

# Financial & Economic crisis: Opportunities for Takaful as a Viable Alternative

21<sup>st</sup> F.A.I.R Conference 2009

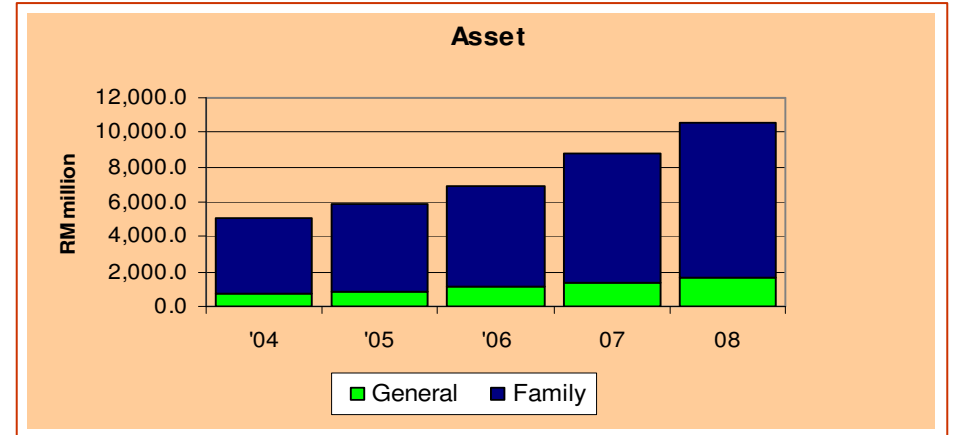
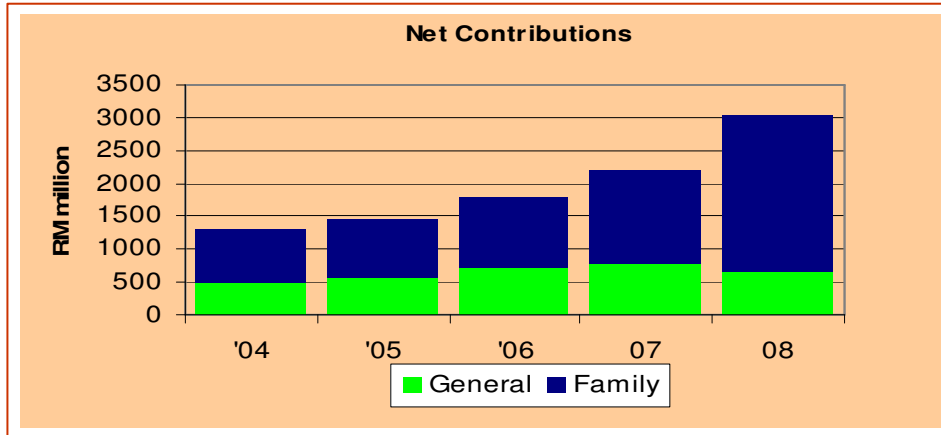
**Ahmad Hizzad Baharuddin**  
Director  
Jabatan Perbankan Islam dan Takaful



