

## Mohd Razif bin Abd Kadir: Promoting the takaful industry in Malaysia

Speech by Mr Mohd Razif bin Abd Kadir, Deputy Governor of the Central Bank of Malaysia, at the Launch of ING Public Takaful Ehsan, Kuala Lumpur, 5 April 2011.

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It is my pleasure to be here with you this morning for the official launch of ING Public Takaful Ehsan. Indeed, this momentous occasion, which also celebrates an alliance between ING Management Holdings (M) Sdn Bhd, Public Bank Bhd and Public Islamic Bank Berhad, signifies yet another milestone in our continuous endeavour to provide sufficient financial safety net for the general population and at the same time, promote the development of a progressive takaful industry, that is agile, dynamic and able to adapt to the increasingly challenging environment.

In 2009, Bank Negara Malaysia unveiled the plan to issue 2 new family takaful licences as part of the initiative to increase the penetration rate of insurance and takaful as well as to further liberalise the financial sector. Despite the prevailing tough global economic conditions and uncertainties in the international financial environment back then, an overwhelmingly strong number of applications were subsequently received, which led to the issuance of 4 family takaful licences instead of 2 as originally planned. This speaks volume of the interest and confidence of leading market players in the growth prospects of the takaful industry in Malaysia.

For more than 2 decades, the takaful industry has been blessed with tremendous growth and strong performance. The industry experienced a compound average growth rate of 27 percent in terms of net contributions between 2005–2010, with family takaful driving the growth at 28 percent for the same period, to dominate more than 80 percent of the total takaful market in 2010. The strong growth momentum is expected to continue, underpinned by the rising affluence of Malaysian amidst strong economic fundamentals. Given the large untapped market that still exists with only 54 percent of the population having a life insurance or family takaful policy, the takaful industry is poised to benefit in the years ahead.

Today's launch is thus an important step in our overall strategy to further elevate the growth and development of the takaful industry. ING Public Takaful Ehsan is the 3rd licensee to launch out of the 4 family takaful licences awarded recently, making up to a total of 11 takaful players now operating in Malaysia. The initiative for strengthening competition in takaful industry is premised on our quest to unlock the enormous growth potential that lie ahead. There are 3 dimensions from which strong opportunities for growth can be harnessed in the takaful industry.

***First, is the opportunity to penetrate the remaining underserved areas in family takaful.*** One such area is medical and health, which in 2010 constitutes only 9 percent of new family takaful business. Going forward, there is certainly a need for greater role by takaful in supporting sustainable management of healthcare and retirement needs of individuals to effectively address the emerging challenges associated with demographic changes with rising healthcare expenditure. As the Malaysian society transitions to a more ageing population as typically seen in developed economies, there is room to harness the appeal of family takaful as a tool for long-term savings and investment, whilst protecting against financial vulnerabilities arising from critical illness, death, disability or unemployment, or providing for children's education. With growing awareness on individual responsibility in financial planning among Malaysians catalysing demand for savings and investment-driven products, this positive trend will translate itself into an impetus for strong growth in endowment family takaful products.

***The second dimension of growth opportunities for the takaful industry is to be seized from the transformation of Malaysia as a high income economy.*** In advancing towards

this transformation, the Malaysian economy is to undergo significant structural shift into new areas of growth and comparative advantage. With Islamic finance specifically identified as one of new growth areas under this envisioned new economic model, the takaful industry stands to gain from the march towards socio-economic transformation by seizing the opportunity to grow business beyond the more traditional business lines. This entails broadening product offerings to higher value-added activities and capturing the growing demand for more customised, niche and sophisticated product range, including investment-linked and wealth-management products, among the more affluent customer base. At the other end of product spectrum, equal, if not more, emphasis needs to be given by the industry in extending coverage to low-income individuals via microtakaful. There is little doubt that the ability and commitment of takaful industry to deliver such value proposition that allows for the benefits of growth and development to be experienced across all communities will resonate strongly with the values espoused by takaful. This in turn could go a long way towards elevating the importance of takaful in the eyes of the public and further widening the industry's growth prospect. With this aim in mind, it is critical for industry players to leverage on the readily available channels to reach to the masses and employ agents and bancatakaful to the fullest to maximise its potential.

***The third dimension of growth which is integral to the nation's high income agenda relates to the opportunities to be harnessed under the initiative to consolidate Malaysia's position as an international Islamic financial centre (MIFC).*** As industry is well aware, the MIFC initiative seeks to enhance the international dimension of Malaysia's Islamic finance. The prospect is most compelling for the takaful industry. Malaysia is already at the forefront in the development of takaful, particularly family takaful, compared to other market. Building on our strengths, experience and achievements, the Malaysian takaful industry with the highest number of takaful and retakaful operators, is well-positioned to seize the enormous opportunity to export takaful benefits to the estimated 1.5 billion Muslims around the world whom are currently underserved by the insurance industry. This presents a huge window of opportunity for our takaful operators to accelerate their regional and global orientation and move up the global value chains. It is therefore important for strategic international partners such as ING to explore all possible avenues to elevate the business potential of takaful internationally.

