

## Zeti Akhtar Aziz: The takaful industry in Malaysia

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the launch of Prudential BSN Takaful Berhad, Kuala Lumpur, 8 August 2006.

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Ladies and Gentlemen,

The takaful industry in Malaysia today is poised for greater dynamism and growth, within the expanded domestic and international frontier of the Islamic financial system. This reflects the culmination of the wide-ranging strategies that have been implemented over more than two decades for the full potential of Islamic finance to be now realised. However, to ensure that the momentum in the development of Islamic finance is sustained in a now more challenging and fast changing international financial environment, it not only requires continued development of the Islamic financial infrastructures, and the range of products and services it offers, but also an increase in the number of players and an enhancement of their capacity and capabilities in terms of size and quality of their participation in the financial system.

The launch of Prudential BSN Takaful Berhad today marks a new phase of development in the Malaysian takaful industry. Prudential BSN Takaful Berhad is one of four successful consortia that has been identified to conduct takaful business. With the entry of the four new players into the financial system, the competitive element that is injected into the market structure of the industry can be expected to contribute to accelerate the pace of industry development. The enhanced and robust competition in the marketplace would lead to greater consumer benefits in terms of improved business efficiency, product development and service quality. It is envisioned that the achievement of these imperatives will ensure that the Malaysian takaful industry is well-positioned to successfully make the transition from being "good-to-great" and, InshaAllah, will remain as the global leader for takaful and retakaful.

Ladies and Gentlemen,

The overarching objective of our regulatory policies is to ensure that the financial system is in a position to serve the public with the best range and quality of products and services, that the interest of the consumer is at all times protected, and that best practices are adopted to ensure the soundness and stability of the system. It must be emphasised, however, that the ultimate responsibility for ensuring this rests on the players in the financial system, in particular, the Senior Management and the Board of Directors. This is particularly important to ensure public confidence in the efficiency and performance of the financial system to contribute to the overall development of the economy.

The initiative formulated for the takaful industry in strengthening competition through the creation of new takaful players, is aimed at achieving this overarching objective. The presence of players with the right qualities and calibre in the marketplace is part of the process of ensuring product innovation and service excellence. Achieving success in becoming a world-class player in an environment of greater competition will hinge on the ability of the Malaysian financial services industry to innovate and provide enhanced value propositions for consumers. This underscores the importance of capacity building by the financial institutions in research and development and re-engineering of business processes in search of operational excellence and enhanced customer service delivery. A strong culture of excellence is therefore vital: one that is embedded into all levels of the organisation; one that fosters and rewards innovation and service quality. A customer-centric approach is, and will continue to be, the winning formula for a financial institution to make its mark as a world class financial services provider.

Ladies and Gentlemen,

While it is acknowledged that substantial investments in terms of time and resources are required for an institution to develop into a world-class player, it is envisaged that the learning curve can be made considerably steeper via collaboration between financial institutions with complementary strengths. This has been one of the underlying premises in the approach taken by Bank Negara Malaysia in granting the new takaful licences to consortia of financial institutions. Such strategic alliances are expected to promote greater efficiency gains within the takaful industry, leading to greater benefits to consumers. This in turn should translate into the takaful operators making the quantum leap forward. Bank Negara Malaysia also looks forward for a more active role by all shareholders, including the non-

controlling shareholders, in the transformation of the new takaful operators into efficient and world-class players capable of competing against the best in both the domestic and international marketplace.

Ladies and Gentlemen,

On the regulatory front, as the financial services industry transitions to a more deregulated and market-driven environment, the regulatory and supervisory approach will continue to evolve into one that is more principle and risk-based. The regulatory initiatives will also continue to emphasise competition, efficiency, and innovation whilst maintaining financial stability. For the takaful industry in particular, the consultative paper on the principle-based guidelines on the takaful operational framework will soon be issued. The aim is to establish the parameters within which the takaful operators operate their business, whilst allowing for the different takaful models currently adopted by the respective takaful operators to continue to operate. This consultative process is a further reflection of the approach adopted to take into consideration the feedback from the industry players in designing appropriate regulatory framework and thus towards balancing the interests of the various stakeholders. The industry can also expect to see progress on the development of international best practices for the takaful industry by the Islamic Financial Services Board (IFSB) in the near future. An important step towards this direction has been taken with the recent establishment of an IFSB working group to develop supervisory standards on corporate governance.

Ladies and Gentlemen,

Given the strong progress to date and the positive economic environment, I am confident that the Malaysian takaful operators will continue to make significant strides in becoming world-class players. In the process, this will strengthen the positioning of Malaysia as an international Islamic financial centre. On this note, I wish to congratulate Prudential Corporation Holdings Limited and Bank Simpanan Nasional on the occasion of the official launch of Prudential BSN Takaful Berhad. I wish Prudential BSN Takaful Berhad every success in achieving its objectives.

Akhir kata, dengan lafaz Bismillahir Rahmanir Rahim, saya dengan sukacitanya merasmikan pelancaran Prudential BSN Takaful Berhad.

Terima kasih.