

# Development of the Islamic Insurance Business in Malaysia

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*Abstract:* Muslims are prohibited from taking conventional insurance due to some forbidden elements in the conventional insurance. Given the undoubted importance of insurance for risk management, Muslim scholars suggested that Islamic insurance should be introduced to fulfil the need of Muslims. After the establishment of the first Islamic insurance company in the Sudan, Islamic Insurance has developed rapidly all around the world. This paper aims to study the development of Islamic Insurance in Malaysia in terms of the increase in the number of takaful and retakaful companies, the development of takaful business compared to conventional insurance, developments in takaful models, and the diversified takaful plans being offered. This study utilises documentation and historical methods. The results of this study reveal that after 26 years of takaful operation in Malaysia, there are now ten takaful companies, four retakaful companies and an increasing number of takaful policies taken up by Malaysians. Malaysia also signifies its presence in the takaful market, being the second largest takaful market in the world, as its total assets of US\$3.2 billion dominated 26 percent of total global takaful assets in 2009. Nevertheless, conventional insurance remains predominant in Malaysia's insurance industry, where we can see that out of the 53.5 percent market penetration rate for both takaful and insurance, the market penetration rate for takaful was merely 10.9 percent in September 2010.

*Keywords:* takaful development, takaful business, Islamic finance, Islamic insurance

## 1. Introduction

The history of the takaful industry in Malaysia began on 25 October 1982 when a Special Task Force was created to study the possibility of establishing Islamic insurance companies in Malaysia. The study was undertaken based on the experience and progress of existing insurance companies in this country as well as work visits to several countries that have already implemented Islamic insurance. The committee concluded that, foremost, such companies must operate within Shariah laws.

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Such companies must also operate in line with the existing insurance industry, inevitability requiring the establishment of specific laws relating to Islamic insurance. Based on the operating Islamic insurance companies abroad, the committee also concluded that the creation of Islamic insurance companies in Malaysia would be a successful venture (Takaful Annual Report, 1986).

## 2. Development of Takaful Business in Malaysia

### 2.1. Development of Takaful and Retakaful Companies in Malaysia

As an outcome of the above committee's recommendations, Syarikat Takaful Malaysia Sdn. Bhd. was established and incorporated as a private limited company in accordance with the Companies Act 1965 on 29 November 1984 (Prime Minister's Department, 1984).

The creation and launch of this company was the culmination of efforts undertaken by the government and the Muslim population in Malaysia to introduce Islamic insurance. Syarikat Takaful Malaysia Sdn. Bhd. was a new breed of insurance company, which is unique in terms of its concept and objective. Given that the concepts of takaful cannot be applied to offer and operate takaful products in the Insurance Act 1963, a new act, the Takaful Act 1984 was created to enable the establishment of this takaful company as well as the introduction of takaful products (Prime Minister's Department, 1984).

Subsequently, Syarikat Takaful Malaysia Sdn. Bhd. became a public listed company known as Syarikat Takaful Malaysia Berhad (STMB), listed on the Kuala Lumpur Stock Exchange (KLSE) on 31 July 1996. At that time, as a subsidiary of Bank Islam Malaysia Berhad (BIMB), 65.5 percent of its shares were owned by this bank. Other shareholders with a stake in the company included the Islamic Religious Councils for the states of Terengganu, Pahang and Negeri Sembilan as well as the Islamic Bank Unit Trust (ASBI) (<http://www.takaful-malaysia.com/profile>).

On 15 October 1993, another Islamic insurance company was established in Malaysia – Syarikat Takaful Nasional Sdn. Bhd. (STNSB) – which was formerly known as Malaysia Nasional Insurans Takaful Berhad (MNIT). The concept and objective of this company's creation was identical to that of Syarikat Takaful Malaysia Bhd., which was to provide insurance coverage that meets the needs of Muslims in Malaysia and complies with the requirements and guidelines of Islam (Prime Minister's Department).

