td>2</td>
</tr>
</tbody>
</table>

Note:
Bancassurance is an arrangement in which a bank and insurance company form a partnership so that the insurance company can sell its products to the bank’s client base, using the bank’s distribution channels.

Source:
- Environmental Scan on Takaful Awareness of Malaysian Youth, Metrix Research, September 2014
Takaful product subscriptions

For the general public, the primary consideration factor in signing-up with takaful is the attractiveness of the product package. For takaful policy holders, the adherence to Islamic principles is their key reason.

The top 3 takaful products subscribed in Malaysia include:
- Personal accident;
- Medical and health; and
- Motor.

The type of takaful subscriptions differ according to the customer’s age group and life cycle. For example, child education accounts for 23% for those aged 40+ but less than 5% for those at the early stage of their careers, the 25-29 years old segment.

Chart 46: Takaful products subscription - by product

<table>
<thead>
<tr>
<th>Product</th>
<th>18-24</th>
<th>25-29</th>
<th>30-39</th>
<th>40-45</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal accident</td>
<td>28</td>
<td>40</td>
<td>44</td>
<td>43</td>
</tr>
<tr>
<td>Medical and health</td>
<td>25</td>
<td>30</td>
<td>40</td>
<td>43</td>
</tr>
<tr>
<td>Motor</td>
<td>4</td>
<td>7</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Child education</td>
<td>10</td>
<td>2</td>
<td>16</td>
<td>8</td>
</tr>
<tr>
<td>Home</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>13</td>
</tr>
<tr>
<td>Critical illness</td>
<td>2</td>
<td>4</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Investment-linked</td>
<td>6</td>
<td>38</td>
<td>36</td>
<td>34</td>
</tr>
</tbody>
</table>

Source: Environmental Scan on Takaful Awareness of Malaysian Youth, September 2014, Metrix Research
Protection gap in Malaysia

According to a collaborative study by Malaysian Takaful Association and Actuarial Partners, the estimated protection gap\(^1\) for working adults in Malaysia is at RM$2,489 billion or an average protection gap of 8.7 times of their average annual income. In particular, the younger working populace of below 30 years old has the largest protection gap of RM$1,065 billion or an average of 17 times of their annual income.

In addition, a 2013 survey by the Life Insurance Association of Malaysia and Universiti Kebangsaan estimated the average protection gap to range between RM$553,000 (families whose primary wage earner has some form of life insurance) and RM$723,000 (families without any form of life insurance taken by the primary wage earner).

The significant protection gap for working adults and families underscores the opportunity for further growth of Malaysia’s life insurance and family takaful sector.

**Chart 48: Protection gap study – methods to determine Malaysia’s protection gap**

<table>
<thead>
<tr>
<th>Resources required</th>
<th>Available resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consider financial requirement on death, disability and critical illness of a working family member</td>
<td>Personal savings</td>
</tr>
<tr>
<td>Income to maintain current living standards</td>
<td>Current savings from EPF</td>
</tr>
<tr>
<td>Includes servicing of household debt</td>
<td>SOCSO protection coverage</td>
</tr>
<tr>
<td>Excludes savings gap of income retirement</td>
<td>Life insurance/takaful cover</td>
</tr>
</tbody>
</table>

Note:
\(^1\) Protection gap is the difference between the financial resources available to the family of the breadwinner against the amount required to maintain the current standard of living for the dependents, in the event of death or disability of the breadwinner. The Protection gap study determines whether Malaysians are sufficiently insured (via life insurance or takaful) to protect and provide for their loved ones in the event of death or Total and Permanent Disability.

Source:
• *The Story of Gap: Charting Takaful Growth in Malaysia, June 2014, Actuarial Partners*
Malaysia’s protection gap estimated at RM$2.5 trillion offers vast opportunities for takaful and insurance operators.

- Young Malaysians in low income brackets (earning less than RM$1,000/month) faced the largest aggregate protection gap.
- Self-employed who are non-member of Employees Provident Fund (EPF) and Social Security Organisation (SOSCO) faced higher protection gap than employees.
- The protection gap for self-employed is 3 times higher than employees with average monthly salary of RM$4,000.

Note:
- SOSCO non-member include government servants, foreign employers, self-employed persons, sole proprietors & partnership, and domestic servants.

Source:
- The Story of Gap: Charting Takaful Growth in Malaysia, June 2014, Actuarial Partners
The “Story of Gap” report also highlighted contributing factors leading to Malaysia's protection gap which is summarized below.

Chart 52: Malaysia - factors leading to protection gap

- **Incentives**
  - Limited financial and tax incentives to purchase insurance
  - Heavy reliance on the benefits provided by employers
  - The need to minimise costs by insurers and takaful operators (lack incentive for those in rural areas)

- **Channels**
  - The limited reach of existing distribution channels
  - Lack of alternative distribution channels

- **Agents**
  - Quality of agents (part-time; limited experience)
  - Limited sophistication in sales processes

- **Products**
  - Preference for savings-type product
  - Lack of transparency
  - Product competition within banca channels

- **Financials**
  - Lack of funds
  - Perceived lack of funds
  - Underwriting requirements

- **Consumer awareness and knowledge**
  - Lack of knowledge in financial planning
  - Customer’s perception and reputational issues

Source:
- The Story of Gap: Charting Takaful Growth in Malaysia, June 2014, Actuarial Partners
- EY analysis
Customer preferences

EY’s Global Consumer Insurance Survey 2014 highlighted the key factors in establishing relationship with Malaysian and Indonesian customers revolve around three considerations:

- Communications and interactions;
- Budget considerations; and
- Trust.

