

Transforming the Takaful industry: Stepping up the game

It is not something new that Takaful in Malaysia, especially Family Takaful, is considered one of, if not the most matured and advanced Takaful industries globally. It has grown tremendously from where it started back in 1984, the year the legendary Takaful Act 1984 was enacted; an independent legislation spelling out rules to conduct a Shariah compliant insurance system — the first of its kind in the world. Malaysia has since become a main point of reference for other upcoming markets searching for a practical ecosystem to help expedite development in their respective markets. WAN AHMAD NAJIB WAN AHMAD LOTFI explores.



Wan Ahmad Najib is the chief strategy and digital distribution officer of FWD Takaful, a Family Takaful operator in Malaysia and the honorary treasurer of the Chartered Institute of Islamic Finance Professionals (CIIF). He can be contacted at wan.najib@fwd.com.

A robust regulatory and governance system

Over the years, the Takaful ecosystem in Malaysia has evolved to become the structured regulatory and governance Takaful system it is today. There are more clarity in the parameters as well as expectations, including both Shariah and non-Shariah aspects of the business. The Takaful Act 1984 has even collapsed into a comprehensive and centralized yet compact Islamic Financial Services Act (IFSA) 2013.

IFSA 2013 boldly puts forward stringent yet practical Shariah and governance requirements that emphasize on ensuring customers' interest is of the upmost priority. It explicitly spells out clear responsibilities and accountability straight to the top which, if not fulfilled, could attract huge sums of fines or penalties. The seriousness of ensuring Shariah compliance supported by a structured governance system was elevated. It needs to be managed holistically and embedded in the overall structure, system and culture of an Islamic financial institution.

The evolution of the Takaful regulatory system does not show any signs of slowing down, instead the pace has continued to increase exponentially over the past few years. We have seen the issuance of numerous Shariah standards and enhancements to

existing regulations to help facilitate and accelerate the industry's development.

2019 will be an exciting year as there will be major enhancements to two main frameworks: the Shariah Governance Framework and the Takaful Operational Framework, each tackling the fundamentals of Takaful operations and product structures.

The end goal is to create a great customer experience by leveraging on digital as the enabler

Dynamic and conducive regulatory environment

The market today is far different from before: it is now consumer-driven and digitally enabled. With information literally being at the touch of a finger thanks to technology, consumer demands today have gone off the charts — they demand:

1. Product sophistication but expect it to be presented in a simpler manner
2. Higher service level demanding accuracy, accessibility and immediate response but at a lower price, and
3. Top class professionalism beyond traditional advice and services.

There have been numerous enhancements to regulations in various forms and areas, encouraging and

setting the right environment for operators and insurers to react and adapt to these market changes. The tone of the new era of regulations is set to be dynamic and empowering but at the same time, does not compromise on prioritizing customer interest first, propagating a high level of professionalism and imposing strong governance. It intends to provide room for innovation while providing assurance to the public that their money is well taken care of.

In the last decade, various new requirements have been introduced in phases to facilitate these changes. They come in many forms: liberalization, push for diversification of new channels especially online channels, professionalism behavior triggers via a balance scorecard, clearer disclosure requirements for better transparency, independent assurance frameworks and probably at the top of agenda, digital and technology innovation.

There have been continuous initiatives and incentives encouraging the digital agenda such as the focus on e-payments, online portals and channels, sandbox environment for safe prototyping, approval leniency for technology rollout, cloud services usage and many more. The dynamic regulatory outlook illustrates how the financial industry is changing rapidly with the birth and availability of new technologies. We have seen the usage of blockchain, big data, artificial intelligence, robotic process automation, application programming interface and many others being incorporated into processes to improve service delivery and efficiency to customers as well as business partners.

More needs to be done

While we have seen many achievements and improvements,

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more needs to be done for the industry to really create a meaningful impact on the market. Takaful in Malaysia is reaching its 35-year mark but the penetration rate is still low hovering at 15%, and alarmingly this has been the trend for the last five years.

