

BUILDING VALUE TOGETHER



18 October 2019

The Malaysian Model of Digital Syariah

Hassan Scott Odierno, FSA
Jakarta

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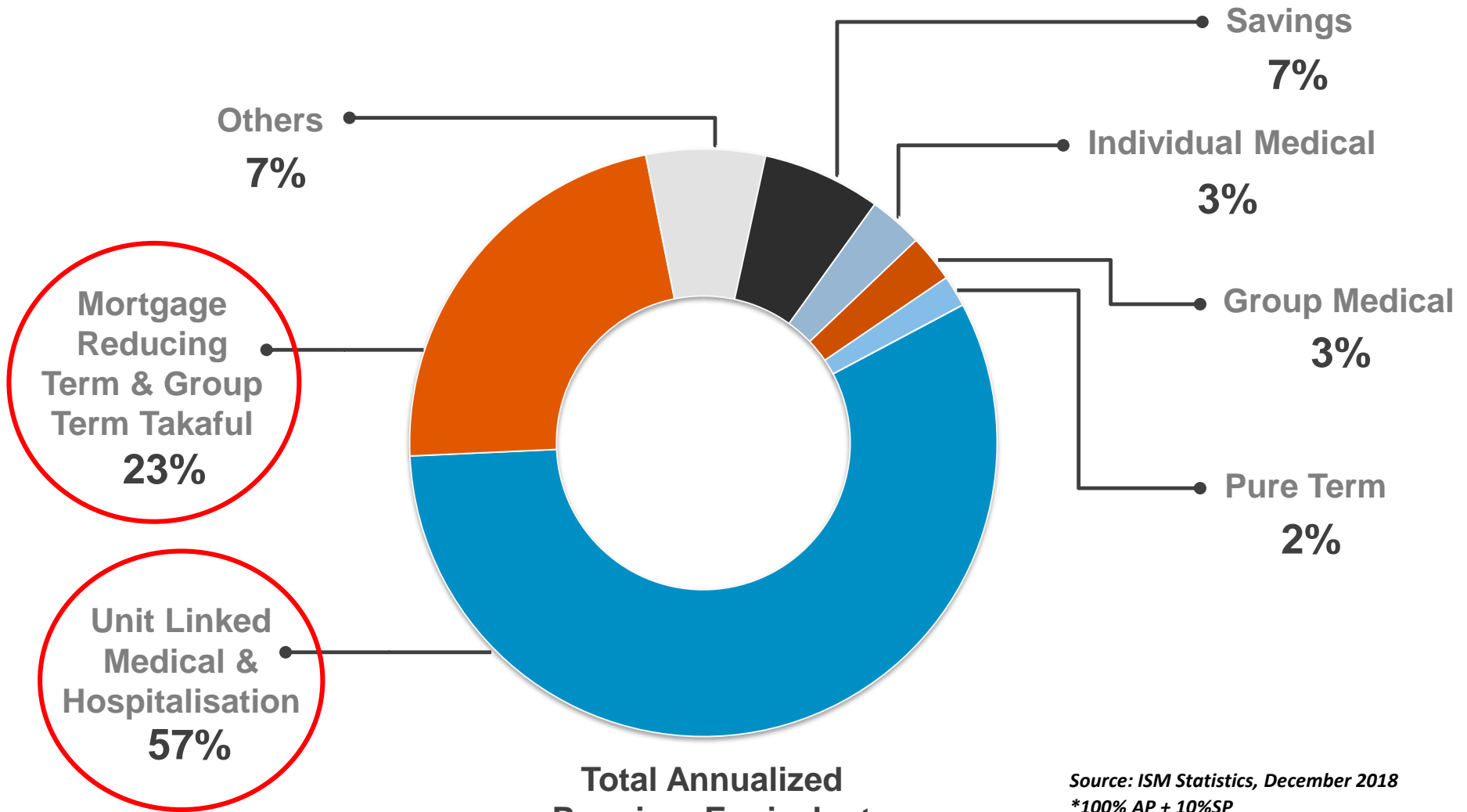
Questions We Will Answer Today

1. What are current issues in the Family and General Takaful markets in Malaysia?
2. How are Takaful operators in Malaysia moving to digital in their marketing?
3. In what other ways are Takaful operators in Malaysia embracing Industry 4.0?
4. What are the important questions when looking at IFRS17 for Takaful.

Family Takaful Market Issues and the move to Digital

Malaysia Family Takaful Market 2018

By Product Type



**Total Annualized
Premium Equivalent
(APE): RM1,665 Million**

Source: ISM Statistics, December 2018

*100% AP + 10%SP

**Individual and group term SP OL

***AP IL Base plus riders

Unit Linked Challenge: Ensuring Sufficiency with Unit Linked plus Riders

New Takaful Operating Framework (TOF):

10.17 In determining the pricing of takaful products, a licensed takaful operator must–

- (a) exercise prudence and due care to ensure the price of the takaful product is appropriate and reasonable;
- (b) ensure adequate tabarru` charges into the PRF to cover risks and obligations associated with the takaful certificate;
- (c) ensure that the takaful contributions are sufficient to cover the tabarru` charges throughout the term of the takaful product; and
- (d) consider future market fluctuations and uncertainties.

