

## Zamani Abdul Ghani: Official launch of Commerce Takaful Berhad

Keynote address by Mr Zamani Abdul Ghani, Deputy Governor of the Central Bank of Malaysia, at the official launch of Commerce Takaful Berhad, Kuala Lumpur, 7 April 2006.

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Terlebih dahulu saya ingin menyatakan kesyukuran kita kerana dapat berhimpun pada petang ini. Saya juga ingin mengucapkan terima kasih kepada Commerce Takaful Berhad kerana menjemput saya menghadiri majlis yang sangat bermakna ini.

Alhamdulillah, usaha kita yang berterusan dan yang tidak mengenal lelah dalam merumus pembangunan industri kewangan Islam sepanjang lebih dua dekad yang lalu telah mula menampilkan hasil yang memberangsangkan. Usaha kita ini telah melahirkan suatu industri perbankan Islam dan takaful yang mantap, kompetitif, dan berdaya tahan.

Pembangunan infrastruktur keinstitutionan yang menyeluruh dan saling berkait rapat dalam bidang-bidang utama seperti perbankan, takaful, pasaran wang dan modal, menjadi nadi perkembangan industri ke peringkat lebih tinggi dan meluas. Takaful, yang merupakan komponen penting sektor kewangan Islam, telah mencapai perkembangan yang pesat dan semakin berpotensi untuk memacu kemajuan seterusnya di dalam dan luar negara. Peningkatan kesedaran orang ramai mengenai produk kewangan Islam terus merupakan antara faktor penting menyokong perkembangan positif ini. Kesemua elemen-elemen ini terus memperkukuhkan kedudukan Malaysia sebagai pelopor dan peneraju kewangan dan perbankan Islam. Pembangunan seterusnya kini bergantung kepada sejauh mana pengendali takaful dapat menggunakan kelebihan yang ada, terutamanya dalam meneroka lebih jauh dalam pasaran global. Fokus harus diberi kepada menentukan hala tuju strategik yang tepat dan menyeluruh, dan mengembleng inisiatif berterusan dalam meningkatkan kualiti perkhidmatan dan produk. Usaha bersepadu di peringkat industri juga perlu dalam pembangunan sumber insan dan dalam merangka pendekatan yang lebih berkesan untuk memasuki pasaran global. Semangat "takaful", iaitu saling bantu-membantu, perlu diperkukuhkan untuk menjadi teras kepada usaha kita membangunkan Malaysia sebagai pusat kewangan Islam antarabangsa yang unggul.

It is indeed a pleasure to be here today to commemorate the official launch of "Commerce Takaful Berhad". It was almost a year ago, in April 2005, that we witnessed the emergence of its related company - "Commerce Tijari Bank Berhad". Commerce Tijari has since developed into a new, emerging provider of Islamic banking and financial solutions that successfully leveraged on its strong group structure, thereby contributing towards spurring the growth of the Islamic financial services industry in the country. Alhamdulillah, today, the setting up of Commerce Takaful Berhad is another significant milestone reflecting the Group's strong commitment towards providing a complete range of Shariah-compliant financial solutions, covering Islamic banking and takaful and the capital market, that is competitive, comprehensive and tailor-made to meet the demands of the consumers.

For the takaful industry in Malaysia, the emergence of Commerce Takaful Berhad in the Islamic financial landscape is indeed timely. This is particularly so in our efforts to further strengthen the institutional infrastructure of our takaful industry by increasing the diversity and strength of players in the Islamic financial system. These players will be the driving force, accelerating the expansion of takaful business, not only in Malaysia but regionally as well as globally. The commencement of Commerce Takaful Berhad, which is indeed the first takaful operator to be launched this year, complements Bank Negara's initiatives of promoting the establishment of a core of strong players that could heighten competition and promote innovation in the takaful industry. This certainly will be reinforced by the establishment, InsyaAllah by the end of the year, of four additional takaful consortia and joint ventures between Malaysia and well-known foreign institutions. These four new institutions have recently been given official approval to conduct takaful business.

The progress achieved by the takaful industry as a key component of the Islamic financial system has contributed towards the overall development of the Islamic financial industry. Islamic finance in Malaysia has evolved through several phases of development through the establishment of a number of key players and key market infrastructure. The Islamic finance industry in Malaysia has emerged as a viable and competitive component of the financial system, operating in parallel with the conventional financial system in contributing towards the nation's economic development and growth. Lembaga Tabung Haji, acknowledged to be the first Islamic financial institution in Malaysia, is now a major institution with a total deposits of more than RM13 billion. The Islamic banking industry, that consists

of both dedicated Islamic banks and Islamic banking schemes in the conventional banks, continues to show commendable performance with profitability and assets surpassing for the first time the threshold of RM1 billion and RM100 billion respectively at the end of 2005. The industry has become a major contributor to the overall economic growth, with assets equivalent to nearly 25% of the country's gross national product. This strong progress is complemented by equally encouraging performance by the specialized non-bank financial institutions and ancillary institutions such as Tabung Haji and Cagamas Berhad. Structured development of the Islamic money and capital markets has further enhanced the enabling environment for the Islamic financial system to effectively play its role as an efficient conduit to mobilize resources and provide financing for productive economic activities. Today, we have a comprehensive Islamic financial landscape underpinned by strong institutional infrastructure and effective legal, regulatory and Shariah framework. Moving forward in this dynamic global economic environment, it is imperative for our players to take strategic steps towards gaining further sustainable competitive advantage so as to maintain the first mover advantage we currently enjoy.

