



**PERSATUAN AKTUARIS INDONESIA**  
(THE SOCIETY OF ACTUARIES OF INDONESIA)

# SHARIAH INSURANCE IN MALAYSIA

This presentation is prepared by

**Mr. Ong Le Keat FSA**

3rd Indonesian Actuaries Summit 2018

Date: 19<sup>th</sup> – 21<sup>st</sup> April 2018

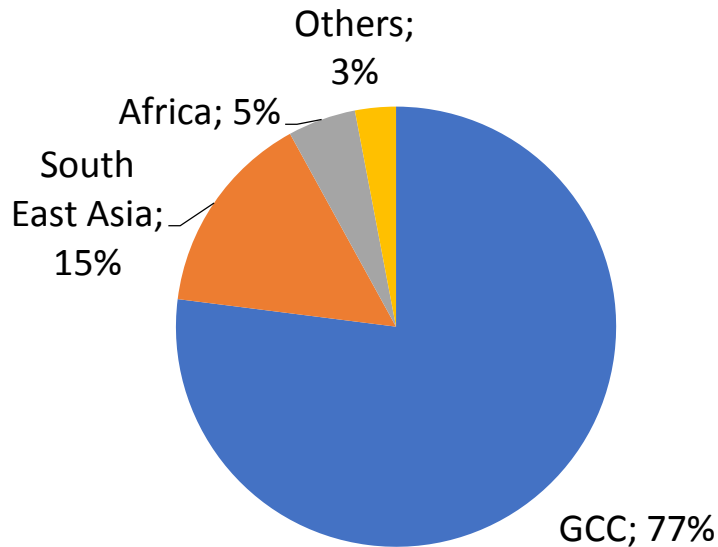
Venue: Hotel Aston, Cirebon

## **Presentation Disclaimer**

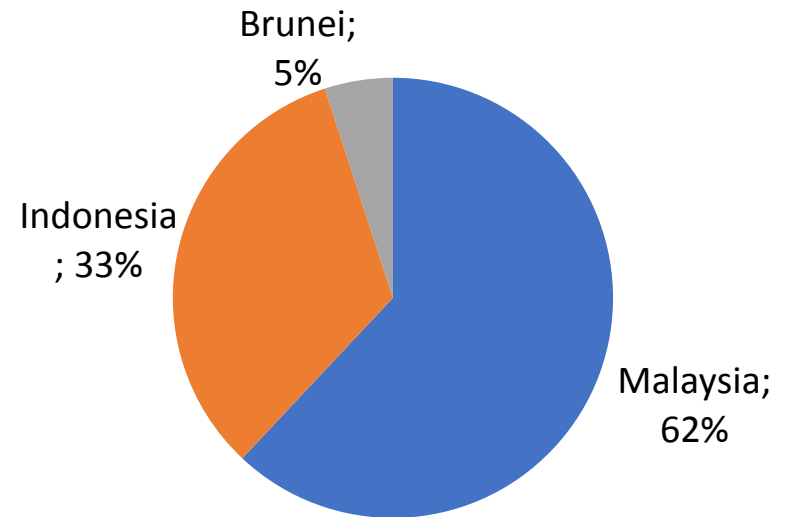
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Malaysia is one of the largest takaful market in the world and has contributed about **62%** of the takaful premium among South East Asia Countries.

