

# Takaful market and retakaful solutions in Malaysia



**Pacific Life Re's Mr Vasan Errakiah** and **Malaysian Re's Mr Mohammad Nizam Yahya** talk about how the right retakaful solutions can help Malaysia's life insurance industry reach its target of insuring at least 75% of the population.



Mr Vasan Errakiah



Mr Mohammad Nizam Yahya

## Insurance landscape in Malaysia

More than 10 years ago, the Malaysian government with support from Bank Negara Malaysia (BNM), Life Insurance Association of Malaysia (LIAM) and the Malaysian Takaful Association (MTA) set a target of 75% insurance penetration rate in Malaysia. Ten years on, it is clear that there is still some way to go before the industry is able collectively to hit its long-term goal of insuring 75% of its population. BNM's monthly report highlighted that as of July 2021, the total in-force individual family certificates is close to 5.2m while life insurance policies are at 19.3m. The unique lives covered are less than these counts as at least 17% of the in-force certificates and policies have multiple family takaful or life insurance covers.

The industry and market leaders have been largely focused on the medium to top income segment which make up about 60% of the population. In fact, we continue to see innovative and comprehensive new product offerings to close the protection gap for this segment, i.e., the people who already have some form of protection.

In order to achieve its national aspiration of insuring at least 75% of its 32.7m population, the Malaysian government introduced a slew of initiatives to encourage both takaful operators and life insurers to promote products to the B40s. In recent years, the Perlindungan Tenang campaign was rolled out to provide simple and affordable protection to all.





### Family takaful market growth in Malaysia

Since family takaful was first introduced in Malaysia in 1983, it has shown a much faster growth rate compared to its conventional life insurance counterpart. The steadily increasing in-force counts prove that takaful is playing its part to improve the overall protection penetration rate.

According to statistics from the MTA and BNM, new family takaful certificates grew by 7.2% in 2020 compared to 2.8% for conventional life insurance. At the same time, in-force family takaful certificates grew by 5.2% while conventional life insurance in-force grew by 1.1%.

The high growth in family takaful take-up rate indicates growing takaful awareness amongst

Malaysians. It can also be implied that the product concept of mutual assistance appeals not just to Muslims, but also to a much wider Malaysian population.

In order to meet the projected high demand of family takaful in Malaysia, Malaysian Re, currently ASEAN's largest national reinsurer by asset size, acquired the license to transact general and family retakaful business in 2016. It also aims to play a leading role in extending shariah-compliant services to both local and international operators via its Malaysian Re Retakaful Division (MRRD). Malaysian Re operates a 'leveraged model' and is thus able to harness Malaysian Re's underwriting best practices which encompasses, among other things, sound rating disciplines, accessibility to actuarial services and appropriate pricing models and/or tools.

MRRD has successfully implemented the robust shariah governance policy document in its operation and is able to provide shariah governance consultation as a value-added service for its business partners. This strategic move is designed to address the new development in the Islamic financial market in the area of governance.

### Making insurance affordable and accessible

Making insurance affordable and accessible to the people of Malaysia remains a strategic initiative for MRRD. In order to strengthen its proposition further, Malaysian Re entered into a collaboration agreement with Pacific Life Re towards the end of 2019. This collaboration aims to provide sustainable and comprehensive retakaful solutions to family takaful operators in Malaysia.

As a fast-growing global reinsurer, Pacific Life Re through its own shariah-compliant operation, will play an integral role in supporting family takaful business in Malaysia. Pacific Life Re will leverage its global experience with a focus on its strong expertise in technical pricing, underwriting, product development and data analytics. Together, Malaysian Re and Pacific Life Re aim to provide a competitive edge

to takaful operators through new and innovative market propositions which will be informed by global insights and combined with strong local knowledge to meet the needs of the Malaysian population.

Further, this collaboration aims to support the industry's recent move to digitalise and transform underwriting by providing access to market-leading technology powered by Pacific Life Re's subsidiary, UnderwriteMe. The current pandemic situation has increased awareness of the importance of technology and how digitalisation can improve efficiency and results. With UnderwriteMe, insurers can automate their underwriting process to make instant underwriting decisions at the point of sale, in both online and offline environments. This helps improve distribution efficiency and the ability to get people protected.

The retakaful support is also extended to life insurers as allowed by the regulations. In supporting a life insurer under an inward retakaful arrangement using a retakaful contract, MRRD will be able to accept shariah-compliant risks. This arrangement allows both MRRD and Pacific Life Re to extend their knowledge and expertise to both takaful operators and conventional life insurers.

Combining MRRD's strong local presence and Pacific Life Re's global expertise is a step in the right direction to position both MRRD and Pacific Life Re as a strong family retakaful provider in this region.

The main purpose of any life insurer or reinsurer is to help people live their best lives, particularly more so during very challenging times. The enormous scale of the challenge and opportunity to provide adequate protection for the people of Malaysia requires a collective effort from not just Pacific Life Re and MRRD, but from the industry as a whole. We aim to make insurance affordable and accessible to the wider population, paving the way for the industry to achieve its goal of a 75% penetration rate. ■

Mr Vasanth Errakiah is head of SEA and product development at Pacific Life Re Asia and Mr Mohammad Nizam Yahya is senior vice president and head Malaysian Re Retakaful Division at Malaysian Re.