---

**Chart 53: Most important characteristics - ongoing customer relationships**

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Easy to understand, clear communication</th>
<th>Easy to deal with</th>
<th>Provided information the way wanted it</th>
<th>Responsive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communications and interactions</td>
<td>46</td>
<td>37</td>
<td>37</td>
<td>30</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Considerations</th>
<th>% respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget considerations</td>
<td></td>
</tr>
<tr>
<td>Recommended policy best for my needs/budget</td>
<td>39</td>
</tr>
<tr>
<td>Value for money</td>
<td>31</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Trust</th>
<th>% respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong brand reputation</td>
<td>38</td>
</tr>
<tr>
<td>Financial’s stability of insurance company</td>
<td>31</td>
</tr>
</tbody>
</table>

---

**Chart 54: Asia Pacific - top reasons for closing or replacing a policy**

<table>
<thead>
<tr>
<th>Reason</th>
<th>% respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy benefits/coverage</td>
<td>Life: 46</td>
</tr>
<tr>
<td>Cost/terms</td>
<td>Life: 45</td>
</tr>
<tr>
<td>Recommended by broker, friends</td>
<td>Life: 40</td>
</tr>
<tr>
<td>Level of service received</td>
<td>Life: 27</td>
</tr>
<tr>
<td>Frequency/relevance of communication</td>
<td>Life: 27</td>
</tr>
<tr>
<td>Brand reputation</td>
<td>Life: 26</td>
</tr>
<tr>
<td>Policy did not align to my life circumstances</td>
<td>Life: 25</td>
</tr>
<tr>
<td>Research I conducted</td>
<td>Life: 24</td>
</tr>
<tr>
<td>Did not like the way claim was handled</td>
<td>Life: 23</td>
</tr>
<tr>
<td>Experienced personal/family milestones</td>
<td>Life: 21</td>
</tr>
<tr>
<td>Customer loyalty benefits</td>
<td>Life: 19</td>
</tr>
</tbody>
</table>

---

**Why customers close or replace a policy?**

1. Policy benefits/coverage
2. Cost/terms
3. Recommended by broker, friends

---

Note:
Results shown are for SEA developing markets, i.e., Malaysia and Indonesia only.

Source:
- Global Consumer Insurance Survey 2014, EY
Embracing digital modes

Given the wide and significant use of other in-bound channels, Asia-Pacific customers are fast embracing digital options.

Consequently, insurers must continually rethink their distribution strategies and partner relationship to capture growth in dynamic markets.

Among the various communication modes, pertinent to note that 24-hour telephone hotline services is still favored highly for policy inquiries, policy research, claims assistance and other policy processing needs.

Asia Pacific Consumer Survey highlights:

- Over 90% of customers would consider at least one digital/remote option\(^1\).
- 28% of customers are willing to try other digital contact methods but still need the phone as a fall back option.
- Some 44% of customers prefer other digital options over telephone.

Table 8: Asia-Pacific - consumers’ contact methods when interacting with their insurance company

<table>
<thead>
<tr>
<th>% respondents</th>
<th>Seeking financial advice</th>
<th>Researching different types of insurance</th>
<th>Inquire about new insurance policy</th>
<th>Questions about an existing policy</th>
<th>Assistance with a claim</th>
<th>Managing your current policy</th>
<th>Renewing your policy</th>
<th>Cancel my policy</th>
<th>Average rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>24 hour telephone hotline</td>
<td>42%</td>
<td>37%</td>
<td>45%</td>
<td>57%</td>
<td>52%</td>
<td>41%</td>
<td>41%</td>
<td>39%</td>
<td>1</td>
</tr>
<tr>
<td>Web chat</td>
<td>37%</td>
<td>35%</td>
<td>55%</td>
<td>47%</td>
<td>29%</td>
<td>31%</td>
<td>23%</td>
<td>13%</td>
<td>2</td>
</tr>
<tr>
<td>Email</td>
<td>33%</td>
<td>36%</td>
<td>39%</td>
<td>33%</td>
<td>28%</td>
<td>35%</td>
<td>28%</td>
<td>22%</td>
<td>3</td>
</tr>
<tr>
<td>Mobile app</td>
<td>28%</td>
<td>33%</td>
<td>29%</td>
<td>29%</td>
<td>24%</td>
<td>31%</td>
<td>21%</td>
<td>16%</td>
<td>4</td>
</tr>
<tr>
<td>Interactive support(^2)</td>
<td>29%</td>
<td>32%</td>
<td>23%</td>
<td>27%</td>
<td>27%</td>
<td>28%</td>
<td>26%</td>
<td>12%</td>
<td>4</td>
</tr>
<tr>
<td>Video tutorials and guides</td>
<td>26%</td>
<td>30%</td>
<td>23%</td>
<td>24%</td>
<td>29%</td>
<td>24%</td>
<td>17%</td>
<td>10%</td>
<td>5</td>
</tr>
<tr>
<td>Others</td>
<td>11%</td>
<td>9%</td>
<td>7%</td>
<td>7%</td>
<td>10%</td>
<td>9%</td>
<td>13%</td>
<td>27%</td>
<td>6</td>
</tr>
</tbody>
</table>

Notes:
\(^1\) Digital/remote option contact methods for most types of inquiries includes 24 hour telephone hotline, web chat, email, mobile app and video tutorials & guides.
\(^2\) Interactive Support is defined as combined phone and remote control of your computer screen to assist with navigating online materials.

Sources:
- Global Consumer Insurance Survey 2014, EY;
- EY analysis
The Malaysian takaful industry has 78,979 registered individual takaful agents as at 2014.