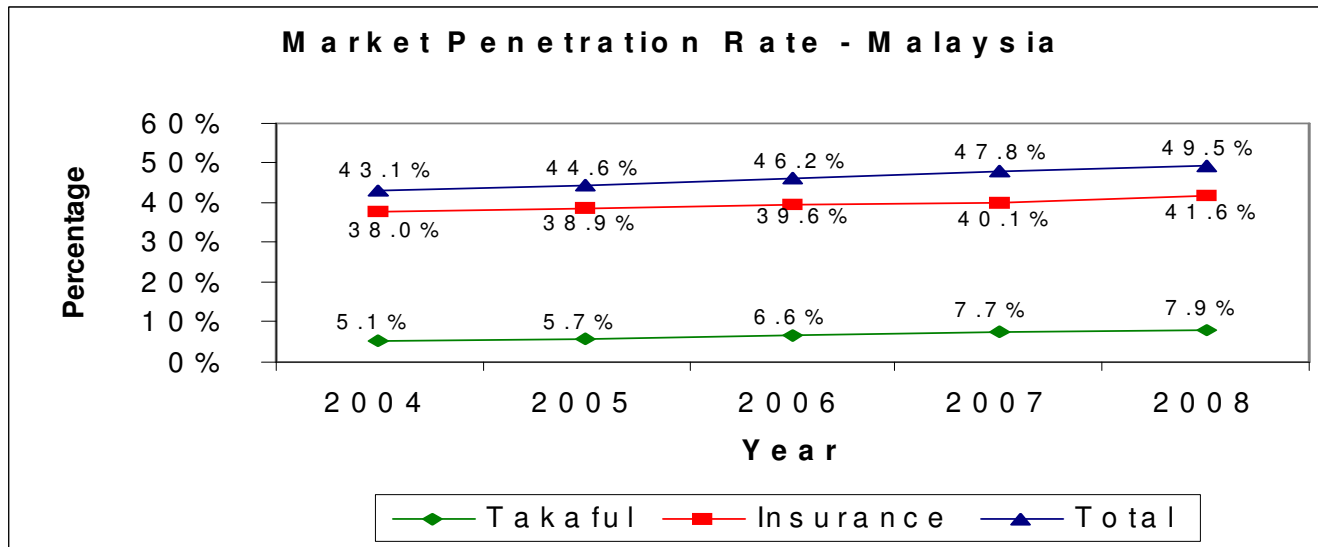
**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA



# Takaful in Malaysia: Market performance indicators and growth prospects...



Malaysian market continues to experience robust annual net contributions and assets growth at compounded rates of 24.4% and 19.0% respectively in 2008 ...

