Takaful: Where is the untapped potential?

Takaful is growing steadily in some markets like Malaysia though in many others, including in the GCC, it seems to be slowing down. Takaful operators are still finding ways to appeal to Millennials, while grappling with regulations that do not promote a level playing field. Speakers at the Takaful Rendezvous 2017 in KL shared candid views about the challenges faced, while highlighting new avenues of potential to explore.

By Chia Wan Fen in Kuala Lumpur


Mr Muhammad Fikri Mohamad Rawi

The Malaysian takaful industry is growing steadily, and still offers "enormous prospects", said keynote speaker Mr Muhammad Fikri Mohamad Rawi, Chairman of the Malaysian Takaful Association and CEO of Sun Life Malaysia Takaful. The key challenge is keeping the growth momentum while delivering profitability.

The government has been providing support in the forms of the upcoming Life Insurance and Family Takaful (LIFE) framework, under which the takaful industry is expected to develop more products and delivery channels, and Bank Negara Malaysia's (BNM) continued pursuit of the innovation agenda.

Mr Muhammad also cited the Malaysian government support for growth of digital and technology initiatives that could impact takaful.

For example, gross contributions for online general takaful stood at MYR124.7 million (US$30 million) in 2016, of which 99% are from motor takaful.

Another is BNM's sandbox for FinTech initiatives which will allow takaful to adopt digital technology to better serve the needs of customers through the offerings of innovative products, including more affordable simple products.

Need to harness digital disruption

He added that traditional business models, including takaful, will need to disrupt themselves and transform businesses.

One area is underwriting where fraud intelligence systems can increase underwriting efficiency.

To take advantage of detariffication and risk-based profiling, takaful operators should take advantage of digital disruption like telematics and ultimately offer best-fitted products and pricing to customers.

Noting that Millennials and Centennials are set to make up 60% of world population by 2020, he said: "Takaful operators will need to rise to the challenge and harness digital disruption in order to get ahead and not be left behind by adopting digitisation strategie. This will not only encourage productive innovation that will drive costs down but, at the same time, improve the quality of service to customers."

Takaful Conference Report

Millennials and other segments


Mr Vincent Shi

With Millennials shaping the future of insurance business, Mr Vincent Shi, Business Development Director of ReMark, highlighted that the takaful industry needs to learn how to cater to this generation whose lifestyles challenge the entire value proposition of traditional insurance. Currently, insurance penetration among them is not yet compensating for the shrinking base of Gen X and baby boomers.

Understanding Millennials' motivations is key, he said, sharing findings from a recent ReMark study "Life is a Rollercoaster". While Gen-X's perspective on protection tends to be linked to positive life events such as property purchase, marriage or children, the industry needs to shift trigger points for Millennials from a "desire for security" to a "fear of insecurity", as they are motivated instead by fear of redundancy, debt or illness more than other generations.

While Millennials seem to spend their time in their digital world, the majority of them purchase insurance from an agent – thus the human touchpoint cannot be underestimated. Despite data-sharing concerns, they are willing to share data when it helps them, such as through a wellness programme.

Thus, the industry has an opportunity to change Millennials' behaviours if they target the right motivation, said Mr Shi. "Should insurers become 'lifestyle' experts, rather than the life experts they are?", he asked.

Next, insurers should be empowering in providing Millennials with choices, but not overwhelming them with too many and turn them off.

Third, once insurers can influence Millennials' lifestyle habits, they can carry out "inclusive targeting", and possibly cover risks that traditionally could not be covered. This would allow them to expand their client segments.


Mr Zia Zaman

Mr Zia Zaman, Chief Innovation Officer, MetLife Asia, said five other segments that can be served by life insurance in Asia are women, octogenarians, rapidly urbanising mobile-only workers, the rural emerging middle class and people of faith – the takaful case.

Inclusion, he said, is about reimagining new ways to deliver micro-moments of value for these next two billion. He noted that InsurTech has since evolved from the "full-stack" disruption it was to now slicing up the insurance value chain more narrowly, and InsurTech players are partnering large incumbents to deliver value to specific segments. He called for life insurance and takaful to deliver value sooner, before they become like Toys "R" Us.

Challenges to takaful "2.0"

Despite the traction gained, takaful operators expressed concerns that there are many challenges hindering the future growth and adoption of family takaful.


Mr Wan Ahmad Najib Wan Ahmad Lotfi

In 2016, the combined penetration rate of 54.5% (takaful comprising 14.5%), stagnant for the past decade, reveals a significant gap in comparison with the government's aspiration to achieve 75%, under the LIFE framework, said Mr Wan Ahmad Najib Wan Ahmad Lotfi, Vice President & Head, Strategic Management and Shariah, Great Eastern Takaful.

He noted that seven out of 11 operators are younger than a decade and still have relatively low funds (unlike conventional players) to innovate or invest in new infrastructure.

Yet upcoming regulatory changes place increasing pressure on family takaful operators. He said the Minimum Allocation Rate (MAR) which kicks in from 2019 makes it difficult to balance shareholders' interests, regulatory expectations, profitability and customer value, even as operators will be forced to rethink product design and explore Financial Retakaful to cope with the strain.

He noted that the main product line that tends to be marketed today, and sometimes even positioned as protection product, is investment linked, due to the latter's comprehensive coverage with minimum contribution. He said the population needs to be educated so that takaful coverage could fulfil its fundamental protection value.