This triggers attention considering the demographic outlook in Malaysia is in favor of the Takaful industry. By 2030, young Malays (who are Muslims) below the age of 35 years old would form 41% of the population. Coupled with improvements in household income and a higher balance income for a household to spare (2016: 42% balance income), Takaful still offers a palatable opportunity despite the developments observed in the past decade.

If we were to analyze further, the main stumbling block stopping us from improving the penetration can be pinned down to the ability to reach out and provide protection to underserved markets such as the low-income group (B40) and market segments such as the disabled community. The main challenge remains the same as before: to identify a cost-efficient distribution channel bundled with a meaningful protection offering suited to these market segments.

An innovative and sustainable business model fair to all the parties involved is much needed — the assurance of continuous protection to customers while ensuring the Takaful operator can make business and financial sense from offering products and services to these segments. A win-win business and operational solution is the only way for it to be sustainable in the long run.

VBI: Future of Takaful

In March 2018, a strategy paper on value-based intermediation (VBI) was issued by Bank Negara Malaysia, together with the founding members of the VBI Community of Practitioners. The intention of VBI is to strengthen the roles and impact of Islamic finance for the community; a conscious effort to elevate Islamic finance to the next level. VBI goes beyond the business objectives of an Islamic finance institution where it needs to also consider the longer-term positive impact the business would have on the community at large.

Operationalizing this intention, VBI falls back to the objectives of Shariah, refined to practical underpinning thrusts that form the basis for collective actions by Islamic financial institutions as follows:

- Best conduct
- Self-governance
- Entrepreneurial mindset, and
- Community empowerment.

From another perspective, VBI is about creating shared value, a concept recently introduced to mainstream businesses. Shared value refers to policies and procedures that improve the competitiveness of a business while simultaneously enhancing the economic, environmental and social conditions in communities it serves in a structured and planned way. The business does not only look at the value it can create for shareholders but also how it can give back to the people while staying true to its core business.

Takaful itself is a form of VBI — the concept of Tabarru' (donation) of pooling to help one another in a way embraces the underpinning thrusts of VBI. However, it needs to go beyond the technical definition, as on the surface if we look at products, services and distribution channels, Takaful is not much different from conventional insurance. The industry will need to revisit and evaluate some of its fundamentals to identify and determine the real and sustainable impact it can have on the community.

The digital era: Get on board or be left behind

The digital era is here to stay — more like it has replaced the norms of yesterday. No Takaful player today can compete without embracing digital — be it in terms of technology adoption or the way of doing business such as entering e-commerce.

However, the most of us make the mistake of simply jumping onto the bandwagon without understanding the objectives of applying technology to a process or solution. The last thing we want to do is spending tons of money on a digital solution or technology for the sake of doing it — doing it just because everyone else is doing it.

Financially in the long run, a digital solution is meant to create a more cost-efficient way of doing business. This would translate to lower costs being transferred to customers, which also means products can be priced to be more affordable and competitive. In the bigger picture, technology and its corresponding cost savings are meant to create better value to customers.

With new technologies flooding the Takaful and insurance space, the Takaful industry and its players need to continuously evaluate and identify the benefits and differentiating factors these technologies can bring to the business in order to remain competitive and not be left behind.

The market might not be fully digital-ready yet for Takaful — there is still a large market out there that expects some form of human interaction in their customer experience. If we were to dissect the different segments, there would probably be two extreme groups of people at each end — a group that is totally digital at one end and a group that prefers traditional ways on the other.

The majority of people fall in the middle, probably forming between 60% and 70% of the market: digital tools form a significant part of their life — information searching, communication, etc, but when making important decisions, they still look for final assurance from an actual human being.

This gives Takaful operators all the more reason to identify innovative ways to bridge this paradigm by embedding digital into its processes with the intention of creating a meaningful online to offline customer experience. In the end, what makes the difference is not the digital component but the customer experience it creates, which is all about convenience, speed and accuracy. The end goal is to create a great customer experience by leveraging on digital as the enabler.

The time has come for the Takaful industry and its players to step up the game and transform to remain competitive as a business and more importantly, to remain relevant to the ever-demanding consumers out there. (2)