A famous philosopher had once said: "Well begun is half done". For this, let us take a moment to briefly reflect on the current dynamic operating environment of the takaful industry in order to consider how best a new takaful operator like Commerce Takaful Berhad can fit in, and satisfy the expectations of relevant stakeholders in this challenging landscape.

Let me begin by sharing with you three points that relate to the state of takaful in Malaysia.

**Firstly, the Malaysian takaful industry has evolved in over two decades into an industry that is fast growing, full of potential, and very competitive.** In an environment that is highly competitive and constantly subject to rapid changes, the industry is quickly ascending to prominence as evidenced by total assets amounting to RM6 billion, representing an average annual growth rate of over 27% for the past five years. Moreover, takaful contributions recorded an average annual growth of 18.8% during the period, and generating RM1.3 billion of contributions last year. This profound growth performance was achieved against the backdrop of relatively low overall takaful penetration rate of 5.6%, and the overall insurance penetration rate of 38.7%. This, coupled with growing awareness of the importance of takaful or insurance protection among the public, is a perfect recipe or combination for continuing success and further improvement of growth prospect of the industry in the coming years. Future success, however, will have to be earned as the competitive element within the industry is immense. These competitive elements could be in the form of groups of experienced players that are determined to sustain their market share, on the one hand, and new players with strong financial support and abundance of existing resources and international network on the other.

**Secondly, the takaful business, like other financial services products, is closely aligned with the expectations of the consumers. Hence, the sustainability of a takaful operator is dependent on its ability to effectively respond to their needs and demands.** The long-term success of a takaful operator depends on the capacity to retain customers and the degree of customer allegiance. This is a dynamic process as the requirements and expectations of consumers are also changing rapidly in tandem with the increased education levels and growing affluence. In recent years, consumers have become more discerning and demanding better product choices, more efficient delivery channels and more customer friendly practices from takaful operators. Bancatakaful, for example, has made noticeable headway to account for 20.4% of takaful contributions in 2005, compared with only 6.5% in 2004, reflecting the consumers' preference for selected products to be made available through this channel. While product offering among takaful operators will eventually converge, the consumers ultimately expect speed in service delivery, simplicity in dealings, stretching or going the extra mile in satisfying customer's needs and unquestionable integrity.

**Thirdly, Malaysia still has competitive advantage in terms of takaful and is well-positioned to be a takaful and retakaful hub in this region .** During the past two decades, we have seen the gradual opening up of takaful operation in many jurisdictions throughout the world, primarily in Islamic countries and countries with large Muslim communities. In this period, Malaysian takaful industry has gained significant attention with the remarkable growth rate recorded domestically and in other countries as far afield as Saudi Arabia. Malaysian takaful industry alone successfully garnered approximately 26% of global takaful contributions and our takaful operator has been recognized as among the leaders at the global front. This strong performance is anchored by the strong legal, regulatory and Shariah framework governing the industry, with full commitment of the government to position Malaysia as a thriving International Islamic financial centre. Major initiatives, such as the recent establishment of a well financed INCEIF, or the International Centre for Education in Islamic Finance, are clear indication of the efforts to enhance talent and human capital development, an essential element to drive innovation and sustain market competitiveness of the industry. T he

dynamism and viability of the takaful industry in Malaysia that is supported by sound enabling environment have already drawn significant attention of many strong international players seeking the opportunity to be part of the Malaysian takaful industry. The advancement and progress that have been achieved thus far have provided competitive advantage to our Malaysian takaful operators and opened up significant opportunity for our players to venture further abroad and become stronger global players, InsyaAllah.

Against this backdrop of growing opportunities and challenges, it is imperative for the takaful operators to enhance their institutional capabilities and operational efficiency in order to strengthen their competitive position in responding to the ever changing environment. It is our aspiration to see Commerce Takaful Berhad emerges as an effective and progressive takaful operator with strong presence in the domestic financial landscape and acts as among the anchor players to expand takaful business at the global front. The challenge then is for the leadership to chart a clear strategic direction at the group level that, in short term, prepares the organization in responding to those changing environment and, in long term, creates an organization that can sustain success. The strategic direction also must fully embrace the opportunities to leverage on the group's expertise, experience, infrastructure and its extensive networks abroad in offering diversified takaful products and enhancing customer services. Emphasis should also be directed on the enhancement of human capital that would serve as an enabler for the Commerce group to achieve greater height. With the entry of Commerce Takaful Berhad into the domestic takaful industry, we also hope that all takaful players fully internalize the spirit of "takaful", that is mutual cooperation and assistance among each other, so that the industry could collaborate towards common objectives of further enhancing the resilient and expansion of the industry. Initiatives such as developing human talent and finding better and more effective mechanism of venturing abroad should also be explored at industry level. More collaborative efforts may also be directed towards strengthening the retakaful sector in which we have also first mover advantages that would subsequently reduce dependency on conventional reinsurance as a risk mitigation tool. Indeed, in realizing our vision to sustain takaful as an important sector which contributes towards the economic growth of the nation, the industry players have to jointly demonstrate unwavering commitment towards elevating the industry to new and higher levels of achievement.

On this note, it is my pleasure to congratulate the Commerce Group on the official launch of Commerce Takaful Berhad. Significant potential exists for Commerce Takaful Berhad to achieve a quantum leap by leveraging on the integrated financial services and extensive operating infrastructure of the Commerce Group. I wish the Board of Director and the management of Commerce Takaful Berhad every success in this endeavour and I look forward to its contribution towards further development of the Islamic financial services industry in Malaysia.

Dengan lafaz Bismillahirrahmanirrahim, saya dengan sukacitanya merasmikan pelancaran "Commerce Takaful Berhad".

Terima kasih.