

Is the Takaful industry innovative in Malaysia

The objective of this article is to examine the perception of consumers toward the innovative nature of Takaful products in Malaysia. Malaysia, positioning itself as a hub of Islamic finance, needs to have clear and in-depth research findings to ensure that Malaysian Takaful products become the global models. Therefore, a study has been conducted in Malaysia such as Kuala Lumpur and Selangor to know the said objective. PROF DR RUSNI HASSAN and DR SYED AHMED SALMAN write.



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Takaful is a social and ethical insurance based on the principle of Ta'awun (cooperation) and Tabarru' (donation) where the risk is shared collectively by members of a policy. The concept of Takaful is providing financial assistance to participants on the basis of mutual assistance, brotherhood and solidarity in cases where the participants face some misfortune. Takaful is an alternative to conventional insurance, and its primary objective is to protect participants based on ethical and moral foundations.

Takaful in Malaysia

Since the introduction of Takaful in 1984, it has established itself constantly throughout the years in Malaysia. Takaful has grown and continues to grow as one of the most popular products of the Islamic financial services industry. Based on the concept of Ta'awun or mutual assistance, Takaful offers customers interest-free coverage and encourages mutual help and cooperation among the Takaful participants in generating a common fund.

The Takaful industry has developed gradually through different phases of time. The development of the Takaful industry can be summarized as follows:

- Phase I (from 1984 to 1992): The Takaful Act 1984 (TA 1984) was legislated and became the main reference for the regulatory law of Takaful.

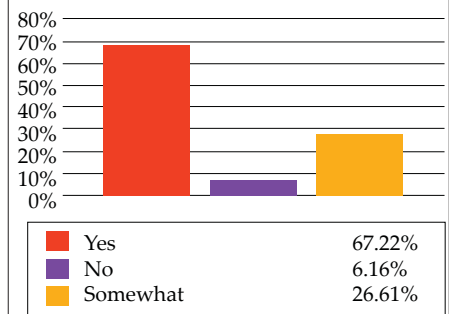
- Phase II (from 1993 to 2000): During this phase, the regulators allowed the introduction of competition by allowing the establishment of another Takaful operator. Such competition is vital for the Malaysian industry to flourish. This is significant for Takaful operators to expand the industry, such as through the formation of the ASEAN Takaful Group in 1995 and ASEAN Retakaful International (L) in 1997.
- Phase III (from 2001 to 2010): The Financial Sector Masterplan or FSMP was introduced in 2001. Specifically referring to the Takaful industry, the FSMP's objective is to enhance the capacity of Takaful operators by strengthening the legal, Shariah and regulatory framework for the entire Takaful industry.
- Phase IV (from 2011 to 2020): The Financial Sector Blueprint 2011–20 or Bank Negara Malaysia (BNM)'s FSB was introduced in 2011. The BNM's FSB expects the Malaysian financial system to continue to grow at an annual rate of 8–10% until 2020.

The Takaful industry in Malaysia celebrates the contributions of its stakeholders, namely Takaful operators, Shariah advisors and participants or customers. Additionally, the consistent guidelines from the regulators also lead to the progressive development of the Takaful industry. However, the development of the Takaful industry is not as robust as it is supposed to be. We have asked Takaful participants regarding Takaful, whether Takaful is innovative or not.

Is the Takaful industry innovative?: The perception of consumers

Innovation plays a significant role in the success of the operators because Takaful offers attractive benefits compared to conventional insurance. Innovation also improves the interaction between

Chart 1: Is Takaful innovative?



Source: Authors' own

Takaful operators and participants. Such interaction can maximize efficiencies and limit competitive edge. Moreover, any existence of misunderstanding about Takaful can be eliminated, while increasing the awareness and confidence of participants or potential participants. Innovation is also important to mitigate existing and new risks and help the Takaful industry to match up with the advancement of the market and catch up with demand. By doing so, the Takaful industry will become more relevant.

Even though Malaysia has high potential growth for Takaful, to the extent of the researchers' knowledge, no survey has yet to be conducted that examines the perception of Malaysian consumers toward the innovative nature of Takaful products in Malaysia. Therefore, as mentioned earlier, the objective of this article is to know the perception of consumers toward Takaful in Malaysia.

A total of 600 questionnaires were sent to consumers in areas such as Kuala Lumpur and Selangor, with 503 replies. Approximately 67.22% said that Takaful is an innovative product, 26.61% said that Takaful is somewhat innovative whereas only 6.16% said that it is not innovative.

Looking forward to the future, the Takaful industry needs to maintain its relevance and strive to move toward sustainability. While learning from the experiences of conventional insurance, innovation needs to be considered

Continued

by the stakeholders of the Takaful industry.

Besides looking into the advancement of current technology, innovation in the Takaful industry can be versatile and flexible and can have huge potential covering creative management of Takaful operators, structures of products, innovative protection plans, agency planning, active roles of Shariah advisors and improvement in customer service.

Where is Takaful innovation now?

The current trend is that the Takaful industry is waiting for an innovation from the conventional insurance industry and then only it will try to replicate it. Takaful operators must also look into the needs of the people, especially Muslims' needs. Takaful is distinctively different from conventional insurance even though it has the same element of coverage. Cooperation is the main feature of Takaful which does not exist in conventional insurance.

The awareness about the importance of coverage itself is lacking among the community in Malaysia. There are still many individuals that are not covered by either Takaful or conventional insurance and this segment can be a focus for the Takaful industry for market penetration.

Conclusion and suggestions

The Takaful industry is not fully innovative. The intention to be innovative is present; however, it may be limited by certain regulations. It can be said to be innovative but not to the extent where it needs to be. There are a lot of areas with serious problems to be addressed such as regulations, operational teams, internal conflicts, budget problems and others. Takaful operators should enhance their marketing strategy and simplify the product features to capture the untapped market.

In addition to this, religion is the most important factor that changes the mind of the consumer. Takaful operators should create awareness among Malaysian consumers regarding Takaful products to penetrate the market. ☺

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