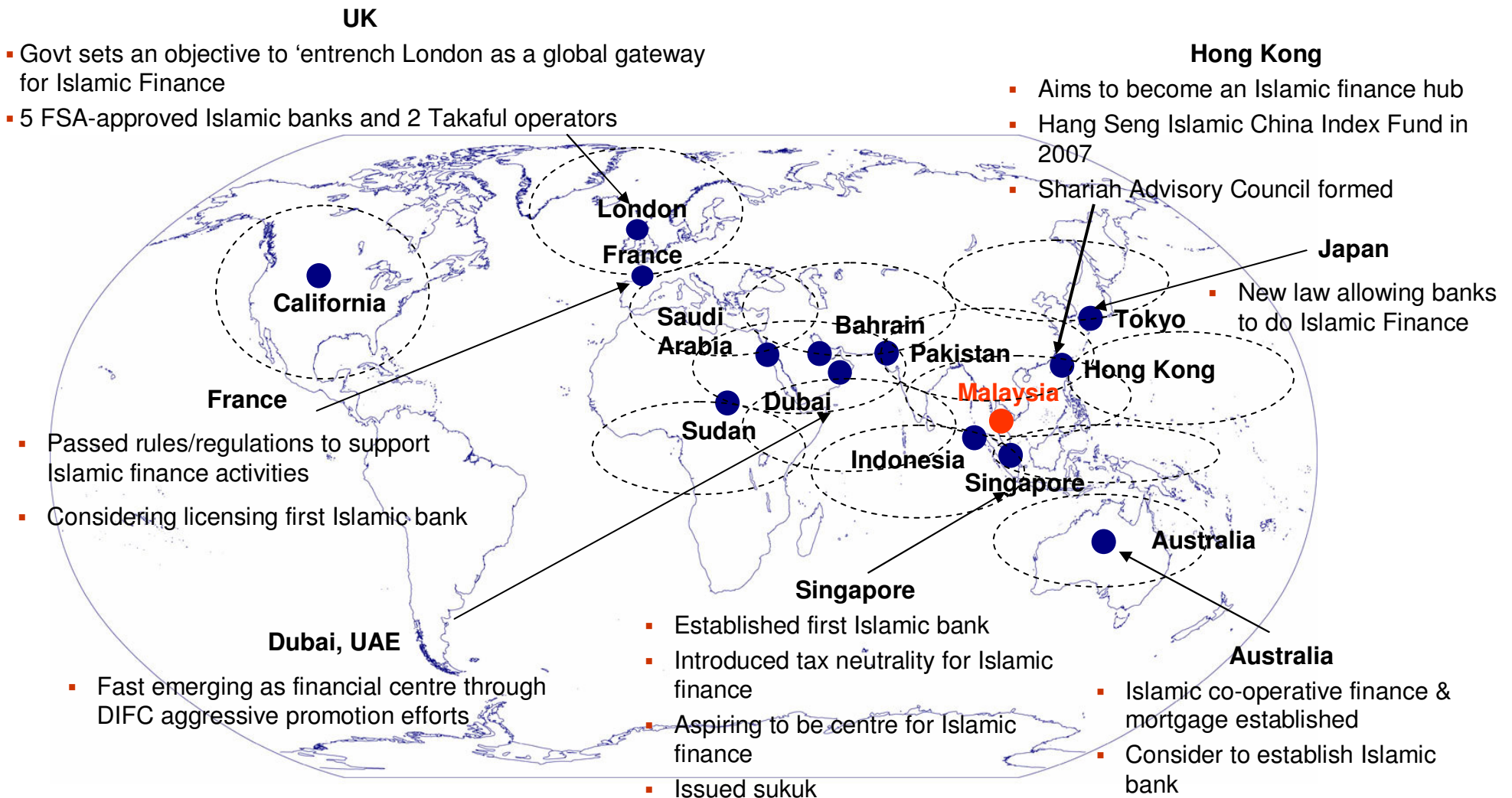


With total penetration rate of 49.5% or 4.3%\* (measured as premiums in % of GDP) in 2008, untapped potential remains huge, particularly for family takaful ...

Note: Market penetration rate = policies as % of population

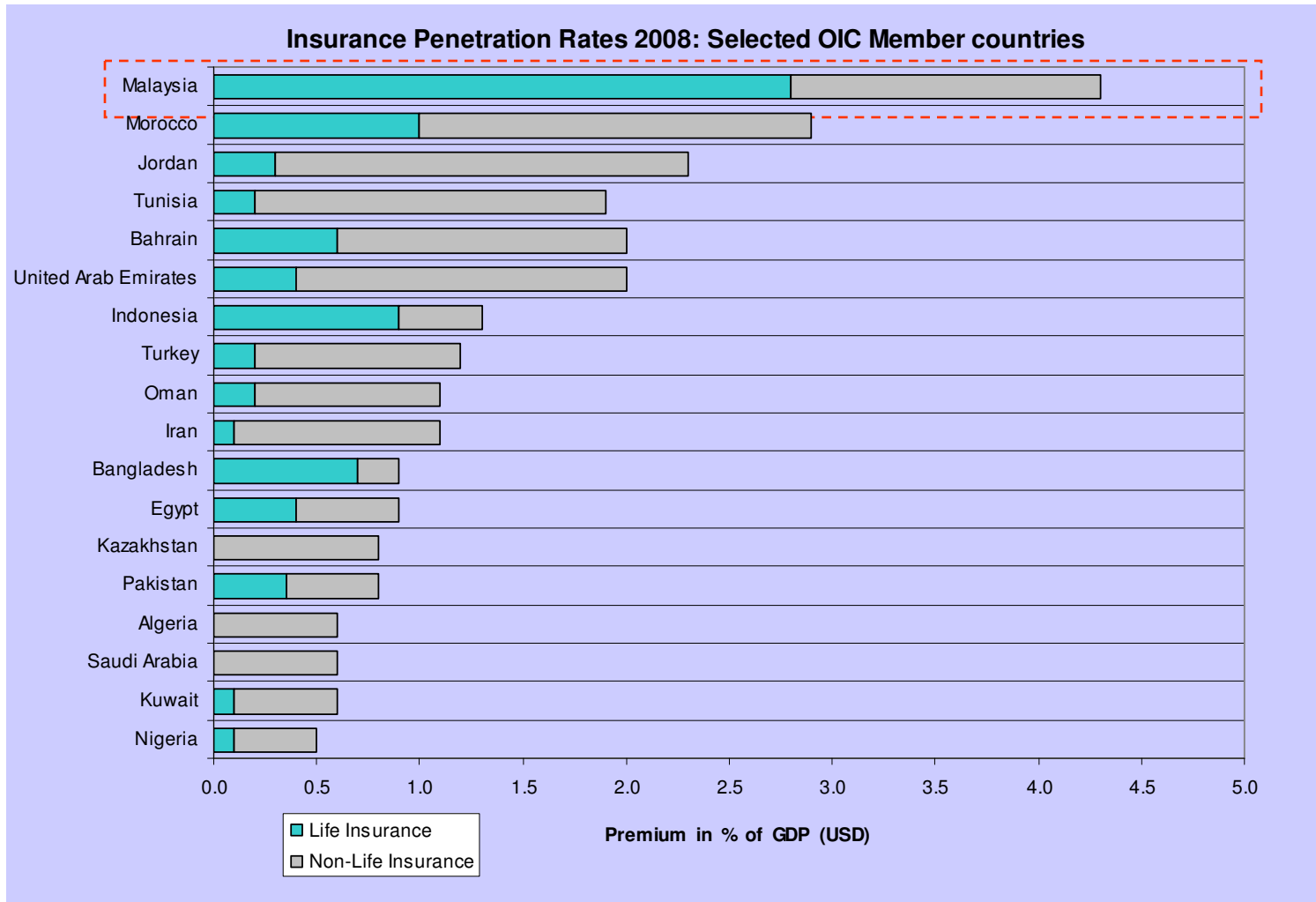
\* Source: Swiss Re Economic Research & Consulting