**Takaful Premium by Key Regions in 2015**



**Takaful Premium by South East Asia Countries in 2015**



Source: Milliman Global Takaful Report 2017

**1**

# **BUSINESS MODEL**

- **Definition & Principle**
- **Typical Takaful Model**

# DEFINITION OF TAKAFUL

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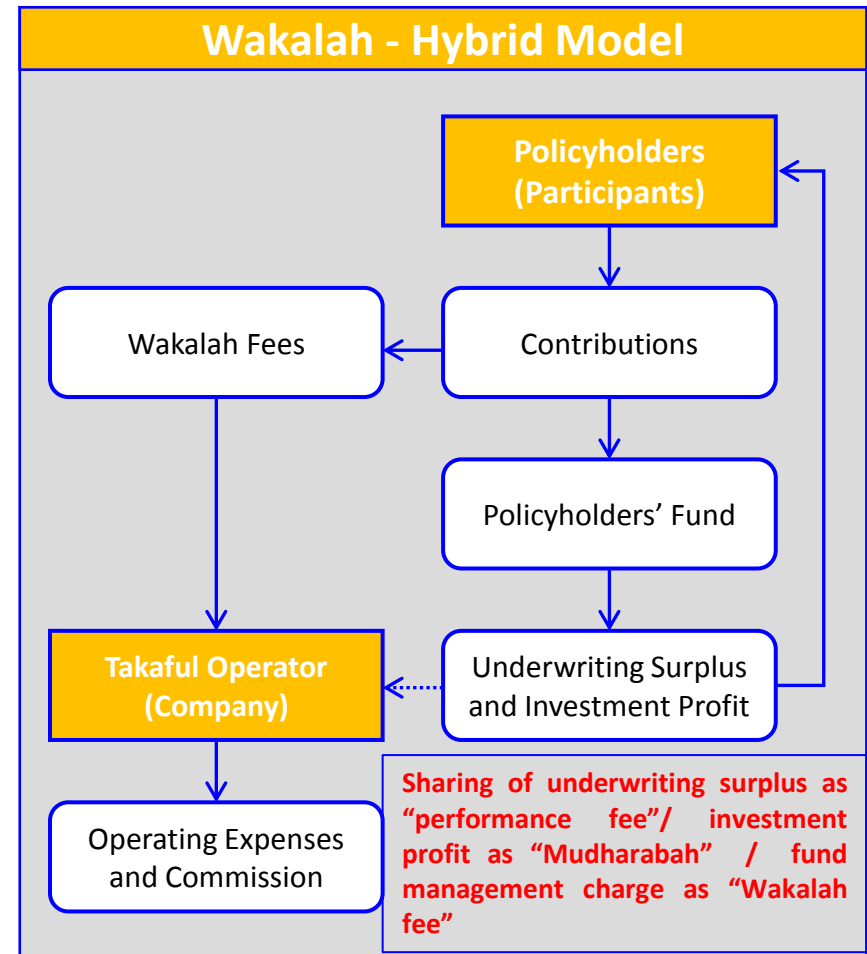
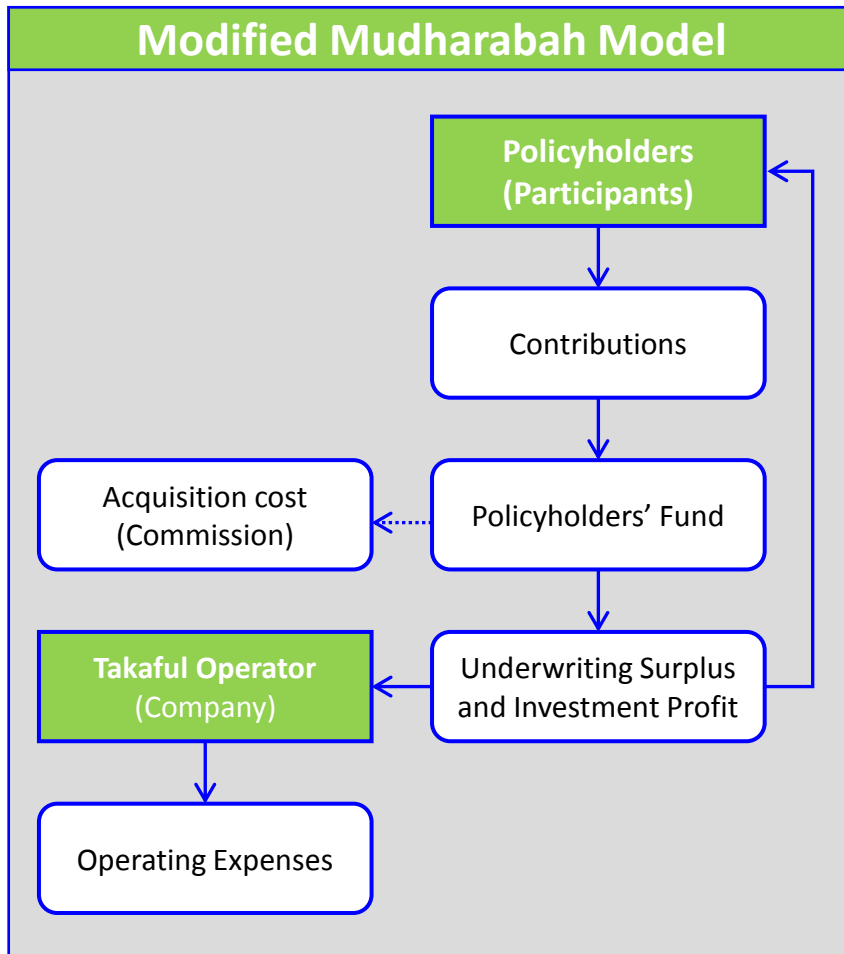
- **Takaful** means “*guaranteeing each other*” in Arabic.
- It is a system of Islamic insurance based on the principle of **Ta’awun** (*mutual assistance*) and **Tabarru’** (*donation*) where the risks are shared collectively by the group of participants voluntarily.
- This is an agreement among a group of members or participants who agree to jointly guarantee themselves against loss or damage to any of them as defined in the agreement.

