Development of the Takaful Industry in Malaysia

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Although the *takaful* industry in Malaysia, as seen today, may be deemed to have attained its major features only from 1984 onwards, the industry has a longer history which dates back to the 1970s (excluding the time insurance was already distinguishable in the country). Over this period, certain important political, economic, and social developments that took place must be taken into account. The first such indication can be referred to the National Fatawa Committee (Fatawa Committee of the National Council for Islamic Religious Affairs Malaysia) meeting on 15 June 1972 where the issue of life insurance was discussed and deliberated on (Yusuf, 1996). A number of these events and subsequent evolutions have contributed to the industry’s position and growth as one of the important categories of financial institutions in the economy, and some have even been responsible in some ways for the enactment of the Takaful Act of 1984 and its successor, the Islamic Financial Services Act (IFSA) of 2013.

Under the Takaful Act of 1984, *takaful* was defined as “A scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for the purpose”. The development of the *takaful* industry in Malaysia has been encouraged by three main factors. First, about 60 percent of the country’s total population are Muslims. Furthermore, statistics have shown that the Muslims in Malaysia now have greater affluence, are more educated and have developed greater skills. The per capita income of the Malays has grown from 60 percent of the average per capita income of Malaysia in 1970 to 80 percent of the average per capita income in 2000, attributed mainly to the implementation of the New Economic Policy (NEP) in 1971, which was designed to eradicate poverty and restructure society. The economy has also changed in structure from a natural-resource and agriculture-based economy to an industrialised and services-orientated economy, generating new job opportunities in urban areas. For example, in 1970, 60 percent of total employment was in the agricultural sector, with the manufacturing sector accounting for only 10 percent (Yusuf, Dietzenbacher & Los, 2014), but in 2000, the share of the agricultural sector in total employment dropped to 15 percent while that of the manufacturing sector increased to 28 percent (Saari, Dietzenbacher, Los, 2015). The migration to urban areas to seek higher paying jobs bode well for the financial independence of the