A critical factor that will determine the success in taking the industry to the next level of development is the existence of players with the right quality and calibre, as well their readiness in terms of capacity and capability to formulate and execute successful strategies in response to new market opportunities. In this rapidly evolving environment, responsiveness to consumer needs is a crucial test that defines success. The takaful industry in Malaysia has never been about Shariah conformity being its only value proposition. With consumers becoming increasingly discerning and the market being more competitive, factors such as innovative product design, price competitiveness, transparency and service quality have all been important determinants in winning and securing customer loyalty. The ability of takaful operators to deliver such value propositions has been, and will continue to be, amongst the key success factors to successfully position takaful in Malaysia to appeal to both muslim and non-muslims, whether corporates or individuals. It is our earnest aspiration that the entry of ING Public Takaful Ehsan will further add to the dynamism and vigour of the takaful industry. With this strategic alliance between 2 financial groups of such calibre, Bank Negara Malaysia looks forward to strong management stewardship, innovative product offerings, wide distribution channels, operational and service excellence as well as breakthrough business strategies that are well-matched by robust risk management capabilities. I am confident that ING Public Takaful Ehsan will benefit greatly from the synergies and complementary strengths of its shareholders, by drawing upon the combined wealth of market experience, technical underwriting expertise, multi-channel distribution network and infrastructure, to successfully make its mark as one of the leading takaful operator, both domestically and on the global front.

In the pursuit to seize the growing business opportunities in the increasingly competitive environment, building a pool of highly skilled and knowledgeable workforce must remain a strategic priority for takaful operators. As a knowledge-intensive industry, human capital can indeed be a potent weapon of competitive advantage for the industry. As the industry seeks to achieve a higher level of competitiveness, increased product complexity, business sophistication, service excellence and the global nature of competition are all demanding greater depth and breadth of leadership, knowledge, competence and skills of industry professionals. Adding to the demands for increased organisational capabilities is the changing regulatory landscape towards risk-based capital, soon-to-be implemented for the Malaysian takaful industry, which places greater prominence on strong risk management culture. I must also stress on the distinctive human capital requirements for the takaful industry – with respect to the need to ensure that the industry workforce possesses the right blend of technical knowledge and understanding of the Shariah. Several centres of excellence for advanced education and training in Islamic finance such as the International Centre for Education in Islamic Finance (INCEIF) and industry's own Islamic Banking and Finance Institute Malaysia (IBFIM) are currently tasked with this pivotal role of enhancing takaful expertise through dedicated takaful modules and training programmes. Going forward, continuing support and stronger commitment of takaful operators to develop and enhance the pool of talents will be crucial in determining the extent of future progress and achievement.

Whilst the need to develop technical skills is paramount, emphasis must also continually be given to the adoption of the highest level of professionalism and good market conduct. This is an area of particular importance for takaful intermediaries, marketing and servicing front liners representing the face and image of the industry. It involves educating consumers on the key attributes of takaful, having great reverence for and understanding of consumer needs, ensuring that consumers are suitably advised in the marketing process to make informed decisions as well as treating consumers fairly. It needs no convincing that such high standard of market conduct is essential in maintaining public confidence, the lack of which will undoubtedly compromise industry's reputation. Equally important is the imperative to ensure that Shariah compliance remains at the heart of governance and business operation. This calls for accountability on the part of takaful operators to institute robust shariah governance framework within their organisation. The enhanced Shariah governance framework issued by Bank Negara Malaysia for the Islamic financial services industry recently aims to achieve this objective. It is envisaged that the enhancements made to the framework will lead to improved oversight, authority and accountability of key Shariah organs and greater Shariah observance through an end-to-end Shariah control mechanisms, thereby strengthening the overall shariah governance processes within Islamic financial institutions. Through its effective implementation, the framework lays the foundation for an Islamic financial institution to align Shariah with the organisation's strategic orientation, in guiding Shariah compliance as an embedded culture within the organisation, beyond merely product design function to all other aspects of its day-to-day business operation. Given that effective shariah compliance is the cornerstone of the aims and objectives of an Islamic financial institution, takaful operators will find that such an approach that optimises and harnesses the strength of Shariah will manifest itself as a source of competitive edge for their organisation, whilst contributing immensely towards preserving the integrity of the Islamic financial services industry.

With our steadfast commitment to continually enhancing the dynamism and competitiveness of the takaful industry in Malaysia, I am confident that the takaful industry is on-track for quantum leap performance in this next phase of growth and development. On this note, it is my great pleasure to congratulate ING Public Takaful Ehsan on its successful launch. I wish ING Public Takaful Ehsan every success in its endeavors and look forward to its meaningful contribution in driving the takaful industry and Islamic finance in Malaysia forward.