# PRINCIPLES OF TAKAFUL

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- **Risk Sharing rather than Risk Transfer**
  - Takaful is designed based on the concept of mutual cooperation to guarantee mutual protection of the members
  - Risks are shared among the participants through pooling of contributions (donations) and risks
  - Takaful operator does not bear the risk

# TYPICAL TAKAFUL MODEL – MUDHARABAH VS WAKALAH



## 2

# INDUSTRY

- **Market Development**
- **Market Performance**
- **Issues & Challenges**

# GOVERNMENT & REGULATOR ROLE IN DEVELOPING TAKAFUL MARKET IN MALAYSIA

Long Term Development Plan for Takaful Industry

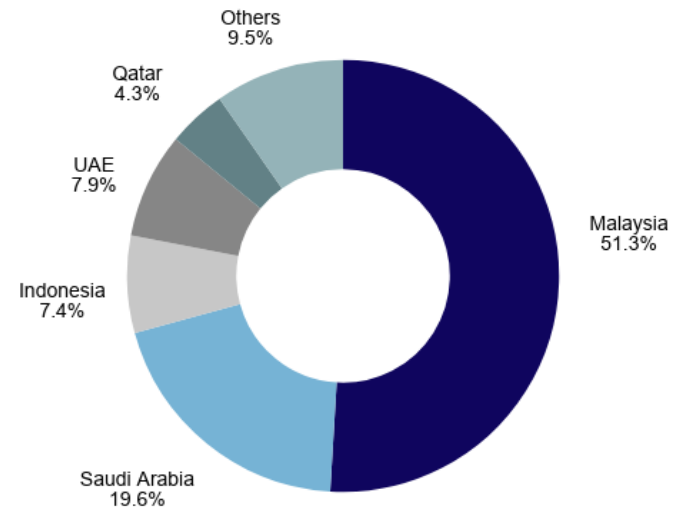
Mature Islamic Financial Markets  
(Syariah compliant Banking & Investment market)

Promote as International Islamic Financial Centre

Robust Regulatory Framework

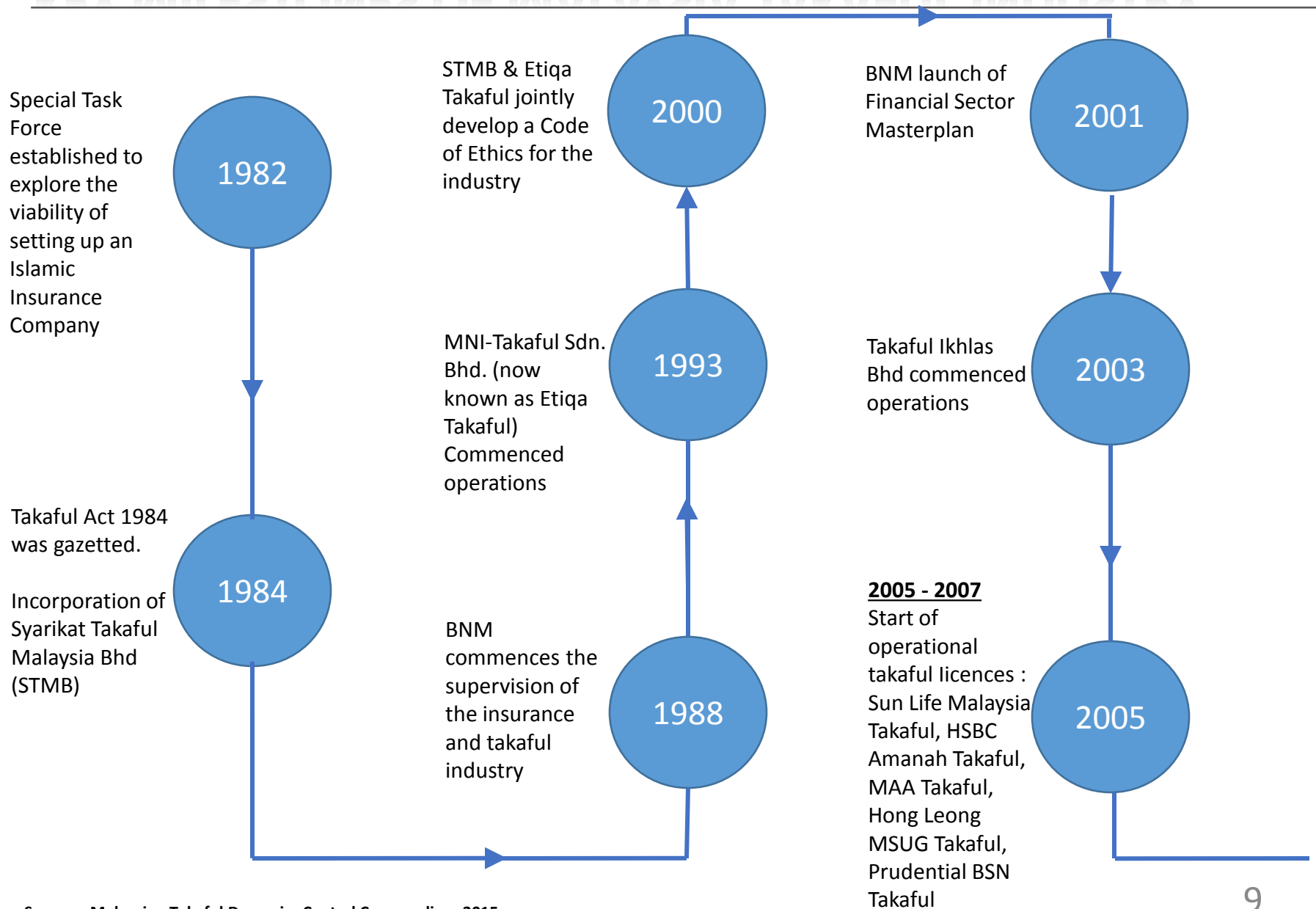
Tax Exemptions and other support/incentives