Current market practice varies and in particular medical expense inflation is not taken into account.

MRTT Challenge: Pricing under IFRS17

Under IFRS17 product pricing could be heavily affected due to the treatment of retakaful. This is due to many operators using very low retakaful rates to price competitively.

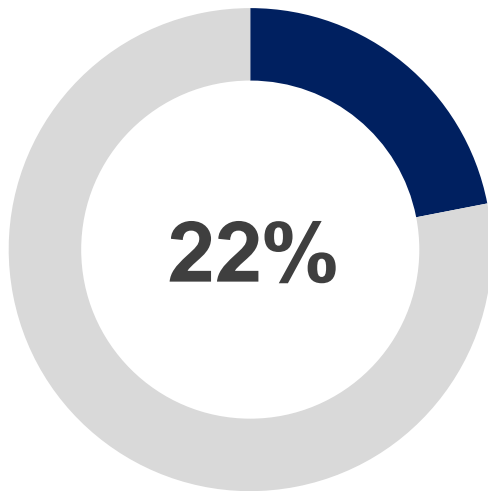
Under IFRS17 we determine the amount of profit of the policy at inception on a gross basis. The actuary will need to justify any assumptions used (rather than relying on retakaful rates). If the policy is profitable the profit (CSM) will be released over time, but if unprofitable (onerous) the losses will be incurred at inception. The profit under reinsurance will be shown separately and similarly released over time. There are proposals to allow the profits for retakaful to offset losses under a gross basis, but it's not clear at this point if this will be accepted.

Malaysia Family Takaful Market 2018

Market Share versus Conventional Insurance

Total APE for Family Takaful & Conventional Insurance:

RM7,590 Million



Note:

- Takaful Market Share
- Conventional Insurance Market Share

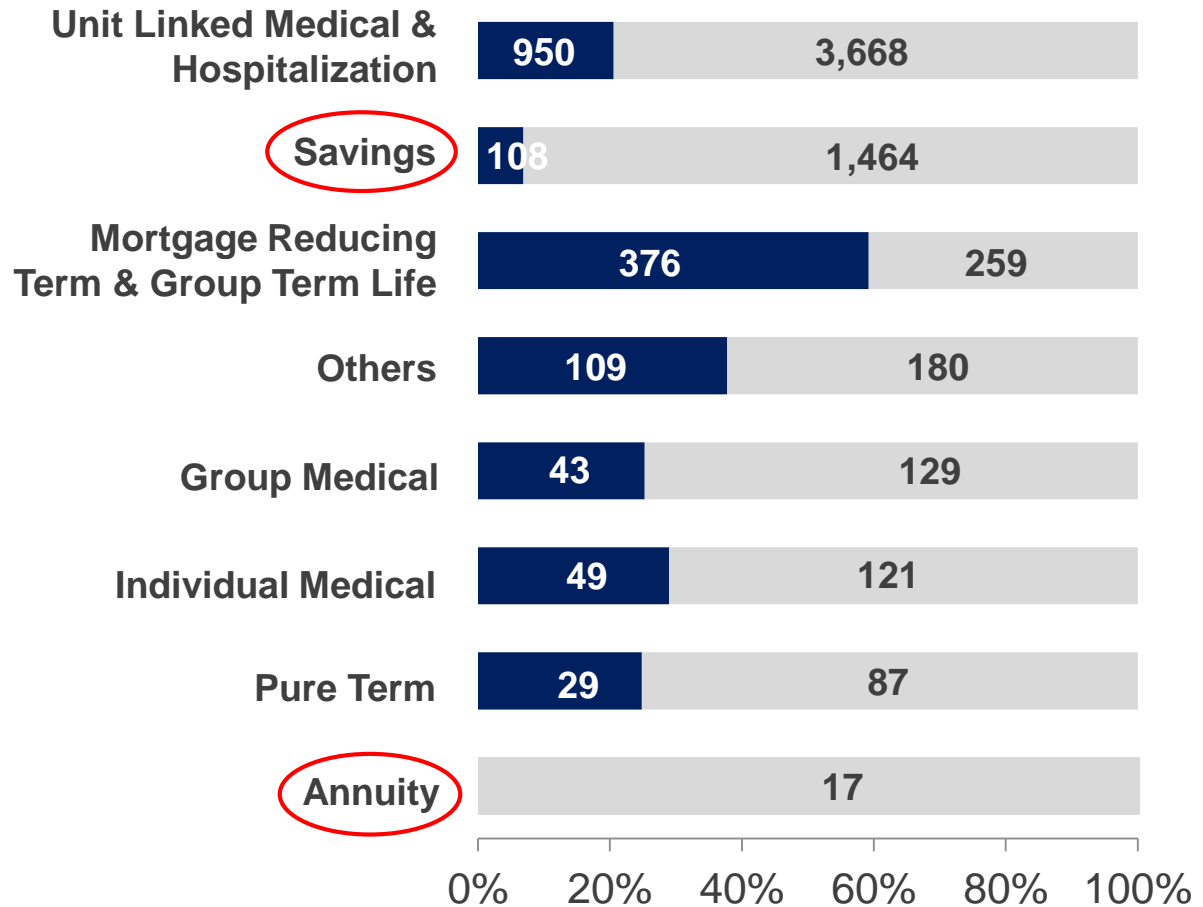
Source: ISM Statistics, December 2018

*100% AP + 10%SP

**Individual and group term SP OL

***AP IL Base plus riders

Market Share for Family Takaful by Product



Qard Contracts for the guaranteed savings market

TOF 10.15 In relation to paragraph 10.14, where applicable, the legal documentation shall clearly stipulate the terms and conditions associated with the application of Shariah contracts in a takaful product which include, at the minimum, the following:

(d) qard* for PIF Savings

(i) specified amount of takaful contributions placed as qard;

(ii) a statement that the principal amount of qard is **guaranteed by a licensed takaful operator**;

(iii) specified events for qard payment, for example payable upon maturity of takaful certificate; and

(iv) a statement that any benefits from the qard PIF Savings is based on the licensed takaful operator's discretion and not made conditional to the qard; and

* Refers to the contract where the takaful participant acts as the lender of money and the licensed takaful operator as borrower.

Qard: a new product design

TOF 16.8 Where wakalah is arranged with PIF Savings based on qard, a licensed takaful operator must ensure that the upfront wakalah fee as a percentage of the takaful contribution is determined after deducting the value of qard from the takaful contribution, as per applicable rulings by Shariah Advisory Council, and the remuneration for managing the PIF Savings shall be in accordance with paragraph 16.18.

As an example, if the gross contribution is RM1,600 and wakalah fee is RM400 then the amount which can have the qard contract is RM1,200. From this RM1,200 the tabarru for benefits is taken. If tabarru is RM200 this leaves the guaranteed amount as RM1,000.

Savings – guaranteed returns from the risk fund

TOF 10.4 In relation to paragraph 10.3(a), a licensed takaful operator must ensure that the main takaful benefits payable from PRF consist of the following:

(a) benefits to cover for financial loss or misfortune arising from specified events;

or



(b) survival or maturity benefits.

- The 'or' implies that for such structures two separate risk funds would be needed, a risk fund for benefits and a risk fund for investment.
- Similar to Qard there is a guarantee, but now the guarantee is from the risk fund, i.e. other participants.
- Anticipated endowment structures can be designed.

Savings – benefits from the operators fund

TOF 10.15 In relation to paragraph 10.14, where applicable, the legal documentation shall clearly stipulate the terms and conditions associated with the application of Shariah contracts in a takaful product which include, at the minimum, the following:

(e) Hibah

- (i) amount and specified events for hibah to be given; and
- (ii) a statement that any hibah from shareholders fund is at the discretion of the licensed takaful operator.

For example, meeting certain academic achievements in the case of a takaful certificate participated for education purposes. This has traditionally been the benefits paid from the operators fund.

Annuities

This is a product which will be needed in the future, but design is a problem. In the past a wakf approach tends to be taken, but the wakf amount can't decrease

Perhaps we can start with a temporary annuity paid from the risk fund.