Most of the agents for family and general takaful are under non-banca arrangement. Estimates indicate that the number of family takaful agents is more than 4 times that of general takaful agents.

Among bank agents (banca), there are a higher proportion selling family takaful (21%) than general takaful (10%).

Chart 55: Registered individual takaful agents - family

Chart 56: Registered individual takaful agents - general

Registered individual agents (family takaful): 63,913

Registered individual agents (general takaful): 15,066

Note:
Bancassurance is an arrangement in which a bank and insurance company form a partnership so that the insurance company can sell its products to the bank’s client base, using the bank’s distribution channels.

Source:
• Annual report 2014, Malaysian Takaful Association
The number of new takaful agents increased exponentially over 2013 to 2014.

In particular, the recruitment of new family takaful agents increased sharply by 53% for banca and 40% for non-banca arrangement.

Under banca arrangement, the number of new general takaful agents experienced a 220% increase albeit from a low base.

**Chart 57: New registered individual agents - non-banca, 2013 – 2014**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family</td>
<td>10,213</td>
<td>14,258</td>
</tr>
<tr>
<td>General</td>
<td>516</td>
<td>687</td>
</tr>
</tbody>
</table>

**Chart 58: New registered individual agents - banca, 2013 – 2014**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family</td>
<td>4,046</td>
<td>6,171</td>
</tr>
<tr>
<td>General</td>
<td>131</td>
<td>419</td>
</tr>
</tbody>
</table>

Source:
* Annual report 2014, Malaysian Takaful Association
Talent development: financial sector

Leading to 2020, Malaysia’s Financial Sector Blueprint sets out a number of recommendations to enhance the talent pool for a more dynamic financial sector.

Table 9: FSB and talent-related recommendations

<table>
<thead>
<tr>
<th>Recommendation 5.3: Talent development to support a more dynamic financial sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation 5.3.1</td>
</tr>
<tr>
<td>Recommendation 5.3.2</td>
</tr>
<tr>
<td>Recommendation 5.3.3</td>
</tr>
<tr>
<td>Recommendation 5.3.4</td>
</tr>
</tbody>
</table>

Chart 59: Financial services - talent development support

- Industry-ready graduates
- Upgrade skills of existing workforce
- Facilitate entry of regional and global talent

Sources:
- Financial Sector Blueprint 2011-2020, Bank Negara Malaysia;
- EY analysis
Talent development: collaboration with learning institutions

There are specific learning institutions for bankers, insurers, capital markets, Islamic Finance aside from graduates and leadership training centres. Some of these institutions cater to the broader ASEAN and Asian markets.

Table 10: Financial services - talent development learning institutions

<table>
<thead>
<tr>
<th>Different development platforms at different stages of talent development</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leadership</strong></td>
</tr>
<tr>
<td>ICLIF Leadership &amp; Governance Centre</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Entry level</strong></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Source:
- Financial Sector Blueprint 2011-2020, Bank Negara Malaysia
• Growth and opportunities
• Risks and challenges
• Moving forward
Tapping the underserved markets, locally and regionally

Relative to its developed regional peers, Malaysia’s young and middle-class demographics provides scope to achieve higher market penetration rate. Malaysia’s insurance penetration rate1 is just 5.2% of GDP in comparison to export-driven economies like Hong Kong and Singapore whose insurance penetration rates are 16% and 9.7% of their GDP respectively.

Although Malaysia’s insurance penetration rate, measured by the number of policies per population, has risen to 55.5% in 2014, the significant protection gap of 8.7 times of the average annual income, presents opportunities for further growth of family takaful. Underserved market segments include the younger working population, those below 30 years old segment which has a protection gap of 17 times of their annual income.

In addition, Malaysia’s middle-class populace is estimated to reach 75% of the total population by the year 2030 and augurs well for the growth of its insurance industry.

Overall, the low insurance penetration rates across a number of regional markets (refer table below) underscores growth opportunities for takaful’s wider distribution.

Table 11: Insurance penetration rates and population of selected markets

<table>
<thead>
<tr>
<th>Market</th>
<th>Population (millions) estimates</th>
<th>Insurance penetration rate (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Life insurance</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>7.2</td>
<td>14.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>5.5</td>
<td>5.6</td>
</tr>
<tr>
<td>Japan</td>
<td>127</td>
<td>6.6</td>
</tr>
<tr>
<td>Australia</td>
<td>23</td>
<td>4.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>30</td>
<td>3.3</td>
</tr>
<tr>
<td>Mainland China</td>
<td>1,364</td>
<td>2.2</td>
</tr>
<tr>
<td>India</td>
<td>1,267</td>
<td>2.5</td>
</tr>
<tr>
<td>UAE</td>
<td>9.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Indonesia</td>
<td>253</td>
<td>1.1</td>
</tr>
<tr>
<td>Turkey</td>
<td>76</td>
<td>0.2</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>29</td>
<td>0.04</td>
</tr>
</tbody>
</table>

Note:
1Penetration rate is measured as the ratio of premium underwritten in particular year to the GDP.

Sources:
• Economic Outlook Database April 2015, International Monetary Fund;
• The Future of World Religions Population Growth Projections 2015, Pew Research;
• World Insurance in 2014: back to life, sigma 4/2015, Swiss Re;
• World Bank’s databank;
• EY analysis
Malaysia can lead the globalisation of takaful

EY’s global insurance study in 2014, “Waves of change” has identified Malaysia as a market with an attractive mix of demographics, economic growth and a strategic base for the development of takaful. Malaysia was ranked alongside China as a country with higher opportunities and moderate risks.