Global Sukuk Outstanding by Domicile as at end-Feb 2018

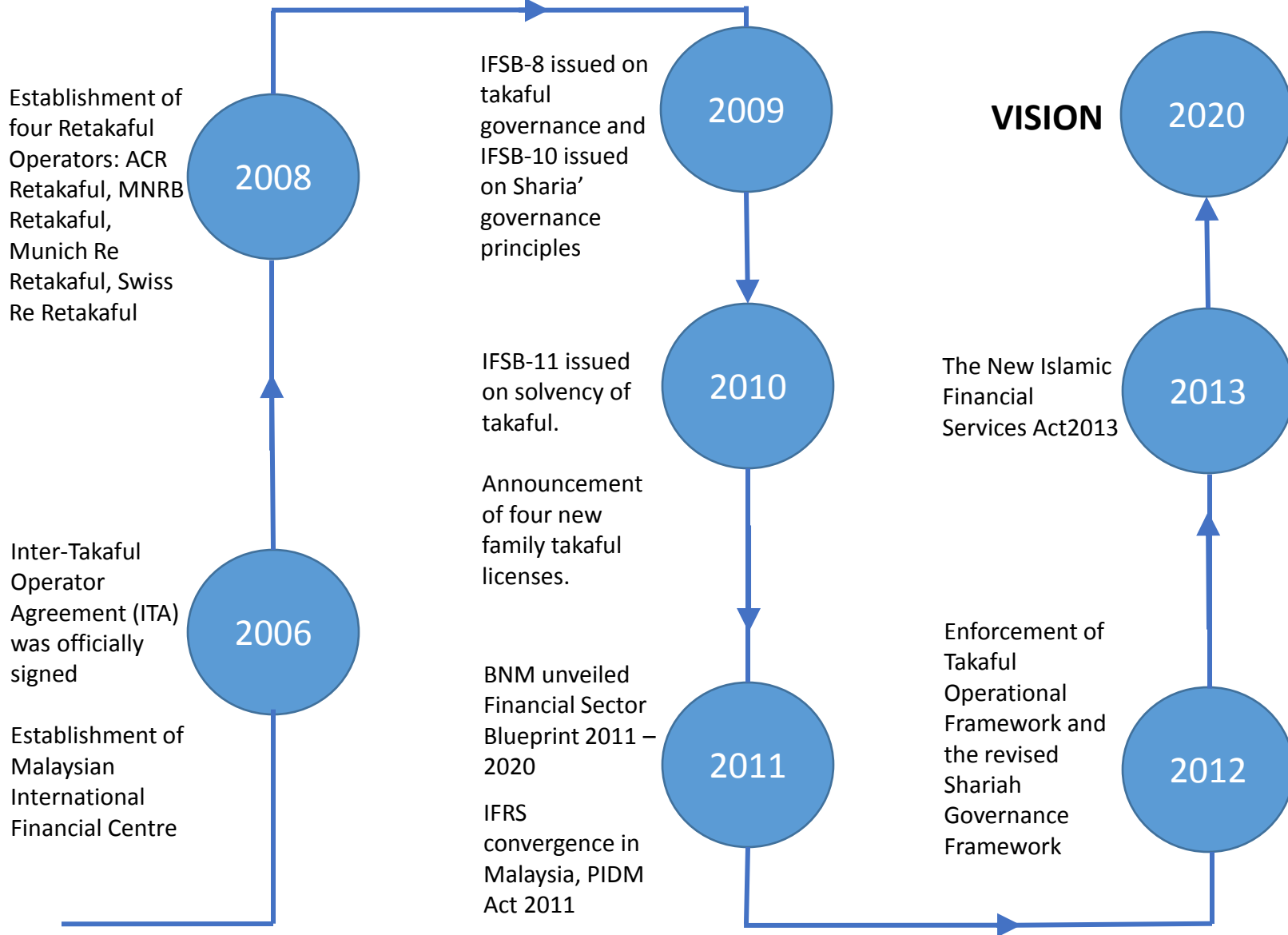


Source: MIFC estimates

# KEY MILESTONES OF MALAYSIA TAKAFUL INDUSTRY

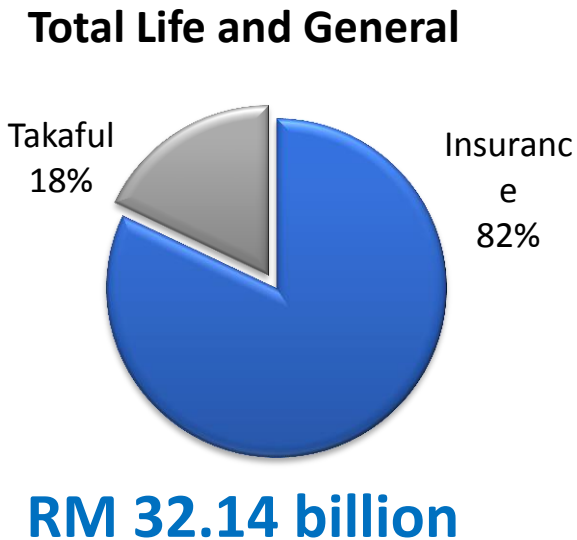