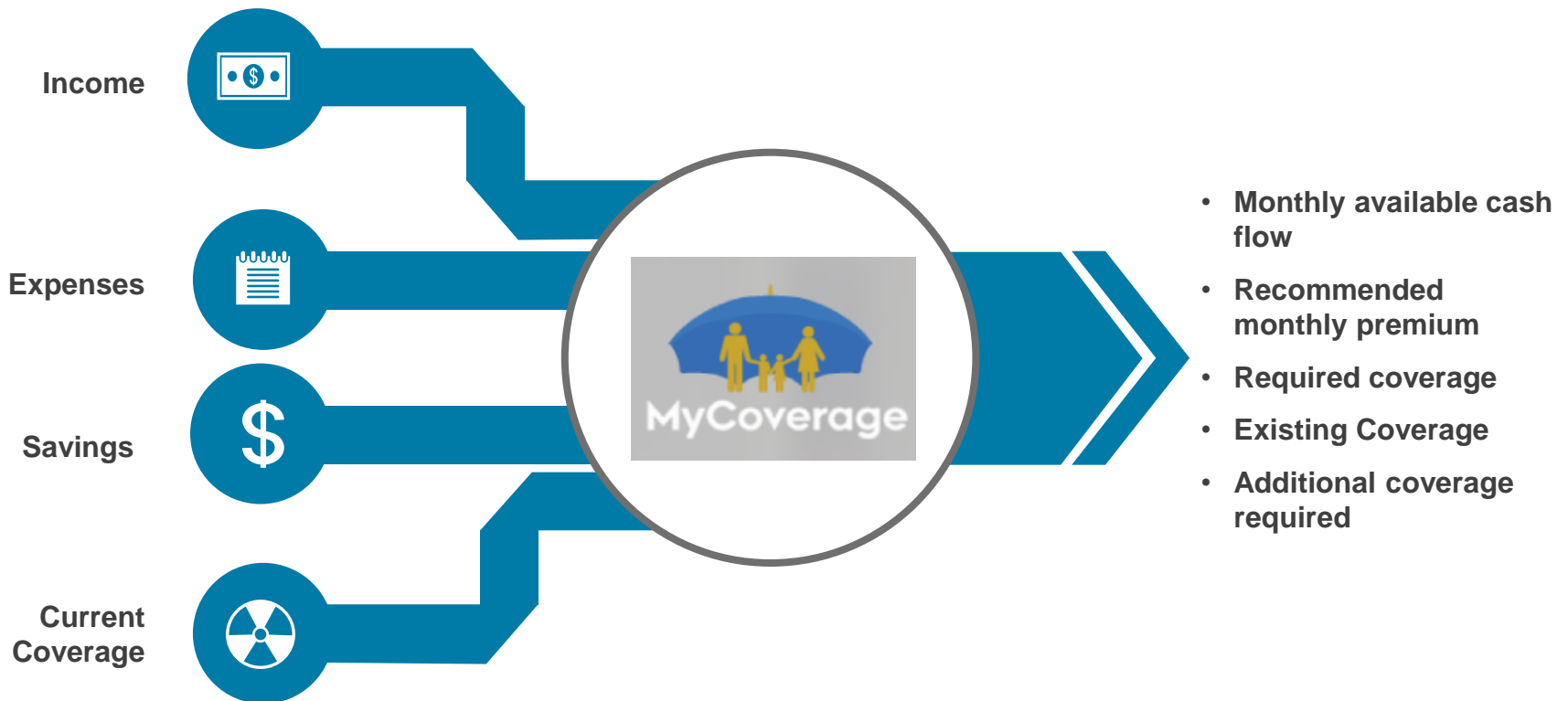
Commission Free Online Takaful Products

| | TERM | CRITICAL ILLNESS | MEDICAL AND HEALTH |
|---|------|------------------|--------------------|
| AmMetLife Takaful Berhad | ✓ | ✗ | ✗ |
| AIA PUBLIC Takaful Bhd. | ✓ | ✓ | ✓ |
| Etiqa Family Takaful Berhad | ✓ | ✓ | ✓ |
| Great Eastern Takaful Berhad | ✓ | ✓ | ✓ |
| Hong Leong MSIG Takaful Berhad | ✓ | ✗ | ✗ |
| Prudential BSN Takaful Berhad | ✓ | ✓ | ✓ |
| Sun Life Malaysia Takaful Berhad | ✓ | ✓ | ✓ |
| FWD Takaful Berhad | ✗ | - | - |
| Syarikat Takaful Malaysia Keluarga Berhad | ✗ | ✗ | ✗ |
| Takaful Ikhlas Berhad | ✗ | ✗ | ✗ |
| Zurich Takaful Malaysia Berhad | ✗ | ✗ | ✗ |

<http://www.malaysiantakaful.com.my/Consumer-Zone/Direct-Channel-Consumer-Zone.aspx>

Calculator

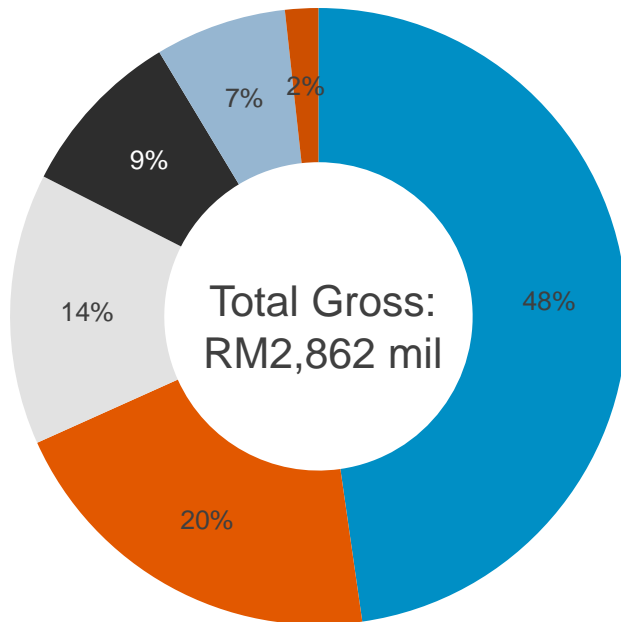
- MyCoverage provides useful information in helping customers find out more about insurance and make decisions to meet the protection needs.
- It has a calculator online to work out how much life insurance/family takaful needed.