In 2002, Mayban Takaful was established, with the objective of providing financial protection to its policyholders. The creation of Mayban Takaful was also based on the Takaful Act 1984 (<http://www.maybank2u.com.my>). At the end of 2007, a

merger between Mayban Fortis, Malaysia National Insurance and Syarikat Takaful Nasional Sdn. Bhd, gave birth to Etiqa Malaysia National Insurance, which became known as Etiqa Takaful Berhad (<http://www.maybank2u.com.my>).

Meanwhile, in 2003, another Islamic insurance company was launched for the benefit of Malaysians. The company was known as Syarikat Takaful Ikhlas Sdn. Bhd. This company was a subsidiary to the Malaysian National Reinsurance Berhad. The company was established to offer an effective form of financial management in addition to insurance protection. Syarikat Takaful Ikhlas offered products permissible under Shariah and in accordance with the Takaful Act 1984 (<http://www.takaful-ikhlas.com.my/corporateprofile/aboutus.asp>).

Subsequently, in 2005 a fifth takaful company was created in Malaysia known as Commerce Takaful Berhad. Commerce Takaful Berhad – a subsidiary company wholly owned by Commerce International Group Bhd., which is a subsidiary of the Bumiputra-Commerce Holdings Bhd. (BCHB) group of companies – was incorporated on 23 March 2005 and began its operations on 2 January 2006. On 8 August 2007, Commerce Takaful changed its name to CIMB Aviva Takaful Berhad. As at January 2011, there were ten takaful operators and four retakaful operators in Malaysia, as listed in Table 1.

**Table 1: Retakaful and Takaful Companies in Malaysia**

Takaful Operators	
1	AIAAFG Takaful Bhd
2	CIMB Aviva Berhad
3	Etiqa Takaful Berhad
4	Great Eastern Takaful SdnBhd
5	Hong Leong Tokio Marine Takaful Berhad
6	HSBC Amanah Takaful (Malaysia) Sdn Bhd
7	MAA Takaful Berhad
8	Prudential BSN Takaful Berhad
9	Syarikat Takaful Malaysia Berhad
10	Takaful Ikhlas SdnBhd
Retakaful Operators	
1	ACR Retakaful SEA Berhad
2	MNRB Retakaful Berhad
3	Munchener Ruckversicherungs-Gesellschaft (Munich Re Retakaful)
4	Swiss Reinsurance Company Ltd. (Swiss Re Retakaful)

Source: Central Bank of Malaysia, <http://www.bnm.gov.my>

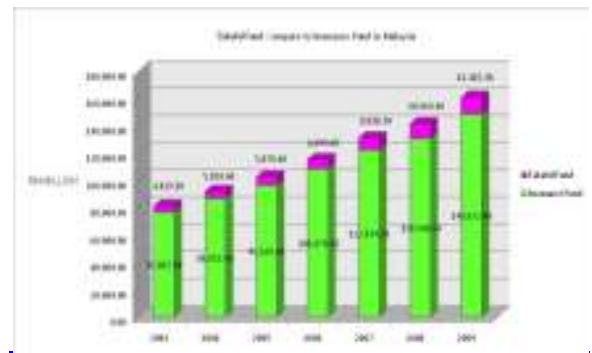
Table 1 shows that the number of retakaful companies has also increased. This increase in number is to ensure that the need of takaful companies for retakaful in

Malaysia is met. Takaful companies need retakaful because, according to Ma'sum Billah: "It is a way for a primary insurer to protect against unforeseen or extraordinary losses. Reinsurance serves to limit liability on specific risks, to increase individual insurers' capacity, to share liability when losses overwhelm the primary insurer's resources, and to help insurers stabilise their business in the face of the wide swings in profit and loss margin inherent in the insurance business." (Billah, [http://www.takaful.coop/index.php?option=com\\_content&view=article&id=75&Itemid=58](http://www.takaful.coop/index.php?option=com_content&view=article&id=75&Itemid=58)).

## 2.2. Growth of the Takaful Fund in Comparison to Conventional Insurance

After two decades of operation in Malaysia, in terms of market dominance, it was found that conventional insurance is still at the forefront. This is apparent in terms of the size of funds, whereby conventional insurance still has the majority share in Malaysia's insurance market compared to takaful.