# KEY MILESTONES OF MALAYSIA TAKAFUL INDUSTRY

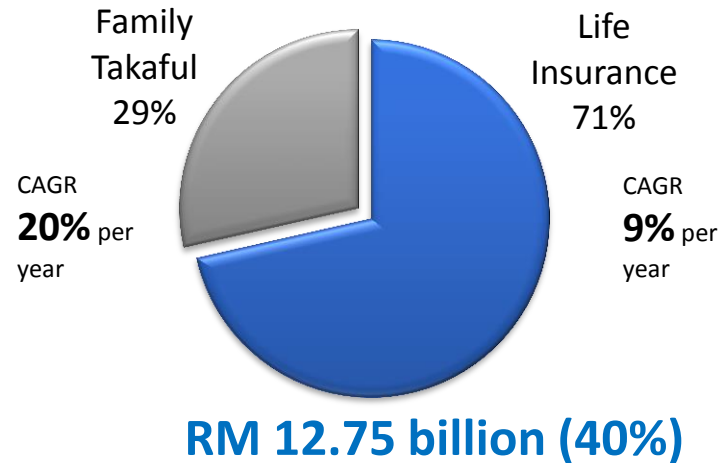


# LANDSCAPE OF INSURANCE & TAKAFUL IN MALAYSIA

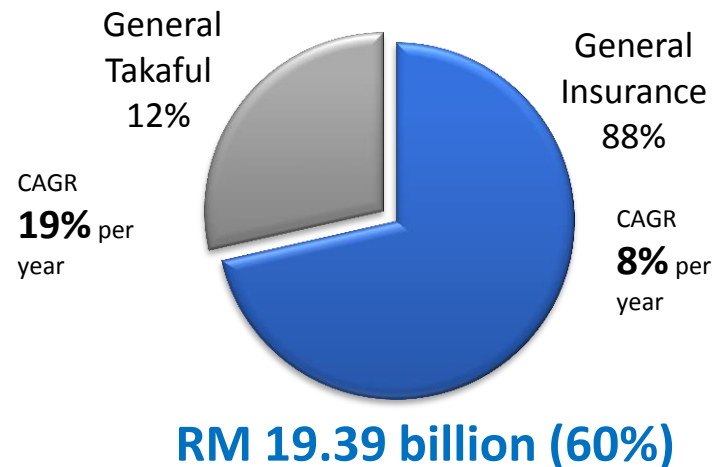
## 2015 Market Performance (New business premium)



