

# Why is the Takaful industry not innovative? — the case of Malaysia (Part II)

This is Part II of the article ‘Is the Takaful industry innovative in Malaysia?’ by PROFESSOR DR RUSNI HASSAN and DR SYED AHMED SALMAN published in IFN Volume 16 Issue 21. This research aims to investigate the perception of Takaful operators toward providing innovative Takaful products in Malaysia.



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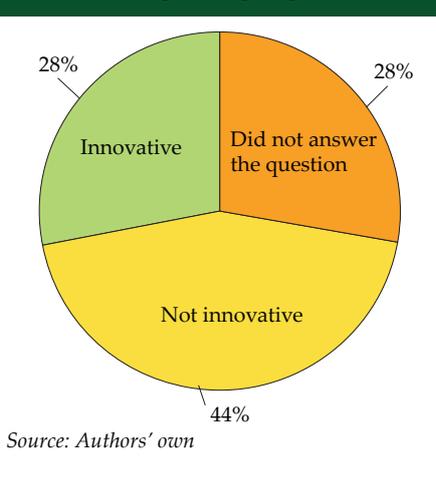
To achieve the objective of the research, in-depth and semi-structured interviews with the relevant officers in Takaful operators had been conducted to obtain their perspectives on the level of innovation of Takaful practices in Malaysia. The views of 14 Takaful officers representing seven Takaful companies in Malaysia were examined and analyzed. The respondents also shared their views on the areas or aspects that need to be enhanced to ensure Takaful products are highly innovative.

## Is the Takaful industry innovative?

When asked about whether the current Takaful industry is innovative or not, 44% of the respondents said that it is not innovative; 28% said it is innovative and 28% did not answer the question.

The results show a lack of confidence of Takaful operators in the level of innovation in the Takaful industry. This is sad, since the respondents who are the Takaful officers acknowledged the importance of innovation in the nature of their work. Having a unique value proposition, Takaful has an advantage over the conventional insurance industry. The respondents agreed that the special features of Takaful allow them to be innovative in developing Takaful products by embedding the concepts of Waqf, Hajj and Hibah. These are the positive values that

Chart 1: Takaful operators’ perception on Takaful



attract customers to subscribe to Takaful products.

It is depressing to note that currently in the Takaful industry, innovation to a certain extent is measured on the ability of Takaful to replicate conventional insurance products, especially when the parent company is an insurance company. This trend is also termed as ‘Takafulization’. To be more innovative, the Takaful industry needs to move away from this trend.

It is interesting to note that to the respondents, the most important aspect of innovation is to cater to the critical needs of customers. Takaful operators need to change their perception about innovation. Innovation does not only involve the initial stage of product development and sales, but also involves the after-sales services of a product. This is very important to retain existing customers and to avoid customers returning to the conventional insurance company due to a negative perception of the Takaful industry.

Pursuant to that, customers’ knowledge and awareness of Takaful products and services is essential. Unfortunately, the Takaful officers (five out of 14 respondents or 36%) agreed that

awareness of Takaful among customers is very low. They are unable to differentiate between Takaful and conventional insurance. Thus, there is a need to increase the level of education and awareness among customers. This must not be done by Takaful operators only, but also by the regulators.

**“ The Takaful industry is facing the issue of a lack of expertise which in a way affects the level of innovativeness ”**

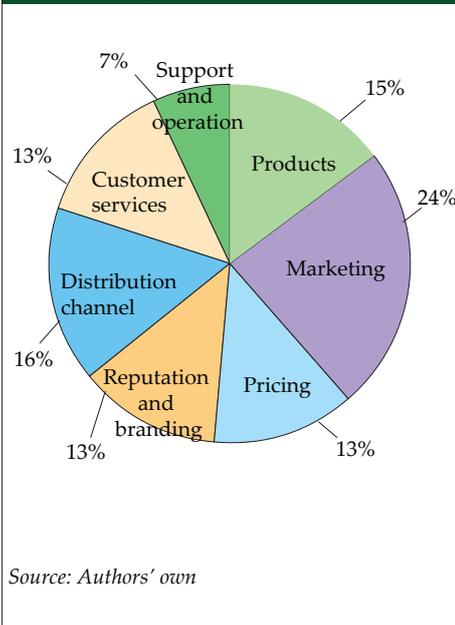
The respondents made an interesting observation of the role of the regulators in stimulating innovation in the Takaful industry. The regulators are expected to play a proactive role, particularly in promoting the public’s knowledge and awareness of Takaful, and also to facilitate Takaful practitioners toward innovation. Stringent regulations imposed by the regulators hinder Takaful operators from being innovative in their products and services. On the other hand, innovation will incur an extra cost, whereby Takaful operators are not prepared to make an additional allocation for the extra cost. As such, they tend to just conduct business as usual.