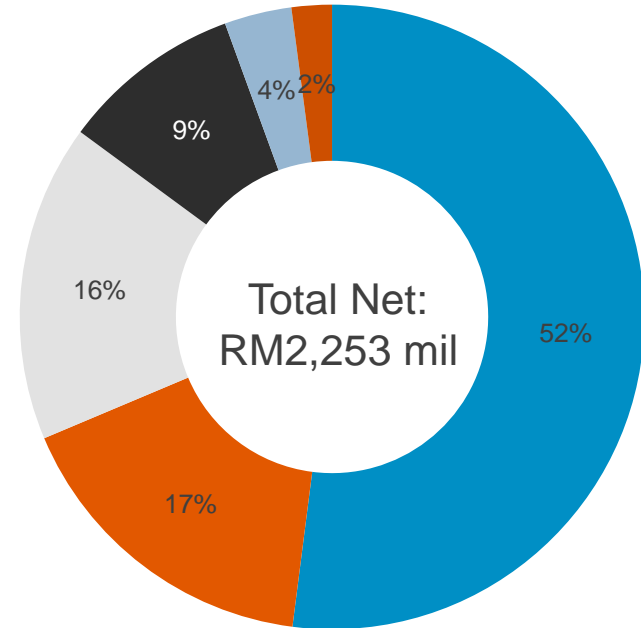
<https://www.mycoverage.my/web/mc/calculator>

General Takaful Market issues and the move to Digital

Malaysia General Takaful Market Analysis by Product Type



- Motor Others
- Fire
- Motor Act
- Personal Accident
- Others (Commercial)
- Medical and Health



| Product Type | Motor Others | Fire | Motor Act | Personal Accident | Others (Commercial) | Medical and Health |
|------------------|--------------|------|-----------|-------------------|---------------------|--------------------|
| Retention Levels | 87% | 65% | 92% | 84% | 40% | 95% |

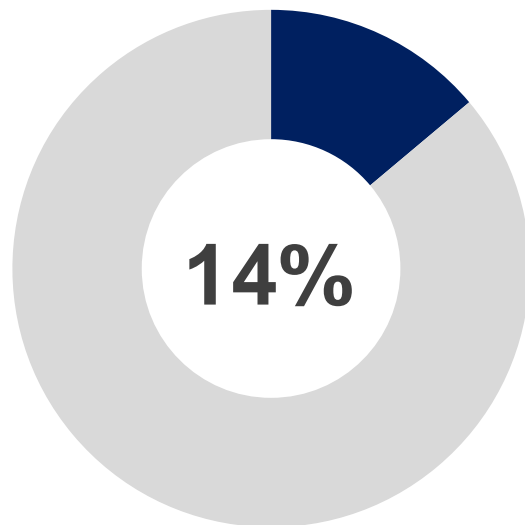
Source: ISM Statistics, December 2018

General Family Takaful Market 2018

Market Share versus Conventional Insurance

Total Gross Premium for General Takaful & Conventional Insurance:

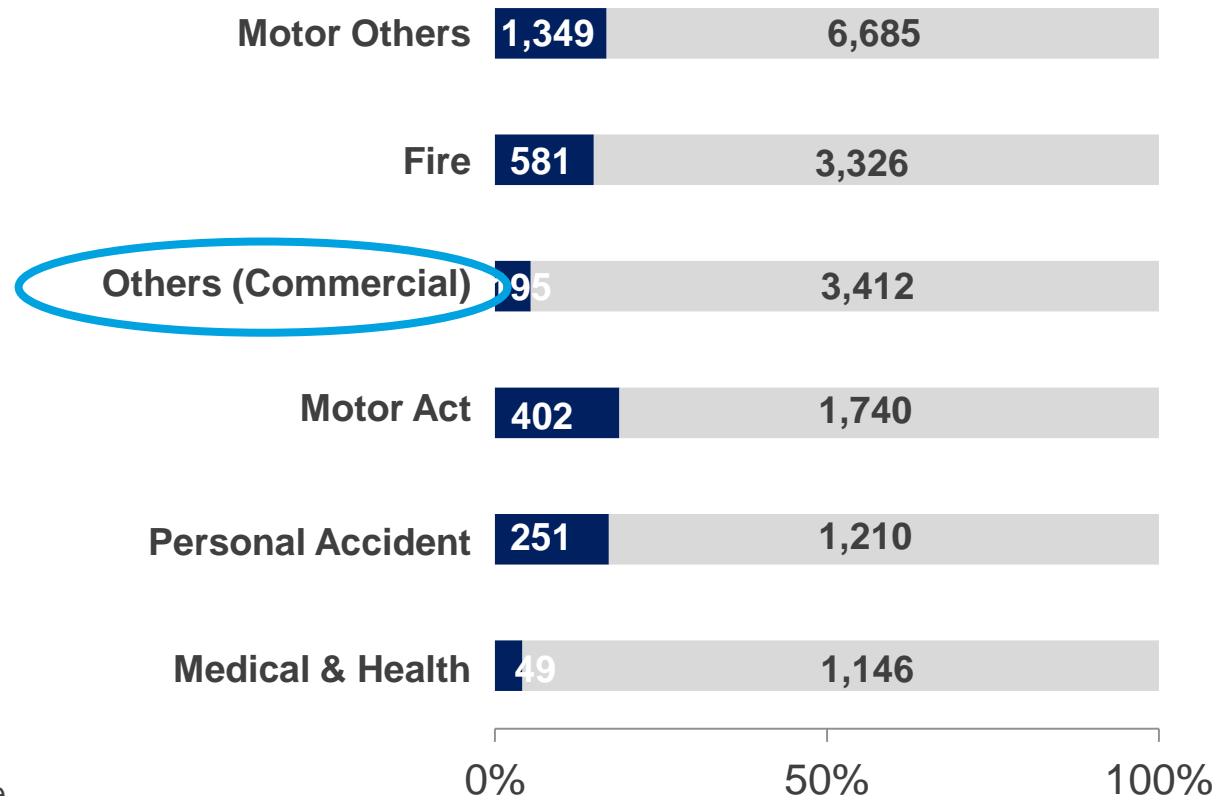
RM20,345 Million



Note:

- Takaful Market Share
- Conventional Insurance Market Share

Market Share for General Takaful by Product



Source: ISM Statistics, December 2018

maybank2u.com

- Digital Banking Platform through web portal.
- Motor Insurance (both takaful and conventional): 10% instant rebate if purchase via maybank2u.
 - Provider: Etiqa.
 - Benefit: roadtax renewal service.
 - Roadtax: Will be delivered to your address around Klang Valley within 2-3 days.
- Travel Insurance (both takaful and conventional): 25% instant rebate if purchase via maybank2u.
- Family Takaful products: Takaful Privilege PA, Takaful PA Plus.

Syarikat Takaful Malaysia-Web Portal



OUR PRODUCTS ▾

Takaful *myClick* MediCare



FIRST fully underwritten online medical plan in Asia for both you and your family.

Pay less when you apply online with greater savings!

Any questions? Call us on 1300 82 0031

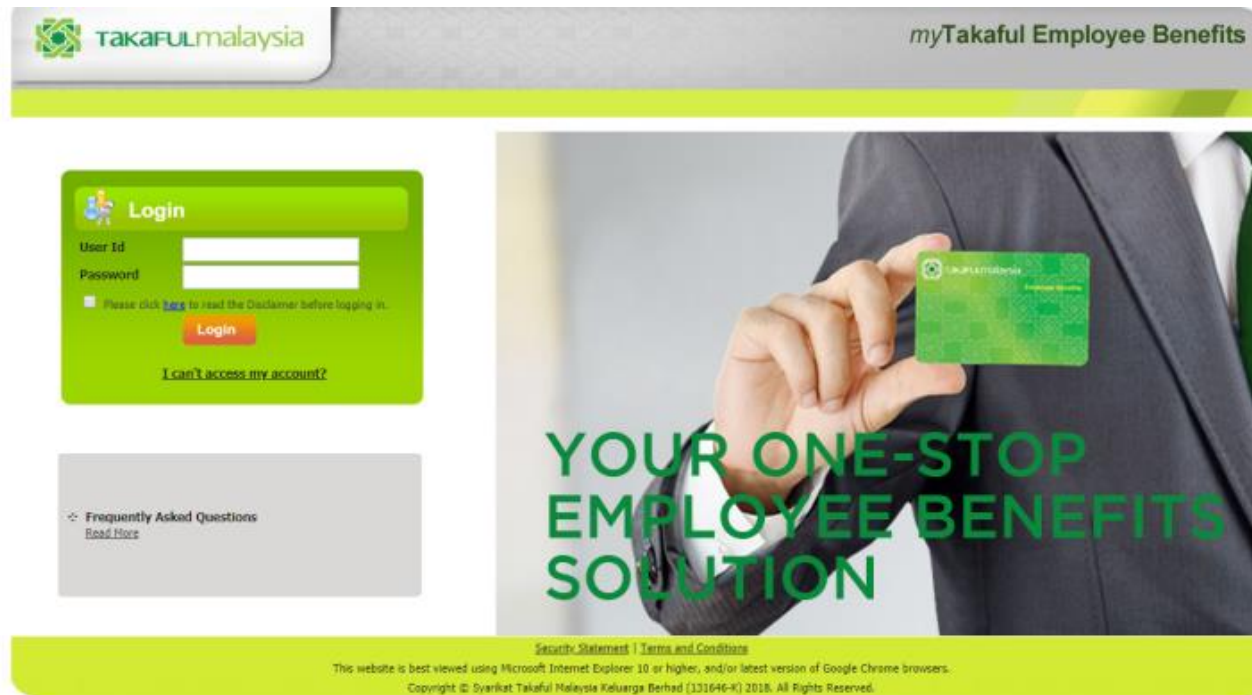
More and more people are finding it difficult to get the medical plan they need at an affordable price. Most medical plans are too expensive due to unreasonably high benefits that you are likely to never use. Moreover, you have to put up with the endless hassle of filling forms, medical check-ups, dealing with pushy agents and having to pay extra for their commissions.

Takaful *myClick* MediCare gives you the comprehensive medical coverage you really need - minus all the frustrations. You can enrol directly from the comfort of your own screen using our custom-built digital enrolment engine - it's faster, effortless and uniquely affordable.

[Learn More](#)

Syarikat Takaful Malaysia-Web Portal

Takaful Employee Benefits: Corporate clients including their members have access to wide search functionalities for all information relating to the company and their benefits.