# Greater global interest widens door of opportunities for Islamic finance and takaful ...



The eager search for alternatives after crisis an impetus for stronger momentum of influence and growing global awareness of Islamic finance...

## Low insurance/takaful penetration rate in selected economies...



Source: Swiss Re Economic Research & Consulting

... there are ample opportunities in takaful remain untapped ...

# Crisis highlights importance of ensuring continued robust regulation of global financial market... vital for sustaining market confidence and integrity

## The antecedents of global financial crisis

Unregulated hedge funds

Weak risk management

Inadequate capitalisation

Poor corporate governance

## Active global regulatory and supervisory reform currently underway

- Expanding regulatory perimeter for hedge funds
- Strengthening prudential oversight of risk management and capital
  - Framework for liquidity risk management
  - Stricter oversight or additional capital requirements proportional to financial institutions' contribution to systemic risk
  - Policies to address procyclicality pressures
- Reform corporate governance rules to rein in excesses and align incentive to long-term capital preservation

**Forging stronger governance of takaful operators in discharging role as wakeel or mudharib a critical focus area in takaful regulation ...**

# Regulatory framework for insurance broadly applicable... but requires adaptation to be more takaful-attuned

## Takaful specificities

**Shariah-compliant :**  
Governs whole operation of takaful business

**Tabarru' (donations) :**  
Governs relationship between participants

**Wakalah & Mudharabah concepts :**  
Governs relationship between participants and TO

## Regulatory Areas : Governance & Financial

- Shariah governance
  - Duties & responsibilities of TO's Shariah Committee
- Corporate governance
  - Elevated stature of participants in takaful
  - Fiduciary duties of TO as wakeel and/or mudharib
- Takaful model :
  - Various modalities of takaful model allowed
  - A work-in-progress: Parameters to govern surplus/profit-sharing practices, fees and charges, etc
- Product requirements
  - Shariah endorsement
  - Disclosure requirements e.g. aqad, wakalah fee, profit sharing ratio
- Investment
  - Shariah-compliant instruments
- Fund solvency and Capital requirements
  - Qard (benevolent loan)
  - A work-in-progress: Risk-based capital framework

