

Innovation in Takaful — what do Shariah advisors say about it?

Innovation is an indispensable word in Takaful. Innovation here simply means the evolutionary process that alleviates the status quo of the industry for the better, offering a positive way on how things are done and uplifting the quality of life of people in general. Takaful is innovation in the field of insurance. It brings change in the status quo of insurance solutions for the people who previously had no other option other than conventional insurance. PROF DR RUSNI HASSAN and DR SYED AHMED SALMAN write.



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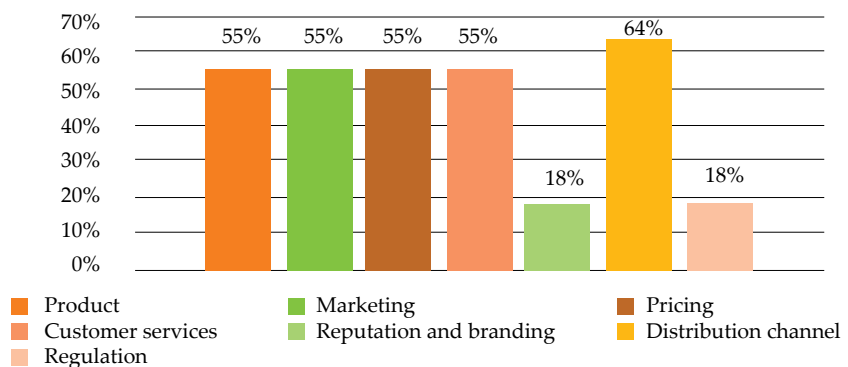
The Takaful business represents innovation in the commercial system by introducing the Shariah concepts and principles on the financial and commercial dealings of Muslims. Takaful also introduces the strong ethical concept of cooperation and risk-sharing as being the fundamental principles of its operation and services offered for the greater good of society and the environment.

While the Takaful industry is progressing and embracing the evolutionary process of innovation, there are pressing challenges. The Takaful industry operates within the larger universe of conventional insurance in which it must compete. The regulatory environment has not been entirely conducive to Takaful businesses and thus has pushed Takaful operators to taking short cuts and bypassing the ethical aspects of the business.

In view of such a challenge, the evolutionary innovation in Takaful, particularly in terms of its products and services, is critical. Innovative products and services are vital to bring the value and satisfaction that Takaful is supposed to bring to its customers.

For many years, the Takaful industry has been a laggard in innovation compared to its conventional counterparts. There

Chart 1: Takaful aspects that require innovation



Source: Author's own

have been calls for Takaful players to be more innovative to embrace customer demands and market requirements. The Shariah advisors, being the custodians of Shariah governance and compliance, are also expected to participate in the efforts and initiatives undertaken by Takaful operators in driving innovation in their products and services.

Acknowledging the importance of innovation in Takaful and the role that Shariah advisors have to play, this article explores the views of 11 Shariah advisors on the importance of innovation in Takaful. The Shariah advisors represent seven Takaful operators, 46.6% of the total number of Takaful companies operating a Takaful business in Malaysia. The interviews were conducted with the Shariah advisors to get their views on innovative aspects of Takaful that need to be embraced by the Takaful industry.

Takaful aspects that require innovation

Shariah advisors consider Takaful to be 100% innovative by itself. However, they have different opinions when it comes to the Takaful industry in Malaysia. They believe that there are segments of the Takaful industry that need to be improved in terms of innovativeness. Those aspects are:

- i) products and services
- ii) marketing
- iii) pricing
- iv) customer service
- v) reputation and branding
- vi) distribution channel, and
- vii) regulations.

From the collected responses, the Shariah advisors considered the distribution channel to be the most important segment that requires innovations. This is followed by products, marketing, pricing and customer service. Meanwhile, the reputation and branding segment and other segments such as regulatory were considered to be less in need of innovation. This is understandable since Takaful is already well known to the public and Malaysia has comprehensive regulations for the Takaful industry.

It is interesting to note that the four aspects of Takaful operations — product, marketing, pricing and customer service — shared an identical percentage (55% or six out of 11) in terms of the need for innovation based on the view of the Shariah advisors. Similarly, the Shariah advisors were of the opinion that both reputation and branding, and regulation are the aspects that require less attention in terms of the need for innovation. Two out of 11 (18%) Shariah advisors agreed that even though these aspects

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are reasonably good but innovation will surely further improve the Takaful industry. The most urgently needed attention is in innovating the Takaful distribution channel. Most of the Shariah advisors (64%) were of the view that Takaful practitioners need to put extra efforts into enhancing the distribution channel to ensure the Takaful industry is elevated to a higher level.

Takaful products and services

In relation to Takaful products, 55% of the Shariah advisors agreed that the said segment needs to be improved and innovated. Specifically, one of the Shariah advisors boldly said that: "There have been some innovations, but it is not enough and still behind the [conventional] insurance in terms of products. Takaful products are always being first introduced by the [conventional] insurance then mimicked by Takaful."

It is sad to see that most of the Takaful products are replicates of conventional insurance. Hence, Takaful operators must understand the unique concepts and attributes of Takaful and match them with the expectations of customers or the public at large. Takaful has unique features that surpass conventional insurance such as the concept of cooperation (Taawun) and Shariah compliance that can be innovatively embedded in Takaful products and services. Takaful products encompass the universal value propositions that appeal to all market segments regardless of whether one is a Muslim or not.

