



**Mohamad
Salihuddin
Ahmad**

CEO
Prudential BSN Takaful
Berhad, Malaysia

TAKAFUL IN SOUTHEAST ASIA: THE GROWING PAINS AND CHALLENGES?

Today, the global takaful industry has some 50 operators, with combined total assets and contributions (premium) of about USD 1.5 billion and USD 600 million respectively. Clearly, these figures are insignificant compared to the global Muslim population of more than one billion.

Obviously, takaful presents vast opportunities and a massive market for its products. Malaysia is a leader in this industry among non-Arab countries. For instance, in Malaysia, takaful represents a USD 143 million market or 27% of the total insurance market in the country compared to Asia Pacific countries which have a USD 50 million (9%) market, Europe and US (USD 6 million or 1%), and Arab countries (USD 340 million or 63%).

In Southeast Asia, apart from Malaysia, Brunei and Indonesia are also seen as major players in the takaful market, while Singapore and Bangladesh in South Asia have also come onboard of late. Smaller Southeast Asian players include the Philippines and Thailand.

Takaful is derived from the Arabic word *Kafalah* which is a pact that guarantees individuals in a group against loss or damage sustained by any one of them. Taking the cue from this, the Malaysian Takaful Act 1984 defines takaful as “a scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose”.

In other words, takaful refers to a group of people investing in a fund that can be drawn on to support an affected party. As it originates from an Islamic concept, one of the greatest challenges facing the takaful industry is the misconception that it is for Muslims only. Sadly, this misconception was self-inflicted because in its initial launch, takaful was promoted as an “Islamic” product by Muslims and for Muslims. Hence, the *halal*-ness of the product is what attracted or being propagated to the Muslim customers, rather than the beauty and the benefits of the takaful products vis-à-vis its conventional counterpart.

Uniquely, in multi-racial Malaysia, takaful products have attracted even the non-Muslim communities, despite the obvious religious and cultural differences. The corporate sector and multinationals are also subscribing to takaful products. Nonetheless, the interest shown by non-Muslims and the support of Muslims is not enough to promote the awareness and the growth of takaful and what it has to offer. It is this lack of awareness that presents one of the greatest challenges to the development and growth of the national and global takaful industry.

Another challenge is in meeting expectations. The financial strength, stability and standards of conventional insurers are established and known. These conventional insurers have been in the industry for many years and their service levels are perceived better than those of takaful operators. Thus, we need to overcome negative perceptions of takaful and prove to the market that its operators are capable of providing competitive services that are on par with or better than conventional insurance companies.

One way to do this is to offer a wider range of takaful products as an alternative to those offered in the conventional market. Furthermore, the needs of the lower income groups must also be addressed. One that comes to mind is to offer *microtakaful*, which is a concept of providing affordable cover to the poor.

Scholars have always had differing opinions on the management of takaful. This is a global issue, so streamlining their opinions on what is acceptable in takaful terms will help improve penetration and eliminates confusions among the operators, specifically the public as a whole. This situation is currently being overcome, thanks to the development of a more acceptable model such as *wakalah*, which is helping takaful operators expand beyond their home countries.

In Malaysia, Prudential BSN Takaful Berhad (PruBSN) has attracted more than 40% of non-Muslim customers while the rest are Muslims. Even the persons who are authorised to distribute our products are mostly non-Muslim. The fact that the non-Muslims have come onboard to actively distribute our takaful products surprised many and initially offended some. But why should it be? Takaful is acceptable to all communities and faiths – Muslim and non-Muslim alike. Islam does not forbid non-Muslims from distributing or obtaining Islamic products, and this is one message the industry as a whole must clearly send out.

What this calls for is a change in mindsets, not just among Muslims but non-Muslims too. Whilst we remain true to the Shariah compliancy of takaful products, we must also be mindful of the environment within which we aim to market our takaful products. The fact that some continue to believe takaful is only for Muslims must be challenged and addressed without delay.

In doing so, the takaful industry must design new and innovative products that meet client and market expectations, failing which its growth will be stifled. And we have to do it speedily too. A change in mindset is also a pre-requisite to grow beyond our shores and become a global player. The ten-country Association of South East Asian Nations (Asean), with its 500 million population, presents a vast opportunity to expand our takaful markets.

A major challenge in achieving this and growing the industry is the fact that there is a dearth of human resources that is well versed in takaful to facilitate its expansion in a more cohesive manner. The constant need to identify qualified takaful talents has forced operators to recruit personnel from conventional insurers, and retrain them to take up the takaful challenge. But this means spending considerable amounts of time and money to re-educate them on the difference between both concepts.

Regulations such as those which require takaful operators to ensure compliance through the Shariah Council before any product can be marketed is often a cause of delays. This long process means an introducer of a new product gets to have his cake and eat it too, while competitors play catch up. Clearly, it is in the best interest of the takaful industry to have this process shortened. In the meantime, operators are forced to design several products at a time and release them in stages to remain competitive and relevant.

Yes, the takaful industry has a long way to go in meeting these vital challenges. We have already begun the journey. Now what we need is the will and the discipline to see it through.

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.

© 2007 ICMIF. All Rights Reserved.

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