Figure 1: Takaful Fund Compared to Insurance Fund in Malaysia



Source: Central Bank of Malaysia, <http://www.bnm.gov.my>

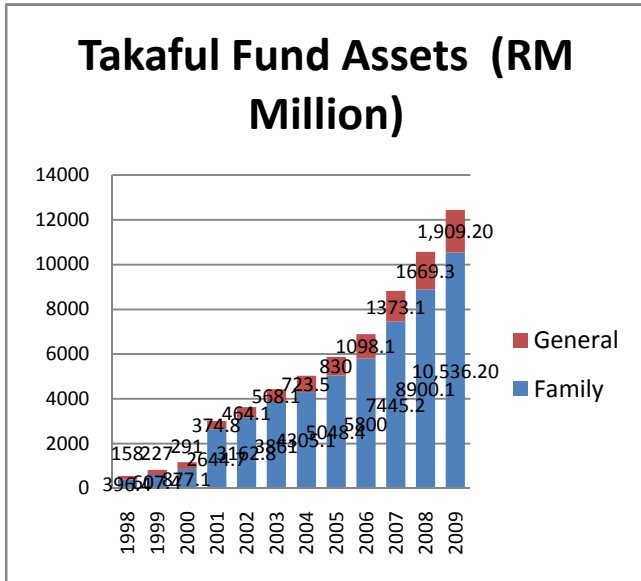
## 2.3 Development of Takaful Models in Malaysia

The takaful models introduced in Malaysia are the *mudarabah* takaful model, the modified *mudarabah* takaful model and the *wakalah* model. These three models determine the configuration of a takaful business in terms of profit sharing between participants and the takaful company, as well as the role of the takaful company. In the *mudarabah* takaful model implemented by takaful companies in Malaysia, the relationship between a takaful company and its client is that of a manager and an investor. As such, the investors (the clients) and the takaful company have rights to a share of the profits from the takaful business because the contract used is the *mudarabah* contract. Meanwhile, in the *wakalah* model, the relationship between a takaful company and its clients is an agency-based relationship. This means that the takaful company does not have the right to receive profits from the takaful business, but, instead, it receives a fee payment for managing the business on behalf of its clients (Engku Rabiah & P.Odierno, 2008).

## 2.4 Development of Family Takaful and General Takaful Business

Takaful business is divided into two: family takaful and general takaful. As illustrated in Figure 2, family takaful has experienced more significant growth than general takaful.

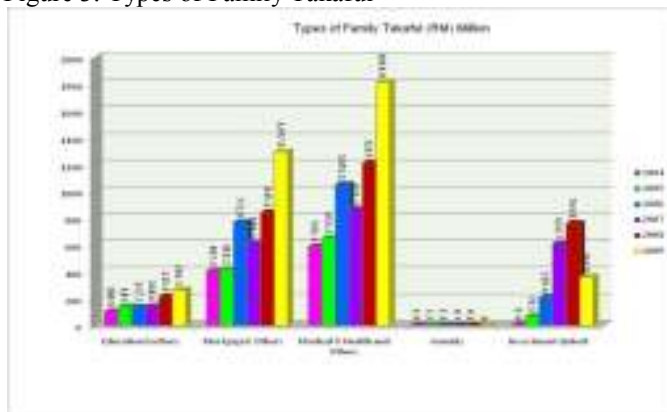
Figure 2: Takaful Fund Assets



Source: Central Bank of Malaysia, <http://www.bnm.gov.my>

With reference to Figure 3, the family takaful business comprises education, mortgage, health, annuity, investment and other forms of takaful business. Mortgage takaful has shown a steady growth each year, while investment linked takaful showed a significant increase between 2004 and 2009, as takaful companies began introducing the takaful investment link, which offers clients the opportunity to enjoy protection cover whilst building their savings and investments.