Industry regulatory initiatives led by Bank Negara Malaysia to encourage the industry’s adoption of best practices and industry collaboration initiatives by the Malaysian Takaful Association are steps towards accelerating the internationalisation of Malaysia’s takaful industry. With Malaysia’s potential to lead the internationalisation of takaful, there is urgency for Malaysia to grow strong domestic players to become regional champions in Asia Pacific markets.

Chart 60: Matrix of opportunity and risk for insurance investments

Note:
The scales for each indicator are adjusted so that “0” is worst and “100” is best. The size of each bubble represents the amount of premiums written in 2012 – an indicator of market opportunity.

Source:
• Waves of change: The shifting insurance landscape in rapid growth markets, August 2014, EY
Malaysia takaful: growth prospects

Prospects for the Malaysian takaful industry continue to ride on the growth of the Islamic banking and finance sector which offers a wide and trusted distribution base. Over the last five years, Malaysia’s Islamic banking system assets grew double-digit at 16% CAGR and the takaful industry also achieved parallel growth momentum of 13% CAGR.

Despite challenging macroeconomic conditions, market opportunities continue to prevail in underserved market segments such as the expanding middle-class segments across Malaysia’s cities.

With new regulatory demands on composite licences and licence split considerations, the next few years will see corporate restructuring and merger options.

Meanwhile, ongoing strong competition from conventional incumbents will drive takaful operators to accelerate their product innovation and distribution initiatives.

Over the medium to longer term, the growth potential for the Malaysian takaful industry is subject to regulatory tax incentives and the effectiveness of financial education of its products to consumers, institutions and business communities, including regional markets.

Chart 61: Malaysia - Islamic banking system and takaful industry total assets

<table>
<thead>
<tr>
<th>Year</th>
<th>Takaful fund assets (RM$b)</th>
<th>Islamic Banking System assets (RM$b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>12</td>
<td>229</td>
</tr>
<tr>
<td>2010</td>
<td>15</td>
<td>262</td>
</tr>
<tr>
<td>2011</td>
<td>17</td>
<td>329</td>
</tr>
<tr>
<td>2012</td>
<td>19</td>
<td>376</td>
</tr>
<tr>
<td>2013</td>
<td>21</td>
<td>434</td>
</tr>
<tr>
<td>2014</td>
<td>23</td>
<td>487</td>
</tr>
</tbody>
</table>

CAGR (%)

<table>
<thead>
<tr>
<th>Period</th>
<th>Malaysia’s Islamic banking system</th>
<th>Malaysia’s takaful industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009 - 2014</td>
<td>16.3</td>
<td>12.8</td>
</tr>
</tbody>
</table>

Sources:
- Monthly Statistical Bulletin May 2015, Bank Negara Malaysia;
- Global takaful insights 2014, EY

Chart 62: Malaysia’s takaful growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Takaful net contributions (RM$b)</th>
<th>Takaful net contributions (YOY%)</th>
<th>GDP constant (YOY%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>3.5</td>
<td>-</td>
<td>5.8</td>
</tr>
<tr>
<td>2010</td>
<td>4.4</td>
<td>0.9</td>
<td>6.2</td>
</tr>
<tr>
<td>2011</td>
<td>4.9</td>
<td>1.8</td>
<td>6.3</td>
</tr>
<tr>
<td>2012</td>
<td>5.9</td>
<td>1.7</td>
<td>6.0</td>
</tr>
<tr>
<td>2013</td>
<td>6.2</td>
<td>0.5</td>
<td>6.1</td>
</tr>
<tr>
<td>2014</td>
<td>6.3</td>
<td>-</td>
<td>6.3</td>
</tr>
</tbody>
</table>

CAGR (%)

<table>
<thead>
<tr>
<th>Period</th>
<th>Malaysia’s takaful net contributions</th>
<th>GDP constant</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009 - 2014</td>
<td>12.4</td>
<td>5.8</td>
</tr>
</tbody>
</table>

Malaysian Takaful Dynamics 2015
Malaysia’s diversified economy and favourable demographics continue to offer opportunities for insurers. Shifting customer preferences and competitive pressures require insurers to respond to changes with the right strategy, speed and agility.

With customer connectivity a key priority, there needs to be scalable investment in the appropriate technology platforms for effective interactions with customers across product areas and locations. In addition, optimising operational efficiencies, from front-end sales to back-end support, can help mitigate competitive pressures and address regulatory compliance.

With takaful, as an emerging sector of the broader insurance industry, we anticipate Malaysia’s takaful players to continually raise the benchmark for its service deliverables in its aspirations to lead takaful’s growth in regional and global markets.

Despite regulatory reforms on tighter capital requirements, demographic dynamics bode well for the industry’s growth potential. The push for constant innovation in the provision of aggregated or bundled financial service products to meet customers’ long-term objectives is key to staying relevant in a highly competitive industry.