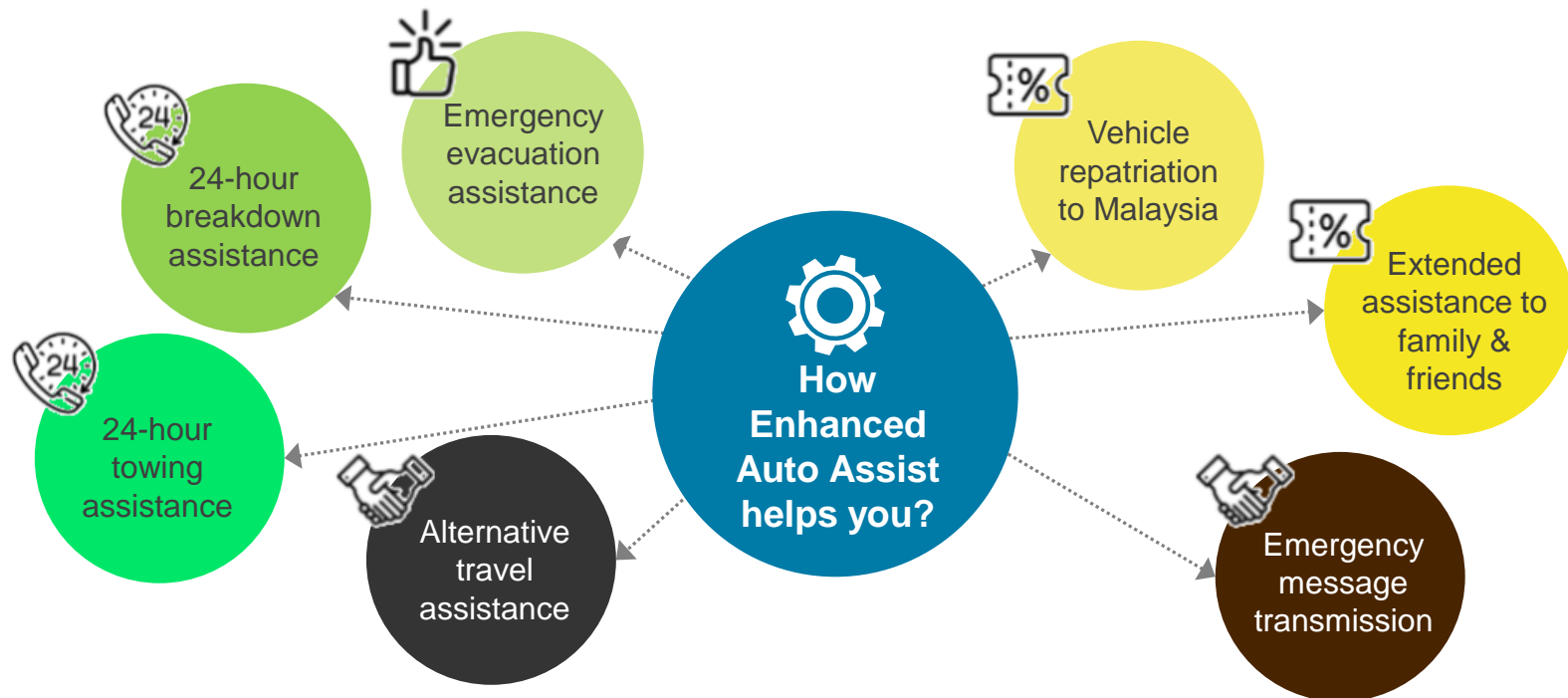
<https://mytakafulebcorpclient.takaful-malaysia.com.my>

Embracing Industry 4.0 in other ways

Etiqua

Etiqua Auto Assist App

- (a) The GPS locator will find and rescue the customer when an accident happens with just a few taps on the app.
- (b) It covers on the road in Malaysia, Singapore, Thailand or Brunei.



<https://www.maybank2u.com.my>

Etiqua

e-Cleva – 30 Minute Fast Claims

- Make a fast claim for cracked windscreens, minor accidents and home damages for products: Car Insurance and Takaful and Houseowner & Householder Takaful.
- Can be requested before meeting the adjuster or making a police report.

Step 1



Call 1-300-88-1007

Step 1: Call the hotline number and request for an immediate e-Cleva assistance. A link for a video call with Etiqua claim consultant will be sent.

Step 2



Show damages

Step 2: The consultant can mark the interest on the damaged car via the video call.

Step 3



Sign your offer letter

Step 3: Consultant then calculates the compensation amount and for claims less than RM30,000, a payment will be made right away.

B40 Insurance Blockchain Products

Vsure.life (Malaysia)

The app is unique as it sets up the trend for habitual lifestyle protection. Users can choose, purchase, claim and switch protection on and off as needed, wherever and whenever at their fingertips.



Products are offered in collaboration with AXA Affin Life Malaysia (life) and Allianz (general):

<https://vsure.life/>

Will we still have a job under Industry 4.0?



The next insurance leaders will use bots, not brokers, and AI not actuaries!