### Life Insurance & Family Takaful



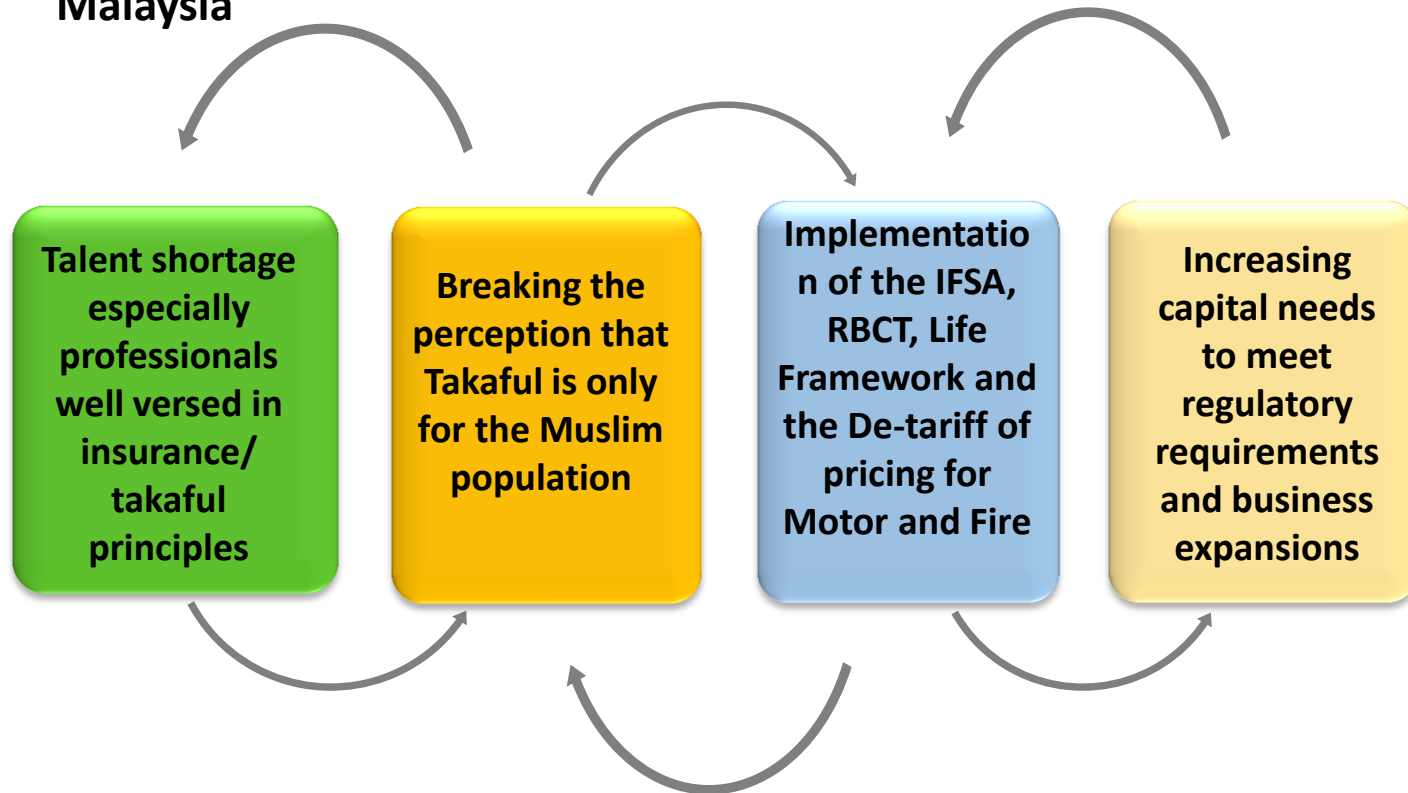
### General Insurance & General Takaful



# ISSUES & CHALLENGES

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**Main issues and challenges faced by Takaful operators in Malaysia**