Points to note

<table>
<thead>
<tr>
<th>Life insurance and family takaful</th>
<th>General insurance and general takaful</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> Low family takaful penetration rate of an estimated 14.5% of the population (versus life insurance at 41.2%) offer growth opportunities.</td>
<td><strong>1</strong> Dominance of motor insurance in the general insurance and general takaful segment highlights potential to insure other emerging risk areas.</td>
</tr>
<tr>
<td><strong>2</strong> Encouraging growth in Investment-linked policies for both life insurance and family takaful (12.2% and 24.1% CAGR respectively over 2009-2014) indicate opportunities for innovative product offerings.</td>
<td><strong>2</strong> Government fiscal constraints and rising medical costs presents opportunities for medical and health insurance (CAGR 14.6% over 2009 to 2014) for insurers.</td>
</tr>
<tr>
<td><strong>3</strong> With 40% of Malaysians in the insurable age group of 20 to 35 years old, focussed financial education programs can accelerate the consumer take-up.</td>
<td><strong>3</strong> Continued urbanisation of cities and parallel construction development activities provide opportunities to insure commercial risks, e.g., fire insurance.</td>
</tr>
<tr>
<td><strong>4</strong></td>
<td><strong>4</strong> Climate changes including stronger storms, rising ocean levels highlight opportunities in the property, catastrophe and business disruption risks.</td>
</tr>
</tbody>
</table>

Source:
• EY analysis
Malaysia takaful: growth drivers

The long-term growth of Malaysia’s takaful lies in the demand and supply dynamics and interactions of its players - customers, products, operators and agents.

Malaysia’s large protection gap implies that there is scope for takaful operators to tap further into its untapped takaful market. The potential to realise higher market penetration rates for the takaful segment can be gauged by the significance of Malaysia’s Islamic banking and capital markets aside from its large Muslim populace.

The underlying foundations include the regulatory framework and supportive policies, e.g., tax incentives which can provide a stable and attractive platform for both operators and customers.

The over-arching lever which can further shape and influence the growth of the takaful industry include effective communications and training programs. Today’s rapid digital innovation offers smart and creative solutions to improve takaful’s reach to customers through analytics, telematics and multi-channel distributions.

Chart 63: Driving factors of takaful

Communications
- Public awareness campaigns
- Targeted advertising and promotions

People
- Significant Muslim populace
- Large protection gap and underinsured population

Process
- Multi-channel distribution strategy
- Acceleration of mobile and web-based sales

Technology
- Digital platforms that empower agents and distributors
- Adoption of analytics and telematics to fast understand consumer profiles

Regulations and guidelines
- IFSA 2013
- RBCT
- ICAAP
- LIFE Framework
- Incentives

Source:
• EY analysis
Taking heed of global challenges

With the current global economic challenges, insurers and takaful operators will need to rebalance their market growth priorities against cost pressures and the impact of regulatory changes in their current and prospective markets.

While these challenges are not new, the evolving macroeconomic and geopolitical conditions, new regulations addressing insurer solvency, capital and risk management, data protection and privacy and accounting reporting standards (IFRS 4, IFRS 9 and IFRS 15) demand more urgent and focussed attention.

Looking ahead to 2020, more than 50% of senior executives in multinational insurance companies surveyed in EY’s Global Insurance CFO Survey 2015 cited their top business drivers to be:

1. Achieving market growth priorities;
2. Reducing cost pressures and improving margins;
3. Responding to regulatory change; and
4. Improving capital and liquidity position.

Chart 64: Ranking of business drivers of multinational insurance companies

Please rank in order the following business drivers facing your organisation through 2020

<table>
<thead>
<tr>
<th>Business Driver</th>
<th>First</th>
<th>Second</th>
<th>Third</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieving growth, expanding into markets and/or expanding through M&amp;A activity</td>
<td>43</td>
<td>17</td>
<td>6</td>
<td>66</td>
</tr>
<tr>
<td>Relieving pressure on costs and margin/ improving profit</td>
<td>17</td>
<td>11</td>
<td>26</td>
<td>54</td>
</tr>
<tr>
<td>Responding to regulatory change</td>
<td>20</td>
<td>11</td>
<td>11</td>
<td>51</td>
</tr>
<tr>
<td>Improving capital and liquidity position</td>
<td>11</td>
<td>17</td>
<td>17</td>
<td>45</td>
</tr>
<tr>
<td>Addressing competition from globalisation and new market entrants</td>
<td>11</td>
<td>11</td>
<td>9</td>
<td>31</td>
</tr>
<tr>
<td>Establishing risk migration and management</td>
<td>6</td>
<td>20</td>
<td>29</td>
<td>55</td>
</tr>
<tr>
<td>Increasing simplification through organisational restructuring</td>
<td>14</td>
<td>3</td>
<td>17</td>
<td>34</td>
</tr>
<tr>
<td>Preparing for leadership change and succession</td>
<td>9</td>
<td>9</td>
<td>18</td>
<td>36</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td></td>
<td></td>
<td>3</td>
</tr>
</tbody>
</table>

Percent of respondents ranking the challenge among their top three

Source:
- Global Insurance CFO Survey, 2015, EY
Data, technology and people present top challenges

According to EY’s Global Insurance CFO Survey 2015, two out of every three CFOs ranked their top challenges to be in data quality and technology issues.

Other major challenges include talent recruitment, i.e., getting people with the right skills. In particular, sought after skills include financial reporting, analytical and business acumen.

Additionally, successful transformation requires upshift in processes to achieve efficiencies in financial reporting and the implementation of business strategy.

There is also growing interest for organizations to portray itself as “good place to work” with the heightened war for talent.

Chart 65: Ranking of challenges to address

Please rank in order the main challenges finance and actuarial organisations will need to address to become better business partners and fully participate in the execution of the business strategy.