## Segments that Takaful operators need to pay special attention to

There were many segments highlighted during the interviews. However, the following segments were highlighted by a majority of the respondents.

Continued

Chart 2: Segments that Takaful operators need to pay special attention to



## Products

To be more innovative, it goes without saying that Takaful products must be the first thing that needs to be improved. This is affirmed by eight out of 14 Takaful operators (57%).

## Marketing

About 93% (13 out of 14) of the respondents say that marketing is important to innovation. It is important to create demand and reach out to potential customers, especially in rural areas. Currently, Takaful products are still being sold rather than bought. It means that the agents need to promote Takaful products to potential and existing customers aggressively rather than waiting for customers to come to them like in the banking industry. The industry relies on the agents to sell Takaful products, thus, the role of the agents is also important to promote the benefits of the product and at the same time, to propagate (Da'wah) it to Muslim customers.

## Pricing

Seven out of 14 respondents (50%) felt that pricing is the segment that must be improved to facilitate innovation in the Takaful industry. Even though Takaful is founded based on cooperation (Ta'awun), Takaful operators are still commercial entities, ie they still need to pay the relevant expenses and to

provide a return to shareholders. This is where pricing plays a role to ensure that the interest of all parties is met.

## Reputation and branding

Seven out of 14 Takaful operators (50%) believed the reputation and branding of the Takaful industry must be improved. Reputation and branding can have a huge impact on an organization. Since the Takaful industry is already behind its conventional counterpart in many areas such as fund size, expertise and experience, it is important for Takaful operators to maintain their reputation and branding.

**“ Takaful operators must use innovation to create demand and reach out to customers ”**

## Distribution channel

About 64% (9 out of 14) of the respondents stated that the distribution channel needs to be creative to achieve innovation. As the main distribution channel, the agents need to increase their knowledge, competency and qualifications. It can be done through continuous self-training and taking up the relevant qualifications. Besides benefiting the agents themselves, it is also to convince customers of the integrity of the industry since the agents can be considered as the face of the industry. There is also a need to solve the issue of non-disclosure by customers. There must be an innovation that requires customers to make a full disclosure so that the Takaful product can provide maximum coverage to customers.

## Customer services

Seven out of 14 respondents (50%) felt that the current level of customer services in the Takaful industry must be improved — innovation is not restricted to the development or pre-

distribution of a Takaful product only. Customer services are an example of after-sales services. Takaful is operating in a highly competitive market environment and needs to compete with the conventional insurance industry. Therefore, Takaful operators need to be able to offer both value-added products and excellent customer service delivery. Takaful operators need to ensure that the rights of participants are adhered to in accordance with the Takaful contracts.

## Support and operation

Support from the management and business operations also need to be improved to facilitate innovation, as stated by four out of 14 respondents (29%). The need for business operation improvement is crucial to meet the demands of the regulators, customers and investors for greater transparency and effective management of the organization's risks. This requires stronger support in the form of expenditure or manpower from the management to improve the business operation. The Takaful industry is facing the issue of a lack of expertise which in a way affects the level of innovativeness in the Takaful industry. In the aforementioned situation, it is an example where a subsidiary Takaful company can leverage on the expertise of its parent.

## Conclusion

As mentioned earlier, Takaful operators must use innovation to create demand and reach out to customers, not only through product offerings, but also through how a product is promoted. To be more innovative, the Takaful industry needs to be on a 'needs' basis, ie Takaful operators can react with the current needs of their potential customers. Each company must have a specific unit that focuses on innovation. It must not be done by the existing departments. The government needs to give more incentives such as tax exemptions to encourage Takaful operators to be more innovative. In terms of marketing, propagation to the public on the importance of Takaful is highly significant and Takaful operators should also focus on the value of Ta'awun instead of promoting the benefits that are offered to customers. ☺