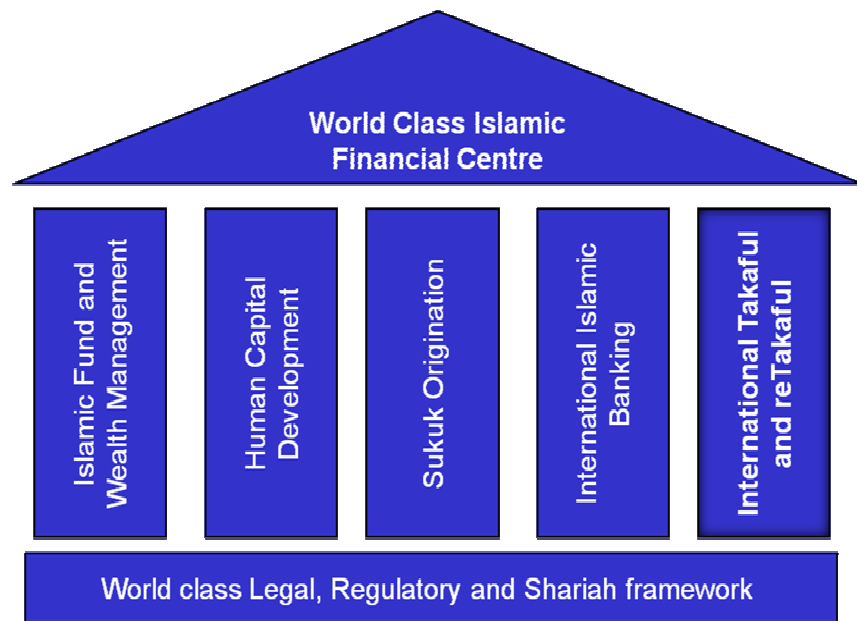
# Market conduct and consumer protection is another crucial regulatory & supervisory consideration for takaful as a new financial sector...

<b>Availability of channels to resolve disputes</b>	Dispute resolution mechanisms that offer speedy resolution of dispute.
<b>Competency of intermediaries</b>	Minimum & continuous training requirements. Greater supervisory oversight to ensure proper marketing practices in view of : <ul style="list-style-type: none"><li>- differences between takaful and insurance concepts; and</li><li>- varying takaful model in the market</li></ul>
<b>Disclosures to participants</b>	Ensuring that participants have access to accurate, timely & relevant information: <ul style="list-style-type: none"><li>- Minimum standard on product transparency and disclosure of risks and rights of participants</li></ul>
<b>Consumer activism</b>	Fostering greater awareness and understanding of IF products: <ul style="list-style-type: none"><li>- Nationwide campaigns</li><li>- Publication of informative booklets</li></ul>

# Opportunities abundant for takaful under new industry development phase of greater international integration...

**Malaysia International Islamic Financial Centre...  
launched in August 2006**

*“To create a **vibrant, innovative and competitive international financial services industry in Malaysia supported by high caliber human talents, world-class infrastructure, and best international standards**”*



- An International Takaful Operator may carry on ...
  - any line of takaful and retakaful business with non-residents in international currencies
  - 'permitted line' of takaful business and any line of retakaful business with residents in international currencies
- Recently announced measures
  - Issuance of 2 new family takaful licences
  - Foreign equity participation limit increased to 70%

**Building on our domestic strengths to position Malaysia as an international centre of excellence for takaful ...**

## **Key strategic priorities for takaful and retakaful sector... to unlock growth prospects ...**

- **Strengthen inner capabilities around core Shariah principles and values**
- **Amplify intrinsic strengths of Shariah with enhanced commercial value propositions as industry's winning formulae**
  - Reliable partner to participants
  - Strong management of takaful funds
  - Value adding and differentiating capabilities: technical expertise, operational excellence
- **Analysing gaps to plug : extending the Shariah compliant supply chain**

## **On-going strategic regulatory and developmental priorities... to promote global growth and competitiveness of takaful**

- **Raising visibility and profile of takaful at global front**
  - Talent development
  - Takaful as identified growth area for collaboration in MOUs
- **Enhancing depth of Shariah-compliant investment instruments**
  - Strategies and incentives under MIFC to promote origination, distribution and trading of Islamic treasury and capital market instruments
- **Expanding supply of quality retakaful security**
  - Increased collaboration between markets via Global Takaful Group (GTG) platform
- **Accelerating development of international regulation for takaful**
  - Continued effective contribution of the Bank, IFSB and industry to achieve greater harmonisation of takaful business practices, Shariah interpretations and regulatory framework across jurisdictions

**Thank you**