- Data: quality/granularity not synchronised with needs
- Technology: infrastructure (not fit for purpose)
- People: lack of resources/quality (skills) of resources
- Process: inconsistent/not unified across the firm
- Performance Management expected role of Finance (not viewed as a business partner)
- Strategy: lack of articulated finance vision
- Organization: decentralised organisation/ globally unified delivery model
- Cost to execute finance responsibilities
- Governance: finance not aligned on key enterprise governance models (e.g., data standards)
- Other

Percent of respondents ranking the challenge among their top three

Source:
• Global Insurance CFO Survey, 2015, EY
Regional trends to consider

Moving forward, Malaysian takaful operators can take heed of Asia Pacific trends for insurers as reported in EY’s Global Insurance Outlook 2015 as follows:

- The growth of the middle class and high net worth population in Asia-Pacific presents the opportunity for insurers to increase their sales of personal lines insurance products, as well as health insurance;
- Commercial lines insurance prospects remain strong, given the region’s elevated catastrophe risk, the rise in infrastructure and home building across much of Asia-Pacific, and a low insurance penetration rate;
- Insurers are challenged to invest in data analytics and modeling capabilities, as well as Internet and mobile digital sales, distribution and customer service solutions, given an increasingly technologically sophisticated population; and
- Regulations addressing insurer solvency, capital and risk management are moving to the front burner, in addition to consumer protections in the areas of data privacy and security.

Chart 66: Regional trends to consider

People and markets

- Develop capital and M&A opportunities
- Reposition investment strategies
- Expand products and services to address the growing needs of High net worth (HNW) market

Processes

- Adapt product strategies to the changing regulatory environment
- Enhance data controls and metrics
- Increase compliance to respond to growing sales and consumer protection regulations

Technologies

- Streamline the value chain via the cloud and traditional business process outsourcing (BPO)

Source:
- Global Insurance Outlook, 2015, EY
Given the evolving eco-system, with macro-economic challenges and fast-changing customer demands, getting the “house in order” is paramount to achieving a sustainable takaful business.

For takaful operators, areas of continued focus include:

**Chart 67: Areas to focus**

<table>
<thead>
<tr>
<th>Weather-proofing for a sustainable takaful industry</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reset strategic directions</strong></td>
</tr>
<tr>
<td>• Identify emerging customer trends</td>
</tr>
<tr>
<td><strong>Optimize operations</strong></td>
</tr>
<tr>
<td>• Achieve critical business volumes</td>
</tr>
<tr>
<td>• Access quality customers and commercial lines</td>
</tr>
<tr>
<td>• Improve distribution and service capabilities, including digital innovations</td>
</tr>
<tr>
<td>• Leverage on data and analytics</td>
</tr>
<tr>
<td><strong>Gear up for new solvency, accounting and regulatory reforms</strong></td>
</tr>
<tr>
<td>• Seek efficient reporting solution architecture</td>
</tr>
<tr>
<td>• Find the balance to meet stricter solvency requirements</td>
</tr>
<tr>
<td>• Manage risk volatilities</td>
</tr>
<tr>
<td><strong>Collaborate with industry regulators, standard-setters and relevant facilitators</strong></td>
</tr>
</tbody>
</table>

Source:
- Global Takaful Insights: growth moment continues, 2014, EY
Stepping ahead to be a sustainable industry

As an emerging segment of the larger insurance industry, the Malaysian takaful industry needs to step forward in strategic areas to drive and support its long-term growth potential and sustainability.

In an ever challenging and dynamic market environment, the industry needs to rapid-adapt to new risks and opportunities by:
- Resetting directions;
- Reinventing deliveries; and
- Reinvigorating collaborations.

Chart 68: Three-steps towards a sustainable industry

1. **Reset directions**
   - Develop differentiated business strategies from conventional peers

2. **Reinvent deliveries**
   - Intensify innovation end-to-end, from People to Products to Processes

3. **Reinvigorate collaborations**
   - Work pro-actively with relevant institutions, including regulators, standard-setters for a facilitative environment