# 3

# REGULATION

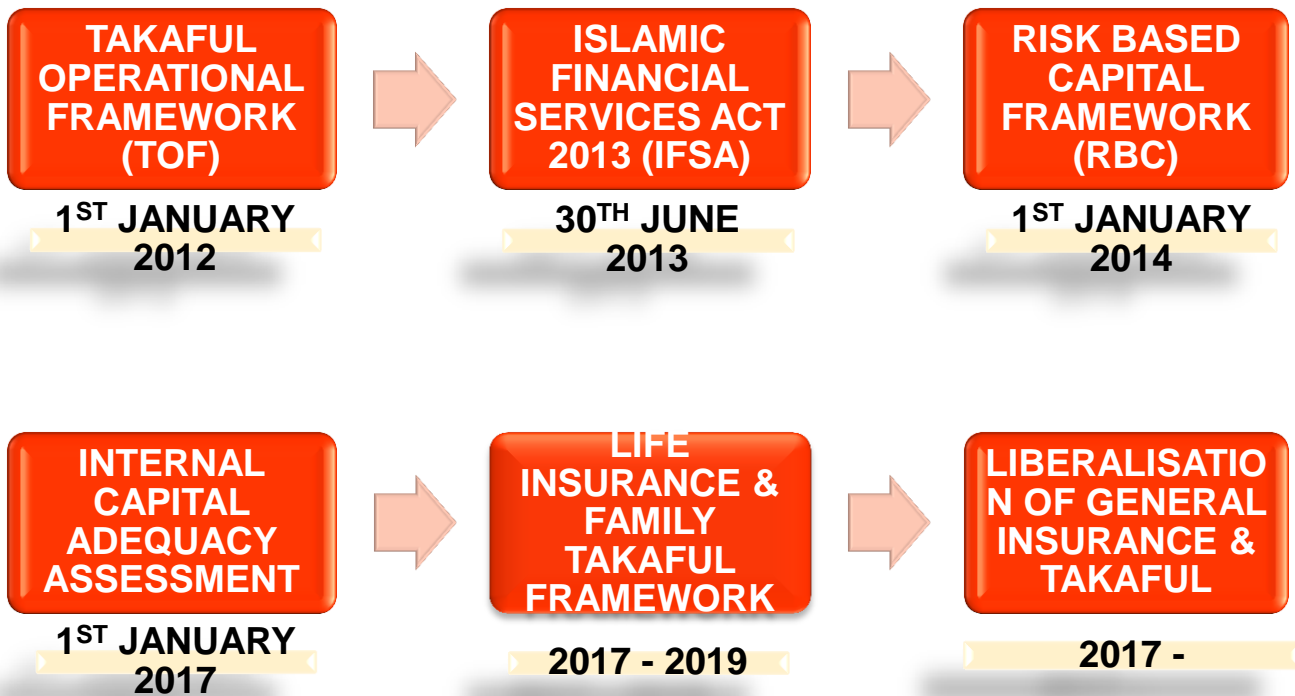
- **Current Landscape**
- **Recent Development**

# CURRENT LANDSCAPE IN MALAYSIA

- A guided development plan with a **strong regulatory framework** is imperative for the expansion of a **dynamic, resilient and efficient Takaful industry** :
  - A conducive facilitating environment and clear directions for the development of the industry by Malaysia government :-
    - *Legal Framework – Takaful Act 1984 / Islamic Financial Services Act (IFSA)*
    - *Strong institutional framework*
    - *Robust Shariah governance structure*
    - *Risk Based Capital framework (RBC)*
    - *Effective and efficient consumer protection plan*
- TOs in Malaysia are currently operating on **Wakalah Hybrid Model** as they consider it reasonable to reward an operator with a share in the surplus generated as incentive for good performance.
- **Market liberalization on both Life/Family and General insurance industry.**

# RECENT REGULATORY DEVELOPMENT

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# RECENT REGULATORY DEVELOPMENT

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Existing TO will **enhance their institutional capabilities** and **operational efficiency** to strengthen their competitive position

As TOs are required to **enhance disclosure**, potential participants are now better informed before taking up a Takaful coverage

It promotes business expansion and innovations that leads to **healthy competition** among existing and new players

Encouraging **good governance** and **risk management** in Takaful Operators

**Industry growth** can be achieved in the long term with strong and solid players which are **more focused** on strategic planning, management, cost control and enhanced customer service

*With this detailed guidance, Malaysia is raising its regulation of takaful to a new level of sophistication.*

# RECENT REGULATORY DEVELOPMENT

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## Market Liberalization for Family Takaful

Promoting  
**Competitive**  
and  
**Innovative**  
Insurance and Takaful  
Sectors

The insurance landscape is expected to change in ways that will have a direct and profound impact on

