



# EDUCATION TO PROPEL TAKAFUL INDUSTRY

## IN THE NEXT DECADE

Takaful, a subset of the Islamic finance industry, has seen strong growth in the last decade due to the rising demand for Shariah compliant financial products globally. Increasing awareness in the global arena especially the Gulf Cooperation Countries (GCC) and the predominant Islamic countries have helped fuel the growth of Islamic finance across the banking and insurance sectors. This is brought by the push of the respective Islamic countries to promote Islamic finance as an alternative to conventional finance.



By: Salim Majid Zain

Chief Executive Officer of  
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Despite being a country with a smaller population as compared to other Islamic countries, Malaysia remains the largest family takaful market globally. Its growth trajectory is higher than conventional life insurance, supported by the government's mandate to promote Islamic finance.

On the local front, the numbers have a different story to tell. According to Bank Negara Malaysia (BNM)'s Financial Stability and Payment Systems Report 2016, the insurance penetration rate, measured by the ratio of total number of life insurance and family takaful policies in force to the total population, has remained fairly static within the range of 54% to 56% over the last five years. Rating agency RAM Ratings said the penetration rate for family takaful hovers at approximately 15% as compared to 41% for life insurance.

Adding to the challenges of a stagnant penetration rate is also the issue of underinsurance, with industry studies estimating an average protection gap of between RM553,000 for families whose primary wage earner has some form of life insurance, to RM723,000 for families without any form of life insurance taken by the primary wage earner.

Chief Executive Officer of Zurich Takaful Malaysia Bhd Salim Majid Zain said the importance of educating consumers on takaful cannot be understated as it is an important key to ensuring proper and adequate protection for consumers. "Although regulators and takaful operators play an important role, it is ultimately the consumer who decides what to do with their money," he noted.

Salim said in line with the Insurance Core Principles issued by the International Association of Insurance Supervisors, takaful operators are required to provide

information in a timely, complete and relevant manner to consumers. However, consumers in general may not have the level of sophistication to fully understand the mechanics of takaful products and to weigh the cost and benefit of these products or whether these products are suitable to them.

The report also stated the affordability and access required to service policies in underserved market segments remain key barriers to higher levels of penetration.

Several important initiatives taken in recent years to improve transparency, encourage product innovations and expand channels for delivering insurance and takaful products and services are expected to reduce these barriers and improve prospects for achieving the 75% penetration target set under the Economic Transformation Programme.

## **EDUCATING THE STAKEHOLDERS INVOLVED**

The targeted segments who need to be educated are not just consumers but also the industry stakeholders namely the staff of takaful operators, as well as their intermediaries, partners, agents and brokers.

There must be a proactive and sustainable approach to educating the entire takaful industry ecosystem. It should be a no brainer that if all parties are involved, education initiatives will more likely to succeed and be more effective.

## **CHALLENGES AFFECTING THE TAKAFUL INDUSTRY**

### **Low understanding and awareness**

Most industry stakeholders would agree that there is still





room for improving consumers' understanding and awareness on takaful. This is due to various factors, among which are the lack of education on Islamic finance concepts and the consumer mindset that perceives takaful to be neither important nor necessary.

Salim said the cautious attitude towards takaful and the industry can be traced through inadequate early education as well as misconception and understanding on the subject matter.

"I think the general understanding is that takaful is just a Shariah compliant alternative to insurance. The average person would not understand how finances are managed using takaful principles. They may just know the basics such as the prohibition of interest and the element of profit sharing," he added.

Unlike banking products, which do not need to be "sold", consumers have a choice of



whether to purchase life insurance or family takaful. If insurance is not compulsory, they would likely not buy it, even though they may be aware of the need to buy insurance. Consumers think that they are not going to have an accident or be struck with a long-term illness.

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Salim acknowledged that the growth in takaful take-up does not depend on consumer education alone. Other factors that come into play include the risk behaviour of consumers, their economic wellbeing, as well as sociological factors. Additionally, the government can also play a part in helping raise awareness through the injection of compulsoriness for other types of insurance and takaful products apart from motor.

### **Insufficient talent pool**

Looking at the numbers alone, the agency force in the takaful industry has been on the decline in the last six years. The number of takaful agents plunged to 64,200 in 2016 from 100,308 in 2011, according to BNM. It is also worth noting that about 60% of both insurance and takaful agents operate on a part-time basis, and only three out of 10 remain in the industry after three years.