Source:
- EY analysis
• Abbreviations
• Glossary of terms
• Fundamentals of takaful
• Model comparisons
• List of tables and charts
• References
• Thought leaderships and publications
• Contacts
  • Takaful industry players
  • Malaysian Takaful Association
  • EY
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full term</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAOIFI</td>
<td>Accounting and Auditing Organisation for Islamic Financial Institution</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>BNM</td>
<td>Bank Negara Malaysia</td>
</tr>
<tr>
<td>BRICS</td>
<td>Brazil, Russia, India, China, South Africa</td>
</tr>
<tr>
<td>BPO</td>
<td>Business process outsourcing</td>
</tr>
<tr>
<td>CAGR</td>
<td>Compound annual growth rate</td>
</tr>
<tr>
<td>CAR</td>
<td>Capital adequacy ratio</td>
</tr>
<tr>
<td>CBB</td>
<td>Central Bank of Bahrain</td>
</tr>
<tr>
<td>COR</td>
<td>Combined operating ratio</td>
</tr>
<tr>
<td>EPF</td>
<td>Employees Provident Fund</td>
</tr>
<tr>
<td>FSA</td>
<td>Financial Services Act (Malaysia)</td>
</tr>
<tr>
<td>FSB</td>
<td>Financial Services Board (Malaysia)</td>
</tr>
<tr>
<td>GCC</td>
<td>Gulf Cooperation Council</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>HNW</td>
<td>High-net-worth</td>
</tr>
<tr>
<td>IFSA</td>
<td>Islamic Financial Services Act (Malaysia)</td>
</tr>
<tr>
<td>IFSB</td>
<td>Islamic Financial Services Board (Malaysia)</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>LIFE</td>
<td>Life insurance and family takaful framework (Malaysia)</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>Mergers and acquisitions</td>
</tr>
<tr>
<td>MRTT</td>
<td>Mortgage reducing term takaful</td>
</tr>
<tr>
<td>MTA</td>
<td>Malaysian Takaful Association</td>
</tr>
<tr>
<td>OJK</td>
<td>Otoritas Jasa Keuangan (Indonesia's financial authority)</td>
</tr>
<tr>
<td>PIDM</td>
<td>Perbadanan Insurans Deposit Malaysia</td>
</tr>
<tr>
<td>RBCT</td>
<td>Risk-based capital for takaful</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on equity</td>
</tr>
<tr>
<td>SAMA</td>
<td>Saudi Arabian Monetary Agency</td>
</tr>
<tr>
<td>SEA</td>
<td>South East Asia</td>
</tr>
<tr>
<td>SOCSO</td>
<td>Social Security Organisation</td>
</tr>
<tr>
<td>UAE</td>
<td>United Arab Emirates</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>WIID</td>
<td>World Islamic Insurance Directory</td>
</tr>
</tbody>
</table>
## Glossary of terms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bancassurance</td>
<td>An arrangement in which a bank and an insurance company form partnership so that the insurance company can sell its products to the bank’s client base, using the bank’s distribution channels.</td>
</tr>
<tr>
<td>Contributions</td>
<td>Monetary contributions provided once or periodically by a participant to a takaful pool. Part of these contributions will be treated as Tabarru (donations with the objective of common good) and the remaining portion will be used for investment.</td>
</tr>
<tr>
<td>Gharar</td>
<td>Extreme uncertainty</td>
</tr>
<tr>
<td>Haram</td>
<td>Unlawful, forbidden as per the tenets of Islam</td>
</tr>
<tr>
<td>Maysir</td>
<td>Gambling or speculation</td>
</tr>
<tr>
<td>Mudaraba</td>
<td>An agreement between the entrepreneur and the capital provider in a business venture to share profits of the joint venture based on an agreed profit sharing ratio. Losses are borne by the capital provider only.</td>
</tr>
<tr>
<td>Qard</td>
<td>Loan</td>
</tr>
<tr>
<td>Retakaful</td>
<td>A contract whereby one party, for a consideration, agrees to indemnify another party, wholly or partially, against loss or liability the latter has covered under a separate and distinct takaful contract.</td>
</tr>
<tr>
<td>Riba</td>
<td>The concept of Riba is basically the loan taken with the condition that the borrower will return more than the amount borrowed. The interest charged by a financial institution is Riba.</td>
</tr>
<tr>
<td>Shariah</td>
<td>Islamic canon law is derived from three sources: the Quran, the Hadith or Sunnah and Ijrah (ijma and Qiyas). Ijma means consensus of scholars and Qiyas means analogical reasoning based on Quran or Hadith precedents. A “Shariah-compliant” product meets the requirements of Islamic law. A “Shariah board” is the committee of Islamic scholars available to an Islamic financial institution for guidance and supervision in the development of Shariah-compliant products and in the process of offering these products to the financial institution’s customers. A “Shariah adviser” is an independent Islamic scholar that advises Islamic institutions on the compliance of the institution’s products and services and its operations with Islamic law.</td>
</tr>
<tr>
<td>Takaful</td>
<td>Mutual protection or guarantee provided by a group of people against a defined risk or catastrophe befalling one’s life, property or any form of valuable assets. Operationally, takaful refers to participants mutually contributing to a common pool of funds with the purpose of having mutual indemnity in the case of a peril or loss to any of the participants.</td>
</tr>
<tr>
<td>Wakala</td>
<td>Agency</td>
</tr>
</tbody>
</table>
**Fundamentals of takaful**

**Takaful is the Shariah-compliant alternative to conventional insurance.**

| Conventional insurance (non-mutual) | The company accepts premiums from the insured at a level that it anticipates will cover claims and result in a profit. This process of anticipation is akin to Maysir (speculation).  
The insured pays premiums to the company in exchange for indemnity against risks that may not occur. This process of ambiguity is akin to Gharar (uncertainty).  
The company engages in investments that may derive income from interest and prohibited industries. This process is akin to Riba (usury) and relates to Haram (prohibited) activities. |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Takaful</strong></td>
<td>Takaful is based on the concept of social solidarity, cooperation and mutual indemnification. It is a pact among a group that agrees to donate contributions to a fund that is used to jointly indemnify covered losses incurred by the members. While the concept of takaful revolves around mutuality and is founded on a noncommercial basis, the operations and the fund are commonly managed by a takaful operator on a commercial basis.</td>
</tr>
</tbody>
</table>
| **Five key elements** | Mutual guarantee – the basic objective of takaful is to pay a defined loss from a defined fund. The loss is covered by a fund created by the donations of policyholders. Liability is spread among the policyholders and all losses divided between them. In effect, the policyholders are both the insurer and the insured.  
Ownership of the fund – donating their contributions to the takaful fund, policyholders are owners of the fund and are entitled to its profits (this varies slightly between the adopted models, which are described later).  
Elimination of uncertainty – donations, causing transfer of ownership to the fund, are voluntary to mutually help in the case of a policyholder’s loss without any pre-determined monetary benefit.  
Management of the takaful fund – management is by the operator who, depending on the adopted model, utilises either (or a combination) of two Shariah-compliant contracts, namely Mudaraba or Wakala.  
Investment conditions – all investments must be Shariah-compliant, which prohibits investment in Haram industries and requires the use of instruments that are free of Riba. |
## Model comparisons

Takaful uses a system based on the principle of mutual assistance to share risk, collectively, among a group of members.

