



**Saiful Yazan
Ahmad**

President Director
PT Syarikat Takaful
Indonesia

TAKAFUL IN INDONESIA: BUSINESS GROWTH AMIDST ECONOMIC TURMOIL

Many economists predict the year 2009 as a challenging year for the corporate world. On the extreme note, it is predicted that the crisis which started in the second quarter of 2008 would prolong to 2010. Some even speculated that it would eventually head towards stagflation, an economic crisis marked by the persistent inflation combined with stagnant consumer demand and relatively high unemployment.

As the United States still holds the bull by its horn in regards to business and economy, the economic recession which began there swiftly spread out to other developed and developing countries, fast becoming a world economic catastrophe. Stock markets, such as Dow Jones, Nasdaq, FTSE, Hangseng and Nikei continued the downfall trend in first quarter of 2009. However, the index prices have shown some optimistic increases recently but economic uncertainty still looms. Prices of commodities are continuously corrected to the low level. Indeed, this economic crisis is the worst ever, since the Great Depression in the United States in 1930.

Big nations experiencing the impact of this financial tsunami are struggling hard to figure out ways to revive the economy. Indonesia as a developing country is definitely no exception. Many companies, regardless of their sizes have been plagued by unemployment and some even have to close down temporarily.

Despite the gloomy atmosphere, insurance players in Indonesia still have reasons to remain optimistic. As there are silver linings in every dark cloud, this crisis breathes fresh opportunities to the insurance industry as well. In 2009, Indonesia's insurance industry is projected to grow by 5%, in line with the national economic growth which is expected to increase by 5.2% from the previous year. This positive outlook is not only based on the consumer's continued demand for insurance protection, but also on the immense local market potentials in the insurance/takaful industry which until recently has only reached 11% market penetration rate.

Although it is predicted that 2009 would see a slow-down in the insurance sector and despite declining premium collection at the beginning of 2009 (5%-6%), the industry is anticipating an appreciation in demand for insurance protection with the forthcoming 2009 general election. This is because the public would most likely seek insurance protection to insure their properties against possible damage that might arise due to any untoward incidents caused by the election process.

On another positive outlook, the Government's recent regulation, (PP) No. 81 year 2008, also brings an added advantage to the more than 40 general insurance companies in Indonesia with capital below IDR 40 billion (USD 4 million). The regulation granted postponement to 2010 and 2014 for conventional insurance companies to fulfill the minimum capital requirement of IDR 40 billion (USD 4 million) and IDR 100 billion (USD 10 million), respectively. This definitely brings great relief to the insurance players as they are allowed more time to increase their capital in stages during the four years stipulated time period. Nevertheless, the minimum capital requirement for insurance companies based on shariah principles or takaful is maintained at IDR 50 billion (USD 5 million).

Since 2008, the takaful industry continues to grow despite slowing macroeconomic condition. By end of 2008, there were 51 insurance related institutions operating on shariah principles in Indonesia. Three were full-fledged Shariah insurers, 39 window-based, three retakaful and six takaful and retakaful Shariah brokers. For the year 2008, Takaful Indonesia Group, the biggest takaful group in Indonesia, recorded a remarkable growth with significant improvement on the performance of its two subsidiaries, PT Asuransi Takaful Keluarga (ATK) which manages family takaful and PT Asuransi Takaful Umum (ATU) which manages the general side. Gross contribution of Takaful Indonesia in 2008 rose by 42%, reaching almost IDR 500 billion (USD 49.6 million) from IDR 352 billion (USD 34.9 million) in to the previous year. This improvement is contributed by ATK's gross collection of IDR 324 billion (USD 32.2 million) (65%) and ATU's IDR 176 billion (USD 17.5 million) (35%). The net income of these two Takaful Indonesia's subsidiaries also improved significantly. For 2008, ATU recorded IDR 7.79 billion (USD 773, 969) in net income, an impressive increment of about 80% compared to IDR 4.32 billion (USD 429, 210) in 2007. In addition, ATK also registered a gain of IDR 14.06 billion (USD 1.65 million); rising 58% from IDR 8.90 billion (USD 884, 252) recorded the year before. This marked an impressive achievement far exceeding the average growth of the Indonesian insurance industry which at the most only grows 25% per annum.

For the insurance industry in Indonesia, unit link product is obviously the most favorable and much sought-after product in the market. Takaful Indonesia's subsidiary, ATK also recorded an increase in sales for its own unit link product, amounting to IDR 44.51 billion (USD 4.4 million) for the first and second quarter of 2008. Unfortunately, the world's unfriendly investment climate did hinder sales of unit link products as the final quarter of last year marked a decreasing demand. This downward trend continued in the first quarter of 2009, reflecting the impact of the global financial turmoil. However, the second quarter of 2009 showed a promising time ahead as the demand for unit-link products has started to rise up again due to renewed customers' interest.



Amidst the impending global economic crisis Takaful Indonesia is definitely set to continue focusing on the upward business growth. Having a wealth of experience and having achieved outstanding growth in 2008, Takaful Indonesia implements formulated strategies such as repackaging of attractive products and focusing on products which are not too susceptible to the economic changes. ATK's family takaful's product like health insurance (Fulmedicare) and education insurance (Fulnadi); and ATU's general takaful's product like motor vehicle and fire insurance are widely promoted during trying times like the present. The emergence of new shariah banks in Indonesia has also given new opportunities for bankatakaful business.

Although facing economic crisis, the low market penetration in the shariah insurance industry in Indonesia creates an attractive opportunity for the insurance players to continue to grow and prosper. As market expansion is one of the most effective ways to keep business flowing, Takaful Indonesia tries to reach wider market segment by extending its marketing chain to strengthen it's 38 branches all over Indonesia. Takaful Indonesia takes continuous effort to reach more customers nationwide by creating effective marketing channels via its cooperation with corporations. In addition to that, synergistic effort is also taken to develop staff professionalism and competencies through consistent training and



development. This is necessary as staff professionalism is crucial to deal with the more extended and sophisticated customers' base. Besides, the emphasis on spiritual aspect is never neglected as it is one of the most important differentiation factors between takaful and conventional players.

Needless to say the low market penetration for shariah insurance in Indonesia is also attributable to several other factors. The majority of the population is still in the low-income bracket. On top of that, society's awareness on the importance of insurance is still rather low. Efforts are still needed to be directed towards educating the public on both the conventional and shariah insurance, for the market to appreciate the protection aspects that insurance can offer.

In tandem with this spirit, Takaful Indonesia has capitalized on its wealth of experiences, having been the pioneer in takaful business in Indonesia and having lead the industry for more than 14 years from its inception. As an appreciation to the public for their continued support, Takaful Indonesia has taken the initiative to produce a premier book on takaful entitled, "Solusi Berasuransi Lebih Indah Dengan Syariah" (Insurance Solution Made Better with Shariah). This book is specially written to cater for the general public at large to promote better understanding on the basic knowledge about takaful business. The demand for such book is obviously huge in view of scarcity of material on such topic in the market.

To optimize the benefits that shariah insurance can offer the public at large, the insurance players, investors, regulators and the society in general should work hand in hand for a mutually beneficial cooperation. Commitments from all stakeholders will undoubtedly help to boost the takaful industry in Indonesia to a higher level and will help to close the gap between the syariah and conventional insurers.



If you would like more information on ICMIF and its services to the takaful sector, please contact Sabbir Patel (sabbir@icmif.org), or visit www.takaful.coop.

© 2009 ICMIF. All Rights Reserved.

Not to be reproduced in part or whole without express written permission.