Salim said not all takaful agents and financial planners have enough expertise and experience to service their customers well. There is much room for improvement on their level of professionalism and knowledge although it is better in recent years as compared to a decade ago.

There is currently no extensive study on how much mistakes consumers make with respect to takaful products or on the social and economic impact that stems from the wrong financial decisions they make due to poor advice from agents and financial planners.

Salim opined BNM's implementation of the Life Insurance and Family Takaful Framework is timely in this context. Under the pillar of strengthening market practices, various measures will be

undertaken to elevate the level of professionalism in the industry. This includes the introduction of a Balance Scorecard (BSC), which tracks the services and conduct of intermediaries so as to promote fair treatment of consumers. With the BSC in place, their remuneration will now take into account non-sales factors such as the suitability of advice, service quality and professional development and conduct.

### **No separate tax incentives**

Currently, there is no separate tax relief for tax payers on life insurance or family takaful. The prevailing tax relief of up to RM6,000 takes into account both life insurance or family takaful payments and EPF contribution.

Tax payers who have higher EPF contribution will effectively see their insurance tax relief narrowing and becoming zero when their EPF contribution exceeds RM6,000. As such, a separate tax incentives solely for life insurance and family takaful would be helpful in promoting the purchase of these products.

### **Lack of a sustainable, long term plan**

The key to any campaign is sustainability and a long term plan. In the takaful sector, industry players generally do not have long term initiatives and programmes to educate the stakeholders.

Salim said they are more ad-hoc and tactical in nature. Takaful operators need to structure in more long term programmes as short term programmes are less effective.

"All takaful players meet regularly to discuss issues affecting the industry and plan what needs to be done. We work closely with the industry association







(Malaysian Takaful Association) and BNM. This November, we will be participating in the next edition of Karnival Kewangan in Kuching. While these initiatives have good intentions, it has to be continuous to have a lasting effect," added Salim.

## **SOLUTIONS THAT ARE NEEDED**

### **Education is key**

There is a lack of a strong emphasis on insurance and takaful education as compared to other subjects such as accountancy, engineering, etc.

Over the years, much has been discussed on the need for increased education for the insurance and takaful industry especially fairly newer concepts like takaful. There is no doubt that education will help to grow the industry through awareness and better understanding.

Salim said almost always, consumers rely on family friends and relatives who are equally misinformed when it comes to financial decisions such as participating in takaful products. He estimates that on the scale of 10, the general level of education is not more than five.

"We need to increase the level of education for different stakeholders; comprising general consumers, financial advisors, takaful intermediaries, educators and volunteers. The financial advisors and intermediaries' level of knowledge is generally two-fold as compared to the general consumers, but they are expected to know more to enable them to play an effective role in the society," added Salim.

The responsibility does not only rest on the relevant authorities but more importantly on takaful operators and association. Zurich Takaful plans to train young aspiring talents in the field of takaful through the setting up of a takaful academy, in line with the company's strategy to grow and nurture talent in the industry.