- *Daniel Schreiber*
CEO of Lemonade speaking at NOAH Berlin 2019

Takaful operators will need to allow AI to take over certain types of work to free ourselves for more complex or creative tasks.



Product design is likely to move from generic savings products to products focusing on very precise needs and risk management requirements.

This will likely require Takaful operators to have a much greater understanding of the social sciences and behavioral analysis.



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Insurance is a subject matter of solicitation.
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The advertisement features a central illustration with various icons: a stopwatch, a water bottle, a scale, a trophy, a smartphone, a pair of shoes, a clipboard, a running track with 'START' and 'FINISH' markers, and a heart with an ECG line. At the bottom right, there is an illustration of a woman and a man running on a track.

Moving from replicating conventional insurance products to innovating into new Takaful market segments will require creativity!

A product which looks exactly like conventional insurance will probably have the same IFRS17 requirements as conventional insurance. We can design innovative products which should have different IFRS17 requirements, but perhaps we can even design products which would not fall under IFRS17!



The important questions for IFRS17 for Takaful



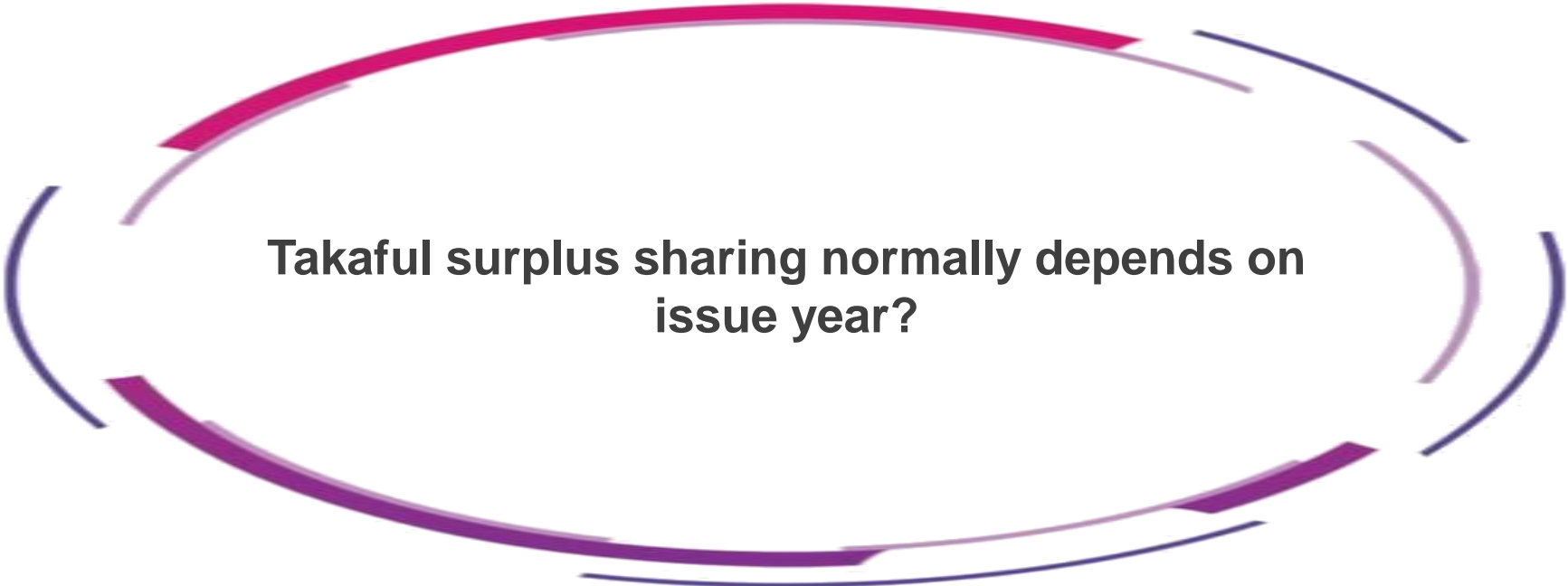
In Takaful is there a transfer of risk from one party to another?



Who are we transferring the risk to?



Who owns the risk fund?



**Takaful surplus sharing normally depends on
issue year?**



**What is fairer to the participant, a conventional par
fund or Takaful?**



**Does an investor care if there are huge Qard
outstanding?**

The insurance companies that thrive in the 21st century will be those that were started in the 21st century. They don't have the baggage of the existing market leaders.

- *Daniel Schreiber*
CEO of Lemonade speaking at NOAH Berlin 2019

The new leaders will have their niche markets and focus on their core expertise, outsourcing what isn't core. This extends all the way to complexities such as IFRS17, where service bureau approaches can be used rather than creating so much new baggage!

Conclusion: Pushing into Industry 4.0

- Family Takaful is facing some challenges but is also innovating as we move into Industry 4.0.
- General Takaful process improvements and online sales will continue, with digital solutions to both finding and keeping the customer.
- We will need to continue to build our creativity and innovation as we move further into the digital age.
- IFRS17 is coming whether we like it or not, get involved in the discussion for implementing IFRS17 for Takaful!

Questions



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