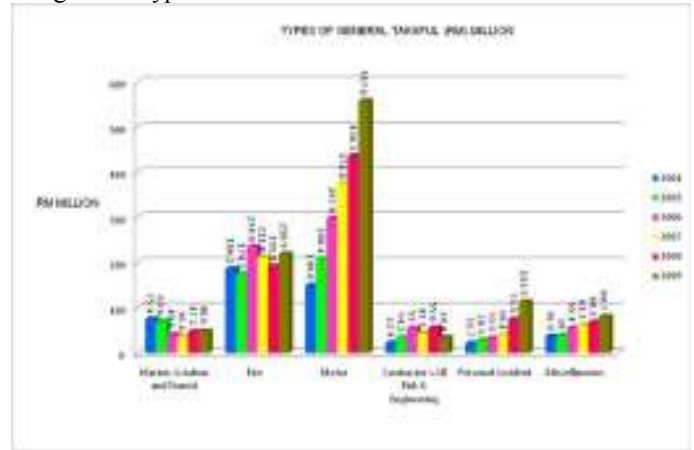
Figure 3: Types of Family Takaful



Source: Central Bank of Malaysia, <http://www.bnm.gov.my>

With reference to Figure 4, the general takaful business comprises marine, aviation and transit, fire, motor, contractor's all risk and engineering, personal accident and others. Motor takaful is increasing each year because of the increasing ownership of vehicles among Malaysians ([http://www.epu.gov.my/html/themes/epu/images/common/pdf/eco\\_stat/pdf/5.3.1.1.pdf](http://www.epu.gov.my/html/themes/epu/images/common/pdf/eco_stat/pdf/5.3.1.1.pdf)).

Figure 4: Types of General Takaful



Source: Central Bank of Malaysia, <http://www.bnm.gov.my>

**Factors that Contribute to the Development of Islamic Insurance in Malaysia**

The development of Islamic insurance business in Malaysia is supported by a conducive environment that is renowned for continuous product innovation, a comprehensive financial infrastructure and adopting global regulatory and legal best practices. Malaysia has also placed a strong emphasis on human capital development alongside the development of the Islamic financial industry to ensure the availability of Islamic finance talent. All of these value propositions have transformed Malaysia into one of the most developed Islamic banking markets in the world ([http://www.bnm.gov.my/microsites/financial/0204\\_ib\\_takaful.htm](http://www.bnm.gov.my/microsites/financial/0204_ib_takaful.htm)).

There are a few institutions that continuously provide and support research and training in Islamic insurance, such as Islamic Banking and Finance Institute Malaysia (IBFIM) (<http://www.ibfim.com/v2/>), International Centre for Education in Islamic Finance (INCEIF) (<http://www.inceif.org/>) and International Shari'ah Research Academy for Islamic Finance (ISRA) (<http://www.isra.my>). The Financial Sector Talent Enrichment Programme (FSTEP) is a programme that develops human capital for the takaful industry besides for Islamic banking and finance. In addition, many higher education institutions in Malaysia offer degrees in Islamic finance that include takaful as one of the subjects or takaful as the major choice. Furthermore, the topic of Islamic law transaction (fiqh al-muamalat) has also been discussed on national television during Nasional Forum on several occasions, which helps raise awareness among Muslims concerning the need to acquire takaful as insurance. These factors have directly and indirectly contributed in developing Islamic insurance in Malaysia.

The outlook for takaful business is expected to be good given Malaysia's predominant Muslim population and its penetration rate at a mere 7% compared to the conventional of above 40%. We expect a growth of above 10% to 12% for the general takaful and 15% to 20% growth for the family takaful segment. Takaful operators have always relied heavily on the bancassurance channel for its growth, in which the significant growth in retail credit financing, especially in relation to home financing in 2010, had generated a healthy underwriting portfolio. However, this growth may be curbed to some extent in 2011

(<http://www.malaysiainsurance.info/grapevine/outlook-for-the-insurance-and-takaful-industry-2011>).

## Conclusion

In conclusion, we are of the opinion that the takaful business in Malaysia will continue to grow from strength to strength, based on the increase in the numbers of takaful and retakaful companies, developments in models utilised in the industry, the growth in the size of takaful funds as well as the number of takaful policies from year to year.

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