Uneven playing field

Another common concern raised is that regulation continues to create an uneven playing field, such as the upcoming 2018 deadline for composite insurers and takaful players to split their life and general businesses under separate licences.


Dato' Sri Mohamed Hassan bin Md Kamil

Dato' Sri Mohamed Hassan bin Md Kamil, Group Managing Director, Syarikat Takaful Malaysia, said in complying with the same rules, servicing the additional minimum paid-up capital of MYR100 million would be "suffocating" on a young takaful operator compared to a century-old traditional insurer. Currently, capital requirements are already tougher for takaful operators given their lower guarantees and fewer economies of scale.

Lack of quality talent

The "biggest challenge" in his time in the industry, though has been the lack of quality talent. "New graduates will join the conventional insurers instead of takaful, seeing it as something foreign, new and unstable," he said, adding that having to take the takaful exam is a barrier, in particular for non-Muslims.

He said one or two players in Malaysia who leveraged on agents also dealing with conventional products are doing well, but those without conventional insurance to ride on are struggling. Besides some elements of pricing, existing takaful products today, placed side by side with conventional ones, do not look superior, echoing many speakers' views that takaful has not differentiated themselves significantly for customers.

New strategies


Dr Mohamed Rafick Khan

Dr Mohamed Rafick Khan, CEO, Munich Re Retakaful, said it is time to re-strategise the development of takaful which is still "sitting in the same boat" as its pioneers over 30 years ago.

With promoting concepts like "taawuni" from a pure-religious approach, this can be a barrier to expanding to non-Muslim markets. He suggested that operators should instead push the "participation model", even avoiding the word "takaful", focusing on values like helping one another but using a "different lingo".

Dr Rafick also highlighted the importance of regulatory reform, such as making regulations fair to create a level playing field for conventional and participation models. Given the recent regulatory push for life products to be offered online, which offers a global platform, one major way for takaful to grow is for the regulator to promote Malaysia's products to the international market. The country's takaful regulations are very much a global leader, and could be the starting point to assure global customers that they will be protected no matter where they reside.


Ms Farzana Ismail

Ms Farzana Ismail, Head of Life Insurance and Family Takaful Consulting, Malaysia, Milliman, said that besides still targeting the largely untapped mass Muslim market in Malaysia and looking at how to tap the opportunities in the retirement savings space, Indonesia and Africa would be markets to target.

Indonesia has a large Muslim population, good GDP growth but still has a low insurance penetration rate. The main challenge would be distribution, to keep costs low while reaching out to the people in its large geographical spread, she said. Africa, meanwhile has one of the most growth potential with its significant Muslim business population. She recounted an encounter with Tanzanians who would rather not buy insurance as they consider it haram and prefer takaful products. Tanzania, Turkey and Kenya are examples of countries already working on takaful-specific regulations and are new markets to look at.


Mr Manoj Kumar

Mr Manoj Kumar, CEO & Managing Director, MNK Re (UK) and MD, Bancassurance Consultants (UK) noted that with oil prices having fallen in recent times, and most takaful operators being in oil producing countries and regions, there is a trickle down effect placing pressure on state pension schemes and hampering growth of takaful. To explore new growth avenues, he suggested bancatakaful can also be further developed, as banks have been facing low interest rates and returns, together with competition in finance and conventional insurance, and are thus looking to carry innovative takaful products. With 75% of an estimated $2.5 trillion Islamic assets worldwide residing in Islamic banks, he said that opportunities in every segment and sector of the banks can be exploited. Another opportunity lies in products for the large number of high net worth individuals in the GCC.

Disruption


Mr Martyn van Wensveen

On disruptive forces that will impact the insurance and takaful industry, Mr Martyn van Wensveen, Advisory Partner & Finance Transformation Leader, EY APAC, highlighted key trends as digital, cyber, robotics, regulatory, finance and accounting changes.

On robotics, he said the savings can be tremendous, about 20-40%. The biggest potential savings and first implementation will likely come in the countries which are currently covering most shared services – Malaysia, the Philippines and India.

He said whether it is for robotics or any of the trends impacting the industry, a detailed "target operating model" is needed to facilitate an insurer/takaful operator's transition towards future-proof insurance business operations. Clearly defining six layers in the insurer/operator – service delivery model, people, functional process, supporting technology, data and reporting and governance controls, would be well worth the effort. It would help to align all departments and support the overall business strategy, he added.

Discretionary mutual model


Mr Hassan Scott Odierno

Mr Hassan Scott Odierno, Partner, Actuarial Partners Consulting, Malaysia, commented that takaful had diverged from the mudharabah model of its early days to end up with products looking very similar to conventional insurance, while it was Lemonade and friendsurance which were Western concepts but have more P2P elements.

He suggested a discretionary mutual model either on its own or within takaful products, with mutual funds set up by groups of individuals who belong to a common profession or affinity group. These mutual funds would assist members inflicted with a predetermined loss, and does guarantee claims would be paid or, if paid, would be paid in full. Regulators would need to help ensure this structure is given appropriate solvency treatment, and this model would help to increase penetration and encourage proper risk management.

The Takaful Rendezvous 2017, organised by *Asia Insurance Review* and held in Kuala Lumpur, Malaysia, drew some 120 participants from 15 countries. It was sponsored by ReMark (lead sponsor), Avicennia Capital and EY.