Marketing

Six out of 11 Shariah advisors (55%) agreed that innovation is also needed to improve the marketing of Takaful products and services. There is still a tendency among customers to treat Takaful and conventional insurance as the same. The advantages of Takaful products are not sufficiently highlighted, thus making Takaful products less competitive compared to conventional insurance. Takaful operators are expected to play their role effectively in promoting the distinctive features of the products that they are offering and also to be proactively involved in activities that increase the Takaful awareness level of the public through their marketing measures. In addition,

the Shariah advisors also expect not only Takaful operators to play such a role, but also expect the regulator to drive such awareness activities and thus enhance the public's level of awareness and understanding of Takaful.

Pricing and customer service

The pricing of Takaful products (specifically on benefits or coverage) and customer services recorded the same percentage of 55%, with six out of 11 Shariah advisors agreeing that the said segments need to be further innovated. The pricing of Takaful products must be fair and acceptable based on current market pricing. It is unjustified for a Takaful operator to charge a price that is higher than the market price and inconveniently affecting consumers. Consumers must be briefed on the product's features and its terms and conditions so that they have clarity of mind when subscribing to the Takaful products.

Customer service

A clear understanding of the prescribed products and services assures customers that they have been treated fairly. Customers are important aspects of the Takaful business and thus they need to be treated in a fair and responsible manner. Customers should not be restricted and should have freedom of choice. These are important aspects of customer service that Takaful operators must ensure to be part of their essential ecosystem and must be observed at the highest standards.

Reputation and branding

Good reputation and branding of Takaful products and services not only provide a functional benefit in terms of customer confidence to subscribe to the products, but also provide emotional satisfaction to customers. In spite of the fact that conventional insurance may be able to satisfy Muslims' functional benefits, it is not able to provide emotional benefits which are measured in terms of the spiritual desire toward Shariah compliant products and services. Due to this reason, Takaful has a competitive advantage in terms of satisfying the spiritual needs of Muslims who are conscious of their religious obligations. As such, a distinctive branding strategy that complies with Islamic principles must be innovated to bring out the outstanding nature of Takaful.

Regulations

While the Shariah advisors acknowledged the need for innovation in Takaful, they however were concerned about the constraint from the stringent regulations issued by the regulator. Some of the regulations are unclear, leaving it open for different interpretations by Takaful practitioners. More often than not, they are left in a dilemma as to whether to follow the regulations literally or innovatively embrace the regulations based on their respective needs. To be safe, most of them just assume a 'wait and see' approach.

Distribution channel

The distribution channel captured the attention of the Shariah advisors, particularly the agents and online services, with 64% of them (seven out of 11) agreeing that the distribution channel needs to have innovation. Distribution channels are important in reaching customers of the Takaful industry. Agents are the prime distribution channel in both the Takaful and conventional insurance industries. They also have important roles in increasing the knowledge about Takaful.

One of the Shariah advisors mentioned that: "As for the distribution channel, agent development must also be taken into consideration ... because most of the TOs [Takaful operators] are subsidiary to their parent company which provides insurance products. Thus, their agents are promoting both products in the market. They need to be educated or trained on the features and importance of Takaful."

Takaful agents, being an essential part of this ecosystem, must embody their role as the 'Wakeel' and Da'i (missionaries) of Takaful to uphold the Takaful values to the highest standards. Indeed, the very existence of the Takaful industry lies on the ultimate objective of attaining the well-being and goodness of mankind. Confidence and trustworthiness must exist within the agents themselves toward the Takaful company and its products so that the same will be reciprocated by customers.

Conclusion and recommendations

In relation to the Takaful industry in Malaysia, Shariah advisors believed that

there is still a lot of potential that needs to be explored. One way to discover the potential is through innovation. However, there are certain segments of the Takaful industry that need to be improved, such as products, marketing, pricing, customer service and the distribution channel.

The lack of awareness of Takaful among customers gives rise to many problems and issues. Bank Negara Malaysia needs to improve Takaful awareness. If the promotion measures are taken to the next level, Takaful would be known by the public at large. Certain parts of the regulatory regime in Malaysia need to be carefully considered such as taxation, corporate and Shariah governance and other regulatory aspects. Such consideration must be given to facilitate and enhance the progress of the Takaful industry.

Additionally, Takaful practitioners including Shariah advisors must not confine their knowledge to Shariah-related aspects only but must also ensure good knowledge of operational aspects such as underwriting and product development. On the other hand, Takaful practitioners shall not compromise their Shariah knowledge. The operational gap between Shariah advisors and Takaful operators should be minimized.

The Takaful industry has been operating on the 'push' basis through promotion toward potential customers by their agents. To be more innovative, the Takaful industry needs to be on a 'need' basis. This means Takaful is able to react with the current needs of their potential customers. Since agents and front office employees deal with customers directly, they need to be trained not only on how to market the products successfully, but also on how to convince potential clients as to their ethicality.

The most important initiative must be taken by Takaful operators because the thing that has the most impact on the image of the company is the interaction that takes place between employees and customers. Marketing strategies used in the Takaful industry should aim to win the confidence and trust of customers by offering products that meet their specific needs and also promote the ethical code of conduct used in Takaful products such as reliability, transparency and no unfair or unjust activities. Therefore, it is crucial for management to carefully choose a strategy that utilizes all these elements. ☺

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