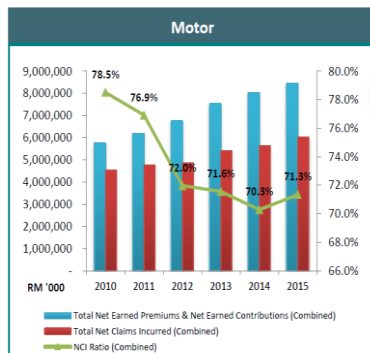
- future operating environment for industry players
- the experience that consumers and businesses have with insurance

# RECENT REGULATORY DEVELOPMENT

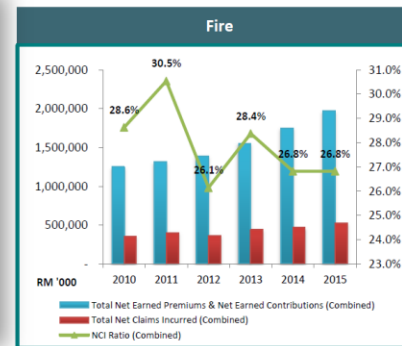
## Market Liberalization for General Takaful

**70%** of the general insurance market has been regulated under tariffs for more than 30 years.

Effective 1st July 2016



Thin margin due to high claim ratio



High margin due to low claim ratio



- Phased Liberalisation to Support an Orderly Transition
- The progress of liberalization will be reviewed in 2019 with an assessment of the impact on consumers and industry before full liberalization takes place

## 4

## TECHNICAL DISC

- Expense Reserve
- Provision for Adverse Deviation

# EXPENSE RESERVE

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- **BNM/RH/GL 004-20 – Guidelines on Valuation Basis for Liabilities of Family Takaful Business,**

## **Para 6.15**

The Appointed Actuary shall conduct the valuation of expense liabilities separately in the shareholders' fund.

The method used to value expense liabilities shall be consistent with the method used to value takaful liabilities of the corresponding family takaful certificates (for example, for a long term ordinary takaful certificate, the valuation method for expense liabilities should also be long-term in nature).

# EXPENSE RESERVE

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- **BNM/RH/GL 004-20 – Guidelines on Valuation Basis for Liabilities of Family Takaful Business,**

## **Para 6.16**

When valuing expense liabilities, the Appointed Actuary shall consider the present value of expected future expenses payable from shareholders' fund in managing the takaful fund for the full contractual obligation of the takaful certificates.

The cash flows to be considered as shareholders' fund income shall be future wakalah fees, remunerations from PIF and any other income that the takaful operator can determine with reasonable certainty.

*PIF: Participant Investment Fund*

# EXPENSE RESERVE

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- **BNM/RH/GL 004-20 – Guidelines on Valuation Basis for Liabilities of Family Takaful Business,**

## **Para 6.17**

- For the purpose of para 6.16, the Appointed Actuary may only consider distributable income from PRF as shareholders' fund income cash flow subject to the following conditions:-
  - The Appointed Actuary can determine with reasonable certainty the distributable level of future income from PRF or sub-funds for each future time period consistent with the expected experience then, and apply this at certificate level. The distributable income complied with the requirements of the Guidelines of Takaful Operational Framework and takaful operator's own policy of such distribution; and
  - The capital requirements that may be imposed on PRF by the Bank have been met by the takaful operator.

*PRF: Participant Risk Fund*

# EXPENSE RESERVE

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- For Regular contribution plan, the expected future incomes to shareholders' fund are actuarial present value of wakalah fee, remunerations from takaful fund and unit linked funds, while the expected future expense are actuarial present value of future maintenance expense. The assumptions used in calculating the provision are best estimate assumptions plus PRAD.
- For Single contribution plan (for example credit takaful), the expense reserve is estimated based on actuarial present value of future maintenance expense. The assumptions used in calculating the provision are best estimate assumptions plus PRAD.
- For Single contribution YTD products (for example group term / general takaful products), the expense reserve is estimated based on the maximum of unearned wakalah fee and unexpired expense risk.

# ESTIMATION OF PRAD

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- Not all companies will have sufficient historical experience to derive PRAD assumptions.
- Here's some commonly acceptable approaches:-
- RBC factors prescribed in Malaysia was calibrated using industry data at 95% confidence level. Insurance companies and takaful operators may refer to the RBC factors to determine the appropriate 75% confidence level.

- By assuming two-tailed normal distribution and  $\alpha$  as the confidence interval:-

$\alpha\%$ confidence level	$Z_{\alpha/2}$	} 60%
95%	1.960	
75%	1.150	

- The PRAD factor is usually set at 60% of the RBC factor.

**Thank You !**