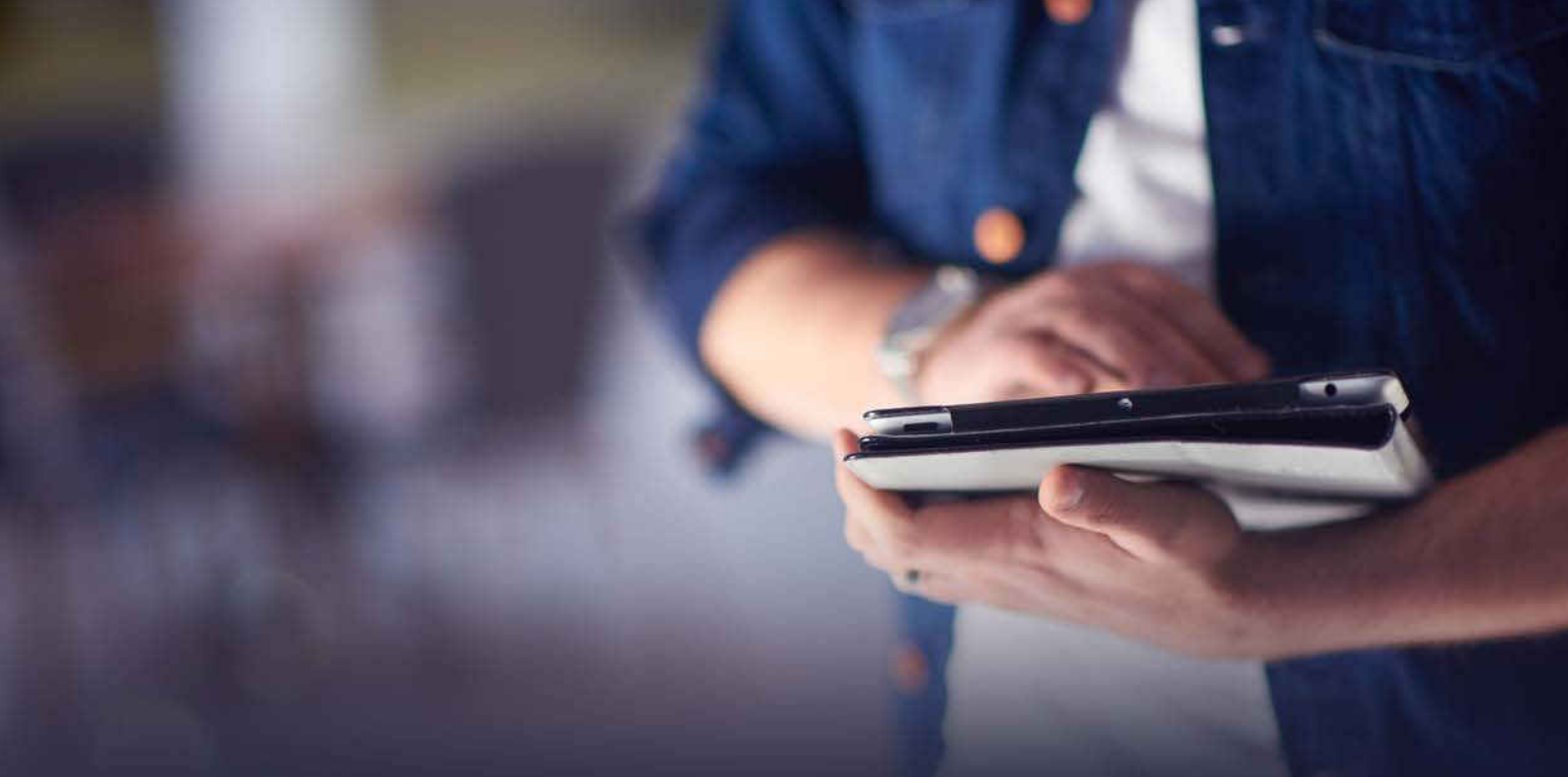
### **Re-education and changing mindset**

Education is no doubt important but sometimes re-educating and changing mindset should also be looked at. There is a prevailing mindset that insurance and takaful industry is not a top choice for

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job seekers. In the long run, this would hurt the talent pool in the industry through a shortage of talent.

Another setback is that consumers generally put a low priority on purchasing insurance/takaful. For example, a person who is earning RM3,000 to RM4,000 a month with multiple financial commitments will find it hard to set aside 15% to 20% for insurance/takaful.

According to Salim, consumers should have protection coverage of about 24 times of their monthly salary as a rule of thumb. If a person earns RM10,000 a month, he/she should have a minimum protection coverage of RM240,000.

### **Incorporating financial planning in early education**

One of the key points towards educating the public on takaful is early education. Financial planning should be inculcated as early as in primary education. It is crucial for the younger generation to have a strong understanding of financial management.

There is also a dire need to ramp up more accredited Islamic finance courses in line with

the push to promote takaful. Policymakers in the education sector could consider drawing up a plan to include takaful knowledge at the secondary level, while more accredited courses on Islamic financial management could be offered at the tertiary level.

### **Getting industry players to up their game**

It would only be natural for industry players to be part of the ecosystem in promoting takaful. Some of the best ways is through educational and awareness programmes, improvement of service quality and introduction of new propositions. In encouraging this, industry bodies can play a bigger role in coordinating such efforts with the support of the regulators.

Going forward, it is essential that any effort in promoting takaful must be collective. Takaful operators, industry bodies, policymakers and educators must work together to drive the industry forward. If everything goes as planned – increased knowledge, better awareness and favourable response by the general public will result in significant growth for the takaful industry.