<table>
<thead>
<tr>
<th>Contracts utilised</th>
<th>Takaful</th>
<th>Cooperative insurance</th>
<th>Mutual insurance</th>
<th>Proprietary or commercial insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donation and mutual undertaking based on non-remunerative or non-commutative contract</td>
<td>• Not an exchange /commutative contract</td>
<td>• Mutual contract</td>
<td>• Mutual contract - considered to be an exchange contract on principles of mutuality</td>
<td>• Remunerative or commutative exchange contract</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company’s responsibility</th>
<th>Takaful</th>
<th>Cooperative insurance</th>
<th>Mutual insurance</th>
<th>Proprietary or commercial insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manage the participants’ fund</td>
<td>• Pay claims with underwriting fund</td>
<td>• Pay for deficits, if any</td>
<td>• Pay claims with underwriting fund</td>
<td>• Pay claims</td>
</tr>
<tr>
<td>Pay claims from underwriting fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provide interest-free loan to underwriting fund in case of deficit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Participants’ responsibility</th>
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Appendices 77
Malaysian Takaful Dynamics 2015

**Mudaraba model**

A principal-manager agreement is used between the policyholders (Rab al Mal – capital providers) and the takaful operator (Mudarib – entrepreneur) for both underwriting and investment activities.

- **Participants**
  - Contributions, claims and distribution
  - Policyholder’s fund
  - Shareholder’s fund
  - Combined fee
  - Qard

- **Qard**
  - Shareholder’s fund
  - Combined fee
  - Underwriting result (technical and investment)

- **Underwriting result (technical and investment)**
  - Retakaful or reinsurance

**Notes:**
- Participants are policyholders.
- Shareholders’ fund is takaful operator.
- Combined fee is a percentage share of the underwriting result – a combination of the technical result and investment returns.
- Qard is an interest-free loan provided by the shareholders to the policyholders’ fund in the event of deficit.

**Source:**
- EY analysis

---

**Wakala model**

A principal-agent arrangement (Wakala) is used between the policyholders and the takaful operator for both underwriting and investment activities.

- **Participants**
  - Contributions, claims and distribution
  - Wakala fee
  - Policyholder’s fund

- **Wakala fee**
  - Shareholder’s fund
  - Qard

- **Qard**
  - Shareholder’s fund
  - Combined fee
  - Underwriting result (technical and investment)

- **Underwriting result (technical and investment)**
  - Retakaful or reinsurance

- **Technical result**
  - Investment result

**Notes:**
- Participants are policyholders.
- Shareholders’ fund is takaful operator.
- Combined fee is a percentage share of the underwriting result – a combination of the technical result and investment returns.
- Qard is an interest-free loan provided by the shareholders to the policyholders’ fund in the event of deficit.

**Source:**
- EY analysis
Hybrid model

A combination of the principal-agent (Wakala) and principal-manager (Mudaraba) arrangement: Wakala is used for underwriting activities and Mudaraba is used for investment activities.

Waqf model

A Waqf fund is established via a donation by shareholders. This Waqf cannot be used to settle claims. The combined model is used to manage participants’ contributions with a Qard facility provided by shareholders.

Notes:
Participants are policyholders.
Shareholders’ fund is a takaful operator.
The Qard is an interest-free loan provided by the shareholders to the policyholders’ fund in the event of deficit.
The Wakala Waqf model has proven popular in Pakistan and relies upon an initial donation from the shareholders to establish a Waqf fund for the participants. Only the investment returns from this fund (and not the Waqf amount itself) may be used to pay claims. Contributions are managed through the combined model with shortfalls in the participants’ fund being met through a Qard facility from shareholders, Pakistani Shariah scholars do not allow surplus distribution amongst participants.

Source:
• EY analysis
The cooperative model is the only permissible model in Saudi Arabia. The regulator does not allow Qard facility or the charging of a Wakala fee. However, a percentage of the premium is allowed to be deducted as shareholder income if the net surplus is sufficient.

**Participants**
- 90% — cooperative shareholders

**Funds**
- Funds managed and controlled completely by the cooperative insurance company; no separate legal status of the fund exists, although by law it is required to be separated from shareholders' funds
- Funds invested in various investment opportunities – adequate reserves and provisions created

**Investment returns**

**Reinsurance funds**

**Reinsurance claims**

**Retakaful commission**

**Reinsurance company**

**Surplus on funds**
- 90% – cooperative shareholders
- Minimum – 10% participants*

Notes:
Participants are policyholders.
Shareholders' fund is a takaful operator.
*At management’s discretion

Source:
- EY analysis
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Malaysian Takaful Association

Publications

The Story of Gap: Charting Takaful Growth in Malaysia

Environment Scan on Takaful Awareness in Malaysia

Annual Report 2013

Annual Report 2014

MTA’s online library

Consumer Education Series
- Motor takaful
- Family takaful
- Investment-linked takaful

Guidelines
- Code of ethics for takaful agents
- Guidelines on Replacement of Family Takaful Certificates (ROC) - inter takaful operator procedures
- Guidelines on the Continuing Professional Development (CPD) hours

Events

The Takaful Rendezvous 2013

The Takaful Rendezvous 2014

The Takaful Rendezvous 2015
2015 Global insurance outlook

Waves of change: The shifting insurance landscape in rapid-growth markets 2014

Key findings from the EY Global Consumer Survey 2014: Reimagining customer relationships

Global Takaful Insights 2014: Market updates

Global Takaful Insights 2014: Market updates

Rapid-growth markets: EY rapid-growth markets forecast 2014

Take 5: Financial Services Act 2013 and Islamic Financial Services Act 2013

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2012: Voice of the customer: Time for insurers to rethink their relationship

World Islamic Banking Competitiveness Report 2014-15: Participation Banking 2.0
Contacts

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